



Department  
for Transport



**Vehicle Certification Agency**  
**An Executive Agency of the Department for  
Transport**  
**Annual Report and Accounts 2014-15**

**Presented to the House of Commons pursuant to section 7(2) of the Government  
Resources and Accounts Act 2000**

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# Foreword - from the Interim Chief Executive

Welcome to the Annual Report for the Vehicle Certification Agency (VCA) for 2014-2015. Our mission is to enable manufacturers and distributors to supply safe and environmentally compliant products to the UK and European market place, and to other locations that recognise the United Nations Regulations for vehicles and components. Many of our services compete with European public sector and international private sector providers.

I am pleased to announce that our core Product Certification activities increased significantly this year in response to growing demands from the industry sector for our services, a strong performance indeed given the competitive nature of the automotive sector.

The Agency delivered income of £18.3 million, against a budget of £16.8 million. With costs of £17.8m, a surplus was returned of £535,000 against a surplus target of £100,000, an excellent result overall.

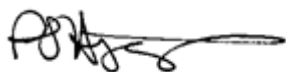
Our core Product Certification work grew by 21%, a significant proportion of this attributable to our UK and European operations, and reflects the strength of the market in these regions, especially within the trailer, truck and bus converter industries. Our China, Asia Pacific and US operations continue to deliver solid performances in these increasingly competitive and dynamic markets. While our South America operations recorded a smaller turnover than expected in its first year of operation, the opportunity for growth in this region is strong and I am confident of a promising future.

Our Management System Certification (Quality and Environmental) operation continues to grow with income up nearly 12% on the previous year. Our work for Government reduced by nearly 4% as a result of the changes in priorities by the Department for Transport (DfT), Department for Business, Innovation and Skills (BIS) and Department for Farming and Rural Affairs (Defra). The work for BIS and Defra, together with the staff carrying it out, transferred to the National Measurement and Regulation Office (NMRO) with effect from 1<sup>st</sup> April 2015.

I am extremely pleased to report that customer and staff satisfaction levels in the Agency remain high. The Civil Service wide staff survey showed the Agency to have an engagement score of 64%, and this continues to place us amongst the highest performers; overall for the department as a whole (including the agencies) the engagement score was 56%. Customer satisfaction too was maintained at 95% this. The productivity of our staff also remains high, and these outcomes demonstrate that the Agency continues to perform very well.

The Agency has continued to invest in its staff, operating systems and infrastructure, with a particular emphasis on ICT related systems to delivery operational resilience and efficiency improvements.

In summary, the Agency has delivered a better than expected financial performance in 2014-15; this was achieved through the commitment, hard work and professionalism of its staff, and shows the Agency is in a good position to continue to grow and support the automotive industry in the future.



PAUL HIGGS  
Interim Chief Executive and Agency Accounting Officer  
07 July 2015

# Introduction

## About the Agency

### Brief History and Background

The VCA was established in 1990 and is an Executive Agency of the DfT. Prior to 1990 the work now done by VCA was carried out by an operational division of the then Ministry of Transport. The VCA is an integral part of the Motoring Services (MS) Group and the accounts will be fully consolidated into the Departmental Group Accounts.

The VCA's main business is delivering its responsibilities to the Secretary of State for Transport as the UK Type Approval Authority for new on and off-road vehicles, systems and components. VCA is responsible for approving that products have been designed and constructed to meet internationally agreed standards of safety and environmental protection. The VCA also publishes a database of CO<sub>2</sub> emissions from passenger cars which underpins the graduated Vehicle Excise Duty (VED) and Company Car tax schemes.

VCA is also the administrator for the approval of packages, tanks, and receptacles for the carriage of dangerous goods. We issue Vehicle Special Orders on behalf of DfT, to permit vehicles to use public roads that are unable to meet vehicle regulations because of their specialised design.

Until 31<sup>st</sup> March 2015 VCA acted as the nominated enforcement body for the Waste Electrical and Electronic Equipment Regulations and the Waste Batteries and Accumulators Regulations on behalf of the Department for Business, Innovation and Skills and the Department for Environment, Food and Rural Affairs. This work transferred to the National Measurement and Regulation Office on 1<sup>st</sup> April 2015.

In addition to statutory work, VCA provides a range of Management System Certification (MSC) services to the automotive industry supporting on-going compliance to the Type Approval and Conformity of Production (CoP) requirements and regulations. These allow the automotive industry to demonstrate that they have the systems in place, not only to ensure the quality of their products, but also to minimise the impact on the environment from the manufacturing and design processes.

### Organisation

VCA takes its policy lead from the DfT centre and the Motoring Services Group, working in particular with the International Vehicles Standards division, as well as the Traffic, Dangerous Goods and Greener Driving divisions. There is monthly reporting of financial and performance information to the Department for consolidation into HM Treasury and Cabinet Office returns, supported by challenge meetings with senior officials.

The Governance Statement, pages 31-36, shows who is on the Management Board and how it operates, while the Remuneration Report pages 24-29 provides information on Board appointment terms, salary and pension entitlements.

### About this report

This Annual Report and Accounts is the principal means for formally reporting to Ministers and Parliament on VCA's performance and its statutory financial statements. It covers the period 1 April 2014 to 31 March 2015.

# Delivery of our business plan 2014-15

## Information Services

### Customer Experience

Customers are at the heart of everything we do. Public service reform puts the customers at the forefront of service design and delivery. Ongoing customer surveys ensure we understand their needs and can measure how well we are delivering our services to meet their requirements.

### Customer Service Excellence

The annual survey of customer satisfaction is conducted by an independent body, and this year exceeded the Secretary of State target of 90% by achieving a rating of 95%. This score reflects the VCA commitment to improving customer satisfaction across our range of products.

### Customer Communications

Much of our communication is managed through the VCA web site, and links into Gov.UK, where the Fuel Consumption and CO<sub>2</sub> data is accessed by millions of citizen and business users. Also during 2014-15 we published one issue of Update News, our E-Magazine for VCA customers. This publication gives information on future changes to the regulatory framework for product approvals and enforcement, changes to the Management Systems Certification rules, and information on new services from the VCA.

### Information Assurance

Information Assurance continued to support the Agency in meeting business and statutory obligations in 2014-15. Activities carried out in 2014-15 were:

- delivery of an information assurance and security training and awareness programme to all staff with the main focus being on the new government security classification policy and the changes this required in terms of handling information and individual responsibility; and
- meeting legislative requirements, including the Environmental Information Regulations, Freedom of Information and Data Protection Acts – exceeding the targets set out within legislation and the Agency's business plan.

### Information and Communication Technology

The VCA ICT department has made progress on a server virtualisation programme to reduce the number of physical servers; resulting in a reduction in power requirements and improved disaster recovery capability. Work has continued on installing virtual servers for both Bristol and the Midlands Centre

We also initiated a document and records management pilot project using Microsoft SharePoint. We plan to roll this out to the Agency during the next financial year.

### Digital Services

VCA has continued to support the government and DfT 'Digital by Default' strategies. Greater understanding of user needs is being trialled and developed by providing direct online feedback facilities for our customers.

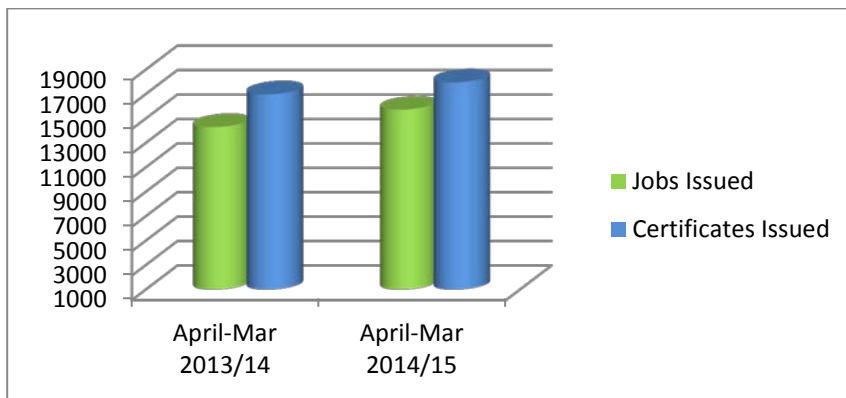
## Demand and throughput

Whole vehicle and component type approval activity levels have continued to grow by 20% year on year, the increase being stimulated by a combination of:

- Applicability of European Type Approvals to the design and manufacture of small, medium and large trailers;
- The Multi-stage Builds of commercial vehicles now falling into type approval;
- Significant increases in product engineering and approvals by major Original Equipment Manufacturers (OEM's); and
- Component test work in UK and across Europe.

## Performance 2013-14 v 2014-15

- We have issued more Type Approval Certificates during 2014-15 compared to 2013-14.



Conformity of Production assessments and certification has also reached their highest levels, driven primarily by new small and medium-sized enterprise (SME) entrants to European Type Approval who do not have ISO 9001 (quality) certification.

Management Systems Certification has delivered nearly 12% growth, much of this in the North American market.

	2014-15 Actual
European Type Approvals	17,961
CoP Audits – New UK clients	37
Management Systems Certificates	622
MSC Audit Days	2,544

## Quality Assurance

VCA takes the quality of its operations and systems very seriously, and is accredited by United Kingdom Accreditation Service (UKAS) and recognised by the International Automotive Task Force (IATF) for the Management Systems Certification activities. We audit all our Technical Services, internal and external, to

the requirements of the framework Directives and the principles of ISO 17020 and 17025, and we maintain test equipment calibrations in accordance with ISO 17025. The VCA Central Quality function audits all the Agency Departments and Branches for adherence to our Quality Operating System. Any non-conformances are monitored by the Group Board to ensure timely closure and adequate corrective action.

## **Enforcement**

Delivered on behalf of BIS and Defra:

### **WEEE/Batteries Enforcement**

Service level agreement objectives, which are based on a set level of inspections, were delivered encompassing 3224 enforcement activities, 527 market research store inspections, 2112 enforcement store inspections, 605 distance seller inspections, and 451 product checks. 346 WEEE cases were opened and 286 closed with a satisfactory conclusion. Additionally, 1397 waste-battery related enforcement/market research activities were completed.

### **Outdoor Noise Enforcement**

Service level agreement objectives were delivered. We attended 11 trade exhibitions, and as a consequence visited and inspected 301 stands, and 2645 products. 12 non-compliant cases were resolved bringing over 200 products into conformity. 9 non-complaint cases continue to be under investigation.

The above work for BIS and Defra, together with the staff carrying it out, transferred to the National Measurement and Regulation Office (NMRO) with effect from 1<sup>st</sup> April 2015.

Delivered on behalf of DfT:

### **CO<sub>2</sub> & Fuel Consumption Advertising Standards Enforcement**

Service level agreement objectives were delivered. We vetted 1759 adverts/hoardings and publications. As a consequence, 25 cases were resolved and 1 remains open. 29 requests for pre-publication advice were answered.

### **V55 Secure Registration Checking**

25 applications were received and processed, and 30 follow-up audits were completed.

### **NRMM Enforcement**

5 small engines were tested; 4 passed and 1 failed.

### **Trailer Market Surveillance**

19 businesses were contacted of which 17 accepted educational visits on a voluntary basis. 22 trailers were inspected during those visits.

### **Dangerous goods**

90 new packaging certificates and 86 amendments were issued. A new database for the issuing of tank certificates was developed and went live on 1<sup>st</sup> July. During the rest of the financial year 19,133 tank certificates were issued by Authorised Inspection Bodies from the database.



## New Commercial Models (NCM)

The Government's Open Public Services White Paper published in July 2011 and the Civil Service Reform Plan published in June 2012 both challenged departments to think about how they commission and deliver services with a view to looking at innovative options. DfT committed, through its motoring services strategy, to assess how it could reform VCA to enable it to grow and contribute to the wider UK economy, whilst continuing to provide a high quality and trusted service which is recognised for its integrity.

In a written statement to the House on 15 August 2013, the then Parliamentary Under Secretary of State for Transport, Stephen Hammond MP, announced that the Department of Transport would undertake market engagement and a procurement competition to find a commercial partner to form a joint venture to grow the work of the Vehicle Certification Agency (VCA).

The competition was not successful in identifying a suitable joint venture that would have met the objectives of both the department and a commercial partner.

The VCA will continue to provide vehicle testing and certification services as an agency of the DfT. The department will now consult with a wide range of stakeholders before considering any further proposals.

## Human Resources (HR)

### Actual Numbers

Full-time equivalents	2014-15 Permanent	2014-15 Others	2013-14 Permanent	2013-14 Others
Senior Management	9	2	11	-
Professional & Technical	117	32	117	39
Administrative	31	13	25	4
<b>Total FTE's</b>	<b>157</b>	<b>47</b>	<b>153</b>	<b>43</b>

Full-time equivalents	2014-15 Male	2014-15 Female	2013-14 Male	2013-14 Female
Senior Management	10	1	11	-
Professional & Technical	115	34	120	36
Administrative	14	30	9	20
<b>Total FTE's</b>	<b>139</b>	<b>65</b>	<b>140</b>	<b>56</b>

Throughout the year VCA has again been focusing on getting the right people in the right place with the right skills at the right time. Other staff consist of locally employed staff and temporary contractors.

