

Central Science Laboratory

# Annual Report & Accounts 2006–07

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## Chief Executive's Report

I am pleased to present to Parliament the 15th Annual Report and Accounts of the Central Science Laboratory (CSL). This Report highlights the achievements of staff in 2006/07, particularly in raising the quality of our management systems and science outputs. Defra continues to support a substantial programme of science in support of sustainable land use, safety of the food chain and environmental protection. We continue to focus on our customer needs and on maintaining financial sustainability. We now provide scientific services across most of the Government departments – with the most recent demands arising in the contingency response sector. We have also introduced innovative e-business solutions in order to operate as efficiently as possible across the broad customer base. Diversification of the customer base has been a key factor in the Agency meeting all the key financial targets for 2006/07.

The drive to raise our profile as a high quality organisation has received external recognition through a series of independent audits. A key business objective has been to introduce an ISO 9001:2000 compliant quality system across the whole organisation. Assessors from Lloyds evaluated the quality system in June 2006 and

CSL subsequently received formal recognition that our management systems meet the international standard.

As part of our support for the Government's sustainability programme, we developed a Sustainable Development Action Plan. This plan was assessed during 2006 by the Sustainable Development Commission and was judged to provide a good example for other Agencies to follow. This year we also successfully obtained environmental standard ISO 14001 certification for our environmental management systems.

We are pleased that recent efforts to align our scientific skills with Defra's strategic objectives in support of evidence-based policies has been recognised in the quinquennial Science Audit Report. I would like to thank all staff, customers and collaborators who have helped CSL achieve the following headline statement "CSL has... many areas of scientific excellence within the organisation. In addition to its research and development functions, CSL has an impressive capacity to deal with emergency issues at short notice." You can read more about the Science Audit in Section 2, pages 9–11. We will consult our stakeholders on the key recommendations for further improvement and publish our implementation plan during 2007.



**Mike Roberts,  
Chief Executive**



The major restructuring of our molecular diagnostics facilities that took place last year has improved efficiency and created flexibility in day-to-day operations. CSL is now much better prepared to provide contingency capabilities to support emergency responses. For example, molecular diagnostics on the "Cellardyke" swan infected with avian influenza were completed in four days and confirmed that the corpse was a migratory Whooper Swan. This allowed the risk management strategy within Defra to be scaled down with substantial savings.

Increased focus on intellectual property (IP) issues through a staff incentivisation scheme has produced a number of positive outcomes. In the first deal of its kind for a Defra Agency, a spin-out company has been established and sold on to private investors. The new company, Forsite Diagnostics Ltd, develops and produces innovative test kits for plant and animal diseases, food safety and environmental testing. The innovations underpinning Forsite were developed in CSL's laboratories during the search for rapid, on-site tests to detect plant diseases. The investors have a strong interest in diagnostic technologies, and the funding will provide a significant return on investment for CSL as well as allowing onward expansion of the new company.

Defra are currently considering whether to create a new regulatory science agency from the Central Science Laboratory, Pesticides Safety Directorate, the Plant Health and Seeds Inspectorate and the Plant Variety Rights and Seeds Division. Defra will engage key stakeholders on the case for a new Agency, which might include the regulation and delivery of policy for pesticides, plant health, plant variety rights and seeds, genetically modified organisms and bee health, with scientific support to food safety, wildlife management and emergency responses on behalf of Defra, Food Standards Agency (FSA), and other Government departments. This is being compared with an alternative option of a new Agency without PSD, but with PSD merging with the Health and Safety Executive. We expect that proposals will be submitted to Ministers later in 2007.

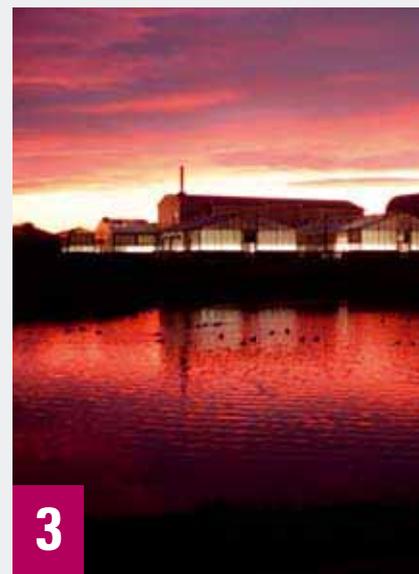
I would like to thank all staff at CSL for their support in bringing CSL to the forefront of science in support of evidence-based policy making, effective regulation and enforcement, as well as emergency response. Our staff are passionate about science and the ethics of public service. I look forward to working with them and our stakeholders to build a sustainable business that allows us to face the future with confidence.



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3

# CONTENTS

## MANAGEMENT STRUCTURE

Agri-Environment Directorate	7
Food Directorate	7

## MANAGEMENT COMMENTARY

Strong Science	9
Professional People	14
Business Focus	18

## HIGHLIGHTS OF THE YEAR

NMR Analysis	9
Non-Native Species	10
MoniQA	11
Training	12
International Advice	13
Nanotechnology	14
Species Profiling	15
Pathogen Clean-Up	16
BBSRC Project	17
Crop Monitor	18
GM Detection	19
Badger Monitoring	20
Biochip	21

## FINANCIAL COMMENTARY

Summary of Key Ministerial Targets and Achievements 2006/07	23
Performance Trends Against Targets	24



**REMUNERATION REPORT**

Policy on Remuneration	26
Remuneration Committee	26
Assessment of Performance	26
Duration of Contracts	26
Directors' Remuneration	26
Directors' Pension Details	26

**PLANS & TARGETS FOR 2007/08**

Renew Defra	29
Defra's Laboratory Strategy	29
Science Audit Implementation Plan	29
EU Funding	29
Summary of Targets and Objectives for 2007/08	30

**ANNUAL ACCOUNTS**

Statement of the Accounting Officer's Responsibilities	32
Statement on Internal Control	32
The Certificate and Report of the Comptroller and Auditor General to the House of Commons	35
Income and Expenditure Account and Statement of Total Recognised Gains and Losses	37
Balance Sheet as at 31st March 2007	38
Cash Flow Statement	39
Notes to the CSL Accounts	40



# 1. MANAGEMENT STRUCTURE

OUR SCIENCE AND TECHNICAL SERVICES  
ARE DELIVERED TO CUSTOMERS GLOBALLY.

CSL was launched on 1 April 1992 and re-launched on 1 April 1994 following its merger with the MAFF Food Science Laboratories at Norwich and Aberdeen. CSL is an Executive Agency, fully accountable to Parliament through Ministers including the Rt. Hon. Margaret Beckett MP (until 5 May 2006) and Rt. Hon. David Miliband (from 5 May 2006), the Secretary of State for Defra.

CSL is a public sector science organisation providing research and information services to governments and industry around the world. We focus on protecting environmental quality, developing sustainable land uses and safeguarding food chain safety. We are located in a purpose built laboratory complex just outside York and employ nearly 700 staff, including over 500 scientists. During the reporting period our structure was based on five science groups.

**The Agri-Environment Directorate contains:**

**Plant Health Group** – providing high quality national and international consultancy, research and services to safeguard crop and bee health, and providing solutions to microbiological issues.

