



VEHICLE CERTIFICATION AGENCY
An executive agency of the Department for Transport

Annual Report and Accounts
2005 - 2006

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

Ordered by the House of Commons to be printed on 20th July 2006

1403

LONDON: THE STATIONERY OFFICE





CONTENTS

	Page No
<u>CHIEF EXECUTIVE'S FOREWORD</u>	2
<u>INTRODUCTION</u>	3
<u>AIMS</u>	4
<u>2005-2006 TARGETS SET BY THE SECRETARY OF STATE</u>	5
<u>MANAGEMENT COMMENTARY</u>	6-15
PERFORMANCE AGAINST BUSINESS TARGETS	6-9
SUMMARY OF BUSINESS OBJECTIVES AND ACHIEVEMENTS	10
Better Services	10
Better Compliance	10
Better Value for Money	11
REVIEW OF AGENCY DEVELOPMENTS	12
Finance and ICT	12
Personnel Management	12
Staff Development	12
Working Environment	13
Customer Service	13
Environmental Policy	13
Social /Community issues	13
Total Quality & Business Plan Key Performance Indicators	14
<u>REMUNERATION REPORT</u>	16
<u>CONTACTING VCA WORLDWIDE</u>	19
<u>FINANCIAL STATEMENTS</u>	i-xvi



CHIEF EXECUTIVE'S FOREWORD

The Financial year 2005-2006 was the first of the new 10 Year Vision and Business Plan developed by the VCA Management Board at the end of 2004. This is an ambitious and stretching plan, designed to generate a sustainable and effective future for the Agency, delivering a first class service, where and when our customer base demands.

The Management Board decided that the VCA needs to develop a global solution, with an informed and intelligent workforce, understanding the needs of the UK citizens and the automotive industry, to add the highest value to all our customers. The Agency has generated a customer-focussed workforce, with a high degree of customer satisfaction in our delivery model. The technical capability of our engineers and auditors, while already strong, is being further enhanced through targeted research and development, and through strong connections and joint projects with academia, and industry experts.

Our Business Plan for 2005-2006 included a significantly stretched budget, to support the investment in training and research, plus the opening of VCA China. We planned to generate £8 million income during the financial year, growing from the £7.3 million recorded in 2004-2005. We planned to break even at an operating level, despite this new investment. I am very pleased to confirm that we exceeded this stretch target, almost doubling the income increment to £8.8 million revenue, generating an operating surplus of £80,000. This is the first year an operating surplus has been recorded for 4 years, reflecting on the commitment and progress that our Agency has achieved over the past few years.

In fact I am very pleased to report that the VCA met all 8 of the Secretary of State targets laid down in the 2005-2006 Business Plan. These being:

- To deliver at least 90% of type approval certificates within 8 working days.
- To issue at least 98% of type approval certificates error free.
- To improve customer satisfaction rating year on year.
- To expand VCA's global presence in new territories
- To carry out and enforce an annual programme of in-service emissions testing.
- To develop the VCA strategy in relation to emerging technologies in vehicle testing by December 2005.
- To make a surplus on an operating basis.
- Deliver the benefits consistent in the Value for Money Plan achieving at least 2.5% of cost savings and 2.5% efficiency and effectiveness improvements

The Agency, which is part of the DVO Group, has also contributed to the DVO Group through the establishment of the Vehicle Technology Forum. The group, with representation from the DVO Strategies and Resources Directorate, plus the other DVO Agencies, and the Highways Agency, with the relevant DfT Policy Makers from TTS (Transport Technology and Standards) and CFV (Cleaner Fuels and Vehicles), focuses on the emerging vehicle technologies, ensuring an integrated approach across the department.

Finally, I would like to thank all the staff of the Agency for their commitment and endeavour through the past Financial Year. The contribution of each individual in our Agency, across our global network, has generated an excellent set of results, and we can look forward to a sustainable and effective future.

Paul Markwick
Chief Executive and Accounting Officer
5 July 2006



INTRODUCTION

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. Under section 7(2) of the Government Resources and Accounts Act 2000, HM Treasury have directed the Vehicle Certification Agency to prepare for each financial year a statement of accounts in the form and on the basis set out in the Accounts Direction in the Dear Accounting Officer letter DAO(GEN)01/06.

The VCA is part of the Driver, Vehicle and Operator (DVO) Group of agencies in the 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 (under sections 54 to 65 of the Road Traffic Act 1988 and section 2(2) of the European Communities Act 1972). In direct support of this VCA provides information derived from Product Certification (PC), which includes Type Approval, results to other DVO agencies, the public, and also conducts a range of enforcement activities on behalf of DfT and the Department of Trade and Industry (DTI). The VCA also provides Management System Certification (MSC) services to ISO 9001, 14001 and other standards that allow the automotive industry to demonstrate that they have processes and systems in place, not only to ensure the quality of their products, but also to minimise their effects on the environment and to make continuous improvement to 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, and the VCA accepts these approvals through the Mutual Recognition procedure between the European Community Member States.

The 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 UK automotive industry to gain legislative access to Europe, and other territories that accept European or United Nations/ECE approvals. The Agency Headquarters is in Bristol, with the remainder of the UK based staff operating from our Midlands Centre at the Motor Industry Research Association (MIRA), near Nuneaton, and Millbrook Proving Ground, near Bedford. The Agency has staff operating overseas from offices in USA, Japan, Malaysia and the new VCA China office opened in April 2005. There are 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, the DVO group of agencies 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. The 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 the Agency is the ability to compete successfully. It aims to do this by providing a high quality value proposition through integrity, flexibility, and speed of delivery, supported by accurate information and interpretation of relevant standards. Another test is to perform the 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 the Agency will continue to work hard to positively develop the brand and its operating values.



AIMS
(2005-2006 Business Plan)

The purpose of VCA is to help deliver:-

- *improved road safety*
- *a reduction in harm to the environment*
- *reduced vehicle crime*
- *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 are 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.*
- *by developing tools, techniques and expertise to support the emerging technologies including virtual testing, and electronic engineering.*
- *by operating where our customers require by expanding geographically around the world to support new, emerging and relocating customers.*

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 colleagues, so that operational experience helps formulate future standards and schemes, plus developing new capabilities and expertise in line with the emerging automotive technologies.*

Better Value for money

- *by continuously improving effectiveness and efficiency through our VFM plan, 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.**

