



**VEHICLE CERTIFICATION AGENCY**  
An executive agency of the Department for Transport

**Annual Report and Accounts**  
**2004 - 2005**

**Presented to Parliament in pursuance of the Government  
Resources and Accounts Act 2000**

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## INTRODUCTION

VCA is part of the Driver, Vehicle and Operator (DVO) group of agencies in the Department for Transport (DfT). It is the UK authority responsible for ensuring that vehicles and vehicle parts have been designed and constructed to meet internationally agreed standards of safety and environmental protection. In direct support of this we provide information derived from Product Certification (which includes Type Approval) results to other DVO agencies and the public and conduct a range of enforcement activities on behalf of DfT and also for the Department of Trade and Industry (DTI). We also provide Management System Certification (MSC) services to ISO 9000, 14000 and other standards that allow the automotive industry to demonstrate that they have systems in place, not only to ensure the quality of their products, but also to minimise and make continuous improvement to their effects on the environment during the manufacturing and design processes.

The Agency operates in the global automotive industry, and has a growing network of offices and representatives in established automotive industry locations. It has to operate within a commercial arena, competing with both overseas government supported activities, and fully private enterprises. Other European bodies have approved many vehicles and products that are currently available in the UK.

VCA provides a practical contribution to the DfT objectives of reducing deaths, injuries and the damaging environmental effects arising from transport and also provides a UK base for the automotive industry to gain legislative access to Europe. In doing so we have to operate in a competitive market against approval authorities from other European governments, since any manufacturer can obtain type approval certificates from any EU authority, these certificates should be recognised across the Community. Our Agency Headquarters is in Bristol with the remainder of our UK based staff operating from our Midlands Centre at MIRA, near Nuneaton, and Millbrook Proving Ground, near Bedford. We have staff operating overseas from our offices in Detroit, USA, or Nagoya, Japan, and we opened VCA Malaysia in July 2004. We have representative offices in Korea and Taiwan, plus an extensive network of appointed Technical Services plus Memoranda of Understanding with leading independent providers. These work under the auspices of VCA to provide a worldwide service across the range of automotive testing and certification standards.

Since 1999, DVO has made great progress in improving the co-ordination of motorists' services and providing an integrated offering to drivers, vehicle keepers, operators, the automotive industry and other customers, whilst improving consumer protection, road safety, crime prevention and protecting the environment. VCA is an important link in the network of supplying information for the services of other Agencies within this group and for supporting the policy divisions of DfT Central. VCA is fully committed to the Government's Value for Money programme, with significant savings achieved already.

One of the real tests for us is our ability to compete successfully. We aim to do this by providing a high quality value proposition through flexibility, and speed of delivery, supported by our accurate information and interpretation of relevant standards. Another test is to perform our statutory public role of ensuring standards are met effectively, whilst at the same time helping UK and other automotive industry manufacturers to gain certifications which allow them access to Europe and beyond. Above all the integrity of the VCA Brand is a key differentiator within this commercial sector, and we will continue to work hard to positively develop the brand and its operating values.



## AIMS

*The purpose of VCA is to help deliver:-*

- *improved road safety;*
- *a reduction in harm to the environment;*
- *reduced vehicle crime; and*
- *support to the automotive industry to aid exports and improve standards.*

*We plan to achieve these outcomes through the prime objectives of the DVO Group:-*

### *Better Services*

- *by providing approval, certification, related services and advice that is continuously improving, which add value and respond to the needs of industry and government customers on price, speed, flexibility and effectiveness.*
- *by working with other parts of the DVO group and our worldwide partners to help ensure our services are delivered in a seamless, integrated and innovative fashion.*

### *Better Compliance*

- *by ensuring, through the relevant vehicle type approval schemes and the support, information and enforcement that we provide to manufacturers, that new vehicles, vehicle parts and other equipment are designed and manufactured in conformity with appropriate road safety, environmental protection and crime prevention standards.*
- *by working proactively with DfT and DTI policy customers so that operational experience helps formulate future standards and schemes and that our work is fully informed about new and forthcoming developments.*

### *Better Value for money*

- *by continuously improving effectiveness and efficiency, recovering costs taking one year with another and meet financial and performance targets set by the Secretary of State*

**Our mission is to ensure that:**

**VCA is the best  
automotive approval and certification service and a  
leader in the provision of type approval information and  
enforcement services.**



## CHIEF EXECUTIVE'S FOREWORD

My first year with VCA has built on the foundations laid by my predecessor in developing VCA into a high quality and effective agency, delivering good value to our customers through the excellence of our staff, in an environment of increasing competition in a sector under extreme price pressure. I firmly believe that VCA is on the right track, with the right Management Board to make some substantial strides forward over the next few years.

Key successes can be summarised as follows:

*10 Year Vision developed for VCA.  
VCA Malaysia opened in July 2004.  
Notified Body status for Noise and Emissions for Recreational Craft achieved in October 2004.  
Commercial revenues increased by 2.4%.  
VCA Business Management System (SharpOWL) rolled out to all VCA offices.  
DVO lead on Vehicle Technologies.*

With the introduction of our Business Management System (SharpOWL), we are now able to track progress and costs much more accurately, and we have an action plan in place to reduce waste to become more effective.

Despite not achieving our 2004-05 budget figures for revenue, mainly due to reduced income from DfT and MSC, we kept a tight control on like for like costs, reducing them by over 2%. The MSC business is cyclical, and we are endeavouring to increase our customer base to reduce the cyclical impact on our finances. The improvements should be reflected in next years performance. We have also made significant investments in VCA resources, aimed at improving front-line effectiveness for a healthy future including emerging technologies and new business development.

The Agency did not achieve its key financial target in year as set by the Secretary of State, to achieve break-even on the commercial accounts. This was the only Secretary of State target that VCA missed all others were achieved.

VCA continues to generate a high level of customer satisfaction, but we must be ever vigilant and continuously improve in order to maintain satisfaction.

With the globalisation of the automotive industry, VCA has a strong growth plan based on high quality and value delivery where and when our customers demand. To this end, VCA has developed a robust project to establish a VCA entity in China, early in the new Financial Year. Further overseas opportunities will be realised in the next two to three years.

Over the past 12 months, within the overall Government challenges, DVO has established a significant Value for Money programme, and VCA is fully engaged with the objectives and outcomes. We have made a good start in developing a three year efficiency and effectiveness plan, designed to benefit our customers and staff. The VCA Management Board is committed to reducing waste, and delivering continuous improvement, with a Quality Plan supporting our 10 Year Vision.

In summary, VCA met all the Secretary of State targets except the financial target. VCA has developed robust plans for the short and long term future, designed to improve the quality of our performance through development of our staff and processes.

*Paul Markwick Chief Executive*

July 2005

## SUMMARY OF 2004-2005

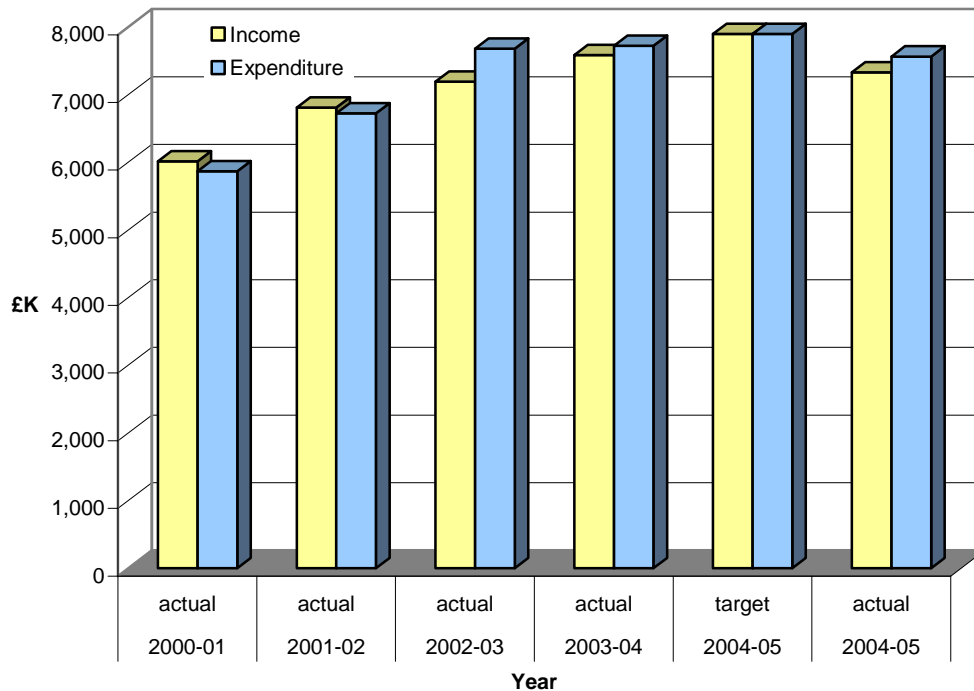
### Performance against Business Targets