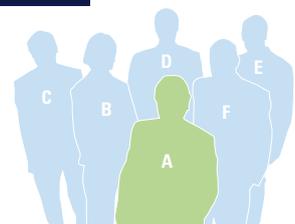
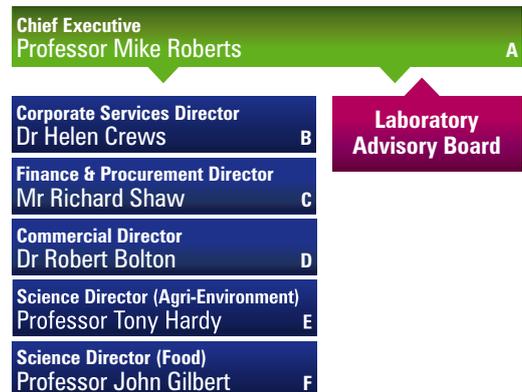
**Wildlife Ecology and Management Group** – providing high quality research and services relating to ecology and management of wildlife and wildlife diseases.

**Environmental Biology Group** – providing high quality research and support services to Government and private sector customers in the area of sustainable environmental management and adding value to agriculture and the wider rural economy.

**The Food Directorate contains:**

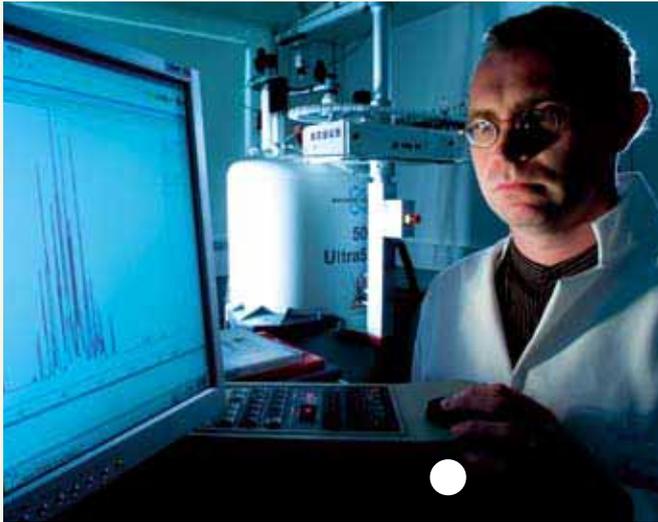
**Food Science Group** – working to improve the safety and quality of the food supply from the farm to the table by providing high quality research and services to Government and the food industry.

**Proficiency Testing Group** – providing international proficiency testing and training, operating four major schemes for chemical and microbiological analysis in food safety and environmental science.



## 2. MANAGEMENT COMMENTARY

WE PROTECT THE HEALTH AND VITALITY OF THE ENVIRONMENT AND SAFEGUARD THE UK'S FOOD SUPPLY.



### NMR Analysis

Emergency contamination events require the rapid analysis of samples so that the contaminant is identified as quickly as possible. Advances in the application of Nuclear Magnetic Resonance (NMR) analysis at CSL have produced methods that can detect multiple unknown organic compounds in drinking water samples in a matter of minutes.

Recent high profile security emergencies have shown all too clearly the importance of being able to detect unknown contaminants in liquids. To be of any real value in emergency situations, analytical techniques have to be rapid, sensitive, and effective across a wide range of unknown contaminants. NMR possesses these characteristics, and recent tests at CSL have proved its potential for detecting explosive or highly toxic compounds in water samples.

## Strong science

Through developing and applying knowledge we support our public and private sector customers in achieving four primary outcomes:

- a healthy environment
- sustainable land use
- a safe food supply chain
- resilience against contingency events.

We continue to support Defra's commitment to the national strategy for sustainable development. We have built capacity to support environmental goals such as adaptation to climate change and enhancing the natural asset base and have recently expanded our portfolio of projects in the environmental area.

Science in CSL is divided into 3 areas:

- scientific services supporting policy implementation, regulatory surveillance and contingency responses (around 60% of turnover)
- research and development, which is largely focused on improving quality and the effectiveness of the scientific services (30%)
- policy support, advice, training and external consultancy (10%).

We also conduct a programme of strategic "seedcorn" research, which is funded by Defra.

The following pages describe some of our main scientific achievements over the past year.

### Quinquennial Science Audit

Over a two-week period in September 2006 an Audit of CSL's science was completed. The main purpose of this Audit was to provide the Defra Chief Scientific Adviser with an independent, external assessment of the quality, balance, scope and appropriateness of our scientific programmes.

The Audit was chaired by Professor Chris Payne, a self-employed consultant and visiting Professor at the University of Reading, and was co-chaired by Professor Sheila Crispin, President of the Royal College of Veterinary Surgeons. The Audit Team consisted of a further 19 scientists drawn from academia, other Government laboratories and industry from nine different countries. The Auditors were split according to their expertise between four Science Audit Teams, each focussing on a different scientific area based on CSL's organisational structure.

The conclusions from the Audit were extremely positive with nearly all CSL Teams ranked as Excellent (International status) or Good (National status).

HIGHLIGHTS OF THE YEAR



### Non-Native Species

During 2006 a Non-Native Species Team was formed at CSL to provide the Secretariat for the GB Non-Native Programme Board (the co-ordinating body on non-native species for Great Britain). The Secretariat acts as the liaison between the Programme Board and a series of working groups that deal with specific issues such as research and biosecurity.

Their role includes drafting and agreeing a strategy, coordinating research programmes and ensuring the exchange of experience, information and specialist expertise on non-native issues amongst key agencies and sectors.

The placement of the Secretariat at CSL recognises the key role we play in the non-native species arena.

Key headlines from the Audit report include:

- “A national centre of excellence whose work and facilities are valued highly both in Europe and the wider international community”
- “Across the organisation, the general quality of work is Good to Excellent with Excellent teams in all four Science Groups”
- “CSL has an important role in emergency response... and has developed an impressive contingency capacity”
- Other highlights include the Science Strategy, commercial business plans, Group structures and cross-Group working, Science Networks, customer focus, approach to quality assurance and corporate support.

There were 15 general recommendations and a smaller number for each Science Group. The main recommendations include:

**Science Quality** – encourage more hypothesis-driven science, wider publication “ethos” amongst staff, greater conference attendance, increase analysis of long-term data-sets, target publications in higher impact journals

**Communications Strategy** – improve interactions with public sector customers, seek independent assurance of the customer satisfaction survey, give more internal and external seminars



**International Strategy** – draw together international activities and develop a coherent approach, map skill base against emerging opportunities

**Inspectorate-Science Synergies** – pursue options with Defra for strengthening links with Defra Inspectorates

**Skill Base** – review Science Networks, requirements for socio-economic skills, links between flexibility and promotion opportunities

**Seedcorn Programme** – seek increased funding to further demonstrate the value of this funding stream to Defra and the Agency.



### MoniQA

CSL is one of 33 partners from 20 countries taking part in the recently funded EU MoniQA Network of Excellence (NoE). This project aims to harmonise analytical methods for monitoring and controlling quality and safety in the food supply chain. Network members will investigate mechanisms to coordinate and merge research activities, personnel and infrastructure to find acceptable solutions for stakeholders including consumers, food manufacturers, food research institutes and regulatory bodies.

A summary of the Audit was published by Defra. In response to the recommendations made in the Science Audit Report a draft Implementation Plan was submitted to the Laboratory Advisory Board in March 2007.

### Intellectual Property

CSL continues to identify and exploit the opportunities arising through our IP, and enhancement of the synergies developed within the highly successful InterAct project has been central to this process. InterAct was funded under the second round of the Office of Science and Innovation's Public Sector Research Exploitation Scheme to commercialise IP from within the UK's four major Agency laboratories. Several joint development projects are underway, and some potentially valuable commercialisation deals have been signed.

During the year CSL has, for the first time, had access to Proof of Concept funds, again through the PSRE Scheme (third round), for adding value to IP with recognised commercial potential. CSL has won a number of awards from these funds, which are being used to enrich some of the promising IP to bring scientific concepts closer to market.