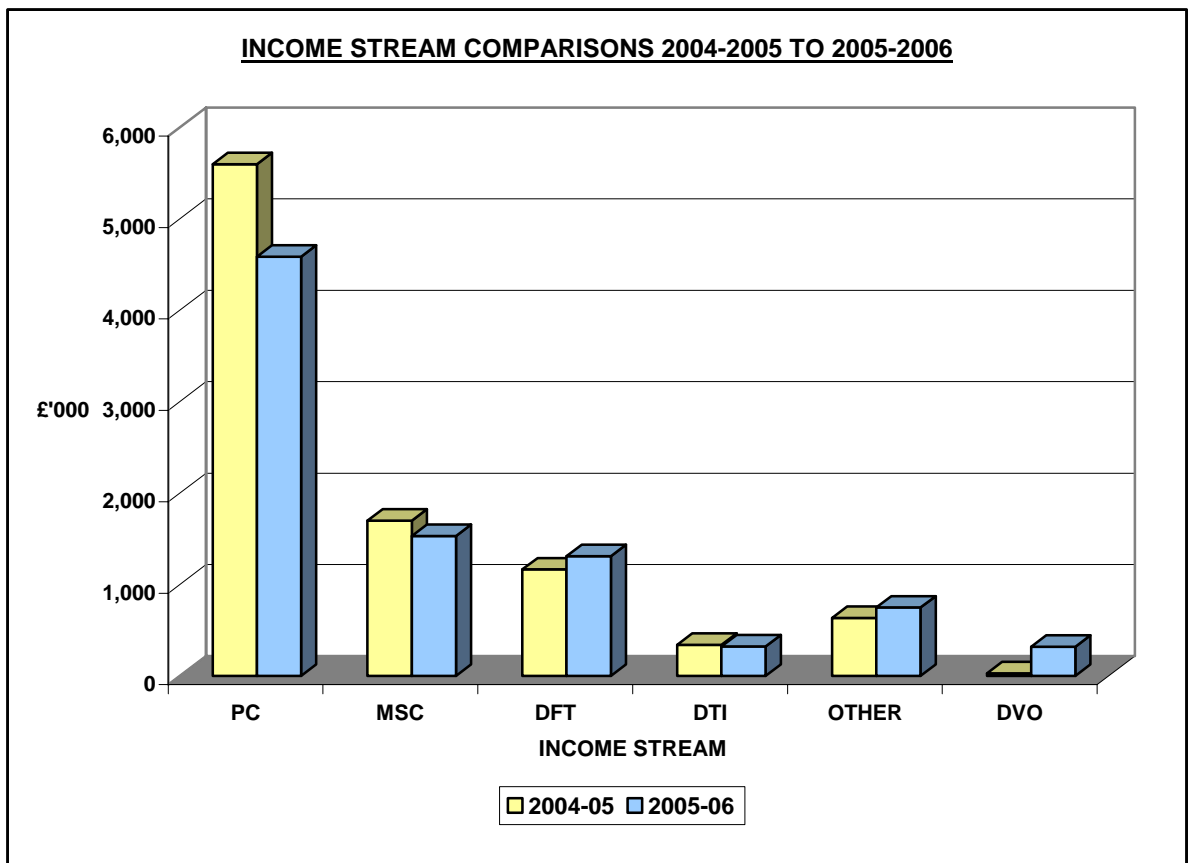
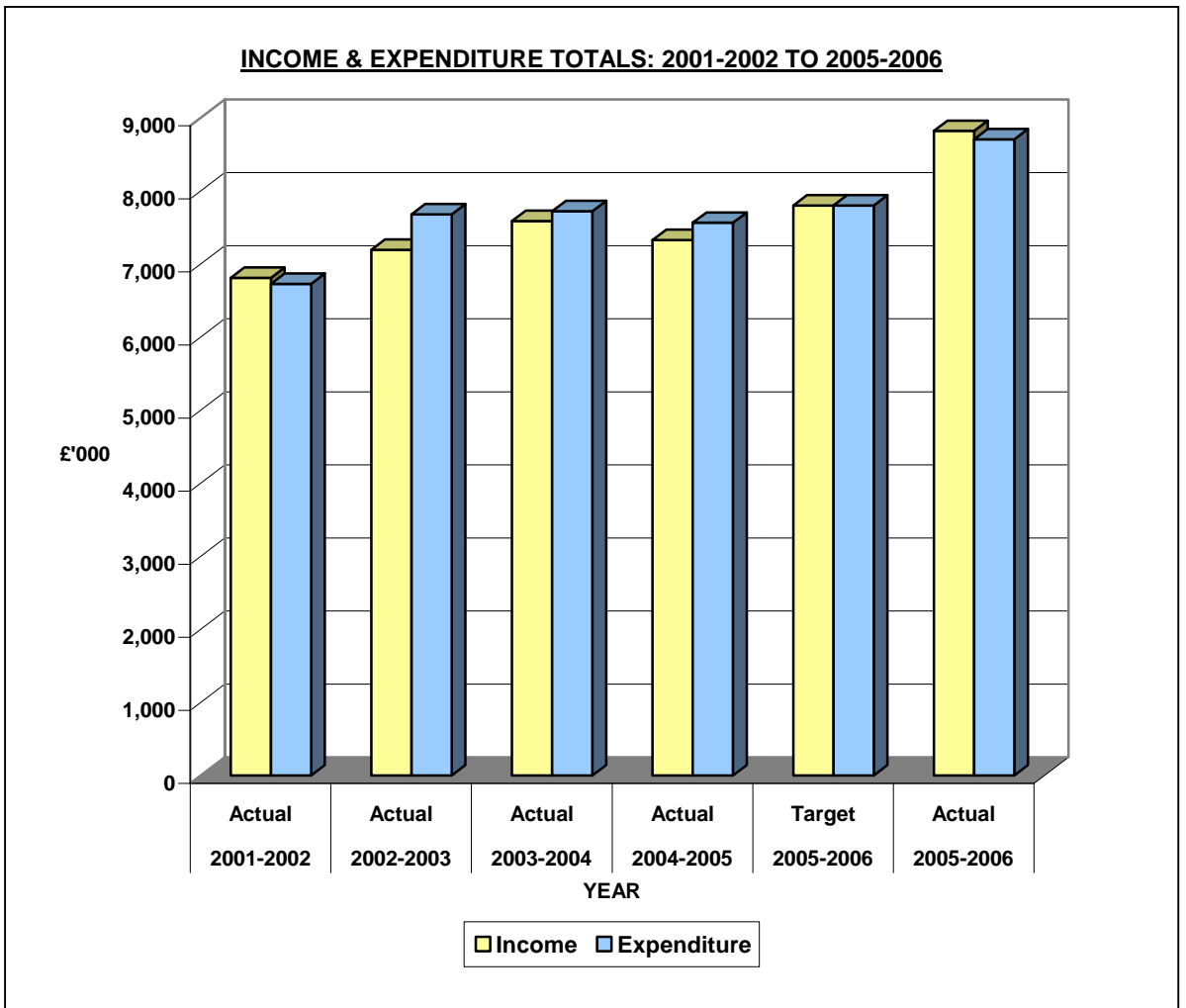


2005-2006 TARGETS SET BY THE SECRETARY OF STATE

SECRETARY OF STATE TARGETS	Status	Comment
To deliver at least 90% of type approval certificates within 8 working days.*	ACHIEVED	93.32% end year *
To issue at least 98% of type approval certificates error free.	ACHIEVED	99.12% end year
To improve customer satisfaction rating year on year.	ACHIEVED	2005-2006 Survey Mean Score 4.1 2004-2005 Survey Mean Score 4.0
To expand VCA's global presence in new territories.	ACHIEVED	China office opened 22 April 2005 India feasibility study completed November 2005
To carry out and enforce an annual programme of in-service emissions testing.	ACHIEVED	Completed March 2006
To develop the VCA strategy in relation to emerging technologies in vehicle testing by December 2005.	ACHIEVED	
To make a surplus on an operating basis.	ACHIEVED	£80K Operating Surplus
Deliver the benefits consistent in the Value for Money Plan achieving at least 2.5% of cost savings and 2.5% efficiency and effectiveness improvements	ACHIEVED	Total in year £535,000

*Not including Japan / Korea offices, UK Single Vehicle or Commission Notices.