### Staff absence

Staff absence at VCA has traditionally been low, at around 5 days per head per year. Although this rose to 6.1 days in 2014-15 it was within the target of 7 days. The in-year performance was impacted by several episodes of long term sickness. We should now see sick absence returning to normal during the next

financial year, as the long term sick numbers work through on the rolling 12 months calculation. I am pleased to report that short term sick remains well controlled.

## **Staff training and development**

We have continued to deliver technical training courses to a high quality to meet operational delivery requirements. All staff have access to Civil Service Learning to fulfil CPD / Professional and development demands. Staff undertake development as part of their individual learning plan which is discussed at the end of the year to ensure it has been fulfilled and targets set for the forthcoming year.

We have also managed a number of work experience placements in 2014-15.

## **Staff engagement**

VCA works very hard to communicate with its staff and to improve engagement. VCA is consistently a high performer in the Civil Service annual Engagement Survey, and this year scored 64% (down slightly from prior year at 66%). Overall throughout the DfT (including agencies) the engagement score is 56%. The feedback from staff indicates that the slight reduction is due to the uncertainty created from the NCM project but, nonetheless the continuing high score is creditable and we aim to improve again.

Action has been taken during the financial year to introduce, maintain or develop arrangements aimed at:

(a) providing employees systematically with information on matters of concern to them through regular communication; and

(b) achieving a common awareness on the part of all employees of the financial and economic factors affecting the performance of the company through providing information on business performance.

## **Health and Safety**

Internal health and safety assurance is monitored through a regime of regular auditing and inspections undertaken by internal qualified health and safety team members and external professionals such as Crown Fire Inspectors. Activities with significant risks are assessed, controlled and reviewed as necessary. The health and safety team monitors and reports back on statutory assessments and activities completed by the Total Facilities Management contractors. Issues identified are actioned by the managers responsible and an overview is entered into the monthly senior management's health and safety report. Post incident investigations are undertaken by the team following significant incidents, and the team manage the incident database and report RIDDOR incidents.

Members of the Health & Safety team also help line managers and Local Human Resources by completing workplace ergonomic assessments and stress assessments.

## **Estates management**

The agency completed the rectification work required at a prefabricated building at the VCA Nuneaton site. This work was carried out and completed under warrantee. The office has since been fully occupied and provides an exceptional working environment for our staff at the Nuneaton site.

We continue to maintain and upgrade our sites in Bristol and Nuneaton, whilst there has been uncertainty surrounding the NCM project, we have limited the upgrading at Bristol until our long term occupancy has been decided. We have continued to complete all statutory obligations at both the Bristol and Nuneaton sites such as including fixed wire testing and asbestos surveys. We have in place an annual maintenance programme which is monitored and updated accordingly.

# Strategic Report

## Performance Summary

### Business Objectives and Secretary of State Key Performance Measures

VCA contributed to the transport commitments set out in the Department's Business Plan for 2014-15 particularly in the areas of vehicle safety, security and environmental impact.

VCA chairs the DfT Vehicle Technology Forum, working with DfT policy leads, other DfT Agencies and the Chief Scientific Advisor's Unit. This group shares knowledge, understanding and experience of emerging Vehicle Technologies for best effect and value.

The specific VCA key performance measures, as agreed by the Secretary of State, are shown below, together with the general measures that apply to all Motoring Agencies.

**Table 1: Secretary of State Key Performance Measures**

		Target	Result
<b>1. Reform and Modernisation</b>	1.1 Digitisation of customer invoices and statements and supplier and staff remittances.	80%	92%
	1.2 Successful Development and delivery of a VCA Transition Plan.	Achieved	See below *
<b>2.Operational</b>	2.1 Deliver the agreed testing and enforcement programmes.	Delivered	Delivered
	2.2 System & component approval certificates issued within 9 working days of completing technical clearance.	80%	92%
	2.3 Increase value of MSC work by 10% on 2013-14 revenue approach, before CoP renewal.	10%	12%
	2.4 Audited test reports deemed to have no critical defects, a critical defect being one that would cause the approval to be likely to be rejected, legitimately, by a receiving Approval Authority or one that renders the approval invalid such that it should be withdrawn.	0 Critical defects	0 Critical defects

	2.5 New type approval clients that do not hold ISO9001 or ISO/TS16949 management systems certification to be subject to a Conformity of Production assessment, in accordance with the agreed risk-based approach, before approval issue.	All	All
	2.6 Maintain or improve the satisfaction of our customers with our services.	90%	95%
	2.7 Overseas Operations to contribute positively to VCA margin.		5.60%
<b>3. Finance and efficiency</b>	3.1 Deliver financial performance in line with Business Plan.	£100K surplus	£535K surplus
	3.2 Achieve Agency Headcount - Ensure efficient deployment of staff within business plan complement set for 31 March 2014.	204	204
	3.3 Ensure the number of working days lost due to sickness absence does not exceed 7.0 days.	7	6.1
	3.4 Cut Carbon Emissions from agency buildings compared to a 2009-10 baseline.	25% reduction	21% reduction
<b>4. External Obligations (nor specified in Business Plan)</b>	4.1 Pay undisputed supplier invoices within 5 working days.	80%	95%
	4.2 Freedom of Information requests: provide a response within 20 working days.	All	All
	4.3 Parliamentary Questions: Provide a response within the due date.	All	All
	4.4 MSU correspondence: provide a response within 7 working days.	All	All
	4.5 Treat Official Correspondence: provide a response within 20 working days.	All	All
	4.6 Reduce the number of complaints not resolved after first response by 10% on previous year.	No complaints received	

\* A transition plan had been developed as part of the suite of documents that would have been needed to establish NewCo but was not required as the final bidder withdrew from the competition.

# Financial Review

## Financial Strategy

Our long term financial strategy is to:

- generate sufficient surplus to meet the return on capital employed target over the relevant period.
- generate sufficient cash to fund investment

## Financial results

The financial results for 2014-15 show a net trading surplus of £535,000 (2013-14: £511,000 deficit), against a target of £100,000. Activity levels in Product Certification work and Management Systems Certification were above the previous year and plan, and the MSC activities returned to profit this year, an excellent performance.

Total Income was £18.3 million, (£16.1 million in 2013-14) and £1.5 million above budget. Total net costs were £17.8 million (£16.6 million in 2013-14) including unrealised surpluses on translation of foreign currencies. The total impact of this was around £248,000.

**Product Certification Income.** Demand for Type Approval services was high throughout the year and income increased by 20.74% (£2,199,384) over 2013-14. The Japan office income increased by 31.73% in 2014-15, against an 18.47% conversion to Sterling. USA office income increased by 6.99% against a 5.42% currency change. Type Approval income as a percentage of total VCA income stands at 69.91%.

**Management System Certification Income.** This is a very competitive market and price pressures have continued within the market especially from some of our major customers.

Despite this the Agency made considerable progress during the year making an operating surplus of £125,000 compared to a surplus of £21,000 in 2013-2014. This was against a target to breakeven. Income increased by 11.69% (£224,000) whilst costs were managed and increased by 6.33% (£120,000).

**Activities for Government.** This sector includes a number of discrete work areas for DfT, BIS and Defra. These include enforcement programmes and policy support for Type Approval, and technical consulting services on Dangerous Goods Packaging and some environmental branches of DfT. In addition, VCA carries out bus lane and parking enforcement camera certification for the Traffic Division, and issues Vehicle Special Orders for the International Vehicles Standards Division.

The value of work in this area is a declining proportion of the VCA's business as central government reviews its activities in a tight economic climate. It has fallen for the sixth year running with a decrease of 3.59% (£94,000) from 2013-14. The overall percentage of total income from this business unit is now 13.76% in 2014-15 compared to 31% in 2009-10.

**Other Activities.** This includes Dangerous Goods Packaging Certification, sales of Point of Sale software for car emissions data and sales of VISTA (Type Approval handbook).

## Other financial information

**Payments to Creditors.** VCA adheres to the HM Treasury's Prompt Payment Initiative, copies of which can be obtained from the Agency's headquarters. It is VCA's policy to pay undisputed invoices within 5 days of receipt. VCA measures its performance by reviewing all invoices paid; the Agency achieved 98.48% of invoices paid within 30 days of receipt and 95.19% within 5 days of receipt in 2014-15, compared to 99.60% and 96.00% in 2013-14.

**Pension.** Past and present employees are covered by the provisions of the Civil Service Pension Schemes which are described in the Financial Accounts (See notes 1(k) and 4(c)).

# Sustainability Report 2014-15

## The VCA Estate

With the lease for the office complex at Bristol coming to an end in June 2016 following a grant to extend by 12 months last year; the VCA is now working with both DfT and the Government Property Unit to look at the options for the long term solution to the VCA HQ accommodation needs, particularly in light of Government policy to reduce the size of the estate and move out of privately leased property.

We have however made minor improvements to common areas such as meeting rooms and the staff canteen and redecoration of key rooms to improve the general working environment.

In the Midlands Centre the remedial works to the new Watling building were completed and the building is proving to be a good working space with excellent facilities for staff and visitors alike. Statutory remedial works to the test hall electrical system are ongoing with some minor works highlighted for improvement and works planned for the first quarter of 2015-16.

## Health and Safety

### DfT Safety maturity matrix

Following the completion of last year's maturity matrix completed by the VCA, it was identified that VCA has to make improvements across a number of areas to be at the level experienced across the other agencies in the DfT. The VCA Safety Manager has carried out a significant amount of work improving the profile and raising awareness, working with key members of the team to ensure compliance along with the introduction of monthly safety tours and information shared in committee meetings.

The VCA has made significant improvement in the area during the year, this is particularly pleasing given we have had a number of contractors filling the lead role over recent years. We are in the process of recruiting a permanent person for this role, which is hoped will bring further stability and consistency to this area.

The next survey will be completed in autumn 2015 and will be carried out by the safety committee and the VCA Safety Manager.

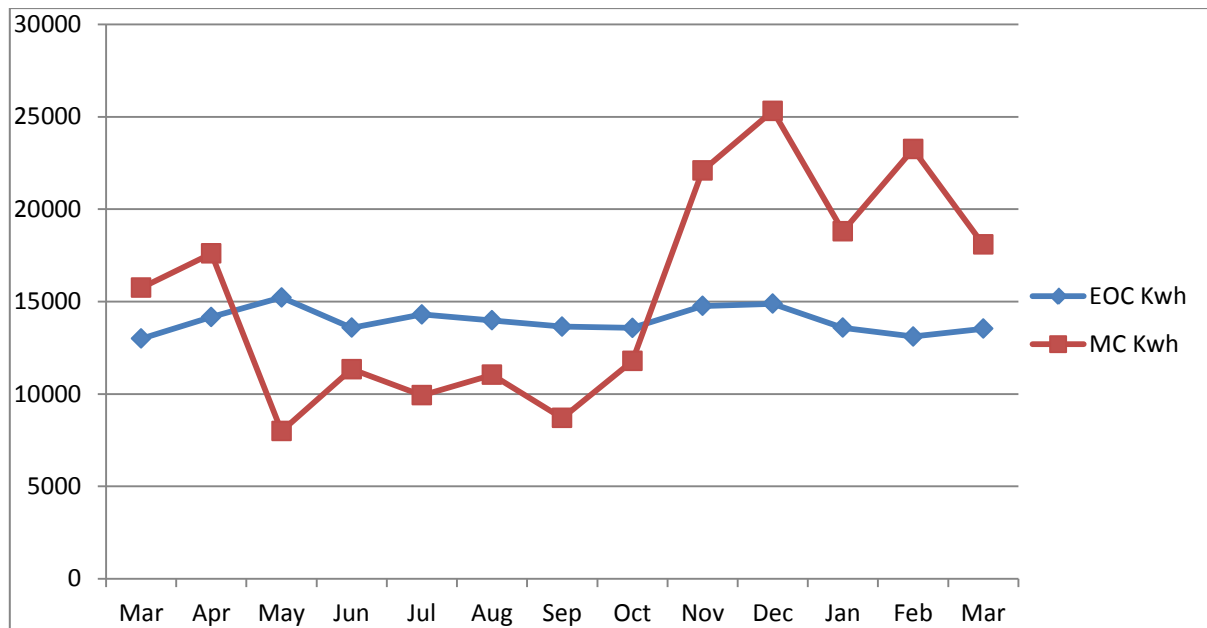
## Sustainability and Environmental targets.

### Greening government commitment

From the base line year of 2009-10 all government departments were targeted with a reduction in carbon of 25% by financial year 2014-15 under the Greening government commitment initiative. This includes both the estate and UK agency travel by both public transport and by car. This was not achieved across the estate by the VCA missing its target by 5%. The overall target however including agency business travel in the UK means that its GGC target has shown a reduction of 20%.

