



Veterinary Laboratories Agency

ANNUAL REPORT AND ACCOUNTS 2006/2007

An Executive Agency of the
**Department for Environment, Food
& Rural Affairs (Defra)**

HC 563

Veterinary Laboratories Agency

An Executive Agency of the
Department for Environment, Food and Rural Affairs

ANNUAL REPORT AND ACCOUNTS 2006/2007

Presented in pursuance of the Government Resources and Accounts Act 2000, Section 7(2)

*Ordered by The House of Commons to be printed
18 June 2007*

LONDON: THE STATIONERY OFFICE

MISSION STATEMENT

**"We safeguard public and animal health through world class
veterinary research and surveillance."**



INVESTOR IN PEOPLE

© Crown Copyright 2007

The text in this document (excluding the Royal Arms and departmental logos) may be reproduced free of charge in any format or medium providing that it is reproduced accurately and not used in a misleading context. The material must be acknowledged as Crown copyright and the title of the document specified.

Any enquiries relating to the copyright in this document should be addressed to The Licensing Division, HMSO, St Clements House, 2-16 Colegate, Norwich NR3 1BQ.
Fax: 01603 723000 or e-mail: licensing@cabinet-office.x.gsi.gov.uk

Table of Contents

CHIEF EXECUTIVE'S REVIEW	1
DIRECTORS' REPORT.....	4
OPERATING AND FINANCIAL REVIEW.....	8
REMUNERATION REPORT	13
STATEMENT OF AGENCY'S AND CHIEF EXECUTIVE'S RESPONSIBILITIES.....	16
STATEMENT ON INTERNAL CONTROL	17
THE CERTIFICATE AND REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSE OF COMMONS.....	22
OPERATING COST STATEMENT	24
BALANCE SHEET	25
CASH FLOW STATEMENT	26
STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES	26
NOTES TO THE ACCOUNTS	27
ACCOUNTS DIRECTION GIVEN BY THE TREASURY	39
LOCATIONS	40

CHIEF EXECUTIVE'S REVIEW

I am pleased to be able to report a highly successful year for the Veterinary Laboratories Agency. As well as meeting all of our demanding Ministerial Targets for the year, we have responded rapidly and effectively to incidents of avian influenza and Newcastle disease in the UK, while maintaining our role for both diseases as an international reference laboratory. We have hosted 3 major international conferences – on avian influenza, BSE and mycoplasmas, and our collaborative activities with other scientific institutions at home and abroad have continued to grow and to yield significant benefits to the work of the VLA. We have also reinvigorated our commercial activities with the appointment of a programme manager and a talented support team, an area that will continue to grow during the year ahead. Nevertheless our principal goals remain focused on providing the highest quality veterinary research, disease surveillance, consultancy and laboratory-based testing services for the Government.

The year started on a busy note when, on the 6th April 2006, VLA confirmed that a sample from a dead Whooper swan in Cellardyke, Scotland, contained highly pathogenic H5N1 avian flu virus. Further investigation revealed that the virus was closely related to those from wild birds elsewhere in Europe, in particular those viruses isolated at Rugen Island, Germany.

Intensive surveillance in an 80km zone around Cellardyke failed to find any further evidence of avian influenza infection. The additional testing associated with this surveillance resulted in new procedures being implemented at VLA for surge capacity, in particular we instigated the use of robotic extraction systems for processing large numbers of samples from wild birds.

The identification of H5N1 in Cellardyke in April coincided with VLA hosting the 6th International Symposium on Avian Influenza at St John's College, Cambridge. Around 200 expert scientists came from across the world to discuss national and international issues on avian influenza. The confirmation of H5N1 on our shores during the conference definitely provided a buzz amongst the home contingency and general interest in our foreign colleagues.

H5N1 was again confirmed at the beginning of February 2007 at a turkey farm in Suffolk. Rapid molecular analysis of the viruses revealed a very high similarity between the viruses found in Suffolk and recent Hungarian outbreaks. The incident coincided with the full commissioning of our new avian influenza high containment laboratory at Weybridge, which greatly increases our resilience for dealing with major outbreaks of influenza or Newcastle disease in birds, and also gives enhanced and high quality facilities for our expanding research programme in this area.

Avian influenza typifies the importance we attach to international collaborations. These bring both scientific benefits from dialogue with scientists elsewhere working on related topics, as well as giving us access to diseases exotic to the UK, in countries where their prevalence is higher. Good examples of this are provided by contagious agalactia and brucellosis where a memorandum of understanding has been signed with the Zooprohylactic Experimental Institute in Sicily. We have also gained designation as an international reference laboratory for contagious agalactia by the World Organisation for Animal Health (OIE). In the case of tuberculosis, funding from the Wellcome Trust Livestock Initiative continues with Institutes in Ethiopia and Kenya, together with co-collaborators at Imperial College, London, Trinity College, Dublin and the Swiss Tropical Institute.

A new collaborative agreement was also signed with the National Veterinary Research and Quarantine Services for Prion Diseases in the Republic of Korea (S Korea). This will facilitate exchange of staff between the two organisations as well as sharing information and technology. This highlights VLA's continuing key role as a global centre of expertise for Transmissible Spongiform Encephalopathies, exemplified by our hosting of the International Conference on Prion Diseases of Domestic Livestock in May 2006. The conference illustrated how much progress had been made on understanding and controlling the disease since the first discovery of BSE in 1986, progress to which VLA has been a major contributor. The conference also reflected on the challenges for the future. One such challenge is to clarify the relevance and importance of "atypical" forms of bovine spongiform encephalopathy, which was identified in the UK for the first time in March 2007 from a retrospective examination by VLA of a case from 2005.

National collaborations have not been neglected. The Interlaboratories Forum is a collaborative agreement between six Public Sector Research Establishments (PSREs) from across Government. Acting for the best interest of the public, the agreement promotes knowledge sharing across the PSREs and this year in particular brought together the expertise from VLA's radiochemists with those in the Health Protection Agency (HPA) and the Centre for Environment, Fisheries and Aquaculture Science (CEFAS), to tackle the Alexander Litvinenko poisoning investigation. Success for our Radiochemistry Unit continued with them winning a competitive tender, run by the Food Standards Agency (FSA), for a five year contract for radiochemical analysis of terrestrial samples.

The VLA's surveillance systems have continued to be strengthened in support of national animal health control policies. The successful validation of the gamma interferon test for bovine tuberculosis at VLA has brought another dimension to the approach to TB disease control. High volume testing facilities have been established at VLA Luddington and VLA Sutton Bonington. Concurrently, the VLA's laboratory information management system (LIMS) has continued to be developed and extended to support high volume laboratory testing, not only for gamma interferon, but also in other priority areas including scrapie and avian influenza.

Our drive to increase work for the commercial sector is proving particularly fruitful. Separate agreements have been signed with two companies to allow real time PCR assays developed and validated at VLA to be sold commercially.

We continue to focus strongly on the personal development of all our staff, as recognised by retention of the Investors in People Standard. Our ISO-14001 certification for environmental standards was successfully extended to our regional laboratories network, building on last year's success at the Weybridge site.

Looking ahead, following the outcome of the Options Appraisal Study on the relationship between VLA and the Institute of Animal Health (IAH) we are committed to a much closer collaboration between the two institutions, which will include taking forward the redevelopment of virology facilities for both organisations at the Pirbright campus. Also in 2007 we will be subject to an independent audit of all VLA science as part of a five-year cycle to ensure the quality of the science produced by the Defra agencies.

Professor Steven Edwards
Chief Executive and Agency Accounting Officer

24th May 2007

DIRECTORS' REPORT
For the year ended 31 March 2007

TREASURY DIRECTION

The accounts have been prepared in accordance with a direction issued by the Treasury in accordance with section 7(2) of the Government Resources and Accounts Act 2000.