MANAGEMENT COMMENTARY





PERFORMANCE AGAINST BUSINESS TARGETS

	2001-2002 Actual	2002-2003 Actual	2003-2004 Actual	2004-2005 Actual	2005-2006 Actual	2005-2006 Target
Income	£6.81m	£7.20m	£7.59m	£7.33m	£8.82m	£8.0m
Expenditure	£6.72m	£7.61m	£7.65m	£7.53m	£8.75m	£8.0m
Operating Surplus/ (Deficit)	£0.07m	(£0.41m)	(£0.06m)	(£0.2m)	£0.07m	£0.0m
Cumulative Operating Surplus	£0.95m	£0.54m	£0.48m	£0.28m	£0.35m	£0.28m

Note: all figures exclude translation gain/(loss) on exchange and early retirement provision.

- **To make a surplus on an operating basis.** In 2005-2006 VCA was funded on the DfT, RfR (Request for Resources) 1 as a net programme cost body. It is required to cover its costs from income received. In 2005-2006 VCA's key financial target was to achieve an operating surplus, this was met, and an £80,000 operating surplus was made. This represented a significant improvement over the prior years £362,000 operating deficit in 2004-2005, a £442,000 improvement. This was despite a 43% (£177,000) increase in employer superannuation contributions (almost 80% of which, is directly attributable to the revaluation by the Government Actuary) and a 10% (£170,000) fall in Management System Certification income.
- As in previous years we have measured our operating performance after adjusting for translation gain/(loss) on exchange and early retirement provision (table above) for year on year comparison.
- Overall income from all our commercial activities increased by 18% year on year.
- Net assets increased by 4% (£151,000) due to an increase in tangible fixed assets, net current assets and a decrease in provisions for liabilities and charges. Trade debtors rose by £666,000 of which £536,000 related to balances with other Central Government bodies, the remainder £130,000 (10%) is due to the increased level of turnover in 2005-2006.

Departmental Performance

- **Product Certification Income.** Demand for type approval services was high throughout the year and in all geographical regions, leading to a global increase of 33% in income over 2004-2005. VCA continued to be the chosen supplier of type approval services to many major global auto manufacturers with several new model programmes completed, as well as important new work from new customers. The retention of work from established customers is as much of a success as winning work from new customers; all customers regularly review the quality and cost-effectiveness of their suppliers and the supply of type approval services is no different.

A disappointment was that significant noise and exhaust emissions work was expected under the Recreational Craft Directive (leisure boats), but only a handful of tests were completed. This was despite a great deal of marketing effort and our involvement in several industry technical seminars. This is not a poor reflection on VCA; market research has indicated that many manufacturers have ignored the Directive, despite the considerable publicity from VCA, DTI, British Marine Federation and others. Our involvement in this work will be reviewed during 2006-2007.



- **Management System Certification Income.** This fell by 10% globally resulting in a negative contribution of £96,000. This was due to price pressures within the market especially from some of our major customers, whilst activity levels have remained constant. This year was a low volume audit re-certification year. This is an established industry driven cyclical 3-year audit lifecycle timetable, which was not sufficiently offset by increased incremental activity. Our investment in business development, restructuring and systems are targeted to recover this situation in the future by increasing our customer base and improving our efficiency, effectiveness and delivery.

There has also been significant process improvement to simplify and streamline processes reducing administration costs. Best practice has been adopted wherever appropriate, e.g. electronic database. Internal and external training in the latest requirements for environmental and quality standards has increased the skill base of our staff to enable us to offer a broader range of services.

Foundations and business plans were laid to generate new business through entry into the Utilities environmental industry and with 2006-2007 being a re-certification year with up to an expected 30% increase in chargeable audit days from existing clients and should result in a positive contribution next year

- **Business Opportunities.** The current automotive climate offers various business opportunities for VCA to expand its market share. With new and more demanding legislation requiring more certification and audit work, coupled with the rapid globalisation of the industry, it offers VCA the opportunity to enter emerging markets such as India, China and Eastern Europe. This together with VCA's reputation for delivering a top quality product with the integrity of a UK Government Agency, there are good potential opportunities.
- **Business Risks.** The potential risks facing VCA are the same as with many commercial organisations operating in a global environment, such as communication issues, culture, bad debt and currency fluctuation risks. Also ensuring that VCA's high standards and reputation remain our top priority whilst still maintaining steady market growth. To combat this threat adequate recruitment and first class training to match our growth is essential.
- **Future Direction.** 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. An external review was commissioned by DVO and carried out by Hedra during 2005-2006, as part of the groups Fundamental Strategy Review. This reinforced the viability of the agency. Further investment will continue particularly in technical competencies and overseas facilities so that the positive financial return achieved this year will continue.
- **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 2005-2006 were:

Mr P V Markwick , BSc CEng MIMechE	Chief Executive
Mr C Border , BA MCIPD	MBM for Central Services
Mr J Bragg , HND	MBM for Systems Certification Operations
Mr R Brayfield , MSc	MBM for North American Operations
Mr A Buckle , BA ACMA	MBM for Finance and ICT
Mr A Grimm , BSc	MBM for Special Projects
Mr M Mulanvey , BSc	MBM for East Asia Operations
Mr B Perrett , BSc AMIMechE	MBM for Product Development and Enforcement Services
Mr A W Stenning , BSc CEng MIMechE	MBM for Product Certification
Eur Ing P Wilkes (Mrs)	MBM for Business Development

See the Remuneration Report for information on appointment terms, salary and pension entitlements for the Management Board.



- **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. As from 1st April 2006 the Advisory Board is being disbanded and its responsibility will be replaced by the Director General and Non Executive attendance at strategic Management Board Executive meetings. The Board's members during 2005-2006 were:

Dr S Hickey, D.Phil MA
Mr J Moor, BA FCA

Ms V A Bodnar, MA BSc CEng MICE

Mr P V Markwick, BSc CEng MIMechE
Mr W Craig, BSc
Mrs C Blatchford, MA MBA
Professor E Sampson

DVO Group Director General
DVO Group Strategy and Resources Director
to 31 December 2005
DVO Group Strategy and Resources Director
from 1 January 2006
Agency Chief Executive
External member
External Member, to 31 December 2005
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.