	2009-10	2013-14	2014-15	Reduction
Oil	57.09	42.86	28.84	49.50%
Gas	22.82	16.98	18.161	20.40%
Electric	218.5	154.53	190.39	12.86%
<b>Totals</b>	<b>298.41</b>	<b>214.37</b>	<b>237.391</b>	<b>20.40%</b>

### Estate electricity use graph in Kwh

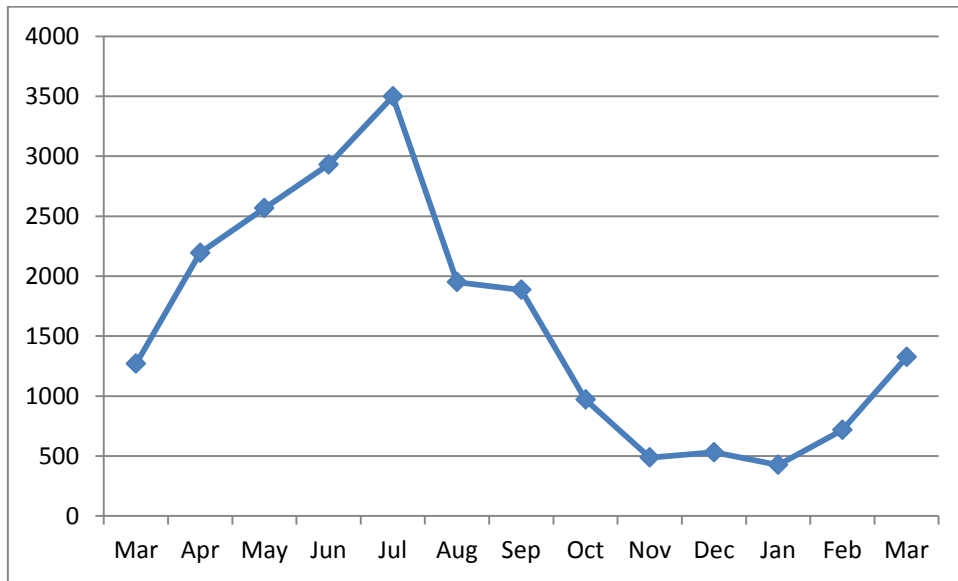


Although electricity use at the Eastgate Office Centre site is stable with no capital investments planned due to the lease on the buildings ending in June 2016, further savings are being sought through energy awareness campaigns and good energy management, turning off lights when rooms are not in use and the installations of Passive Infrared Sensors (PIRs) to control lighting in common areas where it is safe to do so.

Electricity use in the Midlands centre is on an upward trend following the opening of the Watling building, which has all electrical heating and the increased use of the hydraulic test rig for tow bar testing, which runs 24 hours a day during a test. For financial year 2015-16 it is planned to install sub-electrical meters to ascertain how much electricity is used in these specific areas. The external car park lights were upgraded in November to LED units, which provide a running cost saving and have improved the lighting in the car park.

Since the installation of solar panels on the roof of Watling building the VCA is now receiving rebates on its power generation from our energy provider. Kwh of electricity generated per month can be noted in the graph below.

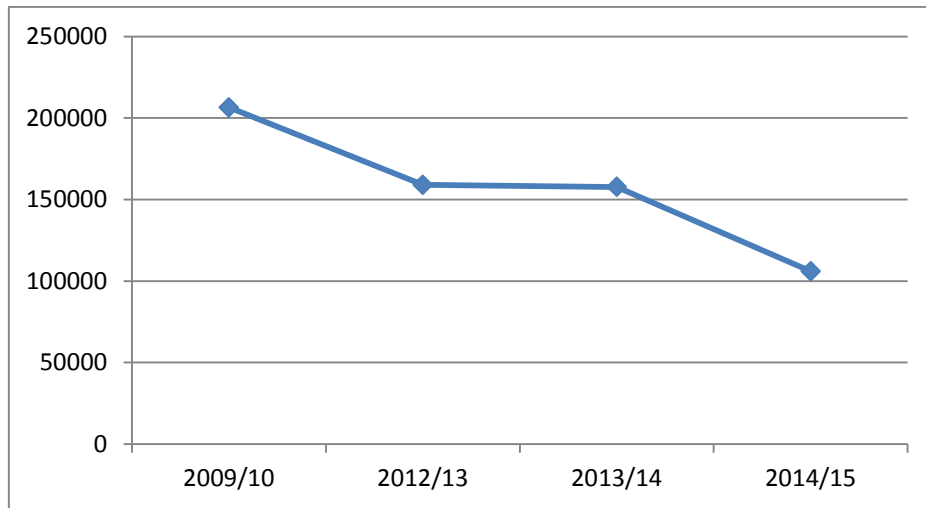
### Midlands Centre solar power generated in Kwh



### Gas and oil use for site heating

The installation of the replacement oil fired boilers at the Midlands Centre have continued to help the VCA to reduce its carbon foot print by using substantially less oil than in previous years.

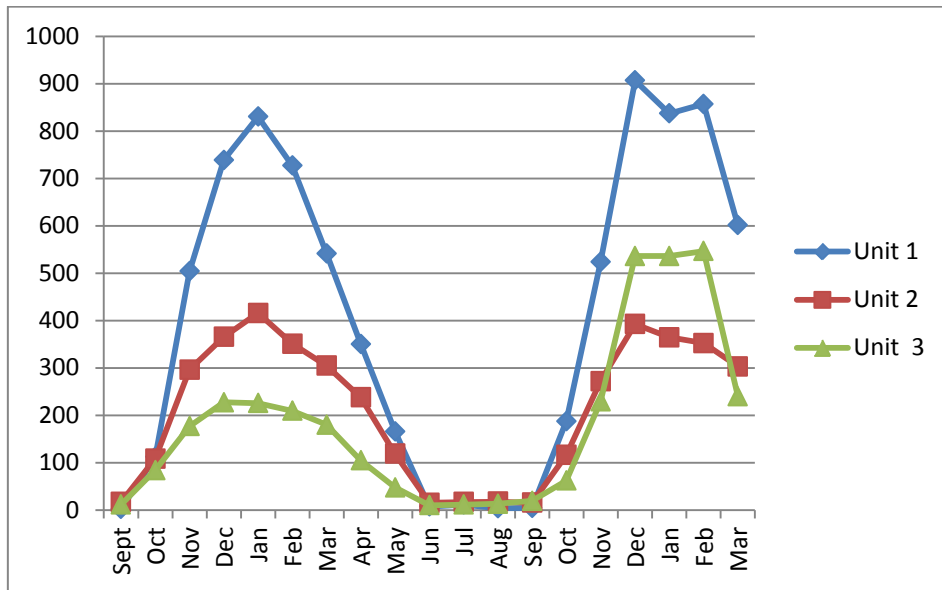
### Midlands Centre oil use in Kwh



Due to an ageing heating system and boiler control problems gas use at the Eastgate Office Centre has increased significantly particularly in unit 3 where consumption for that doubled between December and February. Although the control issues have now been rectified this contributed significantly to the Estate missing its target of an over all carbon reduction of 25%.



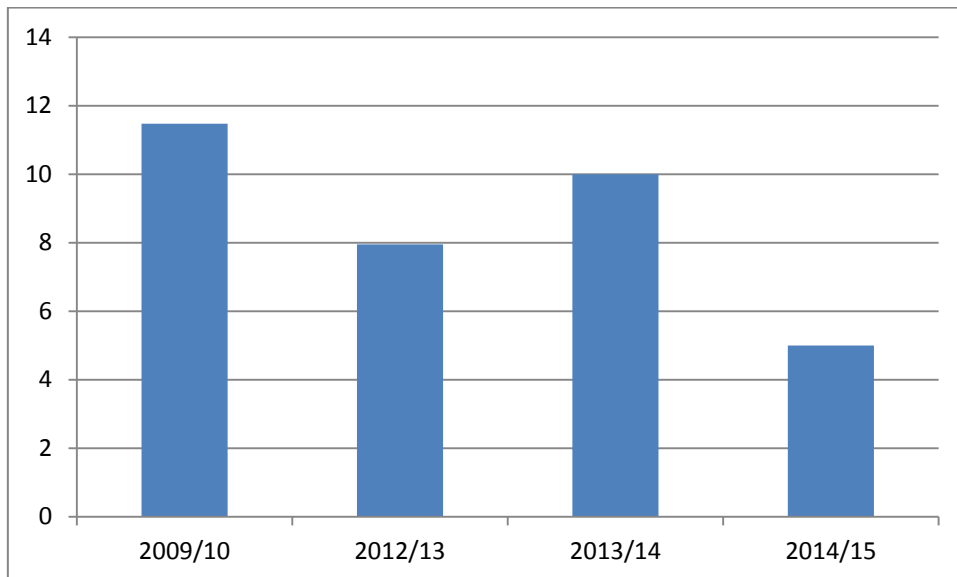
### Eastgate Office Centre gas use graph in Kwh



### Waste

Through various waste reduction initiatives led by the VCA sustainability committee, such as paper reduction and improvements in working practices the VCA has been able to reduce the total amount of waste produced significantly. 2014-15 has seen a reduction of 56.4% on the baseline year of 2009-10.

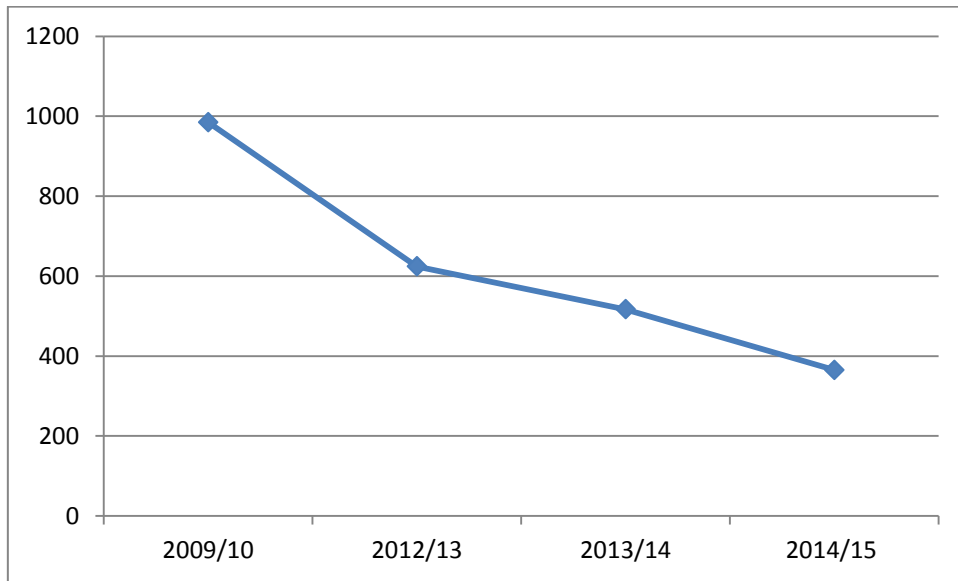
### VCA total waste produced in tonnes



### Office paper use

Paper reduction has been a huge success with the installation of central, multi-function printers and control on the issue of paper. This has meant a reduction in paper purchase and use of 63% since the base year of 2009-10.

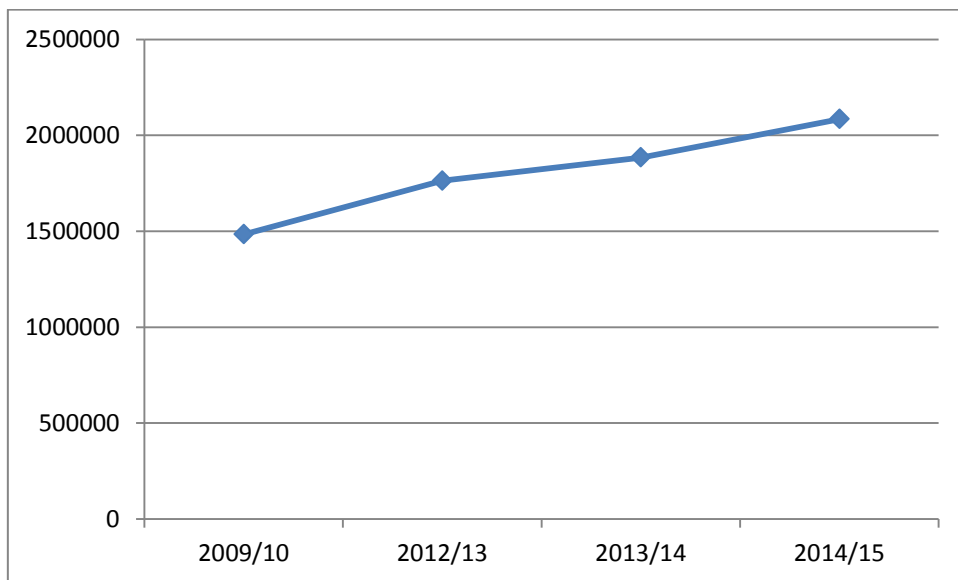
### VCA site wide paper use



### Travel

VCA domestic travel has continued to grow as the agency continues to grow. Mileage claimed by staff has continued to reduce by 31.6% from the base year in 2009-10, whilst use of car hire and the pool cars has increased. This green government target of a 25% reduction in travel goes against the business plan for agency growth and is not expected to be met over following years. Turnover has increased over that period by 22.76%

### VCA total Domestic km travelled graph

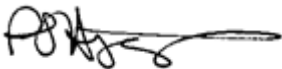


# Key Performance Measures

Please refer to our published 2015-16 Business Plan on our web site for details of main trends and factors affecting future development of the organisation.