Proactive management and protection of CSL's IP has remained an important priority during the year.

The effectiveness of our policies and procedures in this area has been demonstrated by the securing of considerable external financial investment into Forsite Diagnostics Ltd. CSL's unique lateral flow device (LFD) IP has been carefully protected since the initial conception of the idea, thus maintaining maximum value in the technology for CSL. The IP position surrounding the underlying concept has since been enhanced by the registration of relevant trademarks and the filing of patents to protect certain aspects of the technology. This IP package formed a major part of the value in the assets that were purchased by the investors.

### Spin-out Company

The recent spin-out and sale of Forsite Diagnostics Ltd from CSL has highlighted the quality of the science being undertaken at CSL, and also demonstrated how we are able to recognise developments with commercial potential and translate this potential into value for the organisation. CSL's initial development of lateral flow devices for rapid on-site detection of plant diseases by plant health inspectors began over 10 years ago. The potential of the technology was quickly recognised, and the idea was subsequently developed further to the point where CSL was able to begin manufacture of the devices and sale of these devices to the private sector. Expansion of the range of tests and the



### Training

For the second year CSL scientists have been successful in winning an EU contract to provide training in mycotoxins analysis to participants from developing countries. The course, based on providing practical skills, also covers quality assurance, accreditation and proficiency testing, all of which play a key role in laboratory analysis.

The training provides support to countries exporting products to the EU who are required to test their exports to ensure they comply with stringent EU regulatory limits.

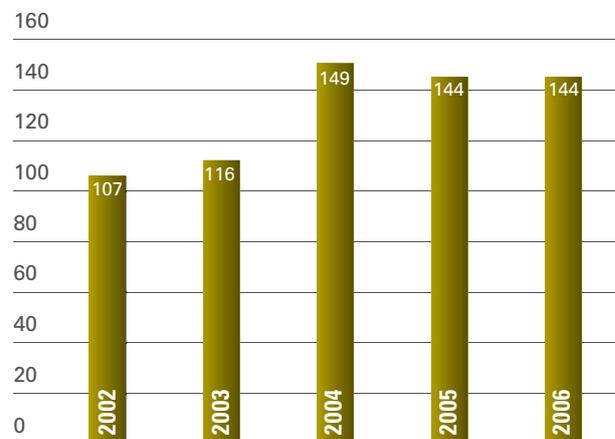
business unit within CSL followed, together with the development of important new and exciting innovations in the LFD-related arena.

The LFD applications arising through CSL have attracted a number of external awards during the period of its development, most noticeably the Westminster Medal in 2001 and the People’s Prize at the Venturefest Yorkshire event in 2004. The calibre of the technology developed within CSL and the business that was built up around it was sufficient to attract strong interest from external investors, with the deal being completed early in 2007. CSL continues to work closely with Forsite Diagnostics Ltd on further joint developments in the diagnostics field.

### Publications

Publication and reporting of information is the major route of communication of CSL science to customers, stakeholders and the wider community. The range of these publications includes research papers in peer-reviewed journals, conference proceedings, trade journal articles, book chapters and customer reports, all of which play an important role in the communication process. During the period 2006–2007 our scientists published 144 papers in peer-reviewed journals listed in the Science Citation Index (SCI).

#### Numbers of SCI quoted CSL papers by year





#### International Advice

Bacterial Wilt is a devastating disease currently threatening Ugandan and East African bananas. CSL researchers have been vital in expanding knowledge on the persistence of this disease in the environment and this knowledge will inform recommendations to farmers on how to cope with the disease and reduce future risks.

In July 2006 CSL organised an International Symposium on Bacterial Wilt where information on control measures was shared. CSL continues to play a key role in supporting the Ugandan authorities in their fight against the disease.

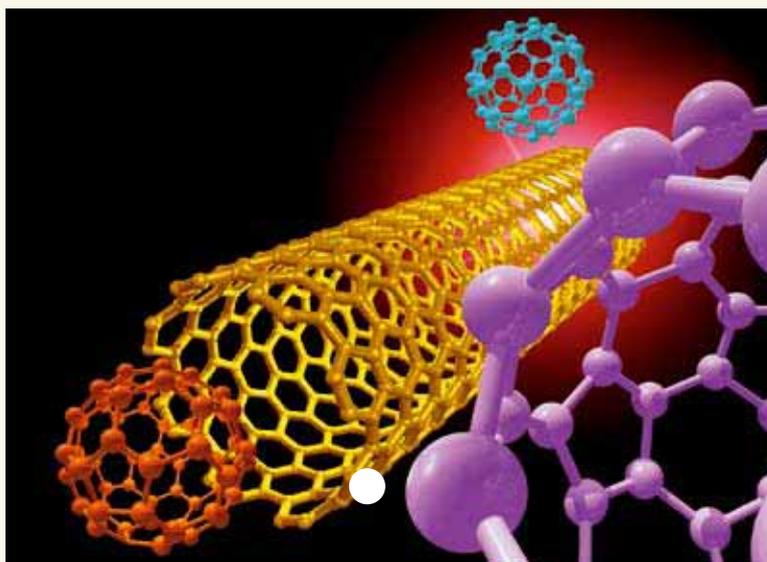


### Nanotechnology

CSL scientists are helping to fill research gaps in the effects of nanomaterials on health and the environment. Nanomaterials (manufactured materials of less than 100 nanometres in size (1 nanometre = 1 billionth of a metre)) have a very high surface area relative to volume which means they exhibit many novel properties.

One CSL investigation is looking at the potential migration of nanomaterials into foods from food packaging materials, while another project is building a comprehensive database of products manufactured or used in the UK containing nanotechnology.

CSL's growing experience in this area is helping the Government take informed decisions on regulatory issues.



VICTOR HABBICK VISIONS/SCIENCE PHOTO LIBRARY

## Professional People

Improvement in quality of service and in business efficiency, business development and innovation are dependent on the skills, expertise, creativity and energy of our staff. We consider it vitally important to ensure that all staff know and are committed to CSL's objectives, and understand how they can contribute to our success. Management and staff representatives meet regularly in a number of fora including the CSL Whitley Committee. We have re-structured the induction process for all new staff to enable them to integrate rapidly in their new posts and we maintain a programme of training, which addresses continuous improvement issues.

CSL has a unified Programme of Action on Equality of Opportunity, addressing issues relating to race, age, gender and disability. Our policy is that there should be no discrimination on any grounds whatsoever other than performance in the job. Access to employment, career advancement and development opportunities within CSL are based upon competencies, knowledge and ability to do the work.

### Recruitment

Driven by the overarching business strategy, our main focus has continued to be on supporting the progress towards an increasingly flexible and customer responsive CSL. Having recently

reviewed and updated our succession planning policy within CSL's risk management strategy, we are now seeking ways to better identify, retain and develop talent and potential. The CSL Fellowship Scheme was established to provide retiring senior colleagues, who have shown excellence in their work and who wish to continue independently with their scientific activities, with a link to the Agency's resources. The Fellowship allows for continuing receipt of CSL communications and access to the Information Centre, archive information and data. In addition, Fellows are invited to seminars and events hosted by CSL. CSL benefits from continued relationships with these experienced former colleagues.

Other priorities include enhancing leadership skills and improving the management of change. In addition, by exploiting our new integrated payroll and HR database, we continue to reduce the costs of the provision of personnel, learning and development services.

CSL has delegated responsibility to carry out its own recruitment. All recruitment is carried out on the basis of fair and open competition on merit and in accordance with the Civil Service Commissioners' Recruitment Code. During 2006/07 staff turnover was 10.27%<sup>1</sup> (compared with 11.18% last year)<sup>2</sup> of the average number of staff in post.