BACKGROUND INFORMATION

The Veterinary Laboratories Agency (VLA) became an Executive Agency of the Ministry of Agriculture, Fisheries and Food (MAFF) with effect from 2 April 1990, under the then title of Central Veterinary Laboratory (CVL). Prior to this date the Laboratory formed part of the State Veterinary Service within the Ministry.

On 1 October 1995 CVL combined with the Veterinary Investigation Service in England and Wales, (until then a part of the Ministry), to form an enlarged Agency under the new name of The Veterinary Laboratories Agency.

In 2001 the Government created The Department for Environment, Food and Rural Affairs (Defra), which incorporated all functions of the former MAFF together with other bodies.

The main premises are near Weybridge in Surrey. There are also fifteen regional laboratories located throughout England, Wales and Scotland.

PRINCIPAL ACTIVITIES

The principal activities of the Veterinary Laboratories Agency are to:

- (a) Provide the Department with an effective source of specialist scientific and technical expertise in the field of animal and public health;
- (b) Deliver specialised diagnostic, research and advisory services and products as required by the Department in pursuit of its statutory and policy objectives in the animal and public health sector; and
- (c) Deliver such services and products to other public and private sector organisations on a commercial basis, to help maintain and develop its efficiency and expertise.

MANAGEMENT STRUCTURE

VLA Management Board

The Strategy Management Group (SMG) performs this function and comprises the following members:

Prof. S. Edwards	Chief Executive
Mr. R. Hancock	Veterinary Director
Mr. C. Morrey	Business Director
Prof. J. Morris	Director of Science Strategy (until 31 st March 2007)
Prof. C. Thorns	Director of Specialist Scientific Services
Prof. J. Preston	External Member (from 1st April 2007)

VLA Ownership Board

The Ownership Board was established in March 2006 as a top-level governance body, set up at the direction of the Secretary of State to oversee the activities of the VLA. The role of the Board is to advise the Minister on all policy and operational matters relating to the Agency and to monitor on behalf of the Minister, the Defra Management Board and the Devolved Administrations, the performance, efficiency and financial and managerial regularity of the Agency.

Membership of the Board during the year was as follows:

Prof. D. Smith	Chairman, External Member
Prof. U. Kihm	External Member
Prof. J. Preston	External Member
Prof. C. J. Gaskell	External Member
Prof. S. Edwards	Chief Executive, VLA
Mr. A. Burchell	Chief Operating Officer, Defra
Dr. D. Reynolds	Chief Veterinary Officer, Defra
Mr. I. Grattidge	Finance Director, Defra
Mr. J. Lowi	Defra Delivery Strategy Team
Mr. A. Robinson	Defra Laboratory Strategy Team

It is Defra policy that each executive agency has a corporate owner accountable to the Defra Management Board for managing the ownership relationship with the agency, for the VLA this is the Chief Veterinary Officer. The above Ownership Board structure did not meet the requirements of this model and is to be replaced in 2007 by a VLA Owners Advisory Board. Its remit will be to advise the corporate owner on: the strategic direction for the VLA, setting targets and business plans, reviewing performance, challenging the agency on continuous improvement and setting the level of oversight consistent with capacity and risk. At the time of writing the membership has not been finalised but provisional membership is as follows:

Dr. D. Reynolds	Chairman, Chief Veterinary Officer, Defra
Prof. D. Smith	External Member
Prof. C.J. Gaskell	External Member
Prof. S. Edwards	Chief Executive, VLA
Mr. A. Burchell	DG Service Transformation Group, Defra
Dr. A. Grocock	External Member

CUSTOMER INCOME

In the year Defra placed work with the Agency, which accounted for 89% of its total revenue (2005/2006, 89%). The Agency continues to seek income from other sources, whilst retaining a special relationship with the Department.

R&D ACTIVITIES

The research and development work of the Agency underpins the activities of Defra's Animal and Health & Welfare Directorate General in the control of animal diseases of statutory or public health significance: such commissioned work for Defra amounted to 22% of the total income from Defra in the year (2005/2006, 20%).

AUDIT SERVICES

The provision of Internal Audit was supplied by Bentley Jennison. The External Auditor is the Comptroller and Auditor General. No remuneration was paid to the External Auditor in respect of non-audit work.

The Accounting Officer has taken all steps considered necessary to ensure that he is aware of any relevant audit information and to establish that the External Auditors are also aware of that information. As far as the Accounting Officer is aware there is no relevant audit information of which the External Auditors are unaware.

PAYMENT POLICY

VLA policy is to settle all creditors' accounts within creditors' own payment terms and conditions. During the financial year the VLA paid 97% of bills by the due date (2005/2006, 97%).

DISABLED PERSONS POLICY

The Laboratory has its own Disabled Persons Officer who has responsibilities for the Civil Service Code of Practice on the employment of people with disabilities. All posts at the Laboratory are open to people with disabilities and recruitment advertisements carry an equal opportunity statement and the official disability symbol. The VLA aims to retain staff who become disabled whilst in employment, either in their existing post or in alternative suitable work.

COMMUNICATION

Effective communication is considered essential for the development of VLA. The Agency is committed to continuous improvement in communication to all members of staff, which will include consulting wherever possible with staff in the decision-making process. Newsletters, team briefings which will include an assessment of the economic and financial factors facing the Agency, an Agency intranet and workshops complement the long established channels of communication.

Regular audits are used to monitor their effectiveness and drive improvements. The National and Departmental agreements on consultation procedures have been maintained.

PENSIONS

All staff are eligible for membership of the Principal Civil Service Pension Scheme (PCSPS). An outline of the scheme is included in the Remuneration Report and details of how pension liabilities are treated can be found in accounting policy (i).

OPERATING AND FINANCIAL REVIEW

AIMS AND OBJECTIVES

Aims

The aim of the VLA is to provide the Department with an effective and efficient service of specialist veterinary, scientific and technical support, consultancy and surveillance in the fields of animal health and welfare (including public health), food safety and the environment.

Objectives

The Agency's principal objectives are to:

- i. Carry out research, surveillance and disease investigation, and provide services to the highest scientific and ethical standard implementing and maintaining appropriate rigorous quality control procedures;
- ii. Provide its services economically, effectively and efficiently;
- iii. Maintain appropriate scientific expertise and facilities at the level required to provide consultancy, surveillance and scientific services to Departmental customers;
- iv. Improve the quality and effectiveness of services to the Department by carrying out research that maintains and develops the Agency's technical capability and develops new technologies;
- v. Apply the principles of Service First in particular, to maintain or to improve the quality of services to customers; and
- vi. Achieve annual financial, efficiency and quality service targets set by the Minister.

Financial Performance

The Agency is required to recover its full economic costs within the permitted 2% tolerance range through charges for services it provides to Defra and other public and private sector customers. In assessing performance against this target VLA excludes early retirement costs and other exceptional items but includes notional insurance premiums (see note 2 to the accounts).

This objective was achieved in 2006/2007. During the year VLA generated sales amounting to £110,904,000 (2005/2006, £107,350,000) against costs of £111,379,000 (2005/2006, £106,301,000) to give a deficit of £475,000 (2005/2006, surplus £1,049,000).

Included within VLA's costs is a capital charge of £23,551,000 (2005/2006, £22,928,000) comprising notional interest, depreciation, impairment on buildings to be demolished and downward asset revaluations.

Service Performance and Quality Targets

Our targets are set within the context of the four key areas of VLA and its operations namely: service delivery, quality, safety and efficiency. We provide the base data to enable verification of performance to be made by Defra's Internal Audit Division who provide an independent assessment to Defra. This statement has their approval.