	2000-2001 actual	2001-2002 actual	2002-2003 actual	2003-2004 actual	2004-2005 target	2004-2005 actual
<b>Income</b>	£6.01m	£6.81m	£7.20m	£7.59m	£7.8m	<b>£7.33m</b>
<b>Expenditure</b>	£5.84m	£6.72m	£7.61m	£7.65m	£7.8m	<b>£7.53m</b>
<b>Operating Surplus/ (Deficit)</b>	£0.17m	£0.07m	(£0.41m)	(£0.06m)	£0.0m	<b>(£0.2m)</b>
<b>Cumulative Operating Surplus</b>	£1.12m	£0.95m	£0.54m	£0.48m	£0.33m	<b>£0.28m</b>

**Note:** all figures exclude translation profit/(loss) on exchange and early retirement provision  
target figures exclude DVO funding

- **Achieve break-even on the commercial accounts.** Income fell due to reduced activity for DfT, and MSC. Type approval activity rose in all regions. In addition to foreign currency translation losses (not included in the table above) the deficit is in the main due to lower than forecast total income and higher than average trade debtor write offs including the administration in April 2005 of the MG-Rover Group plus investment in China and Malaysia and emerging technologies.
- **Product Certification (PC) income.** Income from PC rose by 8% in real terms exceeding the 6% increase in the prior year after adjusting for exchange rate movements.
- **MSC income.** Fell by 11% in real terms after adjusting for exchange rate movements. Our largest customers were in mid-cycle for their certification, and this was not offset by sufficient incremental activity. Our investment in business development is targeted to recover this situation in the future by increasing our customer base.
- **Commercial income.** Income from all our commercial activities increased by 2.4% in real terms.

### VCA Financial Performance





## SUMMARY OF BUSINESS OBJECTIVES AND ACHIEVEMENTS

### Better Services

#### E- Services

- Legislation status (Legstat2) database expanded
- All PC and MSC documents can be exchanged electronically
- Secure exchange of PC files - FMS2
- Electronic Type Approval handbook (VISTA)
- Online bill payment for specific customers

#### Other New Services

- Turn-key PC Service available
- PC and MSC training services offering greater range
- Appointment as Recreational Craft notified body
- Compliance with Freedom of Information (FOI) scheme
- Wider access to environmental information
- Introduction of Pedestrian Protection Type Approval Directive
- Ambulance testing scheme introduced
- Introduction of PC and MSC Training Schemes
- TS 16949/2 Certification
- Opening of Malaysian office
- TS16749/1 Certification
- EMAS Certificates
- ISO 18001 Certification scheme

2004-2005

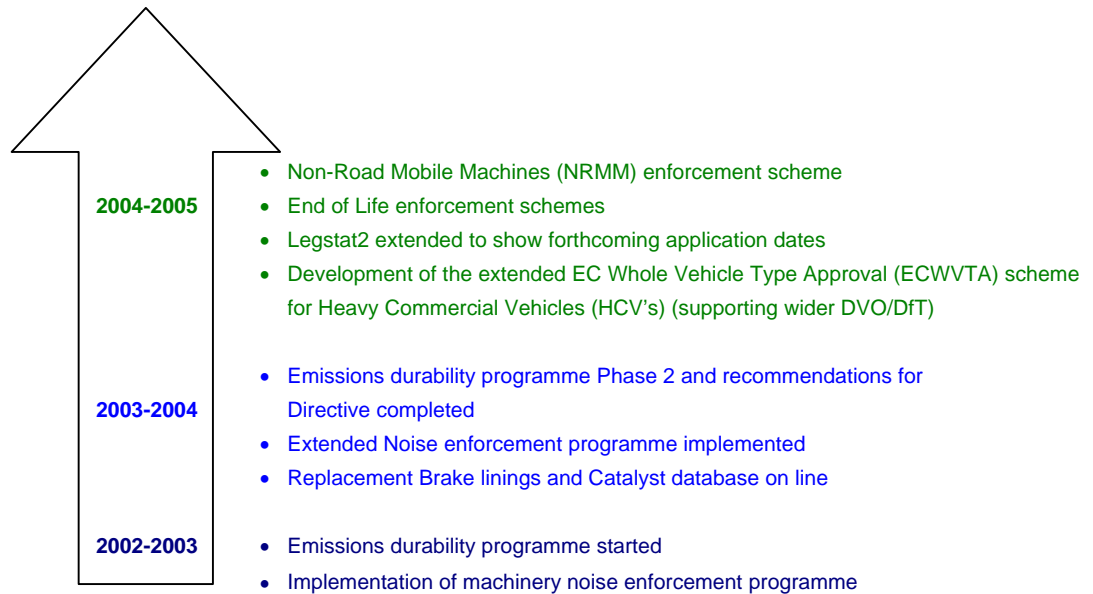
2003-2004

2002-2003

#### Better Services - Key Achievements

- Revenue stream from Recreational Craft manufacturers and importers underway resulting from achieving Recreational Craft Directive (RCD) Notified Body status for noise and emissions.
- Improvements in PC service has led to an increase in revenue.
- Increased enforcement activities for DTI.
- Investment in business development for future years.
- Investment in Information and Communication (ICT) infrastructure and resilience has improved data and certification exchange.

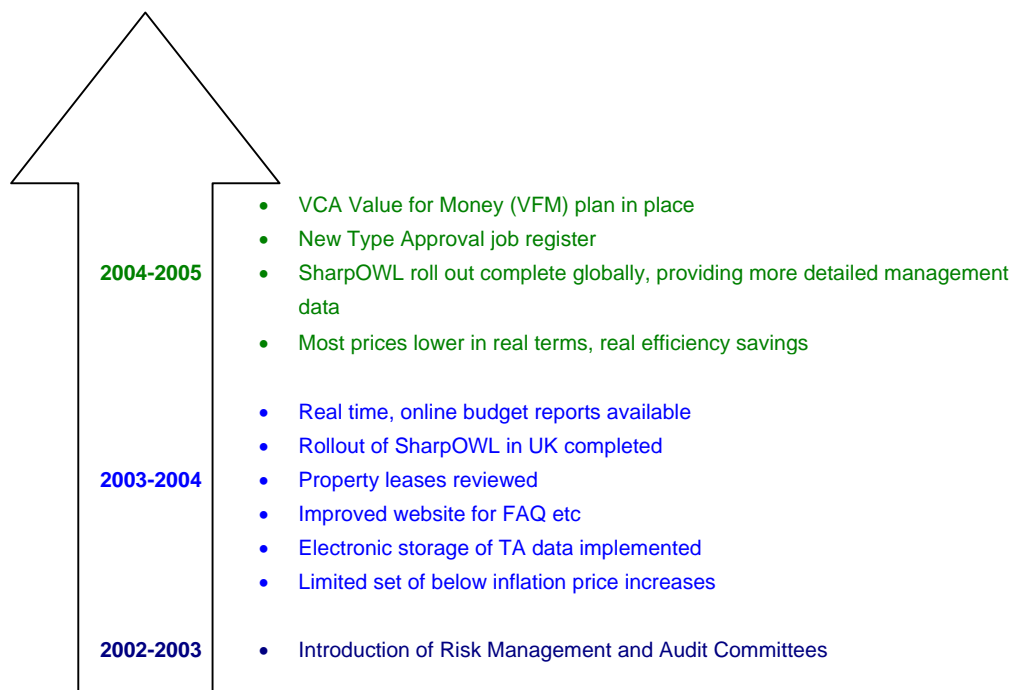
## Better Compliance



### Better Compliance - Key Achievements

- VCA preparation for the extended ECWVTA scheme on track.
- Successful implementation of new enforcement schemes without resort to prosecution.
- Legstat2 development and launch.