<b>1. Reform and Modernisation</b>	1.1 Implement a strategy for returning VCA to a break even position.	30/09/2015
	1.2 Identify a new site for the Bristol HQ.	30/09/2015
	1.3 Take forward the Government Digital Strategy.	31/03/2016
<b>2.Operational</b>	2.1 System and component approval certificates issued within 9 working days of the completion of technical clearance.	92%
	2.2 Audited test reports deemed to have no critical defects.	99%
	2.4 New Type Approval clients that do not hold ISO 9001 or ISO/TS 16949 management systems certification to be subject to Conformity of Production assessment, in accordance with the agreed risk-based approach, before approval issue and 100% of surveillance audits on non ISO/TS customers to be conducted using the risk based approach, before CoP renewal.	100%
	2.5 Maintain or improve the satisfaction of our customers.	90%
<b>3. Finance and efficiency</b>	<b>Agency finance:</b> 3.1 Deliver financial performance in line with the 2015-16 budget.	£700k deficit 31/03/2016
	<b>Workforce:</b> 3.2 FTE staff numbers as at 31 <sup>st</sup> March 2016 will not exceed 204.	204 FTE
	3.3 Ensure average number of working days lost to sickness absence does not exceed 7 days per FTE.	7 days
<b>4. Customer Service</b>	<b>Prompt payment:</b> Payment of invoices within 5 working days.	80%

	<b>Freedom of Information:</b> Provide a response within 20 working days.	93%
	<b>Parliamentary Questions:</b> Provide a response within the due date.	100%
	<b>MSU correspondence:</b> Provide a response within 7 working days.	100%
	<b>Treat Official Correspondence:</b> Provide a response within 20 working days.	80%



PAUL HIGGS  
Interim Chief Executive and Agency Accounting Officer  
07 July 2015

# Directors' Report

This directors' report is produced to comply with the requirements of the Companies Act 2006, adjusted for the public sector context as required by the HM Treasury Financial Reporting Manual 2014-15. It should be read in conjunction with the Governance statement, the Remuneration report and the Strategic report.

## Accounts Direction

The financial statements on pages 39 to 61 have been prepared in accordance with the direction given by the Treasury in pursuance of Section 4(6) (a) of the government Trading Funds Act 1973, and Dear Accounting Officer letter [DAO (GEN) 02/10].

## Auditor

The Comptroller and Auditor General (C&AG), as head of the National Audit Office, is the appointed auditor for the VCA. The audit work for the 2014-15 accounts cost £47,000. The NAO did not receive any remuneration for non-audit related work.

As far as the Accounting Officer is aware there is no relevant audit information the auditor has not been provided, and that the Accounting Officer has taken all reasonable steps to provide relevant audit information to the auditor.

## Asset values

As assets are revalued annually in line with the accounting policy, the Directors consider there is no significant difference between the market value and carrying value of assets in the accounts.

## Financial Instruments

Please refer to Note 17 in this report which details the position VCA has in relation to financial instruments.

## Charitable donations

The Agency made no charitable donations in the year.

## Political donations and expenditure

As a Government organisation, the Agency acts for the elected government of the day and is non-political. It made no political expenditure or donations.

## Statutory framework

Automotive type approval is VCA's primary function, carried out under the Road Vehicles (Approval) Regulations 2009 which implement the framework EU Directive 2007/46/EC, as amended for cars, trucks, buses, and trailers. Similar framework EU Directives for 2/3 wheeled vehicles and agricultural vehicles are implemented by the Motorcycles etc. (EC Type Approval) Regulations 1999 and the Tractors etc. (EC Type Approval) Regulations 2005 respectively, both as amended. Fees for type approval work are

charged in accordance with the Motor Vehicles (Type Approval and Approval Marks) (Fees) Regulations 1999, as amended.

Non-road mobile machinery (NRMM) approvals are issued in accordance with the NRMM EU Directive 97/68/EC, as amended under powers in the Non-Road Mobile Machinery (Emission of Gaseous and Particulate Pollutants) Regulations 1999.

Vehicle Special Orders are issued under Section 44 of the Road Traffic Act 1988.

Certification of parking and bus lane civil enforcement camera systems is issued on behalf of DfT under the Civil Enforcement of Parking Contraventions (Approved Devices)(England) Order 2007 and the Bus Lanes (Approved Devices) (England) Order 2005 respectively.

Until 31<sup>st</sup> March 2014 VCA carried out market surveillance activities for BIS and Defra under applicable EU Directives and the various implementing UK statutory instruments:

- 2012/19/EU on waste electrical and electronic equipment;
- 2000/53/EC on end-of life vehicles;
- 2000/14/EC on the noise emission in the environment by equipment for use outdoors; and
- 2006/66/EC on batteries and accumulators and waste batteries and accumulators.

This work transferred to NMRO on 1<sup>st</sup> April 2015.

## **Directorships**

Directors are required to disclose any other business interests in the register of interests that may conflict with their responsibilities. No director has declared any business interest that may conflict with their role.

## **Cost allocation**

The Agency produces information in note 2 to the accounts on the cost of its activities for fees and charges purposes using Treasury Guidance.

## **Personal data related incidents**

There was one breach involving individuals' records where the internal auditor left approximately 100 expense claims on the train. Staff whose claims were lost were notified and the claims were later recovered and sent back to us. We consider that no loss occurred because the expense claims were recovered.

## **Sickness absence data**

The agency maintains records of sickness absence in line with cabinet office definitions. Further information on sickness absence is reported in the performance summary on page 9.

## **Policy on Employment of Disabled persons**

VCA, as part of the civil service, is an equal opportunity employer. This means, inter alia,

(a) giving full and fair consideration to applications for employment by the agency made by disabled persons, having regard to their particular aptitudes and abilities;

- .(b) continuing the employment of, and for arranging appropriate training for, employees of the agency who have become disabled persons during the period when they were employed by the agency, and;
- (c) providing for the training, career development and promotion of disabled persons employed by the agency.

## **Employee Involvement**

Action has been taken during the financial year to introduce, maintain or develop arrangements aimed at:

- (a) providing employees systematically with information on matters of concern to them as employees through regular communication;
- (b) consulting employees or their trade union representatives on a regular basis so that the views of employees can be taken into account in making decisions which are likely to affect their interests; and
- (c) achieving a common awareness on the part of all employees of the financial and economic factors affecting the performance of the organisation through providing information on business performance.



PAUL HIGGS  
Interim Chief Executive and Agency Accounting Officer  
07 July 2015

# Remuneration Report

## Remuneration Policy

The Agency has the authority to determine the terms and conditions relating to the remuneration (excluding pensions) of their own staff below Senior Civil Service grades and the payment of allowances to all staff.

The remuneration of senior civil servants (SCS) is outside the scope of the Agency's authority and is set by the Prime Minister following independent advice from the Review Body on Senior Salaries.

In reaching its recommendations, the Review Body has regard to the following considerations:

- the need to recruit, retain and motivate suitably able and qualified people to exercise their different responsibilities;
- regional/local variations in labour markets and their effects on the recruitment and retention of staff;
- government policies for improving the public services including the requirement on Departments to meet the output targets for the delivery of Departmental services;
- the funds available to Departments as set out in the Government's Departmental expenditure limits; and
- the Government's inflation target.

The Review Body takes account of the evidence it receives about wider economic considerations and the affordability of its recommendations.

Further information about the work of the Review Body can be found at:

[www.gov.uk/government/organisations/office-of-manpower-economics](http://www.gov.uk/government/organisations/office-of-manpower-economics)

## Service Contracts

The Constitutional Reform and Governance Act 2010 require Civil Service appointments to be made on merit on the basis of fair and open competition. The Recruitment Principles published by the Civil Service Commission specify the circumstances when appointments may be made otherwise.

Unless otherwise stated below, the officials covered by this report hold appointments which are open-ended. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme.

Further information about the work of the Civil Service Commission can be found at

[www.civilservicecommission.org.uk](http://www.civilservicecommission.org.uk)

## Remuneration (including salary, benefits in kind and pension entitlements)

The following sections provide details of the remuneration and pension interests of the Directors of the Agency, which have been subject to audit. There were no Benefits in Kind received by any Directors during the year.



## Interim Chief Executive Officer - Remuneration and Performance

Mr Paul Higgs is VCA's sole Senior Civil Servant (SCS) and is employed on contract terms. The contract contains a fixed notice period of 3 months, which may be terminated 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.

## Non-Executive Directors

Non-Executive Directors are appointed on merit on the basis of fair and open competition, and are appointed for a 3 year period, with the option of serving a further 2 years should this be deemed appropriate by the Accounting Officer in consultation with the DfT. The Non-Executive Directors (NEDs) of the Management Board received the following remuneration for their services during the year:

<b>Non-Executive Director</b>	<b>2014-15</b>	<b>2013-14</b>
	<b>(£'000)</b>	<b>(£'000)</b>
Dr Bruce Macaulay (resigned March 2014)	-	19
Prof John Sullivan (resigned June 2013)	-	1
Dr Susan Sharland (appointed November 2013)	13	4
James Moore (appointed February 2014)	10	1
Total NED remuneration	23	25

## Management Board - Remuneration and Performance

All other management board members, with the exception of Mr N Chapman who was employed on an interim contract, have standard Civil Service employment contracts that govern their remuneration levels and performance conditions. All are permanent full-time employees.

Civil Service appointments are made in accordance with the Civil Service Commissioners' Recruitment Code, which requires appointment to be on merit on the basis of fair and open competition but also includes the circumstances when appointments may otherwise be made. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme. The following sections provide details of the remuneration and pension interests of the Chief Executive and Board members employed by the Agency.

## Salary, Benefits in Kind and Bonuses (Audited)

The information below sets out the remuneration details of all the members of the Management Board, employed by VCA, as at 31 March 2015. Salaries include gross salaries, overtime, and any other allowances subject to UK taxation, but exclude employer pension contributions. No additional fees were received in their capacity as board members nor were any benefits in kind received.

Officials	Salary £'000	2014-15		2013-14		
		Bonus Payments £'000	Benefits in kind (to nearest £100)	Salary £'000 <i>(Restated)</i>	Bonus Payments £'000 <i>(Restated)</i>	Benefits in kind (to nearest £100)
Mr P Markwick	100-105	5-10	-	95-100	5-10	-
Mr J Bragg	80-85	Nil	-	65-70	0-5	-
Mr R Brayfield	-	-	-	65-70	0-5	-
Mr A Buckle	-	-	-	35-40	0-5	-
Mr N Chapman (resigned 2 <sup>nd</sup> May 2014)	5-10 (FTE 100-105)	Nil	-	45-50 (FTE 110-115) *	-	-
Mr P Cooke	-	-	-	50-55	0-5	-
Ms M Fraser	-	-	-	40-45	0-5	-
Mr A Grimm	-	-	-	55-60	0-5	-
Mr P Higgs	65-70	0-5	-	55-60	0-5	-
Mr M Mulvaney	-	-	-	55-60	0-5	-
Mr B Perrett	-	-	-	45-50	0-5	-
Mr A Stenning	65-70	Nil	-	55-60	0-5	-
Mr R Brown (appointed 30 <sup>th</sup> June 2014)	55-60 (FTE 70-75)	Nil	-	-	-	-

\* During the period to 31st March 2015 £nil (2013-14, £48,934) was also paid to an agency for the services of Mr N Chapman as Interim Finance Director. In addition his FTE equivalent was incorrectly stated last year and has now been restated. The bonus for Mr P Markwick was incorrect last year and as a consequence has been restated.

## Median Staff Pay Ratio (Audited)

Reporting bodies are required to disclose the relationship between the remuneration of the highest- paid director in their organisation and the median remuneration of the organisation's workforce.

This calculation is based on the full-time equivalent staff of the reporting entity at the reporting period end date on an annualised basis. The salary of the person in the middle of the all salaries as at the year end is taken as the median salary value.

	2014-15	2013-14 (Restated)
<b>Band of highest paid Director (£'000)</b>	<b>105-110</b>	105-110
<b>Median total for all staff excluding highest paid Director (whole £)</b>	<b>30,665</b>	29,009
<b>Remuneration Ratio</b>	<b>3.51</b>	3.71

The mid-point of the banded remuneration of the highest-paid director in the Agency in the financial year 2014-15 was £107,500 (2013-14, £107,500). This was 3.51 times (2013-14, 3.71) the median remuneration of the workforce, which was £30,665 (2013-14, £29,009). The figures for the prior year were restated because they were calculated on the basic salary and not the whole salary cost including bonuses and allowances.

Total remuneration includes salary, non-consolidated performance-related pay, benefits-in-kind as well as severance payments. It does not include employer pension contributions and the cash equivalent transfer value of pensions.

## Pension Benefits

Pension benefits are provided through the Civil Service pension arrangements. From 30 July 2007, civil servants may be in one of four defined benefit schemes; either a final salary scheme (classic, premium or classic plus); or a whole career scheme (nuvos). These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, classic plus and nuvos are increased annually in line with Pensions Increase legislation. Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder pension with an employer contribution (partnership pension account).