Service delivery is a vital aspect of meeting customers' requirements and ensuring that we continue to obtain further work from them. We have three targets within this heading:

- **Achieve 85% of ROAME R&D milestones.**

This refers to the work we undertake on research projects for Defra and is an agreed performance measure with them. It relates to meeting the agreed milestones on the projects we undertake for them during the year, i.e. interim and final reports, and is set at project initiation stage. The customer must agree any variation to original timescale. We monitor performance in year within the VLA's Business Division and provide regular reports on progress to both Defra and internally through our milestone tracking system. To achieve an outcome based measure, we discussed this with our customer and have now included a specific question in our customer satisfaction survey to address this.

This target was met in each of the last 3 financial years.

- **Achieve 85% of Surveillance deliverables on time.**

This is similar to the above except that it relates to our surveillance work and covers a much broader range of outputs. Our surveillance work is made up of numerous projects undertaken for a number of different customers within Defra Food and Farming Group. Deliverables on projects are varied and can be a monthly report or less frequent, depending upon the nature of the individual project. During 2004/05 we established a monitoring system to enable us to track these deliverables and set the baseline to be achieved in future years. We monitor and report progress in a similar manner to the above.

This target was met in each of the last 3 financial years.

- **Achieve a score of at least 80% (75% prior to 2006/07) in the customer satisfaction survey**

Each year we send out a questionnaire to our main government customers, Defra and the FSA who account for over 90% of our work, asking them to score our performance against a number of set questions in relation to projects we have undertaken for them. Projects are selected across our programmes and relate to those completed during the year. The questionnaires and the comments received back allow us to identify trends (good and bad) and lessons to be learned. This process is managed within the Business Division and the results of the consolidated returns are then calculated to give an overall satisfaction score based on a weighting of individual project values. The report is circulated to SMG and the Programme Managers who are required to produce an action plan in response to any issues raised in their area.

This target was met in each of the last 3 financial years.

Quality is central to all that we do and having independent third party certification and accreditation for our work gives our customers reassurance in placing work with us. It also ensures that we foster an environment of continual improvement in all that we do. We had two targets in this area:

- **Maintain current third party quality accreditations.**

We already have achieved a range of formal external standards such as ISO9001 across the Agency, Good Laboratory Practice, Good Manufacturing Practice, Investors in People and ISO17025 in different areas of our operations. An important measure of demonstrating our commitment to quality is that these are maintained. They are subject to regular audit and inspection and maintaining them is a challenging target.

This target was met in each of the last 3 financial years.

- **Achieve ISO14001 for the regional laboratories.**

Having achieved ISO14001, the environmental quality standard, for our headquarters site in 2005 we took the decision to extend compliance across our laboratory network. However, constraints on available external audit time made it impossible to cover all our sites. It was therefore agreed with Defra that we would seek Corporate Certification which would be based on a sample of our regional laboratories. This was successful and we have a rolling programme in place for future years for those laboratories that were not audited in 2006/07 to ensure we maintain compliance.

This target was met in 2006/07.

Safety is a matter we take very seriously as the nature of our work can involve working with a range of hazardous materials in laboratory conditions and also animal handling in some parts of our operations. Therefore ensuring our employees operate in a safe working environment and are not exposed to preventable harm is a key target. As a measure of achieving this we put in place a Safety Plan for the year that laid out a number of activities in the areas of training, communications, commissioning and design of accommodation, regular safety inspections and review of our Health & Safety policy. Responsibility for implementation resides with the VLA Safety Manager who produced a status report at the end of the year which was submitted to the VLA Safety Committee for approval and who at the same time approved next year's plan.

This target was met in each of the last 3 financial years.

Efficiency savings are required by Defra from all its Agencies and NDPBs as part of its response to the Gershon Efficiency agenda. We are playing our part in this by seeking to achieve an annual 2.5% reduction in our expenditure over the next 3 years compared to the baseline set as 2004/5. The baseline has been agreed with the Defra unit managing this process and it takes into account non operational accounting adjustments such as write downs and some pass through items of expenditure over which we have no control. The data for validating this target is produced from our accounting system and progress is discussed regularly with Defra. The final year for this target will be 2007/08.

This target was met in 2005/06 and 2006/07.

Risk Policy

Risk management is the key internal control within VLA and the policies are subject to regular review by VLA's Management Board and the Audit and Risk Committee. Full details of the risk environment within VLA are detailed in Section 4 of the Statement on Internal Control.

Land and Buildings

The premises occupied by the VLA comprise a main Laboratory site of 15 hectares near Weybridge, Surrey, with adjacent grassland and farm buildings of 75 hectares; a farm unit of 50 hectares within eight miles of the main Laboratory; and 15 Regional Laboratories throughout England, Scotland and Wales. There is an ongoing redevelopment programme at the Weybridge site and during the year £14.8m. of buildings under construction were completed and transferred into use.

Environment Policy and Achievement

Sustainable development is integral to the way VLA works, as demonstrated through our policies, our operations and our commitment to both staff and the wider community. VLA has an ISO14001 accredited Environmental Management System, an "Environmental Policy" and a detailed Environmental Management Programme. VLA has designed its approach to be consistent with the UK Sustainable Development Strategy 'Securing the Future' shared UK principles for sustainable development which are:

- Using sound science responsibly
- Promoting good governance
- Ensuring a strong, healthy and just society
- Achieving a sustainable economy
- Living within environmental limits

VLA has clearly defined responsibilities for sustainable development and the monitoring and reporting of our performance will be included in annual reports. We will also integrate sustainable development into all our policy making and procedure setting.

VLA achieved ISO14001 certification for the Weybridge site in 2005 and corporate certification in 2007 based on a sample of the Regional Laboratories.

Recruitment

The VLA has systems in place to ensure that recruitment is carried out on the basis of fair and open competition and selection on merit and, in accordance with the Recruitment Code laid down by the Civil Service Commissioners, they are subject to internal check. Details are available on the VLA website.

Employment of Disabled Persons

VLA follows the Civil Service Code of Practice in the employment of disabled people. The aim is to ensure that there is no discrimination on the grounds of disability and that employment and career progression is based solely on ability. The VLA ensures that disabled job applicants are guaranteed an interview if they meet the minimum qualifications for the advertised post. Its policies and procedures meet the requirements of the disability Two Ticks standard. The number of disabled persons employed by VLA at 31 March 2007 was 107.

Diversity and Equality

The VLA operates a policy of equality of opportunity regardless of race, age, marital status, religious beliefs, sexual orientation, disability or ethnicity. All staff are encouraged to develop themselves within their post and progress to higher levels if they wish to do so. Progression is through fair and open competition and is based on merit. The VLA has published equality schemes as required by legislation and staff have access to the various Defra networks such as staff part time and disability networks. A Welfare Officer has been appointed and they also have access to Harassment Officers and Trade Union Representatives as well as Personnel should they wish to discuss any issues. There is an Agency Equal Opportunities Officer and a Diversity Champion.

Employee Involvement

The VLA aims to have a workforce able and capable of meeting its aims and objectives and to have the necessary skills and expertise to achieve these goals. Staff are encouraged to become involved and to develop using the wide range of learning and development methods available to them. They participate in staff surveys, have been involved in the development of the Equality Schemes, can attend the senior management group meetings, be members of a union and be represented by the VLA Trade Union Side (TUS). Twice yearly Whitley meetings are held between senior management and the TUS as well as other more informal meetings to discuss policies and issues raised by staff.

There are 'Have Your Say' staff surveys with action plans to implement areas requiring improvement.

The VLA was awarded the Investor in People standard in December 1999 and since then it has maintained the standard against ever more challenging criteria. This is reflected in the opportunities available to staff to develop themselves in line with the business need.

REMUNERATION REPORT

Remuneration Policy

The remuneration of senior civil servants is set by the Prime Minister following independent advice from the Review Body on Senior Salaries.

In reaching its recommendations, the Review Body is to have 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.ome.uk.com.