## Better Value for Money







### **Better Value for Money – Key Achievements**

- Productivity - £113,000 realised
  - £80,000 Additional chargeable work with existing resources
  - £33,000 Reductions in Marketing, COP & legal costs
  
- Procurement - £64,000 realised
  - £28,000 Retendering FCB printing
  - £10,000 Rates appeal Midlands Centre
  - £26,000 Others
  
- e-Delivery - £3,000 realised - Vista web based rather than CD
  
- Back Office - £20,000 realised - Reduction in estates staffing

**Total in Year £200,000**

## REVIEW OF INTERNAL ORGANISATIONAL DEVELOPMENTS



### Finance and ICT

- The Finance Branch was extended to include the ICT department in order to improve internal services and facilities. VCA has already benefited from the synergies realised, and further opportunities will be sought in the future.
- VCA's websites (in the UK, US and Japan) are being homogenised, following the branding changes, to create a worldwide portal.
- Over the year the FCB (Fuel Consumption Booklet) site has generated many enquiries with an average of 210,000 hits per month and has resulted in a number of new customers.
- VCA has invested in new Point of Sale (POS) software to generate a label to give consumers better energy consumption information when considering a new car purchase. Sales of this software commenced towards the end of 2004-2005.
- ICT security investment has achieved 98% compliance with the BS 7799 information security standards.
- ICT resilience and communications bandwidths have been improved to all the VCA site facilities including overseas. This will enable better usage of SharpOWL.
- Mobile VCA staff now have access to a personal Virtual Private Network (VPN) to enable real time communications within VCA globally.

### Personnel Management

- The Agency's Personnel Management team has taken forward a number of new issues, driven by the Government's modernisation agenda, our own business needs and involvement with the DVO Group. Areas of particular note are:
  - Further round of the VOSA/VCA graduate engineering scheme, and progression to permanent positions from the scheme;
  - Production of a Race Equality Scheme (RES) Action Plan;
  - Extension of our Harassment Contact Officer Group;
  - Successful Personnel and Payroll audits;
  - Completion of a Pay and Workforce strategy for the Agency; and
  - Completion of pay negotiations on time and to the Treasury remit.
- All Agency recruitment activity is undertaken on a fair and open basis through the interview process, is subject to external checks and is in accordance with the "Civil Commissioner's Recruitment Code". Over the past year the Agency Civil Servant Full Time Equivalents (FTE's) increased by three. The movements included four retired, one dismissed, two resigned, one transferred to another agency, and one passed away. The recruitment ratio was 3:1 females to male.

### Staff Development

- The number of training and development (T&D) days and spend has remained on target with approximate expenditure per head of £700 and in particular:
  - Successful re-accreditation to IIP for a further three year period;
  - E-learning introduced to all offices;
  - Bullying and harassment workshops for all staff;
  - Continuation of diversity and leadership courses;
  - Project and programme management courses aimed at improving delivery and a fuller appreciation of risk management;
  - Holding regular Induction, First Aid, Fire Safety and Vehicle Appreciation courses for new and established staff;



- New Managers and Support Groups meeting regularly to exchange best practice and to encourage personal development; and
- A number of staff have achieved business based qualifications during the year enhancing the professional image of the Agency and ensuring we continue to meet industry based standards and requirements.

### **Working Environment**

- The health and safety of our employees remains a high priority and given the nature of some of the work undertaken, we continue to have a good record. We also remain pro-active in “greening” our operations. Areas of particular note are:
  - A comprehensive review of our Health and Safety manual, this also covered the Risk Assessment procedures that are currently in place for travelling and office based staff;
  - Healthy lifestyle advice issued to all our offices;
  - Increased usage of recycling to include paper, batteries, mobile phones, cartridges, furniture, plastic bottles and cans;
  - Regular monitoring and review of our overarching green policy statements and improvement programmes;
  - Travel to work issues taken forward. Successful lobbying of the local council to erect a bus shelter outside the Eastgate Office;
  - Over-achieving our targets for reducing energy, water and paper consumption; and
  - Review of the business continuity and disaster recovery plans; plan in place to test early in the next year.

### **Customer Service**

- Our close regular consultation with the motor industry was continued through our Type Approval Liaison Committee (TALC) meetings with the Society of Motor Manufacturers and Traders (SMMT). We also attended similar liaison meetings hosted by DfT, the Vehicle Importers Homologation Group, and the SMMT’s Joint Engineering Committee (with DfT and DTI).
- We continued the independent review of VCA’s Type Approval work.
- Closer links have been forged with Technology and Transport Standards (TTS) and Cleaner Fuels and Vehicles (CFV) policy engineers. VCA staff pro-actively offer advice and support on significant issues. VCA attends the TTS Heads of Branches meetings.
- Most of our targets and indicators are designed to ensure we deliver the service customers and stakeholders need (as indicated and borne out by surveys and consultation). Almost all of the direct customer-facing targets were met. The results are shown later in this report under Total Quality. Other highlights include:
  - Our customer newsletter, “Update News” has been published 4 times during the year and many customers continue to comment on its usefulness;
  - The complaints procedures have changed to ensure a closed loop resolution to any perceived criticisms. There have been 5 complaints reviewed, resolved and closed this year; and
  - The introduction of the VCA MIS (SharpOWL) globally will improve billing accuracy and timeliness.



## Total Quality

- We maintained internal oversight of our own quality systems and measured our performance through our Quality and Service targets. The operational aspects of our MSC work, which are also audited internally by VCA, are overseen by the United Kingdom Accreditation Service (UKAS) and International Automotive Task Force (IATF).

### BUSINESS PLAN KEY PERFORMANCE TARGETS

	No. of Targets	Achieved	Not Achieved
<b>TYPE APPROVAL</b>			
Turnaround of Type Approval Certificates	5	5	0
Median time taken to issue corrected type approval certificates.	1	1	0
% of appraisal reports on our technical performance from independent panel members deemed to have no critical defects.	1	1	0
Customer Satisfaction - Surveys operating through the year with most emphasis placed on specific comments and consequent follow –up, with specific customers where possible.	1	1	0
Internal Quality	3	3	0
The average time between issue of the certificate and the despatch of invoice.	1	1	0
<b>MANAGEMENT SYSTEM CERTIFICATION</b>			
External Service and Quality	3	1	2
Customer Satisfaction - Surveys operating through the year with most emphasis placed on specific comments and consequent follow –up, with specific customers where possible	1	1	0
Internal Quality	3	2	1
Average no. of days for issue of invoices for MSC work after completion of the chargeable work	1	0	1
<b>OTHER TARGETS</b>			
Sales invoice quality and collection	3	2	1
% of invoices on VCA paid within 30 days	1	1	0
Sickness days	1	0	1
<b>TOTAL ALL TARGETS</b>	<b>25</b>	<b>19</b>	<b>6</b>
<b>PERCENTAGE OF TARGETS ACHIEVED</b>			<b>76%</b>



## 2004-2005 TARGETS SET BY THE SECRETARY OF STATE

TARGET	Status	Comment
To achieve at least break even.	Red	Deficit £473K
To complete roll out of the integrated time and expenses management system across the Agency so as to provide better data to support business development for the 2005-06 Business Plan.	Green	Achieved
To have plans in place and on track to implement new approval processes for buses by 2007 (working with the Vehicle & Operator Services Agency (VOSA)).	Green	Achieved
To have at least 98% of approval certificates issued error free .	Green	99.07%



## CONTACTING VCA WORLDWIDE

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## FOREWORD TO THE FINANCIAL STATEMENTS

The accounts which follow cover the period 1 April 2004 to 31 March 2005 and have been prepared in accordance with a Direction given by HM Treasury in pursuance of section 7(2) of the Government Resources and Accounts Act 2000.

### History and Background

The Vehicle Certification Agency (VCA) was established as an Executive Agency in April 1990, and following Machinery of Government changes became an Executive Agency within the Department for Transport (DfT) on 29 May 2002. VCA is part of the Driver, Vehicle and Operator (DVO) Group of the DfT, which was formed during 1999. Most UK based VCA staff are at its headquarters in Bristol, one engineer is based at Millbrook, with the remainder of UK based staff located at the Agency's test centre near Nuneaton. Civil Servants seconded overseas include three engineers based in Detroit, USA, two engineers in Nagoya, Japan and one in Petaling Jaya, Malaysia. Locally engaged staff and contractors make up the balance of the overseas resources. Much of the Agency's test work is carried out at manufacturers' premises or at specialist test facilities wherever they may be around the world. VCA has co-operative arrangements with a number of other organisations in order to carry out its work in the most effective way.

The development of a 10 Year Vision and business plan has reinforced the decision made in 2003 that VCA is a viable and valuable Agency within DfT. Some further investment is forecast so that a positive financial return is planned within the next three years.

### Principal Activities

VCA's main activities are to test and approve vehicles and vehicle parts to National and European standards (under sections 54 to 65 of the Road Traffic Act 1988 and section 2(2) of the European Communities Act 1972), to provide regulation preparation, public advice and enforcement services for the DfT and to undertake management system certification activities in the motor vehicle field.