Employee contributions are salary related based on the following contribution rates:

Annual Pensionable Earnings (full-time equivalent basis)	<b>classic</b> scheme		<b>premium, classic plus and nuvos</b>	
	Contribution rate % 2014-15	Contribution rate % 2013-14	Contribution rate / % 2014-15	Contribution rate / % 2013-14
Up to £15,000	1.50	1.50	3.50	3.50
£15,001 - £21,000	3.00	2.70	5.00	4.70
£21,001 - £30,000	4.48	3.38	6.48	5.88
£30,001 - £50,000	5.27	4.67	7.27	6.67
£50,001 - £60,000	6.06	5.46	8.06	7.46
Over £60,000	6.85	6.25	8.85	8.25

Benefits in **classic** accrue at the rate of 1/80<sup>th</sup> of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years initial pension is payable on retirement. For **premium**, benefits accrue at the rate of 1/60<sup>th</sup> of final pensionable earnings for each year of service. Unlike classic there is no automatic lump sum. **Classic plus** is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per classic and benefits for service from October 2002 worked out as in premium. In **nuvos** a member builds up a pension based on their pensionable earnings during their period of scheme membership. At the end of each scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with Pensions Increase legislation. In all cases members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

**The partnership pension account** is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of two providers. The employee does not have to contribute, but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of centrally-provided risk cover (death in service and ill health retirement).

The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of classic, premium and classic plus and 65 for members of nuvos.

Further details about the Civil Service pension arrangements can be found at the website [www.civilservice.gov.uk/pensions](http://www.civilservice.gov.uk/pensions)

## **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 figures include the value of any pension benefit in another scheme or arrangement which the member has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their buying additional pension benefits at their own cost. CETVs are worked out in accordance with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulation 2008 and do not take account of any actual or potential reduction to benefits resulting from Lifetime Tax Allowance which may be due when pension benefits are taken.

## **Real increase in CETV**

This reflects the increase in CETV that is funded by the employer. It does not include 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.

**Pension Information for 2014-2015 of Chief Executive and Management Board Members (Audited)**

	Accrued pension at pension age at 31 March 2015 and related party sum	Real increase in pension and related lump sum at pension age	Cash Equivalent Transfer Value at 31 March 2015	Cash Equivalent Transfer Value at 31 March 2014	Real increase in Cash Equivalent Transfer Value	Employer contribution to partnership pension account
	£000	£000	£000	£000	£000	Nearest £100
<b>Mr P Markwick</b> Chief Executive	20-25 (-)	0-2.5	397	350	23	-
<b>Mr J Bragg</b> Director	-	-	-	-	-	12,400
<b>Mr P Higgs</b> Director	5-10 (-)	0-2.5	117	94	13	-
<b>Mr M Brown</b> Director	0-5 (-)	0-2.5	12	-	7	-
<b>Mr A W Stenning</b> Director	30-35 (90-95)	2.5-5	688	579	80	-

**Compensation for loss of office**

There were no payments for compensation for loss of office in the year. An accrual of £135k was accounted for a Management Board Member compensation and pay in lieu of notice package in 2013-14. The exit was completed in April 2014.



PAUL HIGGS  
Interim Chief Executive and Agency Accounting Officer  
07 July 2015

# Statement of Accounting Officer'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) 02/10

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 statement of income, changes in taxpayer's equity 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 Permanent Secretary of the Department for Transport 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 Vehicle Certification Agency's assets, are set out in Managing Public Money published by the HM Treasury.

# **Governance Statement**

## **ACCOUNTING OFFICER INTRODUCTION**

The Permanent Secretary of the DfT appointed me as Interim Chief Executive for VCA from the 1<sup>st</sup> of May 2015 following the resignation of Paul Markwick. As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of VCA's policies, 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 the HMT Code of good practice for Corporate Governance in Central Government Departments and Managing Public Money.

Corporate Governance is the way in which organisations are directed and controlled, and good governance is vital to effective financial and risk management. HM Treasury's 'Managing Public Money' and 'Financial Reporting Manual' require that I provide a statement on how I have discharged my responsibility to manage and control VCA's resources during the year. I have provided details below of how VCA's system of corporate governance has operated during 2014-15, including any areas where the system has not operated in line with the HMT Code of good practice for Corporate Governance in Central Government Departments.

## **GOVERNANCE FRAMEWORK**

As an Executive Agency of DfT, VCA follows the arrangements as set out in the Department's 2011 Framework document. The VCA annual business plan was submitted to the Secretary of State for endorsement of the key performance measures at the beginning of the year and regular reporting of progress against these has taken place to the Managing Director of Motoring Services.

## **THE BOARD**

This provides executive leadership within a framework of prudent and effective controls which enables risk to be assessed and managed and supports me in discharging my role as Accounting Officer. It sets VCA's strategic aims, ensures financial and human resources are in place to meet objectives and reviews business performance. It also sets VCA's values and standards and ensures obligations to customers and other stakeholders are understood and met. As I am the Agency Accounting Officer, I Chair the Board. This provides me overall decision making authority on matters for which I am responsible and may be subject to Parliamentary scrutiny.

The new board structure implemented by Paul Markwick the previous CEO, has worked well through the year, this consists of myself as Interim CEO and Chief Commercial Officer plus Chief Officers for Operations, Technology, Standards and Government Affairs and Finance and Resources. We will be making a further change to the Board in early June, following the retirement of Mr Tony Stenning, currently Chief Technology, Standards and Government Affairs, the responsibilities will fall under the Chief Commercial Officer going forward and there will be a supporting structure in place to ensure the continuity of this function is maintained.

<b>Board member</b>	<b>Title</b>	<b>No of meetings attended</b>
Paul Markwick	Chief Executive	9/9
Nigel Chapman (resigned May 2014)	Interim Finance Director	1/1
Richard Brown (appointed June 2014)	Chief Finance & Resources Officer	6/6
John Bragg	Chief Operating Officer	8/9
Paul Higgs	Chief Commercial Officer	8/9
Tony Stenning	Chief Technology, Standards and Government Affairs Officer	9/9
James Moore	Non-Executive Director	9/9
Dr. Susan Sharland	Non-Executive Director	7/9

## **AUDIT COMMITTEE**

The Audit Committee advises and supports the CEO to give assurance on risk, control and governance. The Audit Committee reviews the comprehensiveness of assurances in place to meet the Agency commitments to the DfT and reviews the reliability and integrity of these assurances, providing advice where applicable. This includes reviewing and advising on the implementation of accounting principles in conjunction with external auditors. The Audit Committee membership is exclusively non-executive with the two Board Non-Executive Directors (NEDs) plus a senior DfT Official. This year the Audit Committee was chaired by Dr. Susan Sharland.

## **PERFORMANCE MANAGEMENT COMMITTEE**

The Performance Management Committee consider the individual bonus awards to our staff who have delivered consistently high levels of achievement throughout the year. It meets annually to moderate the nominations, and is chaired by a Board NED.

## **HEALTH & SAFETY COMMITTEE**

The HSC continues as an Agency wide forum, and in accordance with HSE guidance to advise and support the VCA CEO and Management Board on matters of health and safety policy, structure and communication, reviewing these against legal obligations. The HSC is chaired by Richard Brown, Chief Finance & Resources Officer, and was strengthened during the year to include more senior managers from across the VCA, the committee meets on a bimonthly basis to ensure all matters arising are dealt with in appropriate timeframe.



## THE GOVERNANCE CULTURE

The Agency recognises that the culture we work in impacts on the organisation's success in terms of good governance. As Civil Servants, staff are bound by the Civil Service Code and adherence to the Nolan Seven Principles of Public Life. In addition, VCA Executive Directors all signed an additional letter issued by the DfT regarding our corporate responsibilities during the period of the NCM project.

Each Board evaluates the meeting's structure, content and presentation to facilitate informed decision making. VCA's Executive Directors considered the Agency's ongoing business needs and welcomed the experience of the Non-Executive Directors in providing the independent advice and external assurance required to ensure effective governance of the Agency.

## RISK MANAGEMENT

The Agency follows HM Treasury guidance with the aim of managing risk to a reasonable level rather than to eliminate all risk from achieving policies, aims or objectives. VCA's positive culture of risk management is led by the Board which ensures policy and strategy is in place and supported through the embedded risk processes at each level of the Agency. The Agency Risk Manager is supported by the Chief Executive, who is the Agency Risk Champion, and the Finance Director. The Agency risk register is used by Internal Audit to inform the annual audit programme.

The Board reviews high level risks monthly which have arisen through either a top-down review or bottom-up reporting. The Agency attends the Department's regular Group Risk Management meetings and reports high level risks to the Managing Director of the Motoring Services Group through the Group Monthly Report and regular Agency Performance meetings.

Key risks that VCA has been monitoring through 2014-15:

**Loss of key staff** – There was a significant risk that through the NCM Process, key staff would decide to leave VCA, primarily due to the uncertainty around our long-term future. We did see some people leave the VCA during the year, but not at levels higher than natural wastage. We managed to mitigate this risk by providing training and ensuring we supported our staff through the whole NCM process. We continued to develop existing staff expertise and competencies whilst monitoring workloads and responded with additional resource where possible. This was supported by overall staff engagement survey score which remained high during what was a difficult time for VCA and its staff; and

**Loss of key customers** – Through the NCM project there was a concern that VCA could lose key customers to other competitors in all of the markets it operates. We mitigated this risk by focusing on our customer service, ensuring we delivered "business as usual", ensuring we delivered products and services in line with customer expectations, building on our relationships and growing our customer base throughout the NCM project. We managed to grow the business to £18.3m during this period, an excellent performance given the uncertainty and challenges we faced during the year.

## INTERNAL CONTROL

VCA's integrated assurance framework defines a process by which the Chief Executive receives assurance on the management of risks associated with the achievement of VCA objectives and measures (both financial and non-financial).

# Management controls

## Directors and line management

The Board and senior management consider and review top risks faced by the VCA on a monthly basis at the Management Board or Executive meetings with the agency Risk Manager. Further reviews of the agencies risks are considered at the Audit Committee.

Performance reviews are undertaken between the Chief Executive, Finance Director and DfT where performance against the business plan is discussed.

## Financial control

VCA produces a three-year financial forecast and generates a formal budget plan every year. Performance is monitored against these plans on a monthly basis between finance business partners and budget holders and by the Group Board. The plan also includes non-financial performance measures which are also monitored monthly by the Group Board. During the year financial performance risks and opportunities were considered and reviewed.

VCA's finance team undertake a series of routine monthly checks to ensure the accuracy and validity of the financial records, reconciling account balances and ensuring control procedures have been applied. VCA operates a system of delegated authority to incur expenditure with defined approval limits for managers.

## Management Assurance

Executive Directors complete the DfT led management assurance report on the full range of delegations, policies and procedures laid down by the Agency and the Department, the adequacy of the arrangements within their directorate and what remedial action is being taken where improvement is needed.

During 2013-14 the Agency has paid particular attention to improving:

- Risk Management – The Risk Manager continues to attend the DfT RTL Risk Coordinators meeting, working with Group colleagues to confirm that there is a consistent approach to Risk Management between the Agency and DfT and to ensure an understanding of potential impacts. The Risk Manager, with all of the individual risk owners, carries out a monthly review of all risks on the register, ensuring that the status of current risks is always up to date. Following an ARA audit of Risk Management, a number of risk scores were revised to reflect mitigating actions undertaken or planned;
- Records Management – VCA has initiated an Enterprise Content Management project, to improve the search and accessibility of documents, to reduce the amount of paper documents filed, and thus to improve the Agency sustainability. A successful pilot in the Technology, Quality and Standards Branch was completed during the financial year, and a managed roll-out to the rest of the Agency has started; and
- Succession Planning – Directors and Senior Managers have worked with HR Business Partners to identify business critical roles enabling the development of succession plans for key staff.

## Macpherson & Analytical Models

I can confirm that VCA has established an appropriate Quality Assurance framework that is used for all business critical models. All models meeting the DfT criteria have been notified to the Department and sit on the appropriate list.

## **Internal audit**

The Government Internal Audit Agency (GIAA), previously the Department for Transport's Audit and Risk Assurance Division, provides regular and annual reports of audit activity in the Agency which includes an independent opinion of the adequacy and effectiveness of the Agency's systems of internal control, together with proposed actions for improvement which are agreed with management.

The Head of Internal Audit has provided the following assessment "on the basis of the evidence obtained in 2014-15, I am able to provide an overall Moderate assurance rating on the adequacy and effectiveness of the VCA's arrangements for corporate governance, risk management and control processes. In my opinion there are no significant weaknesses that fall within the scope of issues that should be reported in the Governance Statement".

## **Project and programme management**

In managing successful programmes, PRINCE2 and Major Project Authority standards are inbuilt and monitoring of project development against these is an integral element to project and programme management. All project and programmes maintain risks and issues registers which follow the agency's risk reporting guidelines. Project and programmes are subject to business case approval.

Significant projects are subject to 'gateway reviews', an external peer review to assess the management of the project and the probability of successful implementation.

## **Data handling, security and information risk**

The agency's data and information handling procedures comply with statutory and regulatory requirements. This includes, amongst others, the Data Protection Act (DPA), Freedom of Information Act, Environmental Information regulations, Computer Misuse Act and protection of Intellectual Property Rights.

## **Procurement and contract management**

VCA did not undertake any significant procurement activity, where possible the VCA utilises the Crown Commercial Services framework agreements predominately for ICT and General Goods and Services.