Service Contracts

Civil service appointments are made in accordance with the Civil Service Commissioners' Recruitment Code, which requires appointment to be made on merit on the basis of fair and open competition but also includes the circumstances when appointments may otherwise be made.

The officials covered by this report hold appointments which are open-ended until they reach the normal retiring age of 65 although they have the option to retire at 60. 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 Commissioners can be found at www.civilservicecommissioners.gov.uk.

The salary and pension entitlements of the most senior managers were as follows (audited):

	Salary, including performance pay [2005/2006] (£k)	Real increase in pension and lump sum at age 60 (£k)	Total accrued pension at age 60 at 31/3/07 and related lump sum (£k)	CETV at 31/3/06 (£k)	CETV at 31/3/07 (£k)	Real increase in CETV as funded by employer (£k)
Prof S Edwards	95-100[90-95]	3	115	642	688	17
Mr R D Hancock	75-80[75-80]	4	82	359	387	17
Mr D C Morrey	80-85[65-70]	4	29	121	146	15
Prof. J Morris	45-50[50-55]	(3)	143	829	850	(15)
Prof C J Thorns	65-70[65-70]	1	123	636	662	2

Salaries include gross salaries, performance pay or bonuses; overtime; reserved rights to London weighting or London allowances; recruitment and retention allowances; private office allowances and any other allowance to the extent that it is subject to UK taxation. There were no benefits in kind (2005/ 2006 – nil).

The members of the Ownership Board with the exception of Prof S Edwards are either Defra employees which bears their direct costs or non-Defra external members whereby Defra pays expenses for their attendance at the meetings.

Appointment of the Agency's Chief Executive is by open competition. The appointment is fixed term for a period of five years. This term elapsed in June 2005 and the appointment was renewed for three years from 9th March 2005. The appointment may be terminated subject to normal employment law considerations. The Chief Executive is a member of the Senior Civil Service and his remuneration is based upon SCS salary scales; he is entitled to a bonus based upon achievement of the Agency's targets. This is subject to external validation by Defra's Internal Audit Division who undertake a full audit.

The Chief Executive's gross cost of employment in 2006/2007 including superannuation benefit, employer's NI contributions, bonus and a taxable allowance was £129,489 (2005/2006 £125,518). The Chief Executive is a member of the Classic Pension Scheme.

Civil Service Pensions (CSP)

Pension benefits are provided through the CSP arrangements. From 1 October 2002, civil servants may be in one of three statutory based 'final salary' defined benefit schemes (Classic, Premium and Classic Plus). The schemes are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under Classic, Premium and Classic Plus are increased annually in line with changes in the Retail Prices Index. New entrants after 1 October 2002 may choose between membership of Premium or joining a good quality 'money purchase' stakeholder arrangement with a significant employer contribution (Partnership Pension Account).

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

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. 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 benefit cover (death in service and ill health retirement).

Further details about the CSP arrangements can be found at the website www.civilservice-pensions.gov.uk.

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 spouses' 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 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 the disclosure applies. The CETV figures, and from 2003-04 the other pension details, include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the CSP arrangements and for which the CS Vote has received a transfer payment commensurate to the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

Real Increase in CETV

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

Professor Steven Edwards

Chief Executive and Agency Accounting Officer

24th May 2007

STATEMENT OF AGENCY'S AND CHIEF EXECUTIVE'S RESPONSIBILITIES

Under section 7(2) of the Government Resources and Accounts Act 2000 the Treasury has directed the Veterinary Laboratories Agency to prepare a statement of accounts for each financial year in the form and on the basis set out in the accounts direction on page 39. The accounts are prepared on an accruals basis and must give a true and fair view of the Agency's state of affairs at the year-end and of its income and expenditure, total recognised gains and losses and cash flows for the financial year.

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

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

The Accounting Officer of the Department for Environment, Food and Rural Affairs has designated the Chief Executive of the Veterinary Laboratories 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 Veterinary Laboratories Agency's assets, are set out in the Accounting Officers' Memorandum issued by the Treasury and published in Government Accounting.

STATEMENT ON INTERNAL CONTROL

1. SCOPE OF RESPONSIBILITY

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

I ensure that the Defra Permanent Secretary, the Principal Accounting Officer for the Department, is aware of the main risks managed by the Agency through regular reporting of the ten highest risks. Additionally I ensure that the Agency's business plans which are submitted to, and approved by, Ministers include sections on risk.

I am accountable to the Department's Principal Accounting Officer for enabling her to discharge her overall responsibility in respect of ensuring that the Agency, as part of Defra, has adequate financial systems and procedures in place.

2. THE PURPOSE OF THE SYSTEM OF INTERNAL CONTROL

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Agency policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in the Agency for the year ended 31 March 2007 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

3. CAPACITY TO HANDLE RISK

Risk Management is recognised as the key internal control. The framework for its effective operation in VLA is the responsibility of the Business Director on behalf of the Accounting Officer. Regular reports are made to VLA's Management Board, the Strategy Management Group (SMG) and to the Audit & Risk Committee where effectiveness of the processes in place are assessed. Further advice on the application of risk management is sought through participation at the Defra Risk Forum. A sub-committee of the SMG, the Risk Management Steering Group is in place to ensure a consistent approach is followed and give guidance on any issues arising from the risk registers.

Guidance to staff on risk is available in the VLA Risk Management Strategy document and this together with further information on risk can be accessed on the local Intranet.

4. THE RISK ENVIRONMENT

Governance

The management structure and accountability of the VLA Board and Executive (SMG) is detailed on page 5. A register of the Directors (SMG in this instance) is maintained and reviewed annually. Support to the management structure is provided for Internal Control purposes through the Audit & Risk Committee (A&RC) which is chaired by an external member. Representatives from Internal and External Audit attend the A&RC to present and receive reports on risk and controls within the Agency. In addition Internal Audit gives an opinion on the control, risk and governance environment. The Committee's terms of reference and minutes of meetings are available to staff on our intranet. In addition the SMG has established a number of advisory sub-committees covering the areas of Safety, Quality, IT and Risk all of which are chaired by an SMG member.

Programme and Project Management

Programme and Project Management is a key element of the activities of the VLA. Our work is delivered through the following programmes; Statutory & Exotic Bacterial Diseases, Transmissible Spongiform Encephalopathy, Food & Environmental Safety, Statutory & Exotic Viral Diseases, Emerging Diseases & Welfare, International Trade and Commercial. The programmes are made up of a portfolio of projects and our income is dependent on these being successfully delivered. The controls we have in place to manage this process include:

- Each project has a project leader and we have in place published standard operating procedures for project management which include requirements for project initiation documents, planning, risk assessments, delivery, final reports etc and are available on our Intranet.
- We have an established set of training courses for new project managers and regularly review the content and appropriateness of these courses.
- Work programme performance is reviewed regularly through the year at meetings held with the programme managers and members of the SMG.
- Targets of performance are in place covering delivery of projects and these are ministerial targets and can be found on pages 8-10.
- We undertake each year a customer satisfaction survey based on a cross section of projects delivered and put in place action plans in response to any issues raised in the feedback.
- All project work is undertaken to the quality standard ISO9001 and is subject to independent external review.

In addition to our work programmes the major site redevelopment construction project at our main site at Weybridge is controlled by a project board including all the Directors and operates within the OGC Gateway Review Framework. Furthermore the co-location project of our Virology Department to the IAH site at Pirbright also operates through the same process.