### Species Profiling

Improvements to our high-speed molecular genetic testing capability enabled the rapid species profiling of a swan in Cellardyke, Scotland, which had died as a result of avian influenza.

CSL scientists confirmed that the corpse was that of a migratory Whooper swan which led to a major revision of Defra's risk management strategy and subsequent lifting of exclusion measures.



HIGHLIGHTS OF THE YEAR

#### Number of staff recruited 1 April 2006 to 31 March 2007

Ethnic origin	Gender	<sup>3</sup> Grade 1	Grade 2	Grade 3	Grade 4 & above	Total
White	Female	0	2	1	2	5
	Male	0	1	3	2	6
Non-white	Female	0	0	0	0	0
	Male	0	0	0	0	0
Ethnic origin not specified	Female	9	33	14	5	61
	Male	14	19	10	5	48
<b>Total</b>		<b>23</b>	<b>55</b>	<b>28</b>	<b>14</b>	<b>120</b>

Disability	Gender	<sup>3</sup> Grade 1	Grade 2	Grade 3	Grade 4 & above	Total
Disability not specified	Female	1	15	4	2	22
	Male	8	6	3	3	20
Non-disabled	Female	8	20	11	5	44
	Male	6	13	10	4	33
Disabled	Female	0	0	0	0	0
	Male	0	1	0	0	1
<b>Total</b>		<b>23</b>	<b>55</b>	<b>28</b>	<b>14</b>	<b>120</b>

<sup>1</sup> Using the CIPD definition of turnover, which includes resignations, transfers, dismissals, normal age retirement, compulsory early retirement, redundancy, and death in service.

<sup>2</sup> Last year's Annual Report and Accounts reported 9.09%, which was based on resignations, transfers and dismissals only.

<sup>3</sup> CSL grades 1–3 encompass Civil Service equivalents Administrative Assistant, Assistant Scientific Officer through to Executive Officer/Scientific Officer. Grades 4 and above encompass Higher Scientific Officer through to the Senior Civil Service.

### Pathogen Clean-Up

Commercial growers of hardy nursery stock suffer significant losses every year through plant infections caused by various *Phytophthora* species. A joint CSL and Stockbridge Technology Centre (STC) project is helping growers protect their plants from infection by investigating the effectiveness of slow sand filters (SSF) in removing these pathogens from nursery irrigation water.

The project, co-funded by the Horticultural Development Council (HDC) and Defra’s Plant Health Division, involved small scale SSF being built at CSL and STC. The effectiveness of the SSF in removing *Phytophthora* species from water is being tested using rhododendron leaf baits placed at the filter outlet. They are currently proving to be 100% effective. Information gained from the project will help update HDC advice to commercial growers on the use of SSF.



CSL continues to work within the Investors in People national standard. In May 2006 CSL was successfully assessed against the additional optional Work Life Balance Model within the Investors in People standard.

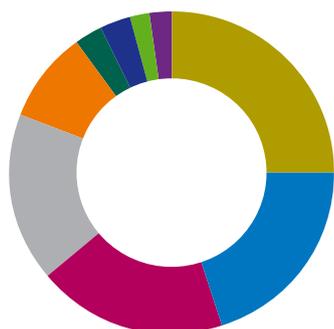
### Students

Our Student Committee continues to be active in advising and promoting the interests of students at CSL. During 2006/07 we had 58 PhD students registered at 23 universities. Our own staff accounted for 7 of these studentships. In addition, a further 62 students were registered at 22 colleges and universities for a range of further qualifications from A Level to MSc. Our Student Coordinator provides support and assistance to students on an individual basis

and also conducts progress and exit interviews with them.

There were 15 entries for the 2007 Student Poster Competition. The judges were Dr James Moir (University of York), Dr Peter Urwin (University of Leeds) and Dr Nicola Spence (CSL). All three judges are also new members on the CSL Student Committee. First prize went to Pen Grant for her poster “What is the very model of a modern model landscape?”, second prize to Weiqi Luo for his poster “Digital image analysis for Chrysanthemum white rust” and a “highly commended” award went to Emma Petty for “Predicting the toxicity of a pesticide”.

### Science skills at CSL



- Ecology/Wildlife 25%
- Analytical Chemistry 20%
- Crop Science 19%
- Science Support 17%
- Microbiology/Virology/ Molecular Biology 9%
- Information Science 3%
- Proficiency Testing Group 3%
- Statistical & Risk Analysis 2%
- Ecotoxicology 2%

**BBSRC Project**

CSL's first project funded by the Biotechnology and Biological Sciences Research Council is looking at ways to improve the resistance of wheat to insect aphids and wheat bulb fly under various climate scenarios. CSL scientists are collaborating with Durham and Newcastle Universities with the ultimate aim of helping farmers and plant breeders, and protecting the environment, through improving yields and reducing the need for pesticide spraying.





**Crop Monitor**

CSL scientists can now predict *Septoria* outbreaks several months in advance thanks to developments in the interpretation of data from long-term disease severity surveys. *Septoria* leaf blotch is a foliar disease affecting wheat crops, which can severely reduce yield. The early warning system provided by CSL can help crop managers make appropriate fungicide spraying decisions, avoiding the need for unnecessary spraying and thus reducing the pesticide burden on the environment. For more information please see [www.cropmonitor.co.uk](http://www.cropmonitor.co.uk).

**Business Focus**

CSL is tasked with fulfilling a comprehensive and evolving scientific programme in an increasingly efficient and effective manner. Our business and corporate development strategy seeks to identify new business opportunities and a wider customer base for our services, together with a review of our corporate systems and procedures to ensure they are fit for purpose, efficient and support the cultural changes necessary to respond to a more demanding operating environment.

**Governance**

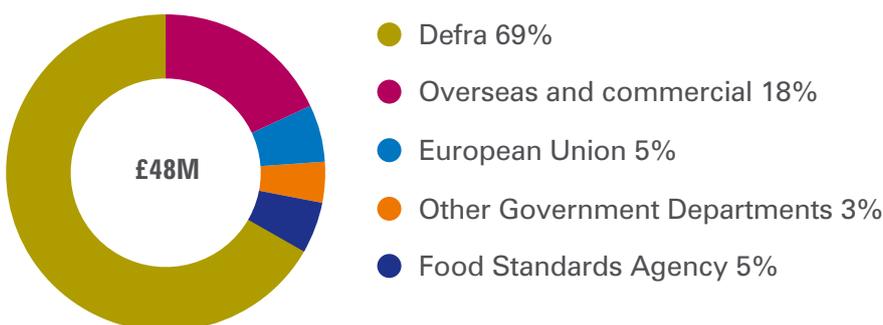
Defra’s Delivery Relationship Team (DRT) was recently established to help build Defra’s

capacity to deliver successful outcomes, support good delivery relationships, and promote networking and collaboration across the Department. The DRT currently have responsibility for Defra’s Laboratory Agency governance and the Laboratory Agency Strategy.

The CSL Laboratory Advisory Board, chaired by CSL’s Chief Executive, met twice during the year. The Board has responsibility for overseeing the CSL Business Plan, Science Strategy and Risk Management report. The Board’s membership includes the CSL Directors and five independent members.

The CSL Chief Executive is in sole charge of the day-to-day management of the Laboratory.

**Income for 2006/07**



**GM Detection**

Bulk commodities that may contain small amounts of GM material are a challenge to food analysts. Detecting low-level contaminants is difficult since there is no way of knowing whether the contaminants are evenly distributed, or clustered in pockets of higher concentration. Until now sampling strategies have not been able to cope with this problem.