- **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 in 2005-2006 of a 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. In 2005-2006 all targets have been achieved and £30,482 is included within the accounts for distribution.
- **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 98.32% (98.42% 2004-2005) of invoices paid within 30 days of receipt in 2005-2006.
- **Pension.** Past and present employees are covered by the provisions of the Civil Service Pension Schemes which are described in the Financial Accounts, Notes 1,i and 6,c.
- **Audit.** Audit fees charged in the accounts amount to £35,400 (£39,000 2004-2005).



SUMMARY OF BUSINESS OBJECTIVES AND ACHIEVEMENTS

Better Services - Key Achievements

E-Service

- The VCA's websites (in the UK, US and Japan) have been homogenised, following the branding changes, to create a worldwide portal.
- Over the year the New Car Fuel Consumption Data website has been further developed and is now generating an average of 2,000,000 hits per month.
- Point of Sales software for fuel consumption and CO₂ information has been well received during the year. This software supports manufacturers and their dealer networks to meet their legal obligations to show CO₂ information at the point of sale of any vehicle. This allows them to generate a showroom display label to give consumers better energy consumption information when considering a new car purchase.
- Legstat 2 now available to staff and on a subscription service to external clients.

Other Services

- In April 2005 VCA opened a new overseas office in Beijing China, improving access to VCA's services in that region. Sales in year were just over £140,000.
- Technical support agreements for Product Certification and Type Approval customers.
- Diversification into environmental and utilities certification services.
- Implementation of Pedestrian Protection TA Directive.
- Expansion of agricultural tractor and vehicle testing services through being appointed the UK National Designated Body for agricultural equipment by Organisation for Economic Co-operation and Development (OECD).

Better Compliance - Key Achievements

- Improved Conformity of Production, recording and monitoring.
- The process of incorporating new Regulations and Directives into Vista and Legstat is now tracked. This has improved the quality of the process and quality of the information provided.
- Legstat 2, can now be tailored to individual requirements giving active notifications and reminders of changes to legislation and is an enabler to better compliance.



Better Value for Money- Key Achievements

- Productivity - £185,000 realised
 - £80,000 Additional chargeable work with existing resources
 - £35,000 Improved internet link increasing file transfer speeds
 - £50,000 Enforcement of internet policy
 - £20,000 Others

- Procurement - £129,000 realised
 - £40,000 Renegotiation of US contractor contracts
 - £26,000 Renegotiation of VCA HQ rent
 - £24,000 Retendering FCB printing to alternative printer
 - £10,000 Rates appeal - Midlands Centre
 - £29,000 Others

- e-Delivery - £16,000 realised
 - £10,000 e-learning
 - £6,000 Vista/Legstat web based rather than CD

- Back Office - £205,000 realised
 - £138,000 Smarter charging by more accurate billing – SharpOWL
 - £20,000 Estates staff reduction – Administrative Officer staff reduction
 - £20,000 Reception – Administrative Officer staff reduction
 - £27,000 Others

Total in year £535,000 of which £331,000 represents effectiveness savings, the remainder being cash releasing efficiency gains.



REVIEW OF AGENCY DEVELOPMENTS

Finance and ICT

- The Finance Branch was extended to include the ICT department in 2004-2005 in order to improve internal services and facilities. VCA has benefited from the synergies realised including a more complete delivery of services, and further opportunities will be sought in the future.
- The New Car Fuel Consumption Data website is now generating many enquiries with and has resulted in a number of new customers.
- Sales of POS software commenced towards the end of 2004-2005, and a new business stream has resulted, with the added benefit of the VCA brand becoming more visible to consumers and citizens.
- 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 has enabled better usage of all systems and sharing of data, including SharpOWL, and other management information systems, benefits are already being realised and are included in our VFM savings.
- Mobile VCA staff now has access to a personal Virtual Private Network (VPN) to enable real time communications within VCA globally. Further developments due in 2006-2007 will further enhance accessibility and efficiency.

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. This was extended to include TTS;
 - Production of a Race Equality Scheme (RES) Action Plan;
 - Extension of our Harassment Contact Officer Group;
 - Completion of a Pay and Workforce strategy for the Agency; and
 - Completion of pay negotiations to the Treasury remit.
- 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. 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".
- The Agency has recently updated its Absence Management Guidelines and has held workshops for all line managers. This has ensured that procedures are in place to monitor and ensure that appropriate action is taken with the assistance of the Personnel Department when required.
- Over the past year the Agency Civil Servant Full Time Equivalents (FTE's) increased by two. The departures included two retired, one dismissed and five resigned.

Staff Development

- The number of training and development (T&D) days and spend has remained on target with approximate expenditure per head of £900 and in particular:
 - E-learning introduced to all offices;
 - Bullying and harassment workshops for all staff;
 - Continuation of diversity and leadership courses;
 - Recent staff survey conducted resulting in various staff workshops being set up to help resolve issues and concerns highlighted from survey findings;



- 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;
- 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; and
- VCA's first time pass rate for lead auditor re-qualification to the latest automotive TS16949 standard was 80% compared to a global average of below 50%.

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. 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, and assisted access to a local gymnasium for HQ staff; and.
 - Formal and informal discussions take place with trade unions through the regular meetings of the Agency's Whitley Committee.
- Successful review and test of the VCA business continuity and disaster recovery plan during 2005-2006.

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 offers advice and support on significant issues. VCA attends the TTS Heads of Branches meetings.

Environmental Policy

- The Agency takes its environmental responsibility seriously and is accomplished via our environmentally friendly 'Greening Policy'. This is based on DfT issued best practice guidelines. Areas of policy implementation include:
 - 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; and
 - Exceeding our targets for reducing energy, water and paper consumption.

Social/Community Issues

- The Agency works closely with the local business community and the local community as a whole. This includes:
 - Forging links with local inner-city schools by offering regular work placements to their students;
 - Attending local job fairs/events and advertising job vacancies within local Job Centres;
 - Networking closely with local business community;
 - Regular donations of excess office stationery/ materials to local community groups; and
 - Successfully campaigned to the local council for additional bus stops in the vicinity, which resulted in a better bus service for both employees and the local community.



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 Indicators

	No. of Targets	Achieved (unaudited)	Not Achieved (unaudited)
TYPE APPROVAL			
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
Internal Quality	3	3	0
MANAGEMENT SYSTEM CERTIFICATION			
External Service and Quality	3	1	2
Internal Quality	3	2	1
OTHER TARGETS			
Sales invoice quality and collection	3	2	1
% of invoices on VCA paid within 30 days	1	1	0
Sickness days	1	0	1
TOTAL ALL TARGETS	21	16	5
PERCENTAGE OF TARGETS ACHIEVED			76%

The percentage of total targets achieved was 76%, the same as in 2004-2005. Type Approval again achieved 100% of their targets; Management System Certification achieved 50% of targets and Other Targets 67%, both as per 2004-2005.