Risk Management

In the Agency the main processes which we have in place for identifying, evaluating and managing risk are:

- The Agency has in place Corporate and Divisional risk registers owned by members of the SMG
- Risk is an open standing agenda item at Divisional Management and Team meetings
- Each quarter a written report on the top risks in the VLA Risk Register is prepared by the risk owners and forwarded to the Business Director who acts as the risk co-ordinator
- Each quarter the Divisional Directors review their risk register, update accordingly and forward to the Business Director
- A full quarterly review is undertaken at SMG based on the consolidated report from the Business Director where the individual risk ratings are reviewed and any additional actions identified
- Every month at the SMG Performance meeting, risk is a standing agenda item where there is the opportunity to discuss any new and emerging risks
- At each meeting the Audit and Risk Committee receive a report from the Business Director on the operation of the Risk Management Framework within the Agency
- A complete review of the corporate risk register was undertaken in January 2007 utilising a zero based approach. A new register of risks was signed off at the March SMG Performance Meeting
- The top risk priorities currently identified are in the areas of customer requirements, overall financing, flexible workforce and efficiency savings.

Our management of risk is embedded in planning and delivery by ensuring that:

- Directors promote risk management at Team meetings
- Risk Management is included in the Induction Course for new entrants
- The risk management strategy, framework and risk registers are available on the IntraVet site
- Risk is an accepted principle and requirement for major capital investment, strategic plans and projects, which must have a risk register in place
- Objective setting is linked to risk, as risk owners will have personal objectives to manage their risk area.

Strategy and Planning

We have in place a well established business planning process whereby each year we review and publish our Corporate Plan and produce an Annual Business Plan. These plans detail the strategic direction for the Agency, the issues we face, the Agency targets, the corporate risk register and the balanced scorecard. In producing these plans we consult with our senior staff and the TUS. These documents are routed through a challenge process managed by Defra's Delivery Strategy Team, agreed by the Ownership Board and finally approved by the Minister. Details of these targets can be found on pages 8-10.

The plans once approved then form the basis for target and objective setting throughout the organisation.

To improve the awareness of our staff of our plans we publish them on our intranet and also make available a shortened summary document for ease of reference.

Performance Management

Our performance management framework has been established through our strategic and business planning process. The Annual Business Plan provides the detail on the measures of performance for the year. Monitoring of our performance takes place through the following methods:

- We publish a composite corporate balanced scorecard that not only includes our Ministerial Targets but also itemises our internal targets and measures of performance. This is the prime performance management tool utilised. Responsibility for the achievement of the individual scorecard measures are assigned to individual Directors.
- Reviews of performance take place monthly at SMG meetings where a set agenda is followed and progress against each of the measures is discussed. Measures are added/amended throughout the year as part of the review process.
- Information on performance against the various measures is made available to our staff throughout the year on our intranet site, we use a “traffic light” system for ease of recognition of items where performance is off course . The scorecard is cascaded to the operating divisions of the VLA which detail how each division will contribute to the achievement of the corporate measures referred to above. At the monthly divisional management meetings a review takes place and the results are published and made available to all staff.
- The cascaded scorecards form the basis for setting staff objectives for the year thereby forming a direct linkage of objectives and the scorecard measures.
- We encourage strong performance through our pay and reward mechanism which includes an differential element of pay related to performance. We also have rewards schemes in place to recognise good team performance.

5. REVIEW OF EFFECTIVENESS

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the Directors within the Agency who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. The Agency has established the following processes to maintain internal control:

- The local management board (SMG) meets monthly to consider operational performance and quarterly in relation to strategic and medium term issues affecting the direction of the Agency compared to its plan.

- Progress on achievement of the ministerial targets is reported to the VLA Ownership Board. The Chief Executive has line responsibility to the Defra Chief Operating Officer and regular meetings are held during the year to discuss the Agency's progress against its objectives. With effect from the 1st April 2007 line responsibility will be changed to Defra's Chief Veterinary Officer.
- A balanced scorecard is the main internal measurement of performance and is operated in conjunction with the risk register which is reviewed by SMG monthly. This scorecard forms the basis for work objective setting and is cascaded throughout the Agency.
- The Audit & Risk Committee meets at least three times a year to consider the effectiveness of VLA's response to audit reports and its risk management framework.
- Risk Management is a scorecard objective for the Business Director who is the nominated Risk Co-ordinator.
- All risks identified in the Corporate and Divisional risk register have a risk owner responsible for control and mitigation.
- The risk register was subjected to a major review in January 2007 and a revised register of risks was produced.
- To ensure that the risk of fraud is properly managed there is a Fraud Management Policy together with a specific risk register. A small team has been established, chaired by the Business Director, to manage and review the process.
- Internal audit services are provided by Bentley Jennison, an independent company which operates to Government internal audit standards. Each year an Audit Strategy for the coming year is approved by the A&RC together with the Annual Plan. They submit regular reports, which include an independent opinion on the adequacy and effectiveness of the Agency's system of internal control together with recommendations for improvement.

During the year ISO9001 certification was maintained across the whole range of the Agency's activities thus providing further assurance on the business processes in operation.

I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Management Board and the Audit and Risk Committee.

Professor Steven Edwards

Chief Executive and Agency Accounting Officer

24th May 2007

**THE CERTIFICATE AND REPORT OF THE COMPTROLLER AND AUDITOR
GENERAL TO THE HOUSE OF COMMONS**

I certify that I have audited the financial statements of the Veterinary Laboratories Agency for the year ended 31st March 2007 under the Government Resources and Accounts Act 2000. These comprise the Operating Cost Statement and Statement of Recognised Gains and Losses, the Balance Sheet, the Cashflow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having being audited.

Respective responsibilities of the Agency, the Chief Executive and auditor

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

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

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000. I report to you whether, in my opinion, certain information given in the Annual Report, which comprises of the Directors' Report, Operating and Financial Review and Remuneration Report, is consistent with the financial statements. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

In addition, I report to you if the Agency has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by HM Treasury regarding remuneration and other transactions is not disclosed.

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

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

Basis of audit opinion

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included

in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Agency and Chief Executive in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Agency's circumstances, consistently applied and adequately disclosed.

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

Opinions

Audit Opinion

In my opinion:

- the financial statements give a true and fair view, in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by HM Treasury, of the state of the Agency's affairs as at 31 March 2007, and of the net operating surplus, recognised gains and losses and cashflows for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000; and
- The information given within the Annual Report, which comprises the Directors' Report, Operating and Financial Review and Remuneration Report, is consistent with the financial statements.

Audit 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.

Report

I have no observations to make on these financial statements.

John Bourn

Comptroller and Auditor General

National Audit Office

157-197 Buckingham Palace Road

Victoria

London SW1W 9SP

31st May 2007

OPERATING COST STATEMENT
FOR THE YEAR ENDED 31 MARCH 2007

		2006/07	2005/06
	Notes	£'000	£'000
Administration Costs:			
Staff Costs	3	41,976	39,437
Other Administration Costs	4	68,909	64,423
		<u>110,885</u>	<u>103,860</u>
Operating Income	6	(110,904)	(107,350)
Net Operating Surplus		<u>19</u>	<u>3,490</u>

All activities arise from continuing operations.

The notes on pages 27 to 38 form part of these accounts.