However CSL scientists recently published details of an innovative model for evaluating sampling and detection of tiny amounts of GM material in large bulks. This powerful model is the first to take a holistic view of the process from sampling, through analysis and on to decision-making about the original bulk.

The model will be of value to GM regulatory and enforcement authorities, seed companies dealing with GM material, and analytical laboratories.

HIGHLIGHTS OF THE YEAR

He is supported by a Science Director (Food), a Science Director (Agri-Environment), a Commercial Director, a Finance and Procurement Director and a Corporate Services Director. This senior management team forms, with Heads of Science Groups, the Leadership Team, which provides internal strategic and operational direction for CSL.

Risk management is embedded in both our planning and operational processes in order to identify and monitor the major risks for the organisation and to ensure, as far as reasonably possible, that contingency plans, countermeasures and controls exist which reduce the likelihood and impact of the risks. An Audit and Risk Management Committee, with an independent Chair, ensures that due prominence to risk management is maintained. The Committee met three times during the year.

Our risk register is frequently updated, supported by the reviews and comments of our Audit and Risk Management Committee. The risk register demonstrates both real and residual risks, and those that are inherent or externally influenced. Our Statement on Internal Control on page 32 provides more detail on CSL's capacity to handle risk, the control framework and the effectiveness of the risk systems and processes.

**Commercial Activities**

Meeting the business needs of private sector customers continues to be an important source of revenue for CSL. This year our portfolio of technical services, consultancy and research earned £8.6 million, with a considerable proportion coming from customers outside the UK.

Our main commercial business areas are food analysis, proficiency testing, environmental risk assessment, bird management and plant pest and disease identification. Each of the business areas performed strongly in highly competitive markets, with proficiency testing in particular sustaining

### Badger Monitoring

Ecologists at CSL recently completed a large-scale survey of badger population density on pasture land. The purpose of the work was to provide robust baseline data on populations so that the impact of any policy change could be evaluated. The survey was complicated by the fact that badgers are nocturnal and they range over large areas of the countryside.

CSL ecologists worked with experts in geographical information systems and statistical analysis to produce estimates of badger population densities in different areas. Following the success of this study our scientists are considering the suitability of the methods used for studying other mammals.



its growth trend. Through active improvements in business processes, service innovation and customer interactions, our services maintain the leading position won in recent years.

Customer demands for sophisticated risk assessments to support safe food supply and environmental quality continue to evolve due to regulatory, consumer and globalisation pressures. We are well placed to support customers in articulating and meeting their needs in these areas, and it is encouraging to report on the successful entry into new markets such as risk assessment of speciality chemicals through extension of our skill base.

As part of the overall communications drive during the year, CSL introduced a new website with vastly improved visitor experience. The new site has improved navigation and search facilities, and is structured to give visitors easier access to science and business information. Our website can be found at [www.csl.gov.uk](http://www.csl.gov.uk).

During 2006/07, much progress was achieved in further defining target market sectors and reinforcing the tools required to identify and meet customer needs. This strategy has resulted in business improvements, and will be continued into 2007/08.

### Customer Satisfaction

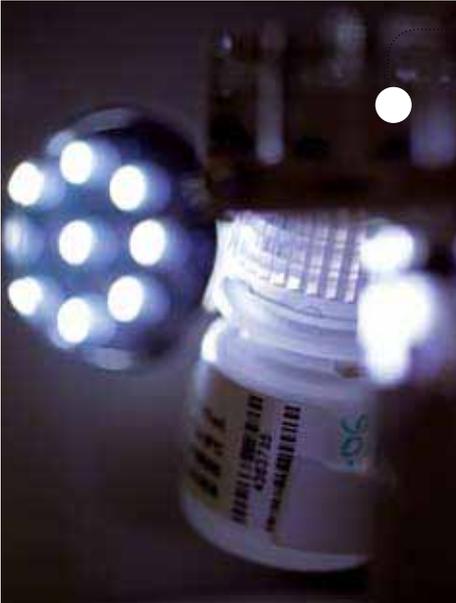
Our customer satisfaction survey involves consultation with customers who account for at least 90% of our income. Our performance target for 2006/07 was to achieve a mean score of 4.5 on a scale of 0–5. For Defra and non-Defra customers the mean of all scores was 4.3 and 4.5 respectively.

#### Customer Satisfaction Survey Results

	2005/06 Mean	2006/07 Mean
Accessibility	4.5	4.6
Responsiveness	4.4	4.4
Delivery	4.2	4.2
Administration	4.4	4.4
Quality of Staff	4.6	4.5
Overall Service	4.4	4.4
<b>Overall Mean</b>	<b>4.4</b>	<b>4.4</b>

### Health and Safety

The number of incidents reported has stayed at the same low number as 2005/6, demonstrating effective targeting of higher risk areas by focussed safety management.



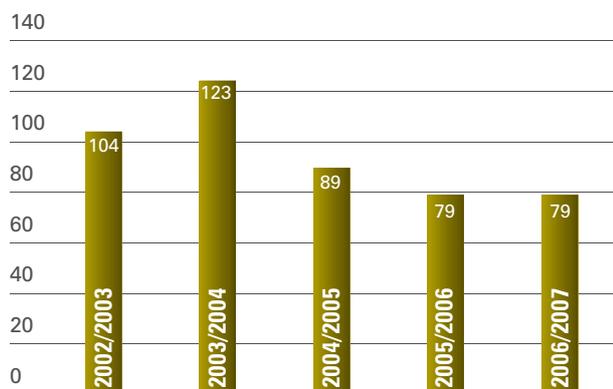
### Biochip

A single test for more than 600 deadly viruses is being developed by a group of Defra funded scientists led by CSL, offering the possibility of detecting a disease outbreak in hours rather than days.

The “lab on a chip” will detect viruses that affect humans, animals, plants, fish and bees including avian influenza, rabies and foot and mouth disease. Researchers will be able to use the same test to identify many viruses, saving time and resources in the event of an outbreak. It will also help to quickly identify when a virus has jumped from one species to another and when new strains of existing disease emerge in the future.

The biochip uses microarray technology and the whole process takes only from a few hours to a day and half – much quicker than traditional methods of virus testing which can take as long as 7–10 days.

### Number of Reported Incidents per Financial Year



The comprehensive programme of audits carried out by our Health & Safety Team has continued to demonstrate the existence of high safety standards throughout CSL. The Team continues to encourage and support these rising safety standards through audits and the provision of training in risk assessment, to ensure that all risks are considered and adequately controlled.

### Environmental Management

The CSL Sustainable Development Action Plan (SDAP) was published in 2005. This document was based on the Government’s Sustainable Development Strategy “Securing the Future”.

During 2006, the Sustainable Development Commission assessed our SDAP and noted that we had “set a high standard for other Agencies to follow”. The CSL plan recognises that sustainable development is a core part of the way we work and sets out clear objectives and timescales for delivery.

This year we also successfully obtained environmental standard ISO 14001 certification for our Environmental Management System (EMS). ISO 14001 specifies requirements for an EMS, to enable the formulation of a policy and objectives, taking into account legislative requirements and information about significant environmental impacts. It has 21 key clauses, which must be addressed in order to gain certification. A certification body will audit our EMS procedures six monthly, for at least the first two years, to ensure conformity and continuous improvement.



## 3. FINANCIAL COMMENTARY

**OUR MODERN SITE NEAR YORK IS A HUB FOR SCIENCE  
IN THE REGION, FOSTERING CLOSE COLLABORATIONS.**

Our income and expenditure account shows a surplus of £276k. The surplus is net of early retirement costs amounting to £72k.