### Financial Performance

In 2004-2005 VCA was funded on the DfT, RfR 1 as a net programme cost body. It is required to cover its costs from income received (mainly fees paid by applicants). In 2004-2005 VCA did not recover all of its costs with a deficit of £473,000 (£234,000, 2003-2004). The deficit arose due to a fall in predicted income from DfT and MSC, combined with a higher than average trade debtor write off due to the administration of the MG Rover Group, early retirement provision due to MSC restructuring and initial costs relating to the China office opening in April 2005.

### Business Development

The Agency's business plan for 2005-2006, which has been approved by Ministers, was published in March 2005. Copies can be obtained from the Agency's headquarters. A Business Development structure and strategy has been developed during this year in order to deliver the VCA Business Plan. During the year IT equipment was purchased and added to fixed assets so that SharpOWL (which was launched in the Bristol and Nuneaton offices in April 2003) could be implemented throughout the Agency including overseas offices during 2004-05. SharpOWL is a combined time-recording, job register, travel and subsistence system that integrates with VCA's current accounting system. It allows the entry of data from any of the VCA sites throughout the world which amongst other things will improve invoicing turn round times and the accuracy and speed of management information. This required additional server capacity and communications bandwidth to be procured in order to sustain the required resilience.

### Future Events and Developments

Work for the Maltese Authorities in certifying individual vehicles being imported to Malta started in 2003-2004 and continued into 2004-2005. The Department for Trade and Industry (DTI) appointed VCA as one of only two UK notified bodies for the new RCD for noise. VCA is the only UK notified body for RCD emissions. Work on the ECWVTA extended framework for certification of buses, coaches, ambulances, fire engines and all Heavy Commercial Vehicles (HCV's) has shown increased activity and VCA is fully prepared for the implementation in line with our Secretary of State target. Pedestrian Impact legislation is due for introduction from 1 January 2006 for new vehicle types. Therefore new vehicle types, due for introduction in the third quarter of 2005 require certification. VCA has invested in the interpretation and training to this additional standard.



## Research and Development

VCA has started investing in capability for the emerging technologies in vehicle engineering. Particular emphasis is currently placed on digital (virtual) testing, and new electronic devices.

## Management Board

The Management Board's members (MBM) during 2004-2005 were:

<b>Mr P V Markwick</b> , BSc CEng MIMechE	Chief Executive - from 19 April 2004
<b>Mr D W Harvey</b> , BSc CEng MIMechE	Chief Executive - to 23 April 2004
<b>Mr C Border</b> , BA MCIPD	MBM for Central Services
<b>Mr R Brayfield</b> , MSc	MBM for North American Operations - from 1 April 2004
<b>Mr A Buckle</b> , BA ACMA	MBM for Finance and ICT
<b>Mr T J Davies</b> , BSc CEng MIEE MIMechE	MBM for Systems Certification Operations - to 30 March 2005
<b>Mr A Grimm</b> , BSc	MBM for Special Projects
<b>Mr M Mulvaney</b> , BSc	MBM for East Asia Operations – from 16 April 2004
<b>Mr B Perrett</b> , BSc AMIMechE	MBM for Product Development and Enforcement Services
<b>Mr A W Stenning</b> , BSc CEng MIMechE	MBM for Product Certification
<b>Eur Ing P Wilkes</b> (Mrs)	MBM for Business Development – from 6 December 2004

In April 2004 Mr D W Harvey retired and Mr P V Markwick was appointed as Chief Executive, for a fixed term to April 2007. All members of the Management Board were appointed in accordance with the Civil Service Management Code. Mr T J Davies took early retirement on 30 March 2005. See Note 6 for information on salary and pension entitlements of named individuals.

## Ministerial Advisory Board

The role of the Ministerial Advisory Board is to advise the Secretary of State on the strategic and business plans of the Agency and on the Agency's performance against the objectives and targets set therein. The Chief Executive reports on the performance and operations of the Agency by means of quarterly reports. The Board's members during 2004-2005 were:

<b>Dr S Hickey</b> , D.Phil MA	DVO Group Director General
<b>Mr J Moor</b> , BA FCA	DVO Group Finance Director
<b>Mr M Fendick</b> , BSc CEng FIMechE	Chief Mechanical Engineer, Vehicle Standards and Engineering Division - to 31 December 2004
<b>Mr P V Markwick</b> , BSc CEng MIMechE	Agency Chief Executive
<b>Mr W Craig</b> , BSc	External member
<b>Mrs D Davy</b> , IEng FIIE FICPD MIMgt	External member - to 31 December 2004
<b>Mrs C Blatchford</b> , MA MBA	External Member - from 1 January 2005
<b>Professor E Sampson</b>	Divisional Manager Transport Technology & Standards DfT

No remuneration in respect of non executive directors in their capacity as Ministerial Advisory Board members is made by VCA, they are remunerated by the DfT.

## Employment Policy

The Agency is committed to the DfT policy on equal opportunities and has a responsibility in relation to the employment of disabled staff. Its policy in this respect is to give full and fair consideration to applications for employment made by disabled persons.





### **Health and Safety**

The Agency is committed to adhering to the Health and Safety at Work Act 1974 and the other related British and European requirements, ensuring that staff and customers enjoy the benefits of a safe working environment. Management takes steps to ensure that the welfare of staff is fully catered for.

### **Staff Involvement**

In keeping with its Total Quality policy, the Agency is keen to ensure that staff are kept up to date with developments in the Agency and are given the opportunity to comment. Staff are encouraged to make improvements through work improvement teams, monthly newsletters and briefing meetings. Formal and informal discussions take place with trade unions through the regular meetings of the Agency's Whitley Committee. The Agency has further involved staff in the planning and operation of the Agency, particularly in the formation of forward business planning and performance monitoring.

### **Bonus Scheme**

The Agency operates a group incentive bonus scheme that enables all eligible staff to benefit from increased efficiency. The trigger for the payment of a staff bonus is a surplus on the Income and Expenditure Account in excess of the published Business Plan target. Achievement of the range of service and quality targets is also necessary for payment of the maximum bonus.

### **Payments to Creditors**

VCA participates in the Departmental scheme for the payment of invoices. This follows the Treasury Prompt Payment Initiative, copies of which can be obtained from the Agency's headquarters. It is VCA's policy to pay undisputed invoices within 30 days of receipt. VCA measures its performance by reviewing all invoices paid, the Agency achieved 98.42% (97.15% 2003-2004) of invoices paid within 30 days of receipt in 2004-2005.

### **Audit**

Audit fees charged in the accounts amount to £39,000 (£44,000 2003-2004). There was no non audit work undertaken by the National Audit Office during the year.

**P V MARKWICK**  
Chief Executive and Accounting Officer  
11 July 2005



## Statement of Agency's and Chief Executive's Responsibilities

Under section 7(2) of the Government Resources and Accounts Act 2000, the Treasury have directed the Vehicle Certification Agency to prepare a statement of accounts for each financial year in the form and on the basis set out in the Accounts Direction in the Dear Accounting Officer letter DAO(GEN)03/05.

The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs, of the Agency, the income and expenditure, total recognised gains and losses and cash flows for the financial year.

The Director General of the DVO Group has appointed the Chief Executive of the Vehicle Certification Agency as the Accounting Officer for the Agency, with responsibility for preparing the Agency's accounts and for transmitting them to the Comptroller and Auditor General.

In preparing the accounts the Agency is required to:

- observe the Accounts Direction issued by HM Treasury, including relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards, as set out in the Resource Accounting Manual, have been followed, and disclose and explain any material departures in the accounts;
- prepare the accounts on a going concern basis, unless it is inappropriate to presume the Agency will continue in operation.

The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which an Accounting Officer is answerable, for keeping proper records and for safeguarding the Agency's assets, are set out in the Agency's Framework Document and in the Accounting Officers' Memorandum, issued by the HM Treasury and published in "Government Accounting" (The Stationery Office).

The maintenance and integrity of the Agency website is the responsibility of the Accounting Officer. The work carried out by the Auditors does not involve consideration of these matters and accordingly the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.



## Statement on Internal Control

### Scope of Responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of VCA's targets, aims and objectives, whilst safeguarding the public funds and Agency assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting.

- VCA operates in accordance with the Framework Document authorised by the Secretary of State for Transport and this defines the Agency's operating and financial accountability and responsibility.
- An Advisory Board reviews the Agency's strategic planning framework including the business plan and the progress contained therein towards the achievement of key targets and other significant objectives. Its membership comprises the DVO Director General, and other senior personnel from DfT and DVO, the Agency's Chief Executive and two external members. The Advisory Board met on three occasions in 2004-2005.
- VCA participates fully in the DVO's co-ordinated business planning, performance delivery and risk reporting systems.