BALANCE SHEET
AS AT 31 MARCH 2007

		2007	2006
	Notes	£'000	£'000
Fixed Assets			
Tangible fixed assets	7	<u>272,374</u>	<u>255,950</u>
Current Assets			
Stocks	8	2,582	2,273
Debtors and prepayments	9	5,248	8,935
Cash		1,040	462
		<u>8,870</u>	<u>11,670</u>
Creditors due within one year	10	(22,291)	(23,406)
Net Current Liabilities		<u>(13,421)</u>	<u>(11,736)</u>
Total Assets less Current Liabilities		258,953	244,214
Provisions for Liabilities and Charges	11	(580)	(751)
		<u>258,373</u>	<u>243,463</u>
Taxpayers' Equity			
General fund	12	175,963	169,151
Revaluation reserve	13	82,410	74,312
		<u>258,373</u>	<u>243,463</u>

The notes on pages 27 to 38 form part of these accounts

Professor Steven Edwards
Chief Executive and Agency Accounting Officer

24th May 2007

**CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 MARCH 2007**

		2006/07	2005/06
	Notes	£'000	£'000
Net cash inflow from operating activities	14(a)	29,847	32,805
Other financial receipts			
Proceeds of sale of tangible fixed assets		43	-
Capital expenditure and financial investments			
Purchase of tangible fixed assets		(20,132)	(22,543)
Net cash inflow before financing		9,758	10,262
Financing			
Cash paid to Defra	12	(9,180)	(10,052)
Increase in cash	14(b)	578	210

**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 31 MARCH 2007**

	2006/07	2005/06
	£'000	£'000
Surplus for the year	19	3,490
Surplus on revaluation of tangible fixed assets	11,871	11,208
Total recognised gains and losses relating to the year	11,890	14,698

NOTES TO THE ACCOUNTS

1. ACCOUNTING POLICIES

The accounts have been prepared in accordance with the 2006/07 Financial Reporting Manual (FreM) issued by HM Treasury. The particular accounting policies adopted by the Agency are described below. They have been applied consistently in dealing with items considered material in relation to the accounts.

(a) Accounting convention

These accounts have been prepared under the historical cost convention modified to account for the revaluation of fixed assets at their value to the business by reference to their current costs.

(b) Tangible fixed assets

Title to the freehold land and buildings shown in the accounts is held as follows:

- (i) All freehold land and buildings comprising the farms attaching to the main laboratory site at Weybridge are held in the name of the Secretary of State for Environment, Food and Rural Affairs;
- (ii) All freehold land and buildings at the main laboratory site at Weybridge and at any of the Regional Laboratories are held in the name of the Deputy Prime Minister.

Freehold land and buildings are restated at current cost using professional valuations every five years and appropriate indices in intervening years. Other tangible fixed assets have been stated at current cost using appropriate indices. The minimum level for capitalisation of a tangible fixed asset is £2,000.

(c) Depreciation

Freehold land and assets under construction are not depreciated. Leasehold buildings are depreciated over the shorter of their useful or leasehold life.

Depreciation is provided at rates calculated to write off the cost or valuation (less any estimated residual value) of fixed assets by equal instalments over their estimated useful lives. Lives are normally in the following ranges:

Buildings and Roads	5 to 60 years
Plant and machinery	5 to 10 years
Laboratory equipment	5 to 10 years
Computers	3 to 10 years
Farm vehicles, cars	5 to 15 years

(d) Work in progress and stocks

Work in progress represents costs incurred on specific projects including direct materials and labour plus attributable overheads less provision for known or expected losses as soon as

foreseen. Stocks are stated at the lower of cost, or net current replacement cost where materially different, and net realisable value.

(e) **Capital charge**

A charge, reflecting the cost of capital utilised by the Agency, is included in the operating cost statement. The charge is calculated at the Government's standard rate of 3.5% in real terms on all assets less liabilities, except for cash at bank and in hand.

(f) **Research and development**

Research and development expenditure is written off as incurred.

(g) **Value added tax**

Irrecoverable VAT, excluding that on capital purchases, is charged to the operating cost statement in the year in which it is incurred.

(h) **Notional charges**

The costs of the following services are included in the operating cost statement on a notional basis: Defra building maintenance charge, Defra central overheads, early departure costs, audit fees and interest on net assets excluding cash at bank and in hand.

(i) **Pensions**

Past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme, which are described in the Remuneration Report and at note 3(c). The defined benefit elements of the schemes are unfunded and are non-contributory except in respect of dependents' benefits. VLA 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 Scheme (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, VLA recognises the contributions payable for the year.

(j) **Early departure costs**

The Civil Service White Paper, 'Continuity and Change' (Cm 2627), published in July 1994, announced new arrangements for funding early departure costs of civil servants departing between 1 October 1994 and 31 March 1997. Under these arrangements a minimum 20 per cent of the cost will normally be borne by Agencies and Departments and the remainder, up to 80 per cent, which would otherwise fall upon Departments' running costs, will be met centrally from the Civil Superannuation Vote.

In accordance with the Financial Reporting Manual, full provision is set up in the accounts for the early departure costs that are to be borne by the Agency. Provision is not set up for the remainder, which is to be met centrally; however such costs are included in the full costs of the Agency's operations for charging purposes. In 2006/2007 these centrally funded costs amounted to £4,883.

(k) **Foreign currency translation**

Assets and liabilities in foreign currencies are translated into sterling using the rate of exchange at the balance sheet date, or where appropriate, the rate of exchange fixed under the terms of the relevant transaction. Transactions in foreign currencies are translated into sterling using the monthly average rate at the date of the transaction. Differences on translation are written off to the operating cost statement.

(l) **Leased Assets**

Where assets are financed by leasing agreements that give rights approximating to ownership (finance leases), the assets are treated as if they had been purchased outright. The amount capitalised is the fair value of the leased assets. The corresponding leasing commitments are shown as obligations to the lessor. Assets held under finance leases are depreciated over the shorter of the lease terms and the useful life of equivalent owned assets. Assets purchased under hire purchase agreements are depreciated over the useful economic life of the asset. Rentals from operating leases are charged to the operating cost statement as incurred.

2. KEY PERFORMANCE TARGET

Within the prescribed 2% tolerance level the Agency is required to recover its full economic costs through charges for services it provides to Defra and other public and private sector customers. For the purpose of assessing performance against this target, full economic costs exclude the costs of early retirement and other items outside the VLA's control, but include an assessment of notional insurance premiums.

The target has been achieved in 2006/2007 as shown by the table below:

	2006/07 £'000	2005/06 £'000
Income	110,904	107,350
Expenditure	110,885	103,860
Surplus for the year before agreed adjustments	19	3,490
(less)/ add early retirement costs (note 4)	(18)	237
add: exceptional costs arising from compensation claims	51	56
less: indexation increase recognised in Operating Cost Statement	(264)	(2,508)
less: notional insurance premium	(263)	(226)
(Deficit)/ Surplus for the year after adjustments	(475)	1,049

The notional insurance premium has not been included in the operating cost statement in line with FRS12, but is included above for cost recovery purposes as permitted by the Treasury Fees and Charges Guide.

3. STAFF COSTS

	2006/07	2005/06
(a) Staff costs:	£'000	£'000
Wages and salaries	32,015	30,234
Social security costs	2,460	2,319
Pension costs	6,036	5,444
	40,511	37,997
Agency and Consultancy Costs	1,465	1,440
	41,976	39,437

(b) The average number of employees during the year was made up as follows:

	2006/07	2005/06
Management	5	5
Scientists	651	628
Veterinarians	100	99
Scientific Support	193	190
Admin & Finance	284	307
	1,233	1,229

The average number of Agency and Consultancy staff employed throughout the year was 23 (2005/2006 – 20).

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

For 2006/07, employers' contributions of £5,926,000 were payable to the PCSPS (2005-06 £5,357,000) at one of four rates in the range 17.1% to 26.5% of pensionable pay, based on salary bands. The scheme's 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. Employers' contributions for 2006/07 of £102,000 (2005/06 £81,000) were paid to one or more of a panel of four appointed stakeholder pension providers. Employer contributions are age-related and range from 3 to 12.5 per cent of pensionable pay. Employers also match employee contributions up to 3 per cent of pensionable pay. In addition, for 2006/07 employers contributions of £8,000 (2005/06 £6,000), 0.8 per cent of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees.

One person retired early on ill-health grounds; the total additional accrued pension liabilities in the year amounted to £1,348.