## **Review of effectiveness of internal control**

As Accounting Officer, I have responsibility for reviewing the governance and effectiveness of the system of internal control within the VCA. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors, managers and the executive team within the agency and maintenance of the internal framework, and comments made by external auditors in their management letter and other reports. I have been advised on the implications of the results of my review of the effectiveness of the system of internal control by the board and the ARA and plan to address any weaknesses identified and ensure a programme of continuous improvement of the system is in place.

## **NON-EXECUTIVE DIRECTORS' STATEMENT**

During 2014-15, the Non-Executive Directors have been involved in both Board and major Board committee discussions and decisions in VCA. Based on this exposure to the organisation, and having received management and other independent assurance, we are content that there are no material issues requiring disclosure in the annual governance statement.

## Conclusion

The above procedures provide me with reliable assurance that VCA procedures and internal controls have been effective throughout the year.

A handwritten signature in black ink, appearing to read 'Paul Higgs', with a long horizontal flourish extending to the right.

PAUL HIGGS  
Interim Chief Executive and Agency Accounting Officer  
07 July 2015

## **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 Vehicle Certification Agency (VCA) for the year ended 31 March 2015 under the Government Resources and Accounts Act 2000. These comprise the Statements of Comprehensive Net Income, Financial Position, Cash Flows, Changes in Taxpayers' Equity, and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

### **Respective responsibilities of the Accounting Officer and auditor**

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit the financial statements in accordance with the applicable law and International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Agency's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Agency; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income reported in the financial statements have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

### **Opinion on Regularity**

In my opinion, 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.

### **Opinion on the financial statements**

In my opinion:

- the financial statements give a true and fair view, of the state of the Agency's affairs as at 31 March 2015, and of the surplus for the year then ended; and

- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued there under.

### **Opinion on other matters**

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000; and
- the information given in the Introduction, Strategic Report and Director's Report within the Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

### **Matters on which I report by exception**

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records or returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

### **Report**

I have no observations to make on these financial statements.

Sir Amyas C E Morse  
Comptroller and Auditor General  
National Audit Office  
157-197 Buckingham Palace Road

08 July 2015

# STATEMENT OF COMPREHENSIVE NET INCOME

for the period ended 31 March 2015

		2014-2015	2013-2014
	Notes	£'000	£'000
Revenue	2	18,313	16,085
Cost of sales	3,4	<u>(14,309)</u>	<u>(12,991)</u>
Gross surplus		4,004	3,094
Administrative expenses - non Pay	3,4	(2,495)	(1,674)
Administrative expenses - pay	3,4	<u>(1,222)</u>	<u>(1,150)</u>
Trading surplus for the year		<u>287</u>	<u>270</u>
Modern employment contract buyout	2	-	(336)
Translation gains / (losses)	3	<u>248</u>	<u>(445)</u>
Operating surplus / (deficit) for the year		<u>535</u>	<u>(511)</u>
Net gain (loss) on:			
- revaluation of intangibles	6	14	(22)
- revaluation of property, plant and equipment	7	12	(11)
Total comprehensive income for the period		<u>561</u>	<u>(544)</u>

Revenue and operating surplus / (deficit) are derived entirely from continuing operations, although on April 1<sup>st</sup> the business derived from BIS and Defra was transferred to the NMRO.

The notes on pages 43 to 61 form part of these accounts.

# STATEMENT OF FINANCIAL POSITION

as at 31 March 2015

	Note	31 March 2015 £'000	31 March 2014 £'000
<b>Non-current assets:</b>			
Intangible assets	6	753	764
Property, plant and equipment	7	<u>1,587</u>	<u>1,598</u>
<b>Total non-current assets</b>		<b>2,340</b>	<b>2,362</b>
<b>Current assets</b>			
Inventories		690	648
Trade and other receivables	8	4,651	3,801
Cash and cash equivalents	9	<u>3,722</u>	<u>4,208</u>
<b>Total current assets</b>		<b>9,063</b>	<b>8,657</b>
<b>Total assets</b>		<b>11,403</b>	<b>11,019</b>
<b>Current liabilities</b>			
Trade and other payables	10	(2,095)	(2,305)
Provisions	11	<u>(380)</u>	<u>(341)</u>
<b>Total current liabilities</b>		<b>(2,475)</b>	<b>(2,646)</b>
<b>Non-current assets plus net current assets</b>		<b>8,928</b>	<b>8,373</b>
<b>Non-current liabilities</b>			
Trade and other payables	10	(15)	-
Provisions	11	<u>(44)</u>	<u>(19)</u>
<b>Assets less liabilities</b>		<b><u>8,869</u></b>	<b><u>8,354</u></b>
<b>Taxpayers' equity</b>			
General fund		8,650	8,161
Revaluation reserve	12	219	193
<b>Total taxpayers' equity</b>		<b><u>8,869</u></b>	<b><u>8,354</u></b>



PAUL HIGGS  
Interim Chief Executive and Agency Accounting Officer  
07 July 2015

The notes on pages 43 to 61 form part of these accounts.



# STATEMENT OF CASH FLOWS

for the period ended 31 March 2015

	Note	2014-2015 £'000	2013-2014 £'000
<b>Cash flows from operating activities</b>			
Operating surplus (deficit)		535	(511)
Adjustments for non-cash transactions			
Amortisation charges	3	239	216
Depreciation charges	3	244	239
Loss on disposal of non-current assets	3	1	11
Notional charges	5	47	85
Transfer from reserves		(93)	(350)
		<u>973</u>	<u>(310)</u>
(Increase) / decrease in inventories		(42)	26
(Increase) / decrease in trade and other receivables	8	(850)	852
Decrease in trade and other payables	10	(195)	(60)
Increase / (decrease) in provisions	11	64	(18)
<b>Net cash inflow from operating activities</b>		<u>(50)</u>	<u>490</u>
<b>Cash flows from investing activities</b>			
Purchase of intangible assets	6	(214)	(272)
Purchase of property, plant and equipment	7	(231)	(279)
<b>Net cash outflow from investing activities</b>		<u>(445)</u>	<u>(551)</u>
<b>Cash flows from financing activities</b>			
Proceeds from sale of property, plant and equipment		9	36
<b>Net cash inflow from financing activities</b>		<u>9</u>	<u>36</u>
<b>Net increase in cash and cash equivalents in period</b>		<u>(486)</u>	<u>(25)</u>
<b>Net increase in cash and cash equivalents in period</b>		(486)	(25)
<b>Cash and cash equivalents at the beginning of the period</b>	9	<u>4,208</u>	<u>4,233</u>
<b>Cash and cash equivalents at the end of the period</b>	9	<u>3,722</u>	<u>4,208</u>

The notes on pages 43 to 61 form part of these accounts.

# STATEMENT OF CHANGES IN TAXPAYERS' EQUITY

For the period ended 31 March 2015

	General Fund £'000	Revaluation Reserve £'000	Total Reserves £'000
<b>Taxpayers' equity at 1 April 2014</b>	<b>8,161</b>	<b>193</b>	<b>8,354</b>
Surplus for the year	535	-	535
Notional charges in the year (note 5)	47	-	47
Surplus on revaluation of non-current assets (note 12)	-	47	47
Backlog depreciation of re-valued non-current assets and loss on disposal (note 12)	-	(21)	(21)
Transfers to / (from) Reserves	(93)	-	(93)
<b>Taxpayers' equity at 31 March 2015</b>	<b>8,650</b>	<b>219</b>	<b>8,869</b>

For the period ended 31 March 2014

	General Fund £'000	Revaluation Reserve £'000	Total Reserves £'000
Taxpayers' equity at 1 April 2013	8,937	226	9,163
Deficit for the year	(511)	-	(511)
Notional charges in the year (note 5)	85	-	85
Deficit on revaluation of non-current assets (note 12)	-	(63)	(63)
Backlog depreciation of re-valued non-current assets and loss on disposal (note 12)	-	30	30
Transfers to / (from) Reserves	(350)	-	(350)
Taxpayers' equity at 31 March 2014	8,161	193	8,354

The notes on pages 43 to 61 form part of these accounts.

# NOTES TO THE FINANCIAL STATEMENTS

## 1. ACCOUNTING POLICIES

### a. Basis of Accounting

The financial statements have been prepared in accordance with the 2014-2015 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy which is 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 particular policies adopted by the Agency are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

### b. Accounting Convention

The accounts are prepared under the historical cost convention, modified to account for the revaluation of non-current assets and inventories, where material, at their value to the business by reference to their current costs.

### c. Impending application of newly issued accounting standards not yet effective

Under IAS8 we are required to disclose accounting standards, issued but not yet effective which have yet to be adopted and assess their future impact.

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 March 2015, and have not been applied in preparing these financial statements. The following are those standards, amendments and interpretations that may need to be adopted in subsequent periods:

IFRS 9 Financial Instruments, which will replace parts of IAS 39, deals with the classification and measurement of financial assets and financial liabilities, hedge accounting and (following the July 2014 amendment), the impairment of financial assets. IFRS 9 is intended to improve and simplify the treatment of financial instruments in financial statements. According to the International Accounting Standards Board (IASB), application of this standard is required for reporting periods beginning on or after 1 January 2018, though earlier application is permitted. However, it is yet to receive EU endorsement so it is not possible to predict the actual application date. The impact of initial application of IFRS 9 is not expected to be significant. This is because, while the classification of financial assets and liabilities will change, it seems that existing measurement approaches will continue to be appropriate. It is also considered that there will be no significant change to the recognition of impairment on the Agency's financial assets, because the expected credit losses on those assets are currently thought to be immaterial;

IFRS 13 should be adopted by 1 April 2015. It provides guidance on establishing fair values of assets and liabilities and sets out disclosure requirements, where other standards require the fair value to be used or disclosed. It defines fair value as an exit value, reflecting the assets' highest and best use rather than its actual use. This approach is problematic for many central government assets, which may be of a specialised nature (meaning that exit values are difficult to identify) and which may need to be retained for the provision of services (meaning that the assets may need to be retained in their current use). HM Treasury have issued an Exposure Draft proposing modifications to the FReM, to adapt IASs 16 and 38. These adaptations would require assets held for the provision of services should be valued on an existing use basis, using methods including depreciated replacement cost. Other assets and liabilities, such as surplus properties, would be valued in accordance with IFRS 13 where applicable. The accounts include assets that are currently valued using depreciated replacement cost. It seems likely that the Exposure Draft

would permit this approach to continue. It therefore seems likely that the implementation of IFRS 13 as adapted by the FReM will not have a material impact on the assets and liabilities recognised in these accounts;

IFRS 15 Revenue from Contracts with Customers is expected to come into effect from 1 January 2017, though it has not yet received EU endorsement. It requires the recognition of revenue as the performance obligations under the contracts are satisfied. Its implementation is expected to have no material impact on the Agency.

- The IASB has issued an exposure draft of a replacement to the existing leasing standard, which is expected to eliminate off-balance sheet leasing arrangements, and require recognition of a single right-of-use asset, measured at the present value of lease payments, with a matching liability. The pattern for recognition of the expenditure will depend on the type of leases: for most leases of property, the lessee will recognise expenditure on a straight-line basis; for most leases of other types of asset, the lessee's expenditure will reduce over the term of the lease. As the Agency currently occupy administrative properties under operating leases, this is likely to have an effect on the statement of financial position, but a more limited effect on the recognition of expenditure; and
- Other changes due to come in effect after 2014-15 are considered to have no impact on the Agency.

#### **d. Income**

The Agency is mainly funded from sales of services provided to the private sector and income is shown net of VAT where applicable. 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 income until the chargeable stage of the job is completed. Other revenue is received from the DfT, BIS and Defra for regulatory and compliance work. When any material invoice is raised after the year end relating to the prior year, but before the conclusion of audit, the accounts will be adjusted to ensure appropriate income recognition in the year of account.

#### **e. Non-Current Assets: Intangible assets**

##### **Capitalisation**

Intangible non-current assets, which are defined as non-financial assets that do not have physical substance but are identifiable and are controlled by the entity through custody or legal rights, are capitalised if they meet the following criteria;

- they are capable of being used for a period which exceeds one year, and
- they have a cost equal to or greater than £1,000 or
- they comprise applications software and licences with a cost of £1,000 or more.

Intangible non-current assets are amortised over 3-5 years.

Intangible non-current assets are stated at their cost, revalued to fair value using appropriate indices published by the Office for National Statistics and amortisation on such revalued amounts is provided on a straight line basis over the estimated useful lives of the assets.

#### **f. Non-Current Assets: Property, Plant & Equipment**

##### **Capitalisation**

Tangible non-current assets, which are defined as non-financial assets that have physical substance and are identifiable and are controlled by the entity through custody or legal rights, are capitalised if they meet the following criteria;

- they are capable of being used for a period which exceeds one year, and

- they have a cost equal to or greater than £1,000.

Plant & Equipment are stated at their cost, revalued 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. Property is subject to professional valuation at least every five years in accordance with RICS guidance. In the years between professional valuations the VCA Management Board reviews the valuation to ensure there has not been a material change. Depreciation is charged in the month of acquisition and not in the month of disposal. Estimated useful lives are

Plant and machinery	10 years
Furniture and fittings	10 years
Information technology and office equipment	3-5 years
Buildings	Buildings are depreciated over the lower of useful economic life or land lease period; land is not depreciated.
Transport equipment	4 years

#### **g. Notional Charges**

- i. **Audit Fee**  
The Vehicle Certification Agency is not charged a cash audit fee by the National Audit Office. A notional audit fee is charged to the statement of income based on the cost of the audit of the financial statements.
- ii. **Intra-Departmental Charges**  
The Agency includes in its accounts a notional charge for some of the services provided by the DfT, although this year a hard charge was made, due to structural changes within DfT.