### The purpose of the System of Internal Control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve targets, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of VCA targets, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in VCA for the year ended 31 March 2005 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

### Capacity to Handle Risk

- The Agency's approach to risk management was established in its risk management policy.
- VCA's risk management procedure, which is reviewed and updated annually, sets out the way in which the risk management policy is to be implemented within VCA.
- VCA's risk management procedure provides extensive guidance to staff on the definitions, criteria and methods available for risk assessment, and is made available to all personnel via VCA's Quality Control System (Q-Pulse). Risk assessment is now part of the personnel annual reporting system.
- The risk management system is reviewed annually in-house as still being fit for purpose, and appropriate revisions are made as approved by the Management Board. The system is also audited on an annual basis by the Audit & Risk Assurance Division of DfT and it is subject to comparison with other agencies in DVO and DfT.
- VCA supplies a monthly financial report to DfT and DVO, setting out expenditure to date and forecast for the full financial year against its annual resource allocations, and regularly attends meetings with senior DfT and DVO Finance personnel.

### The Risk and Control Framework

- The key elements of the Agency's risk management strategy are set out in its risk management policy.
- VCA established its corporate risk register in July 2001, based on guidance published by HM Treasury. Since then the register has been managed dynamically, with a number of new risks being introduced whilst other risks have been removed or merged, reflecting the changing nature of the business environment in which the Agency works. Changes to the risk register may be suggested by any of VCA's staff, and are considered by the Management Board before being accepted on to the register.
- At the monthly Management Board meetings, risk management is a standing agenda item, with full reviews scheduled bi-annually, including the maintenance of an Agency wide risk register and sub registers for the overseas operations.
- The Agency has a low to medium risk appetite at the corporate level, however, new projects or initiatives are assessed individually by reference to potential business impact, availability of resources and the value for money of stakeholder benefits.
- VCA targets, aims and objectives are fed into VCA's corporate risk register and risk management system.
- Where significant procurement is involved, the Office of Government Commerce (OGC) risk model is applied, and OGC gateway reviews are undertaken as required.
- All major projects are subject to VCA's approved project management methodology, which is based upon PRINCE2, including the use of project risk registers.



## Review of Effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the DfT Audit and Risk Assurance (ARA) branch who are our internal auditors, the executive managers within VCA who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Board, the Audit Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

- **Management Board**

Risk management for corporate governance is a standing agenda item at all board meetings. All decision and information papers for the Board include explicit consideration of risk issues. All members of the Management Board receive a copy of Audit Committee minutes.

- **Audit Committee**

The Audit Committee is chaired by a non-executive member of VCA's Advisory Board and comprises the Chief Executive Officer from the Agency and one other non-executive. Representatives from internal and external auditors are invited to attend Audit Committee meetings. The terms of reference were reviewed in 2004-2005 and brought broadly in line with those recommended in HM Treasury's Audit Committee Handbook. Internal control, risk management, and audit plans and reports are standing agenda items at the three meetings that take place each year.

- **Internal Audit**

ARA operates to the standards defined in the Government Internal Audit Standards. The work of ARA is informed by an analysis of the risks to which the Agency is exposed, and the annual internal audit programme is based on this analysis. At least annually, the DfT Audit and Risk Assurance manager responsible for VCA provides a report on internal audit activity in the Agency. The analysis of risk and the internal audit plans are endorsed by the Agency's Audit Committee and approved by me. The annual report includes the ARA Audit Manager's independent opinion on the adequacy and effectiveness of the Agency's system of internal control, together with recommendations for improvement. The 2004-2005 opinion stated;

'I can provide substantial assurance that the Vehicle Certification Agency has established risk management, governance arrangements and control systems that are operating effectively with some minor weaknesses or opportunities to improve working practices.

This overall opinion is supported by the following key considerations:

- formal risk management policies and processes have been defined and are proving effective at the corporate level. Improvements in the risk register will help risk management to become fully embedded throughout the Agency
- the internal control environment is operating effectively and consistently with some minor exceptions where a need was identified for an enhanced level of control to reduce the Agency's exposure to particular risks and improve the overall control environment
- governance arrangements in place are relevant and appropriate for the Agency.'

- **Other explicit review / assurance mechanisms**

An annual programme of external audits is carried out by two Accreditation Bodies (United Kingdom Accreditation Service (UKAS) and Society of Motor Manufacturers and Traders (SMMT)) on the Agency's MSC work.

Audits of all main operational activities, covering the processes and procedures, are carried out by VCA Internal Audit to an agreed programme. This is supplemented by a programme of audits on Type Approval work conducted by a panel of independent experts.

**P V MARKWICK**  
Accounting Officer  
11 July 2005



## The Certificate and Report of the Comptroller and Auditor General to the House of Commons

I certify that I have audited the financial statements on pages viii to xix under the Government Resources and Accounts Act 2000. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages xii and xiii.

### Respective responsibilities of the Agency, the Chief Executive and Auditor

As described on page iv, the Agency and Chief Executive are responsible for the preparation of the financial statements in accordance with the Government Resources and Accounts Act 2000 and Treasury directions made thereunder and for ensuring the regularity of financial transactions. The Agency and Chief Executive are also responsible for the preparation of the other contents of the Annual Report. My responsibilities, as independent auditor, are established by statute and I have regard to the standards and guidance issued by the Auditing Practices Board and the ethical guidance applicable to the auditing profession.

I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Government Resources and Accounts Act 2000 and Treasury directions made thereunder, and whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the Agency has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. I consider the implications for my certificate if I become aware of any apparent misstatements or material inconsistencies with the financial statements.

I review whether the statement on pages v and vi reflects the Agency's compliance with Treasury's guidance on the Statement on Internal Control. I report if it does not meet the requirements specified by the Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered whether the Accounting Officer's Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Agency's corporate governance procedures or its risk and control procedures.

### Basis of audit opinion

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Agency and Chief Executive in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Agency's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by error, or by fraud or other irregularity and that, in all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I have also evaluated the overall adequacy of the presentation of information in the financial statements.

### Opinion

In my opinion:

- the financial statements give a true and fair view of the state of affairs of the Vehicle Certification Agency at 31 March 2005 and of the deficit, total recognised gains and losses and cash flows for the year then ended and have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and the directions made thereunder by Treasury; and
- in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I have no observations to make on these financial statements.

John Bourn  
**Comptroller and Auditor General**

14 July 2005

National Audit Office  
**157-197 Buckingham Palace Road  
Victoria  
London SW1W 9SP**



## INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31 MARCH 2005

		2004-2005	2003-2004
	Notes	£000	£000
<b>TURNOVER</b>	3	7,330	7,588
<b>Cost of sales</b>		<u>(5,391)</u>	<u>(5,416)</u>
<b>Gross surplus</b>		1,939	2,172
<b>Administrative expenses</b>	4	(2,174)	(2,309)
<b>Administrative expenses-Early retirement costs</b>	5	<u>(127)</u>	<u>-</u>
<b>OPERATING DEFICIT</b>		(362)	(137)
<b>Interest receivable</b>		3	3
<b>Notional cost of capital</b>	7	<u>(114)</u>	<u>(100)</u>
<b>DEFICIT FOR THE YEAR</b>	14	<u><b>(473)</b></u>	<u><b>(234)</b></u>

Turnover and operating deficit are derived entirely from continuing operations.

## STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED 31 MARCH 2005

	2004-2005	2003-2004
	£000	£000
<b>Deficit for the year</b>	(473)	(234)
<b>Deficit on revaluation of assets</b>	-	(1)
<b>Backlog depreciation on revalued assets</b>	<u>-</u>	<u>(2)</u>
<b>TOTAL RECOGNISED LOSSES FOR THE YEAR</b>	<u><b>(473)</b></u>	<u><b>(237)</b></u>

The notes on pages xii to xix form an integral part of these financial statements.