4. OTHER ADMINISTRATION COSTS

	2006/07 £'000	2005/06 £'000
Cash based costs:		
Consumable supplies	16,108	13,782
Accommodation and utilities	11,516	11,986
Site services	11,312	11,266
Personnel costs	1,311	1,396
Travel and subsistence	944	868
Non-cash costs:		
Depreciation (note 7)	11,708	10,764
Downward asset revaluations	54	71
Loss on disposal of fixed assets	19	31
Impairment of fixed assets	3,034	3,890
Revaluation of land and buildings	(264)	(2,508)
Early retirement costs (note 11)	(18)	237
Notional costs:		
Interest on Land and Buildings	8,974	8,311
Interest on Net Assets	(219)	(106)
Building maintenance	3,725	3,725
Defra overheads	652	657
Audit fees	53	53
	68,909	64,423
	68,909	64,423

No remuneration was paid to the auditors in respect of non-audit work.

5. SEGMENTAL ANALYSIS

An analysis of income from services provided to customers is as follows:

	Income 2006/07 £'000	Surplus/ (Deficit) 2006/07 £'000	Income 2005/06 £'000	Surplus 2005/06 £'000
Defra and other Government	104,601	(601)	101,531	390
Commercial activities	4,705	398	3,721	355
Overseas activities	<u>1,598</u>	<u>222</u>	<u>2,098</u>	<u>304</u>
Total	<u><u>110,904</u></u>	<u><u>19</u></u>	<u><u>107,350</u></u>	<u><u>1,049</u></u>

Commercial income from Private Veterinary Surgeons of £1,675,000 (2005/2006 £1,514,000) has been included in Defra and other Government figures on the grounds that it partly funds the casework surveillance programme.

The above segmental information relates to fees and charges requirements and is not disclosed for the purposes of SSAP 25.

6. OPERATING INCOME

Turnover represents the invoiced amount of goods sold and services provided (net of VAT) from the business in the year, which is analysed as follows:

	2006/07 £'000	2005/06 £'000
Defra		
Food and Farming Group		
- Diagnostic testing and other services	45,200	45,414
- Provision of surveillance network including related capital charges	33,282	31,582
- Veterinary Exotic Diseases, Research and Official Controls Division	21,353	19,558
Agencies	430	334
Other	39	293
	<u>100,304</u>	<u>97,181</u>
Non-Defra income		
Food Standards Agency	2,679	3,188
Other Government	1,618	1,162
Commercial and overseas	6,303	5,819
	<u><u>110,904</u></u>	<u><u>107,350</u></u>

7. TANGIBLE FIXED ASSETS

	Freehold land and buildings £'000	Leasehold land and buildings £'000	Vehicles, plant and machinery £'000	Computer equipment £'000	Laboratory equipment £'000	Assets under construction £'000	TOTAL £'000
Cost or valuation							
At 1 April 2006	239,137	8,579	2,128	2,588	24,023	14,024	290,479
Additions	-	-	124	268	1,706	18,034	20,132
Transfers	14,756	-	-	-	-	(14,756)	-
Reclassification	(220)	220	-	-	-	-	-
Disposals	(985)	-	(99)	(3)	(146)	-	(1,233)
Indexation	12,357	475	52	(164)	(119)	-	12,601
At 31 March 2007	<u>265,045</u>	<u>9,274</u>	<u>2,205</u>	<u>2,689</u>	<u>25,464</u>	<u>17,302</u>	<u>321,979</u>
Depreciation							
At 1 April 2006	12,838	724	1,258	2,177	17,532	-	34,529
Provided in year	9,197	490	217	355	1,449	-	11,708
Reclassification	(6)	6	-	-	-	-	-
Disposals	-	-	(66)	(3)	(117)	-	(186)
Indexation	665	52	32	(148)	(81)	-	520
Impairment	717	-	-	-	-	2,317	3,034
At 31 March 2007	<u>23,411</u>	<u>1,272</u>	<u>1,441</u>	<u>2,381</u>	<u>18,783</u>	<u>2,317</u>	<u>49,605</u>
Net book value							
At 31 March 2006	<u>226,299</u>	<u>7,855</u>	<u>870</u>	<u>411</u>	<u>6,491</u>	<u>14,024</u>	<u>255,950</u>
At 31 March 2007	<u>241,634</u>	<u>8,002</u>	<u>764</u>	<u>308</u>	<u>6,681</u>	<u>14,985</u>	<u>272,374</u>

The Valuation Office Agency undertook the last formal professional valuation of land and buildings during the year ended 31 March 2005 with an effective date of 1 April 2005.

The current year impairments arise in respect of future demolition of buildings and preparatory works in connection with against assets under construction.

8. STOCKS

	2007	2006
	£'000	£'000
Work-in-progress	1,114	926
Raw materials and consumables	755	690
Finished goods and goods for resale	713	657
	2,582	2,273
	2,582	2,273

9. DEBTORS AND PREPAYMENTS

Amounts falling due within one year:

	2007	2006
	£'000	£'000
Trade debtors	2,593	2,061
Defra and Defra Agency debtors	1,888	5,169
Other government debtors	19	585
Prepayments	528	405
VAT	220	715
	5,248	8,935
	5,248	8,935

There are no amounts owing from local authorities, NHS Trusts, public corporations or trading funds (2005 - £nil)

10. CREDITORS DUE WITHIN ONE YEAR

	2007	2006
	£'000	£'000
Defra - payments in advance	3,846	4,768
Defra - creditors and accruals	9,637	9,942
Other government creditors	120	500
Trade creditors	986	1,722
Accruals and deferred income	6,883	5,707
PAYE and National Insurance	819	767
	22,291	23,406
	22,291	23,406

There are no amounts owing to local authorities, NHS Trusts, public corporations or trading funds (2006 - £nil)

11. PROVISIONS FOR LIABILITIES AND CHARGES

EARLY RETIREMENT COSTS:

	2007 £'000	2006 £'000
Provision for future costs	-	237
Adjustment to previous provision	(18)	-
	(18)	237
(Credit)/ Charge to Operating Cost Statement	(18)	237

The movements in the early retirement provision are shown below:

Balance at 1 April	751	664
Utilised in year	(153)	(150)
Increase in provision charged to Operating Cost Statement	-	237
Adjustment to previous provision	(18)	-
	580	751
Balance at 31 March	580	751

12. GENERAL FUND

The VLA is funded by the Department for Environment, Food and Rural Affairs and the funding position is shown in the 'Taxpayers' Equity' section of the Balance Sheet.

Details of movements in funding are shown in the table below:

	2007 £'000	2006 £'000
Balance at 1 April	169,151	159,537
Assets transferred from Defra in year	-	26
Land transferred to Defra	(985)	-
Surplus for the year	19	3,490
Cash paid to Defra	(9,180)	(10,052)
Notional costs	4,430	4,435
Interest payable (notional)	8,755	8,205
Transfer from revaluation reserve	3,773	3,510
	175,963	169,151
Balance at 31 March	175,963	169,151

13. REVALUATION RESERVE

	2007	2006
	£'000	£'000
Balance at 1 April	74,312	66,582
Adjustment on indexation	12,884	14,270
Backlog depreciation on indexation	(749)	(554)
Indexation increase recognised in Operating Cost Statement	(264)	(2,508)
Asset movements relating to prior years	-	32
Transfer to General Fund	(3,773)	(3,510)
Balance at 31 March	<u>82,410</u>	<u>74,312</u>

14. CASHFLOW

The following tables expand on the figures shown in the Cash Flow Statement.

(a) Reconciliation of operating surplus to net cash inflow from operating activities:	2006/07	2005/06
	£'000	£'000
Operating surplus	19	3,490
Notional interest	8,755	8,205
Depreciation charge	11,708	10,764
Fixed asset impairment	3,034	3,890
Loss on disposal of fixed assets	19	31
Revaluation of land and buildings	(264)	(2,508)
Downward asset revaluations	54	71
(Increase) in stocks	(309)	(64)
Decrease/ (Increase) in debtors	3,687	(3,295)
(Decrease)/ Increase in creditors and provisions	(1,286)	7,786
Notional costs	<u>4,430</u>	<u>4,435</u>
Net cash inflow from operating activities	<u>29,847</u>	<u>32,805</u>

(b) Analysis of change in cash balances during the year:	2006/07	2005/06
	£'000	£'000
Balance at 1 April	462	252
Increase in cash	<u>578</u>	<u>210</u>
Balance at 31 March	<u>1,040</u>	<u>462</u>

The PGO bank account balance was £1,040,000 at 31 March (2006 £462,000).