- 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, “Catalyst” has been published four times during the year and many customers continue to comment on its usefulness;
 - The introduction of the VCA MIS (SharpOWL) globally has led to improved billing accuracy and timeliness.

- In so far as I am aware, there is no relevant audit information of which the auditors are unaware. I have taken all reasonable steps to make myself aware of any relevant audit information and to establish that the auditors are aware of that information.



PAUL MARKWICK
Chief Executive and Accounting Officer
5 July 2006



REMUNERATION REPORT

CHIEF EXECUTIVE OFFICER - Remuneration and Performance

Mr Paul Markwick is VCA's sole Senior Civil Servant whose salary and performance is determined by the Permanent Head of the Department for Transport. Mr Markwick is contracted on a fixed term contract recently extended until April 2010. The contract contains a fixed notice period of 3 months, which may be terminated within the period by mutual consent. If the department chooses to terminate employment prior to the end of the fixed period, other than by mutual consent or termination due to inefficiency misconduct or medical reasons, compensation may be paid in accordance with the relevant provisions of the Civil Service Compensation Scheme.

Personal development objectives

These reflect the core skills, leadership qualities, experience and expertise required of the individual in their current role. They are identified using the Professional Skills for Government (PSG) framework. However managers may indicate areas for development over and above standards and expectations in the PSG framework, perhaps because a particular job calls on deep professional expertise, or requires broader experience. Again, objectives should be stretching and SMART, and achievement criteria should be agreed.

Normally 4-6 objectives should be appropriate for business and capability objectives. There will always be business objectives and usually, though not always, capability objectives. The balance between the two categories of objectives depends on the individual's role. There is no guidance attached to the number of development objectives set. In addition to the objectives determined for the individual some Departments may wish to introduce an objective for all SCS if a general development need is identified. Every SCS performance agreement should include a diversity objective relating to the departmental 10-point diversity plan. Whether this objective sits within the business or capability-building objectives will depend on the diversity challenge and SCS role.

The performance agreement should be documented. There is no specified format but as a minimum the agreement should show objectives (including diversity) together with targets and success criteria. Documentation should happen at or after the initial conversation. Performance in relation to business and capability objectives determines bonus. Insofar as performance against development objectives indicates growth in competence, it can impact base pay.

Performance Assessment

In-year performance reviews by the Director General (Dr Stephen Hickey) are carried out in respect of performance against objectives, which take place regularly with a formal review at the 6-month point. At the end year performance review the performance over the whole year is evaluated and the foundations for next year's performance agreement laid. The emphasis is on a candid face to face discussion of performance in relation to the objectives set during the planning phase rather than form filling – though documentation is essential to ensure fairness. In the light of this discussion the Director General records the assessment and makes reward recommendations. The form that the assessment and recommendations take will depend on departmental practice. Included within Mr Markwick's 2005-2006 total salary of £103,950 is a performance pay bonus of £11,700.

MANAGEMENT BOARD - Remuneration and Performance

All other management board members have standard Civil Service employment contracts that govern their remuneration levels and performance conditions. All are permanent full time employees with the exception of Mrs Pia Wilkes, who is on a fixed term contract until 5 December 2007.



Remuneration of Chief Executive and Management Board Members

Name and title	Salary	2005-2006					2004-2005
		Real increase in pension and related lump sum at age 60	Total accrued pension at age 60 at 31 March 2006 and related lump sum	Cash Equivalent Transfer Value at 31 March 2005	Cash Equivalent Transfer Value at 31 March 2006	Real increase in Cash Equivalent Transfer Value	Salary
	£000	£000	£000	£000	£000	£000	£000
Mr P Markwick	100-105	0-2.5	0-5	23	53	19	90-95
Mr C Border	35-40		Consent to disclose pension details withheld				30-35
Mr J Bragg	40-45	0-2.5	0-5	-	-	-	-
Mr R Brayfield	60-65	2.5-5	45-50	180	239	14	55-60
Mr A J Buckle	45-50	5-7.5	55-60	163	246	28	40-45
Mr A Grimm			Consent to disclose salary and pension details withheld				
Mr M Mulvaney	40-45		Consent to disclose pension details withheld				40-45
Mr B Perrett	45-50		Consent to disclose pension details withheld				40-45
Mr A W Stenning	50-55		Consent to disclose pension details withheld				50-55
Mrs P Wilkes	30-35		Consent to disclose pension details withheld				0-15

The above table is subject to audit.

Salary

The above includes all the members of the Management Board as at 31 March 2006. The total remuneration of the Chief Executive, who is the highest paid member of the Management Board was £103,950. The total aggregate of all emoluments of the Board was £528,532 representing 10 members (£486,589 2004-2005 representing 10 members), with Mr John Bragg joining VCA from the 16th May 2005. 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.

Civil Service Pensions

Pension benefits are provided through the Civil Service pension arrangements. From 1 October 2002, civil servants may be in one of three statutory based 'final salary' defined benefit schemes (classic, premium and classic plus). The schemes are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium and classic plus are increased annually in line with changes in the Retail Price 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. New entrants after 1 October 2002 may choose between membership of premium or joining a good quality 'money purchase' stakeholder agreement with a significant employer contribution (partnership pension account).

Employee contributions are set at the rate of 1.5% of pensionable earnings for classic and 3.5% for premium and classic plus. Benefits in classic accrue at the rate of 1/80th of pensionable salary for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum (but members may give up (commute) some of their pension to provide a lump sum). Classic plus is essentially a variation of premium, but with benefits in respect of service before 1 October 2002 calculated broadly in the same way as in classic.



Cash Equivalent Transfer Values

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme.