## BALANCE SHEET AS AT 31 MARCH 2005

		2005		2004
	Notes	£000	£000	£000
<b>FIXED ASSETS</b>				
Tangible assets	8		796	817
<b>CURRENT ASSETS</b>				
Work-in-progress		173		112
Debtors	9	2,549		2,641
Cash at bank and in hand	12	990		434
		<u>3,712</u>		<u>3,187</u>
<b>CREDITORS</b>				
Amounts falling due within one year	10	<u>(627)</u>		<u>(909)</u>
<b>NET CURRENT ASSETS</b>				
			<u>3,085</u>	<u>2,278</u>
<b>CREDITORS</b>				
Amounts falling due after one year	10	<u>(69)</u>		<u>-</u>
			<u>3,812</u>	<u>3,095</u>
<b>TAXPAYERS' EQUITY</b>				
General fund	14		3,722	2,976
Revaluation reserve	16		13	13
DVO grant reserve	17		77	106
			<u>3,812</u>	<u>3,095</u>

The notes on pages xii to xix form an integral part of these financial statements.

**P V MARKWICK**  
Accounting Officer  
11 July 2005



## CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2005

		2004-2005	2003-2004
	Notes	£000	£000
NET CASH (OUTFLOW)/INFLOW FROM OPERATING ACTIVITIES	i	(281)	2
RETURNS ON INVESTMENTS & SERVICING OF FINANCE	ii	3	3
CAPITAL EXPENDITURE	ii	(166)	(203)
		<hr/>	<hr/>
		(444)	(198)
FINANCING	ii	1,000	-
		<hr/>	<hr/>
INCREASE/(DECREASE) IN CASH		<b>556</b>	<b>(198)</b>
RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS	iii		
Increase/(Decrease) in cash in the period		556	(198)
Net funds at 1 April		434	632
NET FUNDS AT 31 MARCH		<b>990</b>	<b>434</b>

The notes on pages xii to xix form an integral part of these financial statements.





## NOTES TO THE CASH FLOW STATEMENT

### i. RECONCILIATION OF OPERATING DEFICIT TO NET CASH (OUTFLOW) / INFLOW FROM OPERATING ACTIVITIES

	Notes	2004-2005 £000	2003-2004 £000
Operating deficit (before interest charges)		(362)	(137)
Depreciation charges	8	202	195
Depreciation charges transferred to DVO Grant Reserve	17	(29)	(13)
Loss on disposal/write off of fixed assets	4	15	6
Impairment of fixed assets (net)	8	(30)	28
Notional charges	15	105	112
Increase in work in progress		(61)	(37)
Decrease / (increase) in debtors		92	(29)
Decrease in creditors		(340)	(123)
Increase in early retirement provision		127	-
<b>NET CASH (OUTFLOW) / INFLOW FROM OPERATING ACTIVITIES</b>		<b>(281)</b>	<b>2</b>

### ii. GROSS CASH FLOWS

		2004-2005 £000	2003-2004 £000
<b>RETURNS ON INVESTMENTS &amp; SERVICING OF FINANCE</b>			
Interest received		3	3
<b>CAPITAL EXPENDITURE</b>			
Payments to acquire tangible fixed assets		(166)	(256)
DVO capital grant received		-	53
		<b>(166)</b>	<b>(203)</b>
<b>FINANCING</b>			
Financing from DfT		1,000	-

### iii. ANALYSIS OF CHANGES IN NET FUNDS

	Notes	At 1 April 2004 £000	Cash Flows £000	At 31 March 2005 £000
Cash at bank and in hand	12	361	342	703
Lloyds account balance	12	45	(5)	40
OPG account balance	12	28	219	247
<b>TOTAL</b>		<b>434</b>	<b>556</b>	<b>990</b>



## NOTES TO THE FINANCIAL STATEMENTS

### 1. ACCOUNTING POLICIES

#### a. Basis of Accounting

The accounts are prepared under the historical cost convention modified to include the revaluation of tangible fixed assets. Without limiting the information given, the accounts meet the accounting and disclosure requirements of the Resource Accounting Manual, the Companies Act 1985 and accounting standards issued or adopted by the Accounting Standards Board so far as those requirements are appropriate.

#### b. Income

The Agency is mainly funded from sales of services provided to the private sector and income is shown net of VAT where applicable. Other revenue is received from the DfT for regulatory and compliance work. Income from each job is recognised once a chargeable stage of a job is completed and until such stages are reached, costs are regarded as work-in-progress. When invoices are issued in advance, these are treated as deferred sales until the chargeable stage of the job is completed.

#### c. Notional Charges

##### i. Notional Cost of Capital

Notional cost of capital is calculated on a monthly basis for all assets and current liabilities except for bank balances which are calculated on a daily basis excluding cash balances with the Office of HM Paymaster General (OPG) where the charge is nil. The net interest calculated is charged to the income and expenditure account.

##### ii. Insurance

The Vehicle Certification Agency in common with other Government bodies does not insure in general. In accordance with Financial Reporting Standard 12 "Provisions, Contingent Liabilities and Contingent Assets", no insurance provision is made.

##### iii. Audit Fee

The Vehicle Certification Agency is not charged an audit fee by the National Audit Office. A notional charge is made in respect of the audit fee and is charged to the income and expenditure account based on the cost of services provided.

##### iv. Intra-Departmental Charges

The Agency includes in its accounts a notional charge for services provided by the DfT.

#### d. Grants Receivable

Grants and other contributions received towards the cost of tangible fixed assets are included in a grant reserve and credited to the income and expenditure account over the life of the asset.

Revenue grants are credited to the income and expenditure account, so as to match them with the expenditure to which they relate.

#### e. Fixed Assets and Depreciation

Fixed assets are revalued annually where material using appropriate indices published by the Office for National Statistics and depreciation on such revalued amounts is provided on a straight line basis over the estimated useful lives of the assets. Land and buildings are subject to professional valuation at least every five years. Depreciation is charged in the month of acquisition and not in the month of disposal. Estimated useful lives are:

Machinery and test equipment	10 years
Furniture and fittings	10 years
Computer, office and microfiche equipment	5 years
Land and buildings	Buildings are depreciated over the lower of useful economic life or land lease period; and land is not depreciated.
Motor Vehicles	4 years

#### f. Stocks and Work in Progress

Work in progress represents costs incurred to the balance sheet date in respect of jobs on which a chargeable stage has not yet been reached. Expenditure on stationery, tools and spares is written off as incurred, as the amounts involved are not considered material.

#### g. Foreign Exchange

Monetary assets and liabilities in foreign currencies are translated into sterling at rates ruling at the balance sheet date. Transactions in foreign currencies during the year are recorded in sterling at the average rate of exchange ruling in the period of the transaction. The resulting exchange differences are taken to the income and expenditure account.



**h. Leases**

All costs of operating leases are charged to the income and expenditure account as incurred.

**i. Pension Costs**

Past and present employees are covered by the provisions of the Civil Service Pension Schemes which are described at Note 18. The defined benefit elements of the schemes are unfunded. The Classic Scheme is non-contributory except in respect of dependent's benefits, under the Premium Scheme a contribution is made for which enhanced benefits are derived. Both the Classic and Premium schemes attract the same employers contributions as a percentage of pensionable pay. VCA recognises the expected cost of these elements on a systematic and rational basis over the period during which it benefits from employees' services by payment to the Principal Civil Service Pension Schemes (PCSPS) of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS. In respect of the defined contribution elements of the schemes, VCA recognises the contributions payable for the year.

**j. Financial instruments**

In preparing the disclosures in Note 21 to the financial statements concerning financial instruments, the Agency has taken advantage of the exemption available in Financial Reporting Standard 13 "Derivative and Other Financial Instruments: Disclosures", not to include details in respect of either short term debtors or creditors.

**k. Early Retirement Costs**

Compensation payments are provided for in the income and expenditure account. Obligations relating to these former members of staff aged 50 or over are provided for until their normal date of retirement.

**2. FINANCIAL TARGET**

The Agency did not achieve its key financial target in year as set by the Secretary of State, to achieve break-even on the commercial accounts at the operating level in 2004-2005.



### 3. TURNOVER

Turnover and Gross Surplus per Product Line

	TURNOVER		GROSS SURPLUS		FULL COST	
	2004-2005	2003-2004	2004-2005	2003-2004	2004-2005	2003-2004
	£000	£000	£000	£000	£000	£000
<b>Product Certification</b>	<b>3,457</b>	3,274	<b>829</b>	862	<b>3,575</b>	3,504
<b>Management System Certification</b>	<b>1,701</b>	2,004	<b>29</b>	412	<b>1,939</b>	2,031
<b>DfT/DTI work</b>	<b>1,506</b>	1,500	<b>679</b>	464	<b>1,462</b>	1,446
<b>Other activities</b>	<b>636</b>	647	<b>372</b>	271	<b>559</b>	581
<b>DVO funding</b>	<b>30</b>	163	<b>30</b>	163	<b>30</b>	163
<b>Total</b>	<b>7,330</b>	7,588	<b>1,939</b>	2,172	<b>7,565</b>	7,725

The Agency is required to comply with the Treasury's Fees and Charges Guide and disclose a segmental analysis of its activities where fees and charges are made. VCA seeks to recover the full cost of the services it provides. Other activities include the issue of sub-MACs, duplicate sub-MACs, conformity of production assessments/inspections and commission notices. Early retirement costs (Note 5) are not included within the full cost shown above. DVO non-capital funding for various projects has been treated as income and directly related in year expenditure is included within administration costs. This analysis is not required to satisfy Statement of Standard Accounting Practice 25 "Segmental Analysis".