#### **h. Inventories - Stocks and Work in Progress**

Work in progress represents costs incurred to the Statement of Financial Position date in respect of jobs on which a chargeable stage has not yet been reached. Jobs older than one year are reduced by a provision of 25% to allow that they may never be charged, whilst items older than three years are fully written off.

#### **i. Foreign Exchange**

Monetary assets and liabilities in foreign currencies are translated into sterling at rates ruling at the Statement of Financial Position date. Transactions in foreign currencies during the year are recorded in Sterling at the average rate of exchange ruling in the month of the transaction. The resulting exchange differences are taken to the statement of income.

#### **j. Leases**

All costs of operating leases are charged to the statement of income as they are incurred. At present there are no finance leases.

#### **k. Pension Costs**

Past and present employees are covered by the provisions of the Civil Service Pension Schemes which are described at Note 4. 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 employer's 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.

**i. Financial Assets and Liabilities**

The Agency classifies its financial assets under receivables.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and which are not classified as available for sale. Loans and receivables are recognised at fair value which is not materially different from the book value.

The Agency classifies its financial liabilities under payables.

Payables are non-derivative financial liabilities with fixed or determinable payments that are not quoted in an active market and which are not classified as available for sale. Payables are recognised at amortised cost.

**m. Early Retirement Costs**

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

**n. Holiday Pay**

An individual employee's holiday pay year commences from their start date under employee contracts of employment and as a consequence an accrual is required for the unused portion of that entitlement as at the year-end in accordance with IAS19.

**o. Cash and Cash Equivalents**

Cash and cash equivalents represent the balance of commercial cash held in banks and accounts held within the Government Banking Service.

**p. Provisions**

Provisions represent the balance of uncertain items and have been calculated using the best information available at the time of these accounts.

**q. Going Concern**

These accounts have been prepared on a 'going concern' basis as the Agency considers that this continues to be appropriate, on the basis that VCA has made a surplus in the year. For the 2015-16 financial year a deficit is predicted as a result of the loss of work previous carried out for BIS and Defra however, we are working to deliver plans to return VCA to surplus in the near future. The New Commercial Models competition was not successful in identifying a suitable joint venture, so VCA will continue to provide vehicle testing and certification services as an agency of the DfT for the foreseeable future. The department will consult with a wide range of stakeholders before considering any further proposals on the future of VCA

## 2. REVENUE

Revenue is derived entirely from continuing operations.

### a. Fees and Charges

The following information summarises the final report to the Agency's management team for the period ending 31 March 2015.

#### 2014-2015

	Financial Objective £'000	Full Cost £'000	Revenue £'000	Operating Surplus/ (Deficit) £'000
Product Certification	65	12,551	12,802	251
Management System				
Certification	-	2,016	2,141	125
Activities for Government	27	2,295	2,519	224
All other segments	8	916	851	(65)
<b>Total</b>	<b>100</b>	<b>17,778</b>	<b>18,313</b>	<b>535</b>

Surplus for the year as  
per statement of income

**535**

#### 2013-2014

	Financial Objective £'000	Full Cost £'000	Revenue £'000	Operating Surplus/ (Deficit) £'000
Product Certification	56	11,064	10,603	(461)
Management System				
Certification	23	1,896	1,917	21
Activities for Government	14	2,605	2,613	8
All other segments	4	1,031	952	(79)
<b>Total</b>	<b>100</b>	<b>16,596</b>	<b>16,085</b>	<b>(511)</b>

Surplus for the year as per  
statement of income

**(511)**

Activities for Government are analysed in the related party note (note 16) and account for 13.75% (2013-2014: 16.24%) of total turnover and therefore is regarded a major group of customers.

All other segments contain sales in relation to Dangerous Goods, Vista and Point of Sale licences.

## Note 2 (cont'd)

### b. Geographical Analysis by office

The Agency receives no funding from Central Government, deriving all of its income from services to Government Departments and External Customers.

	2014-2015				Total
	£'000 UK	£'000 Far East	£'000 Americas	£'000 China	£'000 Total
Turnover by geography	<u>12,002</u>	<u>1,842</u>	<u>2,417</u>	<u>2,052</u>	<u>18,313</u>

	2013-2014				Total
	£'000 UK	£'000 Far East	£'000 Americas	£'000 China	£'000 Total
Turnover by geography	<u>10,500</u>	<u>1,631</u>	<u>2,242</u>	<u>1,712</u>	<u>16,085</u>

The financial objective of each of the services is full recovery of service costs. Performance against objectives for MSC work reflects the difficult economic climate within the motor industry and the turnaround timeframe for reacting to changes within the sector. Sales in India and Italy are accounted for in the UK office whilst the Japan office covers the Asia Pacific region including Australia, Malaysia and Korea and the US office covers Brazil.

No customers make up more than 10% of total turnover.



### 3. COST OF SALES AND ADMINISTRATIVE EXPENSES

Cost of sales is defined as that expenditure which is directly related to a service being supplied to a specific third-party customer or market. This includes direct materials, labour and variable overheads to the extent that these relate specifically to turnover.

Administrative expenses includes all costs relating to the general management of the business, training, technical support, and any other costs not included under cost of sales

Cost of sales and administrative charges are further analysed by expenditure type as follows:

	Note	2014-2015 £'000	2013-2014 £'000
Staff costs	4	11,743	10,827
Travel and subsistence		1,821	1,470
Overseas operational expenses		1,433	1,732
Bad debt provision		35	(121)
Admin provisions	11	64	-
Accommodation		703	630
Computer running costs		570	549
Communications		165	189
Legal and consultancy		261	156
Realised exchange loss		45	23
Exchange (gain) / loss on translation		(248)	445
Training		84	70
Amortisation of intangible assets	6	239	216
Depreciation charges (net)	7	244	239
Loss on disposal of non-current assets		1	11
DfT charges		34	35
Audit fee		47	50
Other admin expenses		537	75
<b>Total cost of sales and administrative expenses</b>		<b>17,778</b>	<b>16,596</b>

### 4 STAFF NUMBERS AND RELATED COSTS

#### a. Staff Costs comprise

	2014-2015 £'000			2013-2014 £'000		
	Permanently employed staff	Others	Total	Permanently employed staff	Others	Total
Wages and salaries	6,496	-	6,496	6,365	-	6,365
Social security costs	518	-	518	563	-	563
Other pension costs (Note 3c)	1,063	-	1,063	1,014	-	1,014
Agency, temporary and contract staff	-	3,666	3,666	-	2,885	2,885
<b>Total net costs</b>	<b>8,077</b>	<b>3,666</b>	<b>11,743</b>	<b>7,942</b>	<b>2,885</b>	<b>10,827</b>

**b. Average number of full time equivalent employees**

	2014-2015 Number			2013-2014 Number		
	Permanently employed staff	Others	Total	Permanently employed staff	Others	Total
Senior management	9	2	11	11	-	11
Professional, technical & technical support	116	28	144	117	39	156
Administrative support	35	12	47	25	4	29
<b>Total</b>	<b>160</b>	<b>42</b>	<b>202</b>	<b>153</b>	<b>43</b>	<b>196</b>

Technical support staff are involved in fee-earning activities. Within the total for 'Others' there are 36 full-time equivalent locally engaged overseas staff. (2013-2014; 25).

**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 30 September 2007. 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 2014-2015, normal employer's contributions of £1,038,602 (2013-2014; £997,418) were payable to the PCSPS at one of four rates in the range 16.7% to 24.3% (2013-2014; 16.7% to 24.3%) of pensionable pay, based on salary bands. The Scheme Actuary reviews employer contributions every four years following a full scheme valuation. 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 2014-2015 payments of £24,369 (2013-2014; £16,224) were made to this scheme.

**5. NOTIONAL CHARGES**

	2014-2015 £'000	2013-2014 £'000
DfT on-costs	-	35
Audit fee	47	50
<b>Total</b>	<b>47</b>	<b>85</b>

DfT on-costs - These are included to reflect the cost of services provided by other units within the DfT. The amounts are calculated to reflect the full cost of providing these services to the Agency.

Audit fee - This is included for the annual audit of the Agency's Financial Statements by the Comptroller and Auditor General. The auditors received no remuneration for non audit services.

## 6. NON-CURRENT ASSETS: INTANGIBLE ASSETS

	Assets Under Construction £'000	Software Licences £'000	Software Applications £'000	Total £'000
<b>Cost or Valuation</b>				
As at 1 April 2014	-	125	1,394	1,519
Adjustment to opening values	-	-	-	-
Additions	-	3	211	214
Disposals	-	-	-	-
Reclassifications	-	-	-	-
Revaluations	-	1	22	23
<b>As at 31 March 2015</b>	<b>-</b>	<b>129</b>	<b>1,627</b>	<b>1,756</b>
<b>Amortisation</b>				
As at 1 April 2014	-	95	660	755
Charge for year	-	10	229	239
Disposals	-	-	-	-
Revaluations	-	-	9	9
<b>As at 31 March 2015</b>	<b>-</b>	<b>105</b>	<b>898</b>	<b>1,003</b>
<b>Net Book Value</b>				
<b>As at 31 March 2015</b>	<b>-</b>	<b>24</b>	<b>729</b>	<b>753</b>
As at 1 April 2014	-	30	734	764

	Assets Under Construction £'000	Software Licences £'000	Software Applications £'000	Total £'000
<b>Cost or Valuation</b>				
As at 1 April 2013	59	114	1,123	1,296
Adjustment to opening values	-	-	(10)	(10)
Additions	-	14	258	272
Disposals	-	-	-	-
Reclassifications	(59)	-	59	-
Revaluations	-	(3)	(36)	(39)
<b>As at 31 March 2014</b>	<b>-</b>	<b>125</b>	<b>1,394</b>	<b>1,519</b>
<b>Amortisation</b>				
As at 1 April 2013	-	77	479	556
Charge for year	-	20	196	216
Disposals	-	-	-	-
Revaluations	-	(2)	(15)	(17)
<b>As at 31 March 2014</b>	<b>-</b>	<b>95</b>	<b>660</b>	<b>755</b>
<b>Net Book Value</b>				
<b>As at 31 March 2014</b>	<b>-</b>	<b>30</b>	<b>734</b>	<b>764</b>
As at 1 April 2013	59	37	644	740

## **Note 6 (cont'd)**

Indexation is to the latest reliable indices in accordance with the requirements of the FReM. The indices used are obtained from the Office of National Statistics. 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 statement of income. In 2014-2015 the total amount taken to the statement of income as impairment in value was zero (2013-2014; £Nil). Any surpluses on revaluation are credited to the revaluation reserve unless they reverse previous impairments that were taken to the statement of income.

All intangible non-current assets have a finite life and are amortised over 3-5 years.

## 7. NON-CURRENT ASSETS: TANGIBLE ASSETS – PROPERTY, PLANT & EQUIPMENT

	Buildings	Transport Equipment	Furniture & Fittings	Information Technology and Office Equipment	Plant & Machinery	Total
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Cost or Valuation</b>						
As at 1 April 2014	906	93	308	935	515	2,757
Additions	-	20	7	72	132	231
Disposals	-	(17)	-	-	-	(17)
Reclassification	-	-	-	-	-	-
Revaluations	-	(1)	-	13	12	24
<b>As at 31 March 2015</b>	<b>906</b>	<b>95</b>	<b>315</b>	<b>1,020</b>	<b>659</b>	<b>2,995</b>
<b>Depreciation</b>						
As at 1 April 2014	85	38	178	587	271	1,159
Charge for year	45	10	18	121	50	244
Disposals	-	(7)	-	-	-	(7)
Revaluation	-	-	-	6	6	12
<b>As at 31 March 2015</b>	<b>130</b>	<b>41</b>	<b>196</b>	<b>714</b>	<b>327</b>	<b>1,408</b>
<b>Net Book Value As at 31 March 2015</b>	<b>776</b>	<b>54</b>	<b>119</b>	<b>306</b>	<b>331</b>	<b>1,587</b>
As at 1 April 2014	821	55	130	348	244	1,598
<b>Cost or Valuation</b>						
As at 1 April 2013	857	81	272	884	545	2,639
Additions	49	39	34	157	-	279
Disposals	-	(27)	-	(84)	(26)	(137)
Reclassification	-	-	-	-	-	-
Revaluation	-	-	2	(22)	(4)	(24)
As at 31 March 2014	906	93	308	935	515	2,757
<b>Depreciation</b>						
As at 1 April 2013	44	42	158	541	248	1,033
Charge for year	41	12	20	118	48	239
Disposals	-	(16)	-	(61)	(23)	(100)
Revaluation	-	-	-	(11)	(2)	(13)
As at 31 March 2014	85	38	178	587	271	1,159
<b>Net Book Value As at 31 March 2014</b>	<b>821</b>	<b>55</b>	<b>130</b>	<b>348</b>	<b>244</b>	<b>1,598</b>
As at 1 April 2013	813	39	114	343	297	1,606

## Note 7 (cont'd)

Tangible non-current assets are carried at fair value using indexation.