The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The CETV figures, and from 2003-04 the other pension details, include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Civil Service pension arrangements and for which the CS Vote has received a transfer payment commensurate with the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

Real increase in CETV

This reflects the increase in CETV effectively funded by the employer. It takes account of the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

PAUL MARKWICK
Chief Executive and Accounting Officer
5 July 2006



CONTACTING VCA WORLDWIDE

VCA Headquarters (UK)

1 Eastgate Office Centre
Eastgate Road
Bristol
BS5 6XX
United Kingdom

Telephone: + 44 (0) 117 9515151
Facsimile: + 44 (0) 117 9524103
e-mail: enquiries@vca.gov.uk
website: www.vca.gov.uk

VCA Millbrook

Millbrook Proving Ground
Millbrook
Nr Ampthill
Bedford
MK45 2JQ
United Kingdom

Telephone: + 44 (0) 1525 408466
Fax: + 44 (0) 1525 408459
e-mail: millbrook@vca.gov.uk

VCA East Asia

601 Browser Kanayama 8-12
4-Chome Masaki
Naka-Ku
Nagoya-Shi Aichi-ken 460-0024
Japan

Telephone: + 81 52 683 8831
Facsimile: + 44 (0) 87 0125 3704
e-mail: enquiries@vca-asia.net
website: www.vca-asia.net

VCA China

Unit 801
CNT Manhattan Building
6 Chaoyangmen Beidajie
Beijing
100027
Republic of China

Telephone: + 8610 852 830 91/2/3
Facsimile: + 8610 852 830 97

VCA Korea

SamSung Life Insurance Building
5th Floor
108-76 SiHeung-Dong
KeumChun-ku
Seoul
Korea

Telephone: + 82 2 802 0657
Facsimile: + 82 2 802 0658
e-mail: vcakorea@chollian.net

VCA Midlands Centre

Watling Street
Nuneaton
Warwickshire
CV10 0UA
United Kingdom

Telephone: + 44 (0) 247 632 8421
Facsimile: + 44 (0) 247 632 9276
e-mail: vtac.enquiries@vca.gov.uk

VCA North America

41000 West Seven Mile
Suite 140
Northville
MI 48167
USA

Telephone: + 1 248 468 0151
Facsimile: + 1 248 349 9261
e-mail: general@vcana.com

VCA Malaysia

Unit D-311, 3rd Floor
Kelana Square
No 17 Jalan SS7/26
Kelana Jaya
47301 Petaling Jaya
Selangor
MALAYSIA

Telephone: + 60 1 2971 1361
Facsimile: + 60 3 7494 0225
e-mail: Paultownend.vca@myjaring.net

VCA Taiwan

ISO QA
60, Yong Long Road
Da-Li
Taichung, Taiwan
Republic of China

Telephone: + 886 4 2406 1011
Facsimile: + 886 4 2406 0419
e-mail: isoga@ms12.hinet.net

Local contacts also at:

Malaysia, SIRIM QAS Sdn Bhd, Block 4, SIRIM Complex, 1 Persiaran Dato'Menteri, PO Box 7035, 40911 Shah Alam, Selangor Darul Ehsan, Malaysia
Telephone + 603 556 7400, Facsimile + 603 550 9439

Italy, CERMET, Via Aldo Moro, 22-40068 S. Lazzaro di Savena, Bologna, Italy
Telephone + 051 625 7570, Facsimile + 051 625 7650



Statement of Agency's and Chief Executive's Responsibilities

Under section 7(2) of the Government Resources and Accounts Act 2000, HM Treasury have directed the Vehicle Certification Agency to prepare for each financial year a statement of accounts in the form and on the basis set out in the Accounts Direction in the Dear Accounting Officer letter DAO(GEN)01/06.

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.

In preparing the accounts, the Accounting Officer is required to comply with the requirements of the Government Financial Reporting Manual and in particular to:

- observe the Accounts Direction issued by HM Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgments and estimates on a reasonable basis;
- state whether applicable accounting standards, as set out in the Government Financial Reporting Manual, have been followed, and disclose and explain any material departures in the accounts; and
- prepare the accounts on a going concern basis.

The Director General of the DVO Group has appointed the Chief Executive of the Vehicle Certification Agency as the Accounting Officer for the Agency.

The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the Agency's assets, are set out in the DVO Governance Handbook 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 DVO Governance Handbook authorised by the Secretary of State for Transport and this defines the Agency's operating and financial accountability and responsibility.
- An Advisory Board reviewed 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 for 2005-2006. Its membership comprised of 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 2005-2006. As from 1st April 2006 the Advisory Board is being disbanded and its responsibility has been replaced by the Director General and Non Executive attendance at Management Board Executive meetings.
- 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 2006 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 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. Monthly Team Briefings to staff include business risk issues
- Overseas offices maintain their own risk registers that feed into the corporate risk register.
- 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.
- 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 2005-2006 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 2005-2006 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. Making the risk management policy available to all staff will help ensure risk management becomes more embedded at all levels within 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 and will be strengthened when a new non-executive joins the Audit Committee.

- **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.

PAUL MARKWICK
Chief Executive and Accounting Officer
5 July 2006



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

I certify that I have audited the financial statements of the Vehicle Certification Agency for the year ended 31 March 2006 under the Government Resources and Accounts Act 2000. These comprise the Income and Expenditure account and Statement of Total Recognised Gains and Losses, the Balance Sheet, the Cashflow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Agency, the Chief Executive and Auditor

The Agency and Chief Executive are responsible for preparing for preparing the Annual Report and the financial statements in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Accounting Officer's Responsibilities.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and whether the Financial Statements and part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000. I also report 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 to you if, in my opinion, the Annual Report is not consistent with the financial statements, if the Agency has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by relevant authorities regarding remuneration and other transactions is not disclosed.

I review whether the statement on pages iii and iv reflects the Agency's compliance with HM Treasury's guidance on the Statement on Internal Control, and I report if it does not. I am not required to consider whether the Accounting Officer's Statement on Internal Control covers all risks and controls, or to form an opinion on the effectiveness of the Agency's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only the management commentary and the unaudited part of the Remuneration Report. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. 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 most 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 and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error 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 and the part of the Remuneration Report to be audited.

Opinion

In my opinion:

- the financial statements give a true and fair view, in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by HM Treasury, of the state of the Agency's affairs as at 31st March 2006 and the surplus, total recognised gains and losses and cashflows for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Account Act 2000: 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

11 July 2006

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



INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31 MARCH 2006

		2005-2006	2004-2005
	Notes	£000	£000
TURNOVER	3	8,821	7,330
Cost of sales		(6,701)	(5,391)
Gross surplus	3	2,120	1,939
Administrative expenses - Non Pay	4	(1,091)	(1,299)
Administrative expenses - Pay	4	(914)	(875)
Administrative expenses - Early retirement costs	5	(35)	(127)
OPERATING SURPLUS/(DEFICIT)		80	(362)
Interest receivable		3	3
Notional cost of capital	7	(145)	(114)
Overseas Withholding Tax paid		(2)	-
DEFICIT FOR THE YEAR	13	(64)	(473)

Turnover and operating surplus/(deficit) are derived entirely from continuing operations.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED 31 MARCH 2006

	2005-2006	2004-2005
	£000	£000
Deficit for the year	(64)	(473)
Surplus on revaluation of assets	13	-
Backlog depreciation on revalued assets	(7)	-
TOTAL RECOGNISED LOSSES FOR THE YEAR	(58)	(473)

The notes on pages ix to xvi form an integral part of these financial statements.