The income outturn was £48,489k, an increase of 3.8% against 2005/06. Defra income at £33,671k was 3.2% higher than last year. Non-Defra activity increased by 5.3% to £14,818k, with growth mainly in our EU income stream. Commercial activity remained steady at £8,605k. Non-Defra work represented 30.6% of total turnover.

Direct project expenditure on science programmes reduced by 2.6% compared to 2005/06. Salary and overhead costs rose on average by 5.3%, reflecting both increased travel and energy costs.

Capital expenditure was £1,442k, with the majority on science equipment, but including other IT system, infrastructure and vehicle investments.

The Better Payment Practice Code requires Government Departments to settle 100% of valid supplier invoices within 30 days of receipt. CSL's final figure was 96.0%, compared to 98.1% in 2005/06. The average number of payment days for creditors was 15 days.

Overdue debts from customers were kept at minimal levels due to continuing tight credit control activity. Debtors outstanding for more than 60 days represented less than 1% of turnover.



## Summary of Key Ministerial Targets and Achievements 2006/07

### Service Delivery

1) To achieve a minimum of 90% of project milestones in commissioned projects which support Defra's objectives

**Result: Achieved.**

**Final performance delivered 90.9% of milestone targets, therefore above target.**

2) To achieve a mean score of 4.5 on a scale of 0 to 5 for the assessment of customer satisfaction using the agreed methodology

**Result: Achieved, within tolerance.**

**The non-Defra mean score met the target and the Defra mean score was below the target. The overall outcome of 4.4 was slightly lower than target, but within allowable tolerance.**

### Managing the Agency Effectively

3) To recover the full economic costs of the Agency's services on a resource accounting basis, recognising the normal costs of operation

**Result: Achieved.**

**CSL generated income of £48,489k against full economic costs of £48,119k. This represents a 100.8% recovery of costs, therefore the target is met.**

4) To deliver the efficiency targets set out in the Business Plan:

- ratio of direct fee-earning staff to overhead staff
- income per fee earner
- non-Defra income per fee earner
- utilisation rate for fee-earning staff
- Gershon efficiency

**Result: Achieved.**

**All efficiency targets were met completely or within the tolerance allowed.**

5) To deliver e-Government and commercial exploitation of research outputs

**Result: Achieved.**

**CSL has continued to invest in various system enhancements to meet e-Government requirements. In addition, various research exploitation funding streams were put in place, and the year also saw the successful spin-out of the Forsite pocket diagnostic business.**

**Science Quality**

6) To enhance the level of assessment in the 2006/07 Science Audit over that for 2001/02

**Result: Achieved.**

**CSL delivered a successful outcome to the 2006 Science Audit, with a rise in the ‘excellence’ ratings from 35% to 60% compared to 2001.**

**Implementation of Reviews**

7) To work with the Laboratory Strategy Team in implementing the next phase of the Agency Review

**Result: Achieved.**

**Significant support has been provided throughout the year and continues to progress the Review.**



**Performance Trends Against Targets**

**Key Ministerial Targets**

**Targets and Outturns**  
 2004/05      2005/06      **2006/07**

**Financial Performance**

Percentage of running costs to be recovered (after adjustments)

Target	100.0	100.0	100.0
<b>Outturn</b>	<b>98.1</b>	<b>100.5</b>	<b>100.8</b>

**Service Delivery**

Percentage of Defra project milestones agreed

Target	90.0	90.0	90.0
<b>Outturn</b>	<b>91.3</b>	<b>95.8</b>	<b>90.9</b>

**Quality**

Achieve a mean score on a scale of 0 to 5 for assessment of customer satisfaction using established methodology

• **Non-Defra customers**

Target	4.4	4.4	4.5
<b>Outturn</b>	<b>4.5</b>	<b>4.4</b>	<b>4.5</b>

• **Defra customers**

<b>Outturn</b>	<b>4.5</b>	<b>4.4</b>	<b>4.3</b>
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## 4. REMUNERATION REPORT

NETWORKS OF SPECIALISTS IN KEY  
CROSS-CUTTING DISCIPLINES DRIVE OUR SCIENCE.

### Policy on Remuneration

The Chief Executive, the two Science Directors and the Commercial Director are all subject to the Senior Civil Service Pay system. Under this system, pay awards comprise both consolidated increases and non-consolidated bonuses, the size of which are dependent on performance.

The two remaining Directors are subject to the CSL pay system under delegated authority from HM Treasury. Under this system, pay awards comprise both consolidated increases and non-consolidated bonuses, the size of which are dependent on performance.

### Remuneration Committee

The Senior Salaries Review Board provides independent advice to the Government on the remuneration of the judiciary, senior civil servants and senior officers of the armed forces. This Board sets the remuneration levels for the Chief Executive, the two Science Directors and the Commercial Director.

Under the delegated authority from HM Treasury, CSL has its own remuneration committee consisting of representatives from CSL management and the Trade Union. All negotiations need final approval from HM Treasury before they can be implemented.

### Assessment of Performance

The Chief Executive and all Directors are subject to a performance system that monitors their performance against agreed targets. For members of the Senior Civil Service this is the Performance Management system as introduced by the Civil Service Management Board. For the remaining Directors it is the Performance Management system as adopted by CSL.

### Duration of Contracts

The Chief Executive was appointed through open competition under the terms of the Civil Service Management Code on 1 May 2001. He was appointed with a five-year contract which has been extended to May 2008.

The remaining Directors were appointed through open competition under the terms of the Civil Service Management Code. They all have permanent contracts with CSL.

The Chief Executive is obliged to give CSL a minimum of 6 months notice; the two Science Directors and the Commercial Director are obliged to give CSL a minimum notice of 3 months; the remaining two Directors are obliged to give CSL a minimum notice of 1 month.

### Directors' Remuneration

The following table shows the Salary, Benefits in Kind and Pension details for the Chief Executive and the five Directors. This table represents the part of the Remuneration Report to be audited, as referred to in the Audit Certificate.

Salary includes gross salaries, performance pay and bonuses, reserved rights to London weighting and recruitment and retention allowances where applicable. The benefits in kind relate to the use of cars.

The remuneration, including bonuses, taxable benefits and compensation payments, but excluding superannuation contributions, of the Chief Executive, Prof T M Roberts amounted to £99,917 (2005/06 £96,582). Prior year figures relating to Pension information for Prof T M Roberts have been restated due to a miscalculation in last year's figures.

### Directors' Pension Details

The Chief Executive and all the Directors are members of the Principal Civil Service Pension Scheme (PCSPS). All are members of the classic pension scheme except for Mr R Shaw who opted to move to the premium scheme. Further details of these schemes can be found in note 6.