### 4. ADMINISTRATIVE EXPENSES

	2004-2005 £000	2003-2004 £000
<b>Depreciation charges (net)</b>	<b>173</b>	182
<b>Loss on disposal of fixed assets</b>	<b>15</b>	6
<b>Impairment of fixed assets (net)</b>	<b>(30)</b>	28
<b>Pay costs (administration)</b>	<b>875</b>	858
<b>Travel and subsistence</b>	<b>89</b>	69
<b>Legal and consultancy</b>	<b>33</b>	66
<b>Audit fee (note 15)</b>	<b>39</b>	44
<b>Exchange loss on translation</b>	<b>40</b>	78
<b>Realised exchange (gain)/loss</b>	<b>(13)</b>	(15)
<b>Other administrative expenses (including DfT on costs – note 15)</b>	<b>953</b>	993
<b>Total</b>	<b>2,174</b>	2,309

Other administrative expenses include postage, rents payable under operating leases (Note 19), insurance, rates, fuel, telephone and IT running costs. Pay costs (administration) includes costs relating to annual leave, sick leave, general training and development for all staff, as well as DVO funding, general management and administration. Initial costs of £18,709 in relation to the China office opening in 2005-2006 are included in administrative expenses. Pay costs, travel and subsistence, legal and consultancy and other administrative expenses are shown net of transfers to cost of sales and work in progress. Direct costs relating to DVO funding are included within total administrative expenses. Depreciation is net of movements to DVO Grant Reserve of £29,330 including permanent diminution on revaluation (Note 17). The external auditors have not received any remuneration in respect of non-audit services during the year.

### 5 ADMINISTRATIVE EXPENSES – EARLY RETIREMENT COSTS

Due to the restructuring of our MSC operations two early departure decisions were taken this year. The full cost representing the lump sum payment and pension to the individuals' normal retirement date is estimated to be £127,484, and this has been taken to this years' income and expenditure account as a provision. Of the provision £12,676 relates to lump sum benefits and pension payments to date, £114,808 relates to future years pension payments.



## 6. EMPLOYEES AND STAFF COSTS

- a. The average number of full-time equivalent employees during the year was:

	2004-2005	2003-2004
<b>Senior management</b>	9	8
<b>Professional and technical</b>	43	42
<b>Technical support</b>	39	35
<b>Administrative support</b>	18	21
<b>Agency, Temporary and Contract Staff</b>		
<b>Professional and technical</b>	12	14
<b>Technical support</b>	6	4
<b>Administrative support</b>	3	2
<b>Total</b>	130	126

Technical support staff are involved in fee earning activities. Within the total for agency, temporary and contract staff there are 19 full-time equivalent locally engaged overseas staff (16 2003-2004).

- b. Staff costs excluding early retirement costs amounted to:

	2004-2005 £000	2003-2004 £000
<b>Wages and salaries</b>	3,249	3,126
<b>Social security costs</b>	255	240
<b>Other pension costs (Note 18)</b>	413	391
<b>Agency, Temporary and Contract Staff</b>	917	885
<b>Total</b>	4,834	4,642

- c. The salary and pension entitlements of the most senior managers of the Agency were as follows:

Name and title	2004-2005						2003-2004
	Salary	Real increase in pension and related lump sum at age 60	Total accrued pension at age 60 at 31 March 2005 and related lump sum	Cash Equivalent Transfer Value at 31 March 2004	Cash Equivalent Transfer Value at 31 March 2005	Real increase in Cash Equivalent Transfer Value	Salary
Mr P V Markwick	90-95	0-2.5	0-5	-	23	10	-
Mr D W Harvey	5-10	7.5-10	110-115	458	523	60	65-70
Mr C Border				Consent to disclosure withheld			
Mr R Brayfield				Consent to disclosure withheld			
Mr A J Buckle				Consent to disclosure withheld			
Mr T J Davies				Consent to disclosure withheld			
Mr A Grimm				Consent to disclosure withheld			
Mr B Perrett				Consent to disclosure withheld			
Mr A W Stenning				Consent to disclosure withheld			
Mr M Mulvaney				Consent to disclosure withheld			
Mrs P Wilkes				Consent to disclosure withheld			

The above includes all the members of the Management Board as at 31 March 2005. The total remuneration of the Chief Executive, who is the highest paid member of the Management Board was £90,500 (Mr D W Harvey £68,151 2003-2004). The total aggregate of all emoluments of the Board was £486,589 representing 10 members (£331,667 2003-2004 representing 7 members). Salaries include gross salaries, bonus payments, but exclude employer pension contributions. No additional fees were received in their capacity as board members nor were any benefits in kind received.

Pension benefits are provided through the PCSPS of which all the above are ordinary (Classic) members. This is a statutory scheme that provides benefits on a "final salary" basis at a normal retirement age of 60. Benefits accrue at the rate of 1/80<sup>th</sup> of pensionable salary for each year of service. In addition a lump sum benefit of 3 years' pension is payable on retirement. Members pay contributions of 1.5% of pensionable earnings. Pensions increase in line with the Retail Prices Index. On death, pensions are payable to the surviving spouse at the rate of half the member's pension. On death in service the scheme pays a lump sum benefit of twice pensionable pay and also provides a service enhancement on computing the spouse's pension. The enhancement depends on length of service and cannot exceed 10 years. Medical retirement is possible in the event of serious ill-health. In this case pensions are brought into payment immediately without actuarial reduction and with service enhancement as for widow(er) pensions.



- d. The full cost of early departure decisions taken this year is estimated to be £127,484 and has been taken to this year's income and expenditure as a provision. As these charges relate to the restructuring of the MSC business they have been regarded as exceptional in accordance with FRS 3 Reporting Financial Performance. There are no charges relating to previous decisions.

## 7. NOTIONAL COST OF CAPITAL

The charge is calculated at the Government's standard rate of 3.5% (3.5% 2003-2004) in real terms on all assets less liabilities, excluding cash balances with the OPG where the charge is nil.

## 8. TANGIBLE FIXED ASSETS

	Test Equipment	Computers and Office Machinery	Furniture and Fittings	Motor Vehicles	Long Leasehold Land and Buildings	Total
	£000	£000	£000	£000	£000	£000
<b>COST/VALUATION</b>						
At 1 April 2004	141	903	154	4	155	1,357
Additions	28	126	2	10	-	166
Revaluations	-	(64)	-	-	-	(64)
Disposals	-	(69)	-	-	-	(69)
<b>At 31 March 2005</b>	<b>169</b>	<b>896</b>	<b>156</b>	<b>14</b>	<b>155</b>	<b>1390</b>
<b>DEPRECIATION</b>						
At 1 April 2004	63	431	42	-	4	540
Charge for the year	11	171	13	1	6	202
Revaluations	-	(92)	-	-	(2)	(94)
Released on disposals	-	(54)	-	-	-	(54)
<b>At 31 March 2005</b>	<b>74</b>	<b>456</b>	<b>55</b>	<b>1</b>	<b>8</b>	<b>594</b>
<b>NET BOOK VALUE</b>						
<b>At 31 March 2005</b>	<b>95</b>	<b>440</b>	<b>101</b>	<b>13</b>	<b>147</b>	<b>796</b>
At 31 March 2004	78	472	112	4	151	817

Indexation is to the latest reliable indices in accordance with the requirements of the Resource Accounting Manual. Where it is considered that there has been permanent impairment to assets at the end of the financial year they have been written off to the income and expenditure account. In 2004-2005 the total amount taken to the income and expenditure account as impairment in value was £18,097 (£28,464 2003-2004). Any surpluses on revaluation are credited to the revaluation reserve unless they reverse previous impairments that were taken to the income and expenditure account.

Included in the above under Computers and Office Machinery are total payments of £11,926 made in year in respect of fixed asset work-in-progress for the SQL Job Register.

Movements in respect of disposals, depreciation and revaluation of £29,330 (£30,780 2003-2004) have been taken to the DVO Grant Reserve (Note 17).