BALANCE SHEET AS AT 31 MARCH 2006

		2006		2005
	Notes	£000	£000	As Restated £000
FIXED ASSETS				
Tangible assets	8		812	796
CURRENT ASSETS				
Work-in-progress		197		173
Debtors	9	3,217		2,549
Cash at bank and in hand	11	763		990
		<u>4,177</u>		<u>3,712</u>
CREDITORS				
Amounts falling due within one year	10	(920)		(569)
NET CURRENT ASSETS				
			<u>3,257</u>	<u>3,143</u>
TOTAL ASSETS LESS CURRENT LIABILITIES				
Provisions for liabilities and charges	12		(106)	(127)
			<u>3,963</u>	<u>3,812</u>
TAXPAYERS' EQUITY				
General fund	13		3,894	3,722
Revaluation reserve	15		19	13
Government grant reserve	16		50	77
			<u>3,963</u>	<u>3,812</u>

The notes on pages ix to xvi form an integral part of these financial statements.

PAUL MARKWICK
Chief Executive and Accounting Officer
5 July 2006



CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2006

		2005-2006	2004-2005
	Notes	£000	£000
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	i	(27)	(281)
RETURNS ON INVESTMENTS & SERVICING OF FINANCE	ii	3	3
OVERSEAS WITHOLDING TAX PAID	ii	(2)	-
CAPITAL EXPENDITURE	ii	(201)	(166)
		<hr style="width: 100%; border: 0.5px solid black;"/>	<hr style="width: 100%; border: 0.5px solid black;"/>
		(227)	(444)
FINANCING	ii	-	1,000
		<hr style="width: 100%; border: 0.5px solid black;"/>	<hr style="width: 100%; border: 0.5px solid black;"/>
(DECREASE)/INCREASE IN CASH		(227)	556
		<hr style="width: 100%; border: 1.5px solid black;"/>	<hr style="width: 100%; border: 1.5px solid black;"/>
RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS	iii		
(Decrease)/Increase in cash in the period		(227)	556
Net funds at 1 April		990	434
		<hr style="width: 100%; border: 0.5px solid black;"/>	<hr style="width: 100%; border: 0.5px solid black;"/>
NET FUNDS AT 31 MARCH		763	990
		<hr style="width: 100%; border: 1.5px solid black;"/>	<hr style="width: 100%; border: 1.5px solid black;"/>

The notes on pages ix to xvi form an integral part of these financial statements.



NOTES TO THE CASH FLOW STATEMENT

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

	Notes	2005-2006 £000	2004-2005 £000
Operating surplus/(deficit)		80	(362)
Depreciation charges	8	198	202
Depreciation charges transferred to Government Grant Reserve	16	(27)	(29)
Loss on disposal of fixed assets	4	7	15
Impairment of fixed assets (net)		(14)	(30)
Notional charges	14	91	105
Increase in work in progress		(24)	(61)
(Increase) / decrease in debtors		(668)	92
Increase / (decrease) in creditors		351	(340)
(Decrease)/increase in provisions and liabilities	12	(21)	127
NET CASH OUTFLOW FROM OPERATING ACTIVITIES		(27)	(281)

ii. GROSS CASH FLOWS

		2005-2006 £000	2004-2005 £000
RETURNS ON INVESTMENTS & SERVICING OF FINANCE			
Interest received		3	3
OVERSEAS WITHHOLDING TAX PAID			
Overseas withholding tax paid		(2)	-
CAPITAL EXPENDITURE			
Payments to acquire tangible fixed assets		(201)	(166)
FINANCING			
Financing from DfT		-	1,000

iii. ANALYSIS OF CHANGES IN NET FUNDS

	Notes	At 1 April 2005 £000	Cash Flows £000	At 31 March 2006 £000
Cash at bank and in hand	11	703	(149)	554
Lloyds account balance	11	40	2	42
OPG account balance	11	247	(80)	167
TOTAL		990	(227)	763



NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

a. Basis of Accounting

These financial statements have been prepared in accordance with the 2005-2006 Government Financial Reporting Manual (FRm) issued by HM Treasury. The accounting policies contained in the FRm follow UK generally accepted accounting practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector. Where the FRm permits a choice of accounting policy, the accounting policy which has been judged to be most appropriate to the particular circumstances of the Agency for the purpose of giving a true and fair view has been selected. The Agency's accounting policies have been applied consistently in dealing with items considered material in relation to the accounts. The accounts are prepared under the historical cost convention modified to include the revaluation of tangible fixed assets.

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. 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.

iii. 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 government 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 in accordance with RICS guidance. 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. In the years between professional valuations the VCA management board review the valuation to ensure there has not been a material change.
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 6. 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 20 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 achieved its key financial target in year as set by the Secretary of State, to make a surplus on an operating basis in 2005-2006.

3. TURNOVER

Turnover and Gross Surplus per Product Line

	TURNOVER		GROSS SURPLUS/(DEFICIT)		FULL COST	
	2005-2006	2004-2005	2005-2006	2004-2005	2005-2006	2004-2005
	£000	£000	£000	£000	£000	£000
Product Certification	4,587	3,457	1,189	829	4,294	3,575
Management System Certification	1,531	1,701	(96)	29	1,847	1,939
DfT/DTI/DVO work	1,954	1,536	696	709	1,915	1,492
Other activities	749	636	331	372	650	559
Total	8,821	7,330	2,120	1,939	8,706	7,565

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

	2005-2006 £000	2004-2005 £000
Depreciation charges (net)	171	173
Loss on disposal of fixed assets	7	15
Impairment of fixed assets (net)	(14)	(30)
Travel and subsistence	124	89
Legal and consultancy	33	33
Audit fee (Note 14)	35	39
Exchange (gain)/loss on translation	(49)	40
Realised exchange gain	(13)	(13)
Head Office rent and rates	245	239
DfT on-costs (Note 14)	56	66
Other administrative expenses	496	648
Total non pay administration expenses	1,091	1,299
Pay costs (administration)	914	875
Total	2,005	2,174

Other administrative expenses include postage, rents payable under operating leases (Note 18), insurance, rates, fuel, telephone and IT running costs. Pay costs (administration) includes costs relating to group bonus, general training and development for all staff, as well as general management and administration. 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. Depreciation is net of movements to Government Grant Reserve of £26,751 (£29,330 2004-2005) including permanent diminution on revaluation (Note 16). The external auditors have not received any remuneration in respect of non-audit services during the year.

5. ADMINISTRATIVE EXPENSES – EARLY RETIREMENT COSTS

Adjustments to the provision relating to 2004-2005 early retirement decisions have been taken to this years' income and expenditure account. The total adjustment was estimated to be £35,227 of which £7,367 relates to lump sum benefits and pension payments in year, £27,860 relates to future years pension payments.