Indexation is to the latest reliable indices in accordance with the requirements of the FReM. The indices used are obtained from the Office of National Statistics. 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 statement of income. In 2014-2015 the total amount taken to the statement of income as impairment in value was £Nil (2013-2014; £ Nil). Any surpluses on revaluation are credited to the revaluation reserve unless they reverse previous impairments that were taken to the statement of income.

Non-dwelling land and buildings are carried at professional valuation on the basis of existing use value. The valuation was carried out as at 30 September 2008 by Insignia Richard Ellis, Chartered Surveyors in accordance with the RICS Valuation Standards. Although a valuation should have been carried out in September 2013 this was deferred with the New Commercial Model work.

### 8. TRADE AND OTHER RECEIVABLES

#### a. Analysis by Type

	At 31 March 2015 £'000	At 31 March 2014 £'000
Trade receivables	3,379	2,077
Other receivables	128	113
Prepayments	527	351
Accrued income	617	1,260
<b>Total</b>	<b>4,651</b>	<b>3,801</b>

The Agency has no receivables due after more than one year, except for salary advances of which £1,175 (2013-2014; £4,031) is due after one year.

#### b. Intra-Government Balances

	At 31 March 2015 £'000	At 31 March 2014 £'000
Balances with departmental bodies	410	486
Balances with other central government bodies	192	280
Balances with bodies external to government	4,049	3,035
<b>Total</b>	<b>4,651</b>	<b>3,801</b>

## 9. CASH AND CASH EQUIVALENTS

	At 31 March 2015 £'000	At 31 March 2014 £'000
GBS balance	236	1,232
UK current account	2,418	1,890
Cash in hand and at other banks	1,068	1,086
<b>Total</b>	<b><u>3,722</u></b>	<b><u>4,208</u></b>

## 10. TRADE AND OTHER PAYABLES

### a. Analysis by Type

	At 31 March 2015 £'000	At 31 March 2014 £'000
<b>Amounts falling due within one year</b>		
Trade payables	90	10
Other payables	531	501
Supply payables	4	-
Accruals	1,134	1,469
Deferred income	336	325
<b>Total amounts falling due within one year</b>	<b><u>2,095</u></b>	<b><u>2,305</u></b>
<b>Included in other payables are:</b>		
Deposits from manufacturers	<b><u>139</u></b>	<b><u>275</u></b>

The accruals balance at 31 March 2015 includes £254,252 (2013-2014; £376,840) in respect of VCA's March 2014 payroll cost due to DfT. Also included in accruals as at 31 March 2015 is the holiday pay accrual of £229,963 (2013-2014; £234,430) as required by IAS19. There are payables balances falling due after one year of £15,094 (2013-2014: £Nil).

### Amounts falling due after more than one year

	At 31 March 2015 £'000	At 31 March 2014 £'000
Supply payables	15	-
<b>Total amounts falling due after more than one year</b>	<b><u>15</u></b>	<b><u>-</u></b>

**b. Intra-Government Balances**

	<b>At 31 March 2015 £'000</b>	At 31 March 2014 £'000
<b>Balances with departmental bodies</b>	<b>60</b>	363
<b>Balances with other central government bodies</b>	-	-
<b>Balances with bodies external to government</b>	<b>2,050</b>	1,942
<b>Total</b>	<b>2,110</b>	2,305

**11. PROVISIONS**

	<b>Early Retirement £'000</b>	<b>Other Provisions £'000</b>	<b>Total £'000</b>
Balance at 1 April 2014	-	360	360
Provisions added in the year	-	64	64
Provisions utilised in the year	-	-	-
Provisions released in the year	-	-	-
Balance at 31 March 2015	<b>-</b>	<b>424</b>	<b>424</b>
Balance at 1 April 2013	18	360	378
Provisions added in the year	-	-	-
Provisions utilised in the year	-	-	-
Provisions released in the year	(18)	-	(18)
Balance at 31 March 2014	<b>0</b>	<b>360</b>	<b>360</b>

Other provisions consist of a dilapidation provision of £44,200 (2013-2014; £19,200) due after more than one year and other provisions of £379,783 (2013-2014; £340,295) are in relation to a provision to HMRC for overseas allowances. The provisions have been calculated in accordance with IAS 37 using 2014-2015 costs and current Government rates where applicable.

	<b>31 March 2015 £'000</b>	31 March 2014 £'000
<b>EXPIRING:</b>		
- within one year	<b>380</b>	341
- in second to fifth years inclusive	<b>44</b>	19
<b>Total</b>	<b>424</b>	360



## 12. RECONCILIATION OF REVALUATION RESERVE

For the year ended 31 March 2015

	Software Licenses	Software Applications	Transport Equipment	Furniture & Fittings	Information Technology and Office Equipment	Plant & Machinery	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
As at 1 April 2014	13	89	1	15	47	28	193
deficit on revaluation of non-current assets	1	22	(1)	-	13	12	47
Backlog depreciation of re-valued non-current assets	-	(9)	-	-	(6)	(6)	(21)
As at 31 March 2015	<b>14</b>	<b>102</b>	<b>-</b>	<b>15</b>	<b>54</b>	<b>34</b>	<b>219</b>

## RECONCILIATION OF REVALUATION RESERVE

For the year ended 31 March 2014

	Software Licenses	Software Applications	Transport Equipment	Furniture & Fittings	Information Technology and Office Equipment	Plant & Machinery	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
As at 1 April 2013	14	110	1	13	58	30	226
Surplus on revaluation of non-current assets	(3)	(36)	-	2	(22)	(4)	(63)
Backlog depreciation of re-valued non-current assets	2	15	-	-	11	2	30
As at 31 March 2014	<b>13</b>	<b>89</b>	<b>1</b>	<b>15</b>	<b>47</b>	<b>28</b>	<b>193</b>

## 13. CAPITAL COMMITMENTS

The Agency has capital commitments for intangible non-current assets of £17,100 (31 March 2014; £5,400) and property, plant & equipment of zero (31 March 2014; £Nil) as at 31 March 2015.

## 14. COMMITMENTS UNDER LEASES

The Agency has commitments for future minimum lease payments under non-cancellable operating leases as follows:

	31 March 2015	31 March 2014
	£'000	£'000 (Restated)
<b>EXPIRING:</b>		
Land and buildings - within one year	296	335
Land and buildings - in second to fifth years inclusive	368	393
Land and buildings - over five years	505	559
<b>Total</b>	<u>1,169</u>	<u>1,287</u>

Total rentals for 2014-2015 of £322,599(2013-2014; £333,084) were charged to the statement of income. At present there are no finance leases. The figures as at 31 March 2014 have been restated because of an error in the lease term of the proving ground at Lindley, Nuneaton and at the office in Leatherhead the terms of which were assigned to the wrong lease in the calculation of last year's figures.

## 15. CONTINGENT LIABILITIES

VCA carries contingent liabilities in respect of 3 issues which have been estimated at a total value of £361,000:

- 2 issues in respect of manufacturer claims against VCA approvals; and
- 1 issue in respect to pilot infraction proceedings taken by the EU Commission.

## 16. RELATED PARTY TRANSACTIONS

VCA is an executive agency of the DfT.

The DfT is regarded as a related party. During the year, VCA has had a number of material transactions with the Department. Income in 2014-2015 from the Department was £1,118,636 (2013-2014; £1,343,543). In addition VCA received sales income from BIS and Defra of £1,431,411 (2013-2014; £1,422,814). In addition, charges made to the VCA by the DfT amounted to £105,877 (2013-2014; £56,759) and other government departments £15,359 (2013-2014; £Nil).

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.

## 17. FINANCIAL INSTRUMENTS

### a. Nature and Extent of Risks arising from Financial Instruments.

VCA does in many respects face the same degree of exposure in respect of receivables that many commercial businesses do; however, it does not face the same level of financial risk in respect of loans as it holds only low risk salary advances with staff. In addition financial assets and liabilities generated by day-to-day operational activities are not linked to long term credit facilities. The short-term liquidity and interest rate risks are therefore slight.

Loans and receivables:	Note	At 31 March 2015 £'000	At 31 March 2014 £'000
Cash and cash equivalents	9	3,722	4,208
Trade receivables	8	3,379	2,077
Other Receivables	8	128	113
Accrued Income	8	617	1,260
<b>Total</b>		<b>7,846</b>	<b>7,658</b>

Financial Liabilities by category	Note	At 31 March 2015 £'000	At 31 March 2014 £'000
<b>Financial liabilities measured at amortised cost:-</b>			
Trade payables	10	90	10
VAT payable	10	-	-
Other payables	10	531	501
Accruals	10	1,134	1,469
<b>Total amounts falling due within one year</b>		<b>1,755</b>	<b>1,980</b>
<b>Included in other payables are:</b>			
Deposits from manufacturers		139	275

### b. Credit Risk

Credit risk is the risk of suffering financial loss, should any of the Agency's customers or counterparties fail to fulfil their contractual obligations to the Agency.

The majority of debtor balances with bodies external to government relate to balances with entities in the automotive industry for Product Certification and Management System Certification.

The Agency seeks to mitigate the risk of default from Receivables by maintaining Pre-fund Creditor accounts for customers purchasing Submacs (Individual Type Approval Certificates) and transferring the cash from the Creditor Account to the Debtor Account, as and when invoices are raised.

In the case of all other external debtor accounts, the customer is requested to complete an Agency Application Form providing two external trade references. Prior to providing the service credit checks are obtained from an External Agency by VCA's Credit Control Section which carries out the monitoring and chasing of outstanding balances on a regular basis as part of the Agency's credit control procedures.

## b. Credit Risk (cont'd)

The Agency has no significant prepayment arrangements in place. Extending credit and making prepayments places funds at risk, and therefore, stringent controls on the formal writing off of debts are required, to ensure that all effort is made to collect debts from the counterparty.

For the purposes of the Agency's disclosures regarding credit quality, its financial assets have been analysed as follows:-

Financial assets subject to credit risk		At 31 March 2015			
Note	Neither overdue nor individually impaired £'000	Overdue but not individually impaired £'000	Individually impaired £'000	Total carrying value £'000	
Cash and cash equivalents	9	3,722	-	-	3,722
Trade receivables	8	1,930	1,359	90	3,379
Other receivables	8	128	-	-	128
Accrued income	8	617	-	-	617
<b>Total</b>		<b>6,397</b>	<b>1,359</b>	<b>90</b>	<b>7,846</b>

The Agency has £354,526 intra-departmental account receivable balances included in Financial Assets and £192,127 with other Government departments. Assets subject to insolvency procedures or on an age basis against specific debts are overdue for payment by at least 180 days, across all the sales ledgers are fully provided.

### Financial assets that are overdue but not individually impaired

At 31 March 2015				
	Overdue 0-1 months £'000	Overdue 1-3 months £'000	Overdue over 3 months £'000	Total £'000
Trade receivables	683	586	90	1,359
<b>Total</b>	<b>683</b>	<b>586</b>	<b>90</b>	<b>1,359</b>

### Reconciliation of Bad Debt Provision

	2014-2015 £'000	2013-2014 £'000
Balance at 1 April 2014	184	316
UK additions / (reductions)	40	(35)
USA reductions	(1)	(92)
Japan reductions	(15)	(5)
Australia additions	1	-
<b>Balance at 31 March 2015</b>	<b>209</b>	<b>184</b>

### c. Liquidity Risk

Maturity of financial liabilities	Note	At 31 March 2015			Total £'000
		On Demand	Not more than 3 months	Over 3 months but not more than 1 year	
		£'000	£'000	£'000	
Trade payables	10	90	-	-	90
VAT	10	-	-	-	-
Other payables	10	531	-	-	531
Accruals	10	1,134	-	-	1,134
<b>Total</b>		<b>1,755</b>	<b>-</b>	<b>-</b>	<b>1,755</b>

This is the risk that the Agency is unable to meet its obligations when they fall due and to replace funds when they are withdrawn. As the Agency is a government organisation, this risk is thought to be negligible. Government manages liquidity by requiring departments to provide cash flow forecasts.

### d. Foreign Currency & Exchange Translation Risk

The Agency is subject to exposure on the translation of the assets and liabilities of its overseas operations into its reporting currency, sterling. The Agency's translation exposures on the Statement of Financial Position are to US dollar, Japanese yen, Australian dollar, Malaysian ringgit, Chinese renminbi, Brazilian real and the Euro. These exposures are kept under continuous review by management. The Agency's policy is to broadly match the currency of payables and receivables with the currency of cash flows arising from the Agency's underlying operations. Within this overall policy, the Agency aims to minimise all translation exposure where it is practicable and cost-effective to do so through matching currency assets with currency liabilities. At 31 March 2015 US dollars represent 17.14% of the total outstanding accounts receivables balance, Japanese yen 8.49% and Chinese renminbi 6.44%.

The Agency faces currency exposures arising from the translation of profits earned in foreign currency operations; these exposures are not normally hedged but the exposure to the Agency is not considered to be material.

## 18. EVENTS AFTER THE REPORTING PERIOD

There are no reportable adjusting events after the reporting period that are not reflected in the accounts above. The accounts were authorised for Issue (released to the Secretary of State to lay before Parliament) on 07 July 2015 by Paul Higgs as Interim Chief Executive and Agency Accounting Officer.