The table shows the member's cash equivalent transfer value (CETV) accrued at the beginning and the end of the reporting period. The CETV effectively funded by the employer takes account of the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

A 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

		Prof TM Roberts	Prof AR Hardy	Prof J Gilbert	Dr R Bolton	Dr H Crews	Mr R Shaw
Salary 2006/07	£000s	95–100	95–100	80–85	75–80	55–60	60–65
Salary 2005/06	£000s	90–95	90–95	80–85	70–75	55–60	55–60
Benefits in Kind 2006/07	£000s	2.8	–	–	–	–	–
Benefits in Kind 2005/06	£000s	2.8	3.6	–	–	–	–
Real increase in Pension at age 60 at 31 March 2007	£000s	0.0–2.5	0.0–2.5	0.0–2.5	0.0–2.5	0.0–2.5	0.0–2.5
Real increase in Pension at age 60 at 31 March 2006	£000s	0.0–2.5	2.5–5.0	0.0–2.5	0.0–2.5	0.0–2.5	0.0–2.5
Real increase in Lump Sum at age 60 at 31 March 2007	£000s	0.0–2.5	2.5–5.0	0.0–2.5	2.5–5.0	2.5–5.0	N/A
Real increase in Lump Sum at age 60 at 31 March 2006	£000s	2.5–5.0	7.5–10.0	2.5–5.0	2.5–5.0	0.0–2.5	N/A
Total accrued Pension at age 60 at 31 March 2007	£000s	35–40	35–40	30–35	10–15	15–20	5–10
Total accrued Pension at age 60 at 31 March 2006	£000s	30–35	30–35	30–35	10–15	15–20	5–10
Total accrued Lump Sum at age 60 at 31 March 2007	£000s	105–110	105–110	95–100	35–40	55–60	N/A
Total accrued Lump Sum at age 60 at 31 March 2006	£000s	100–105	100–105	85–90	30–35	50–55	N/A
CETV at 31 March 2007	£000s	832	746	733	249	409	115
CETV at 31 March 2006	£000s	782	724	687	238	380	103
Real increase in CETV as funded by employer	£000s	14	21	9	14	16	11
Employee contributions and transfers-in	£000s	1.3	1.4	3.8	1.0	0.8	2.0

benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies.

The CETV figures, and from 2003/04 the other pension details, include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the 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.

Please note that the factors used to calculate the CETV were revised on 1 April 2005 on the advice of the Scheme Actuary.



**Professor Michael Roberts**  
Chief Executive



## 5. PLANS & TARGETS FOR 2007/08

CUSTOMERS BENEFIT FROM OUR FOCUS ON IDENTIFYING, ASSESSING AND REDUCING RISKS IN THE ENVIRONMENT AND FOOD CHAIN.

## Renew Defra

Over the last six months Defra has been developing a vision for its future delivery, functions and structures. The aim is to create a high performing organisation, one that is more collaborative, flexible and effective in developing policies which deliver the right outcomes for the Department and its customers. At the heart of this “Renew Defra” process is a reshaping to matrix management of programmes and projects. Core-Defra will be restructured into core teams (from the previous Directorate Generals) and a matrix management business model will be developed to better align organisation with priorities. The challenge for CSL during 2007/08 will be to track the changes, establish new and productive business relations with key staff in core Defra, both existing and new, and to engage with and contribute to Department outcomes.

## Defra’s Laboratory Strategy

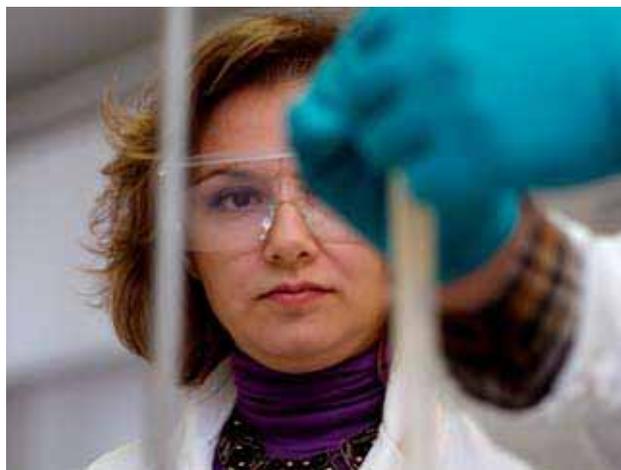
Defra is currently considering whether to create a new regulatory science agency from the Central Science Laboratory, Pesticides Safety Directorate, the Plant Health and Seeds Inspectorate and the Plant Variety Rights and Seeds Division. Defra will engage key stakeholders on the case for a new agency, which might include the regulation and delivery of policy for pesticides, plant health, plant variety rights and seeds, genetically modified organisms and bee health, with scientific support to food safety, wildlife management and emergency responses on behalf of Defra, FSA, and other Government departments. CSL welcomes the opportunity for closer integration of scientific services with both regulation and inspection services – whilst maintaining the breadth of services across government that has been the hallmark of CSL’s success over the last decade.

## Science Audit Implementation Plan

We aim to use our Science Audit Implementation Plan (covering 2007–2009) to foster a stronger and more integrated science base that is outward facing and encourages collaboration. Although we can no longer apply directly for Research Council funding, we intend to use the new arrangements for participation as project partners to build new relationships with eligible Research Organisations (particularly university and Research Council Institutes). We will also commit our own funds to promote collaboration through university research studentships and post-graduate training for our own staff.

## EU Funding

We anticipate that the European Commission will continue to grow in importance – with CSL income from this source exceeding £3m for the first time. The launch of the Seventh European Union Framework Programme presents us with major opportunities for international collaboration both in support of UK national policy and the wider objectives of the EU Lisbon Strategy. Working under nine major co-operation themes, we aim to primarily apply and extend our sciences in the areas of Food, Agriculture & Fisheries, Biotechnology, and the Environment (including climate change). Exciting new opportunities will arise for us under the theme of Nanosciences, whilst our contributions to support the drive toward bio-renewable fuels will play a part under the Energy theme. We aim to be involved in at least 15 project proposals under the first calls in 2007/08, and will be proactively seeking international partners to take forward initiatives in subsequent calls.



## Summary of Targets and Objectives for 2007/08 – Formal Targets with the Approval of the Minister

### A. Service Delivery

#### Customer Satisfaction

- To achieve a minimum of 90% of project milestones in commissioned projects which support Defra's strategic objectives and intermediate outcomes.
- To achieve a mean score of 4.5 on a scale of 0 to 5 for the assessment of customer satisfaction using the agreed methodology.

#### Managing the Agency effectively

- To recover the full economic costs of the Agency's services from Government Departments, Agencies and external customers (on a resource accounting basis, recognising the normal costs of operation).
- To deliver the efficiency targets set out in the Business Plan, incorporating Gershon efficiency requirements, and including:
  - a ratio of fee-earning staff in relation to total overhead staff
  - a minimum income per fee earner
  - a minimum non-Defra income per fee earner
  - a minimum utilisation rate for fee-earning staff.
- To deliver e-Government initiatives, and commercially exploit research outputs in ways that do not prejudice moves to new agency status by setting up potential conflicts of interest.

### B. Securing Sustainability

- To work with Defra's Delivery Relationship Team and heads of other potential constituent organisations, providing sufficient CSL resource, to develop and get agreed by Ministers proposals for a new Regulatory Science Agency that would commence operations by 1 April 2009. Subsequently, to provide strong leadership in implementing the preferred option.

### C. Science Quality

- To formulate a Science Audit Implementation Plan and deliver key outcomes (including a Communication Strategy; a coordinated approach to international science collaboration; and increasing staff involvement in scientific publications).





## 6. ANNUAL ACCOUNTS

INNOVATIVE IDEAS ARE ALLOWED TO GERMINATE AND ARE NURTURED TO CREATE VALUE FOR OUR CUSTOMERS.

## Statement of the Accounting Officer's Responsibilities

Under the Government Resources and Accounts Act 2000, CSL is required to prepare accounts for each financial year, in conformity with a Treasury direction, detailing the resources acquired, held, or disposed of during the year and the use of resources by CSL during the year.

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

The Chief Executive of CSL was appointed by the Defra Accounting Officer with Treasury approval; with responsibility for preparing the Agency's accounts and for transmitting them to the Comptroller and Auditor General.

In preparing the accounts, the Accounting Officer is required to comply with the Government Financial Reporting Manual prepared by HM Treasury and, in particular, to:

- observe 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 Financial Reporting Manual, have been followed, and disclose and explain any material departures in the accounts;
- prepare the accounts on a going-concern basis.