6. EMPLOYEES AND STAFF COSTS

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

	2005-2006	2004-2005
Senior management	10	9
Professional and technical	44	43
Technical support	41	39
Administrative support	16	18
Agency, Temporary and Contract Staff		
Professional and technical	16	12
Technical support	7	6
Administrative support	2	3
Total	136	130

Technical support staff are involved in fee earning activities. Within the total for agency, temporary and contract staff there is 23 full-time equivalent locally engaged overseas staff (19 in 2004-2005).

b. Staff costs excluding early retirement costs amounted to:

	2005-2006 £000	2004-2005 £000
Wages and salaries	3,579	3,249
Social security costs	275	255
Other pension costs (Note 6)	590	413
Agency, Temporary and Contract Staff	1,112	917
Total	5,556	4,834

c. 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).

For 2005-2006, normal employer's contributions of £590,373 were payable to the PCSPS (£412,884 2004-2005) at one of four rates in the range 16.2% to 24.6% (12% to 18.5% 2004-2005) of pensionable pay, based on salary bands. Rates will be increased next year in the range of 17.1% to 25.5%. 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. During 2005-2006 no employees were members of these schemes and no payments were made.

7. NOTIONAL COST OF CAPITAL

The charge is calculated at the Government's standard rate of 3.5% (3.5% 2004-2005) 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
COST/VALUATION						
At 1 April 2005	169	896	156	14	155	1,390
Additions	19	181	1	-	-	201
Revaluations	6	(55)	7	-	-	(42)
Disposals	(3)	(24)	(11)	-	-	(38)
At 31 March 2006	191	998	153	14	155	1,511
DEPRECIATION						
At 1 April 2005	74	456	55	1	8	594
Charge for the year	13	163	14	2	6	198
Revaluations	3	(67)	4	-	(2)	(62)
Released on disposals	(3)	(18)	(10)	-	-	(31)
At 31 March 2006	87	534	63	3	12	699
NET BOOK VALUE						
At 31 March 2006	104	464	90	11	143	812
At 31 March 2005	95	440	101	13	147	796

Indexation is to the latest reliable indices in accordance with the requirements of the FReM. 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 2005-2006 the total amount taken to the income and expenditure account as impairment in value was £7,613 (£18,097 2004-2005). 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 £15,422 made in year in respect of fixed asset work-in-progress for the SQL Job Register.

Movements in respect of depreciation and revaluation of £26,751 (£29,330 2004-2005) have been taken to the Government Grant Reserve (Note 16).

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

a. Analysis by type

	At 31 March 2006 £000	At 31 March 2005 £000
Trade debtors	2,014	1,348
Other debtors	58	63
Prepayments	225	153
Accrued income	920	885
DVO funding	-	100
Total	3,217	2,549

The Agency has no debtors due after more than one year, except for salary advances of which £2,400 (£6,593 2004-2005) is due after one year.

b. Intra Government Balances

	At 31 March 2006 £000	At 31 March 2005 £000
Balances with other central government bodies		
Trade debtors	536	-
Other debtors	67	16
Accrued income	344	384
DVO funding	-	100
DFT VAT refund due	24	21
Total	971	521
Balances with bodies external to government	2,246	2,028
Total	3,217	2,549



10. CREDITORS

a. Analysis by type

	At 31 March 2006 £000	At 31 March 2005 £000 As Restated
Amounts falling due within one year		
Trade creditors	72	10
Other creditors	563	316
Accruals	254	171
Deferred income	31	2
DVO funding (deferred)	-	70
Total amounts falling due within one year	920	569
Included in other creditors are:		
Deposits from manufacturers	347	231

The accruals balance at 31 March 2006 includes £90,428 (£85,262, 31 March 2005) in respect of VCA's March 2006 payroll cost payable to DfT. There are no creditor balances falling due after one year. Restatement of prior year is due to a decision by VCA to present the Early Retirement Provision independent of creditors.

b. Intra Government Balances

	At 31 March 2006 £000	At 31 March 2005 £000 As Restated
Balances with other central government bodies		
Accruals	90	86
DVO funding (deferred)	-	70
Total	90	156
Balances with local authorities		
Other creditors	56	64
Total	56	64
Balances with bodies external to government	774	349
Total	920	569

Restatement of prior year is due to a decision by VCA to present the Early Retirement Provision independent of creditors.

11. CASH AT BANK AND IN HAND

	At 31 March 2006 £000	At 31 March 2005 £000
OPG balance	167	247
Lloyds current account	42	40
Cash in hand and at other banks	554	703
Total	763	990

12. PROVISIONS FOR LIABILITIES AND CHARGES

	Early Retirement (Note 5) £000
BALANCE AT 1 APRIL 2005 (as previously stated)	-
Reclassification	127
BALANCE AT 1 APRIL 2005 (as restated)	127
Provided in the year	35
Provisions utilised in the year	(56)
BALANCE AT 31 MARCH 2006	106

£25,300 (£69,442 2004-2005) of the Early Retirement Provision is estimated to be due after more than one year. Restatement is due to a decision by VCA to present the Early Retirement Provision independent of creditors.



13. GENERAL FUND		
	2005-2006 £000	2004-2005 £000
BALANCE AT 1 APRIL	3,722	2,976
Deficit for the year	(64)	(473)
Notional cost of capital	145	114
Notional charges (Note 14)	91	105
Financing from DfT	-	1,000
BALANCE AT 31 MARCH	3,894	3,722
14. NOTIONAL CHARGES		
	2005-2006 £000	2004-2005 £000
DfT on costs	56	66
Audit fee	35	39
Total	91	105
15. REVALUATION RESERVE		
	2005-2006 £000	2004-2005 £000
BALANCE AT 1 APRIL	13	13
Surplus on revaluation of fixed assets	13	-
Backlog depreciation on revalued assets	(7)	-
BALANCE AT 31 MARCH	19	13
16. GOVERNMENT GRANT RESERVE		
	2005-2006 £000	2004-2005 £000
BALANCE AT 1 APRIL	77	106
Depreciation charges	(29)	(29)
Revaluation depreciation	9	8
Revaluation	(7)	(8)
BALANCE AT 31 MARCH	50	77

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

17. CAPITAL COMMITMENTS

The Agency has capital commitments of £4,295 as at 31 March 2006 (nil at 31 March 2005).



18. COMMITMENTS UNDER LEASES

The Agency has annual commitments under operating leases as follows:

	2005-2006	2004-2005
	£000	£000
EXPIRING:		
Land and buildings - within one year	17	16
Land and buildings - in second to fifth years inclusive	30	27
Land and buildings - over five years	195	195
Total	242	238

Total rentals for 2005-2006 of £240,561 (£239,526 2004-2005) were charged to the income and expenditure account.

19. CONTINGENT LIABILITIES

There were no contingent liabilities as at 31 March 2006.

20. FINANCIAL INSTRUMENTS

The Agency's financial instruments comprise cash and funding from the OPG account (as shown in Note 11), 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.

21. RELATED PARTY TRANSACTIONS

As at the 31 March 2006 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 2005-2006 from the Department was £1,243,089 (£1,165,998 2004-2005). In addition VCA received sales income of £323,412 from DTI during 2005-2006 (£340,442 2004-2005).

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 and 10.