Non-dwelling long leasehold land and buildings are carried at professional valuation on the basis of depreciated replacement cost. The valuation was carried out as at 31 March 2003 by Insignia Richard Ellis, Chartered Surveyors.

## 9. DEBTORS

	At 31 March 2005 £000	At 31 March 2004 £000
Trade debtors	1,348	1,337
Other debtors	63	68
Prepayments	153	178
Accrued income	885	796
DVO funding	100	197
DfT grants	-	65
<b>Total</b>	<b>2,549</b>	<b>2,641</b>

The Agency has no debtors due after more than one year, except for salary advances of which £6,593 (£6,006 2003-2004) is due after one year. DVO Funding is in respect of emerging technologies projects



## 10. CREDITORS

	At 31 March 2005 £000	At 31 March 2004 £000
<b>Amounts falling due within one year</b>		
Trade creditors	10	8
Other creditors	316	274
Accruals	171	440
Deferred income	2	29
DVO funding (deferred)	70	-
Early retirement provision	58	-
DfT payroll deposit	-	158
<b>Total amounts falling due within one year</b>	<b>627</b>	<b>909</b>
<b>Included in other creditors are:</b>		
Deposits from manufacturers	231	221
<b>Amounts falling due after one year</b>		
Early retirement provision	69	-
<b>Total amounts falling due after one year</b>	<b>69</b>	<b>-</b>

The accruals balance at 31 March 2005 includes £85,262 (£80,291, 31 March 2004) in respect of VCA's March 2005 payroll cost payable to DfT. DVO Funding is in respect of emerging technologies projects

## 11. INTRA GOVERNMENTAL BALANCES

Debtors	At 31 March 2005 £000	At 31 March 2004 £000
<b>Balances with other central government bodies</b>		
Trade debtors	-	113
Other debtors	37	26
Accrued income	384	326
DVO funding	100	197
DfT grants	-	65
<b>Total</b>	<b>521</b>	<b>727</b>
<b>Balances with bodies external to government</b>	<b>2,028</b>	<b>1,914</b>
<b>Total</b>	<b>2,549</b>	<b>2,641</b>

Balances with bodies external to government includes £6,593 (£6,006 2003-2004) in respect of amounts falling due after more than one year.

Creditors	At 31 March 2005 £000	At 31 March 2004 £000
<b>Balances with other central government bodies</b>		
Accruals	86	108
DVO funding (deferred)	70	-
Early retirement provision	127	-
DfT payroll deposit	-	158
<b>Total</b>	<b>283</b>	<b>266</b>
<b>Balances with local authorities</b>		
Other creditors	64	56
<b>Total</b>	<b>64</b>	<b>56</b>
<b>Balances with NHS Trusts</b>		
Trade creditors	-	5
<b>Total</b>	<b>-</b>	<b>5</b>
<b>Balances with bodies external to government</b>	<b>349</b>	<b>582</b>
<b>Total</b>	<b>696</b>	<b>909</b>

The Agency has creditors totaling £69,442 (nil 2003-04) in relation to early retirement costs which are due after more than one year, this is included within balances with other central government bodies.



<b>12.</b>	<b>CASH AT BANK AND IN HAND</b>	<b>At 31 March 2005</b>	<b>At 31 March 2004</b>
		<b>£000</b>	<b>£000</b>
	OPG balance	247	28
	Lloyds current account	40	45
	Cash in hand and at other banks	703	361
	<b>Total</b>	<b>990</b>	<b>434</b>
<b>13.</b>	<b>PROVISIONS FOR LIABILITIES AND CHARGES</b>		
	There were no provisions for liabilities and charges as at 31 March 2005 except for early retirement costs (note 5).		
<b>14.</b>	<b>GENERAL FUND</b>	<b>2004-2005</b>	<b>2003-2004</b>
		<b>£000</b>	<b>£000</b>
	<b>BALANCE AT 1 APRIL</b>	<b>2,976</b>	<b>3,156</b>
	Deficit for the year	(473)	(234)
	Notional cost of capital	114	100
	Notional charges (Note 15)	105	112
	Repay to DfT	-	(158)
	Financing from DfT	1,000	-
	<b>BALANCE AT 31 MARCH</b>	<b>3,722</b>	<b>2,976</b>
<b>15.</b>	<b>NOTIONAL CHARGES</b>	<b>2004-2005</b>	<b>2003-2004</b>
		<b>£000</b>	<b>£000</b>
	DfT on costs	66	68
	Audit fee	39	44
	<b>Total</b>	<b>105</b>	<b>112</b>
<b>16.</b>	<b>REVALUATION RESERVE</b>	<b>2004-2005</b>	<b>2003-2004</b>
		<b>£000</b>	<b>£000</b>
	<b>BALANCE AT 1 APRIL</b>	<b>13</b>	<b>16</b>
	(Deficit)/surplus on revaluation of fixed assets	-	(1)
	Backlog depreciation on revalued assets	-	(2)
	<b>BALANCE AT 31 MARCH</b>	<b>13</b>	<b>13</b>
<b>17.</b>	<b>DVO GRANT RESERVE</b>	<b>2004-2005</b>	<b>2003-2004</b>
		<b>£000</b>	<b>£000</b>
	<b>BALANCE AT 1 APRIL</b>	<b>106</b>	<b>50</b>
	Capital purchases	-	86
	Disposals	-	(2)
	Depreciation charges	(29)	(13)
	Revaluation depreciation	8	-
	Revaluation	(8)	(15)
	<b>BALANCE AT 31 MARCH</b>	<b>77</b>	<b>106</b>

Depreciation charges and revaluation are credited/debited to the reserve as and when they occur.





## 18. PENSION COMMITMENTS

The PCSPS is an unfunded multi-employer defined benefit scheme but VCA is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out as at 31 March 2003. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation ([www.civilservice-pensions.gov.uk](http://www.civilservice-pensions.gov.uk)).

For 2004-2005, normal employer's contributions of £412,884 were payable to the PCSPS (£390,324 2003-2004) at one of four rates in the range 12 to 18.5 per cent of pensionable pay, based on salary bands. Rates will be increased next year in the range of 16.2% to 24.6%. Employer contributions are to be reviewed every four years following a full scheme valuation by the Government Actuary. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

Employees joining after 1 October 2002 could opt to open a partnership pension account, a stakeholder pension with an employer contribution.

No employer's contributions were paid to one or more of a panel of four appointed stakeholder pension providers (£670 2003-2004). Employer contributions are age-related and range from 3 to 12.5 per cent of pensionable pay. Employers also match employee contributions up to 3 per cent of pensionable pay. In addition, employer contributions of 0.8 per cent of pensionable pay were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees.

There were no contributions due to the partnership pension providers at the balance sheet date. Contributions prepaid at that date were nil.

## 19. CAPITAL AND OTHER COMMITMENTS

The Agency had no capital commitments as at 31 March 2005 (nil at 31 March 2004). The Agency has annual commitments under operating leases as follows:

	<b>2004-2005</b> <b>£000</b>	2003-2004 £000
<b>EXPIRING:</b>		
<b>Land and buildings - within one year</b>	<b>16</b>	16
<b>Land and buildings - in second to fifth years inclusive</b>	<b>27</b>	28
<b>Land and buildings - over five years</b>	<b>195</b>	195
<b>Total</b>	<b>238</b>	239

Total rentals for 2004-2005 of £239,526 (£248,634 2003-2004) were charged to the income and expenditure account.

## 20. CONTINGENT LIABILITIES

There were no contingent liabilities as at 31 March 2005.

## 21. FINANCIAL INSTRUMENTS

The Agency's financial instruments comprise cash and funding from the OPG account (as shown in Note 12), together with various items such as trade debtors and trade creditors that arise directly from operations. All financial instruments are short term and arise purely from the Agency's day to day activities. The book values equate to the fair values.

The Agency is not exposed to liquidity or interest rate risk, however, there is exposure to foreign currency risk due to commercial activities outside the UK. The management board is only able to manage this risk by holding foreign currency bank accounts.

## 22. RELATED PARTY TRANSACTIONS

As at the 31 March 2005 VCA was an executive agency of the DfT.

The DfT, of which the DVO Group is part, is regarded as a related party. During the year, VCA has had a number of material transactions with the Department. Income in 2004-2005 from the Department was £1,165,998 (£1,293,451 2003-2004). In addition VCA received sales income of £340,442 from DTI during 2004-2005 (£206,487).

During the year, none of the Board Members, members of the key management staff or other related parties has undertaken any material transactions with VCA.

Balances of the amounts due and owed at the balance sheet date are shown in Notes 9, 10 and 11.