15. CAPITAL COMMITMENTS

	2007	2006
	£'000	£'000
Commitments at 31 March for which no provision has been made:		
Authorised but not contracted	8,224	23,364
Authorised and contracted	17,513	6,932
	25,737	30,296

16. RELATED PARTY TRANSACTIONS

(a) Veterinary Laboratories Agency (VLA) is an Executive Agency of the Department for Environment, Food and Rural Affairs (Defra).

Defra is regarded as a related party. During the year VLA has had a significant number of material transactions with Defra and with other entities for which Defra is regarded as the parent Department.

These are:

- Food and Farming Group
- Veterinary Exotic Diseases, Research and Official Controls Division
- Veterinary Medicines Directorate
- Animal Health (formerly State Veterinary Service)
- Central Science Laboratory

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

17. OPERATING LEASES

Operating lease rentals charged to the operating cost statement in the year amounted to £261,084 (2005/2006 £267,462).

Operating lease rentals due during the next financial year are as follows:

	2006/07	2005/06
	£'000	£'000
Expiring within one year	45	5
Expiring between one and five years	31	59
Expiring in over five years	142	174
	218	238

Rental payments in respect of plant and machinery amount to £ 43k (2005/06 - £64k). Property leases amount to £ 175k (2005/06 - £174k).

18. CONTINGENT LIABILITIES

Nature of Claim	Value (£)	Likelihood	Timing
Tests	50,000	Medium	2007/08

The claims relate to tests carried out by VLA where the results are disputed by the customer.

19. FINANCIAL INSTRUMENTS

The Agency is required to disclose the role financial instruments had during the period in creating or changing the risks faced in undertaking its activities. The non-trading nature of the Agency's activities and the way Government agencies are financed, means the Agency is not exposed to the degree of financial risk faced by business entities. VLA has no powers to borrow or invest surplus funds, and financial assets and liabilities generated by day to day operational activities are not held to change the risks facing the Agency in undertaking its activities.

Liquidity risk: no significant exposure given the Agency's net resource requirement is financed through resources voted annually by Parliament.

Interest rate risk: no exposure as the Agency's main financial assets and liabilities carry nil or fixed rates of interest.

Foreign currency risk: not significant as foreign currency income and expenditure is negligible.

20. POST BALANCE SHEET EVENTS

Veterinary Laboratories Agency's financial statements are laid before the Houses of Parliament by the Secretary of State for Environment, Food and Rural Affairs. FRS21 requires Veterinary Laboratories Agency to disclose the date on which the accounts are authorised for issue. This is the date on which the certified accounts are despatched by Veterinary Laboratories Agency to the Secretary of State for Environment, Food and Rural Affairs. The authorised date for issue is 18th June 2007.

**ACCOUNTS DIRECTION GIVEN BY THE TREASURY
IN ACCORDANCE WITH SECTION 7(2) OF THE GOVERNMENT RESOURCES
AND ACCOUNTS ACT 2000.**

1. This direction applies to the Veterinary Laboratories Agency, an Executive Agency of the Department for Environment, Food and Rural Affairs.
2. The Veterinary Laboratories Agency shall prepare accounts for the year ended 31 March 2007 in compliance with the accounting principles and disclosure requirements of the edition of the Government Financial Reporting Manual issued by H M Treasury (“the FreM”) which is in force for 2006-07.
3. The accounts shall be prepared so as to:
 - a) give a true and fair view of the state of affairs at 31 March 2007 and the income and expenditure, total recognised gains and losses, and cash flows of the Veterinary Laboratories Agency for the financial year then ended; and
 - b) provide disclosure of any material expenditure or income that has not been applied to the purposes intended by Parliament or material transactions that have not conformed to the authorities which govern them.
4. Compliance with the requirements of the FreM will, in all but exceptional circumstances, be necessary for the accounts to give a true and fair view. If, in these exceptional circumstances, compliance with the requirements of the FreM is inconsistent with the requirement to give a true and fair view the requirements of the FreM should be departed from only to the extent necessary to give a true and fair view. In such cases, informed and unbiased judgement should be used to devise an appropriate alternative treatment, which should be consistent with both the economic characteristics of the circumstances concerned and the spirit of the FreM. Any material departure from the FreM should be discussed in the first instance with the Treasury.

David Watkins
Head of Financial Reporting Policy Team, Her Majesty’s Treasury
18 December 2006

LOCATIONS

MAIN LABORATORY

Weybridge New Haw, Addlestone, Surrey, KT15 3NB

REGIONAL LABORATORIES

Aberystwyth Y Buarth, Aberystwyth, Ceredigion, SY23 1ND
Bury St. Edmunds Rougham Hill, Bury St. Edmunds, Suffolk, IP33 2RX
Carmarthen Job's Well Road, Johnstown, Carmarthen, SA31 3EZ
Langford Langford House, Langford, Bristol, BS40 5DX
Lasswade International Research Centre, Pentlands Science Park, Bush Loan, Penicuik, Midlothian, EH26 0PZ
Luddington Luddington, Stratford-upon-Avon, Warwickshire, CV37 9SJ
Newcastle Whitley Road, Longbenton, Newcastle upon Tyne, NE12 9SE
Penrith Merrythought, Calthwaite, Penrith, Cumbria, CA11 9RR
Preston Barton Hall, Garstang Road, Barton, Preston, PR3 5HE
Shrewsbury Kendal Road, Harlescott, Shrewsbury, Shropshire, SY1 4HD
Starcross Staplake Mount, Starcross, Exeter, Devon, EX6 8PE
Sutton Bonington The Elms, College Road, Sutton Bonington, Loughborough, Leicestershire, LE12 5RB
Thirsk West House, Station Road, Thirsk, N. Yorkshire, YO7 1PZ
Truro Polwhele, Truro, Cornwall, TR4 9AD
Winchester Itchen Abbas, Winchester, Hants, SO21 1BX

SURVEILLANCE CENTRES

Royal Veterinary College Department of Veterinary Pathology, Hawkshead Campus, Hawkshead Lane, North Mymms, Hatfield, Hertfordshire AL9 7TA
Liverpool University Department of Veterinary Pathology, Leahurst, Neston, South Wirral, CH64 7T

Published by TSO (The Stationery Office) and available from:

Online

www.tsoshop.co.uk

Mail, Telephone, Fax & E-mail

TSO

PO Box 29, Norwich NR3 1GN

Telephone orders/General enquiries 0870 600 5522

Fax orders: 0870 600 5533

Order through the Parliamentary Hotline *Lo-call* 0845 7 023474

Email bookorders@tso.co.uk

Textphone 0870 240 3701

TSO Shops

123 Kingsway, London WC2B 6PQ

020 7242 6393 Fax 020 7242 6394

16 Arthur Street, Belfast BT1 4GD

028 9023 8451 Fax 028 9023 5401

71 Lothian Road, Edinburgh EH3 9AZ

0870 606 5566 Fax 0870 606 5588

The Parliamentary Bookshop

12 Bridge Street, Parliament Square

London SW1A 2JX

Telephone orders/General enquiries 020 7219 3890

Fax orders: 020 7219 3866

Email bookshop@parliament.uk

Internet bookshop.parliament.uk

TSO@Blackwell and other Accredited Agents

ISBN 978-0-10-294635-2



9 780102 946352