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

## Statement on Internal Control

### 1. Scope of responsibility

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

Accountability to Parliament during 2006/07 has been via the Ministers. Line management is via Defra's Chief Operating Officer (from 1st April 2007 the Director General – Service Transformation Group). The governance structure in place since April 2003 includes: a Laboratories Strategy Group, with an independent Chair and a senior Defra Laboratories Sponsor, the Chief Operating Officer; and the Laboratory Advisory Board, including CSL Chief Executive and Directors, and five independent representatives. I also receive advice from the Audit and Risk Management Committee, with an independent Chair, which meets regularly to review and advise on governance and operational risk matters.

### 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 CSL's 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 CSL 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 embedded into CSL's ongoing operations. Risks are identified and reviewed regularly through a series of management meetings including the Leadership Team, Operational Performance and business planning meetings. These provide the overarching template, in which CSL plans, monitors and responds to relevant issues. These are supported by regular operational meetings such as Health and Safety and site contract forums, which provide further opportunities for issues to be highlighted as early as possible to management.

All staff are made aware at induction stage of CSL's risk policy, and this is reinforced at new manager training sessions. Specific training is provided in operational areas such as those affected by Health and Safety standards. Reviews are carried out either within CSL or by using independent quality assessors. Risk and quality awareness continue to be developed in response to external and internal standards and assessments, with CSL achieving formal ISO9001 accreditation during 2006. Investors in People assessments reinforce CSL's commitment to maintaining best possible communication standards. CSL has updated its anti-fraud and whistle-blowing policies in accordance with latest guidance.

### 4. The risk and control framework

CSL has several methods for identifying, evaluating and controlling risks. These include:

- Business and corporate planning process: high-level risks are identified as part of the planning processes, reflecting external and internal threats and opportunities. CSL's Science Strategy has been updated. CSL's Vision and Mission statements are included inside the front cover of the Annual Report. Through the Chief Executive's Open Forums, staff are briefed on the strategic and operational issues affecting CSL, supported by publication on the CSL intranet;
- Business planning bilateral meetings: a detailed assessment of CSL's management groups and teams, where operational and financial risks are reviewed. Objectives agreed at the bilateral meetings are cascaded into personal performance targets for all staff;
- Leadership Team and Operational Performance meetings: a formal part of the Leadership Team meetings' agenda is any update on risk matters; the Operational Performance meeting allows operational issues to be aired, alongside review of latest forecasts;
- Risk reports: reviewed annually by the CSL Leadership Team, where groups are required to report on risk issues within their operating sphere. This is also summarised and presented to the CSL Audit and Risk Management Committee, alongside review of the risk register;
- Regular project reviews: ongoing assessment of project performance, identifying risks associated with the whole project life.

Increasing emphasis has been placed on capturing risk issues early, allowing timely remedial management actions to be taken. CSL has undertaken a risk workshop, facilitated by Internal Audit, which supports the organisation's view of embedded risk processes. The implementation of the Project Management Toolkit has reinforced best practice project controls across all project activities.

### 5. Review of effectiveness

As Accounting Officer, I also 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 executive managers within CSL, who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Laboratory Advisory Board and the Audit and Risk Management Committee. Plans to address any weaknesses and to ensure continuous improvement of the system, and to ensure that Government Accounting guidelines are applied, have been put in place.

The CSL Leadership Team monitors the ongoing performance of the organisation. Through the governance process noted earlier, I am accountable to the Department and its Ministers on performance. My review of effectiveness of the system of internal control is supported by:

- an Audit and Risk Management Committee, which meets three times each year and ensures that the CSL risk register is current, complete and reflects the Committee's views on acceptable levels of risk and controls;
- external audit management letter and recommendations;
- internal audit reviews and recommendations, for example the annual key controls test, based on risk assessment priorities agreed at the Audit and Risk Management Committee; and
- internal CSL reviews, for instance Health and Safety Committee reports.

Operational areas such as quality, security, Health and Safety, IT and utility risks, were well managed. Business continuity and disaster recovery plans are reviewed and updated on a regular basis.

CSL received an excellent rating from its quinquennial Science Audit assessment carried out in September 2006. In addition, assurance in its management and operational effectiveness has been reinforced in the year through ISO 9001 quality and ISO 14001 environmental management systems' accreditation, and through recognition of its high standard in sustainable development policies. Investor in people status has continued.

#### **6. Significant internal control issues**

No significant internal control issues were identified during the year. The fraud case identified in 2004/05, involving the theft of IT equipment, was resolved with conviction of the individual concerned, and items associated with the case recovered. CSL has enhanced its control measures by removing self-certification of and rationalising expense claims, establishing a challenge log and reinforcing anti-fraud and whistleblowing policies.



**Professor Michael Roberts**  
**Chief Executive**

6 June 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 Central Science Laboratory for the year ended 31 March 2007 under the Government Resources and Accounts Act 2000. These comprise the Income and Expenditure Account 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 includes the Chief Executive's Report, the Management Commentary, the Financial Commentary and the 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 the 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 judgements made by the Agency and Chief Executive in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Agency's circumstances, consistently applied and adequately disclosed.

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

## 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 the directions made thereunder by HM Treasury, of the state of the Agency's affairs as at 31 March 2007 and of the surplus, recognised gains and losses and cash flows 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 includes the Chief Executive's Report, the Management Commentary, the Financial Commentary and the 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**

13 June 2007

National Audit Office, 157–197 Buckingham Palace Road, Victoria, London SW1W 9SP

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

## Income and Expenditure Account

For the year ended 31 March 2007

	Notes	2006/07 £000	2005/06 £000
Turnover	2	48,489	46,706
Cost of sales	3	27,265	26,936
<b>Gross surplus</b>		<b>21,224</b>	<b>19,770</b>
Administrative expenses	4	17,232	15,885
Exceptional administrative expense	4	0	3,303
<b>Operating surplus</b>		<b>3,992</b>	<b>582</b>
Bank interest receivable		34	29
Interest payable and similar charges	5	(3,750)	(3,748)
<b>Surplus for year taken to General Fund</b>	16	<b>276</b>	<b>(3,137)</b>

All income and expenditure is derived from continuing operations.

## Statement of Total Recognised Gains and Losses

	Notes	2006/07 £000	2005/06 £000
Surplus / (deficit) for the year		<b>276</b>	<b>(3,137)</b>
Net unrealised surplus on revaluation of fixed assets	17	4,752	4,780
<b>Total recognised gains for the year</b>		<b>5,028</b>	<b>1,643</b>

The notes on pages 40 to 48 form part of these accounts.

## Balance Sheet as at 31st March 2007

	Notes	31 March 2007 £000	31 March 2006 £000
<b>Fixed assets</b>			
Tangible assets	7	110,479	109,190
Investment	16 and 24	3	0
<b>Current assets</b>			
Stock and Work in progress	8	231	161
Debtors	9	7,636	8,433
Cash at bank and in hand	11	10,518	11,882
		<b>18,385</b>	<b>20,476</b>
Creditors: amounts falling due within one year	12	<b>(6,012)</b>	<b>(7,179)</b>
Monies held for third party collaborators		<b>(896)</b>	<b>(1,500)</b>
<b>Net current assets</b>		<b>11,477</b>	<b>13,297</b>
Total assets less current liabilities		121,959	122,487
Provisions for liabilities and charges	14	(1,075)	(1,542)
<b>Total assets less total liabilities</b>		<b>120,884</b>	<b>120,945</b>
<b>Taxpayers' Equity</b>			
General fund	16	88,174	91,902
Revaluation reserve	17	32,710	29,043
		<b>120,884</b>	<b>120,945</b>

The notes on pages 40 to 48 form part of these accounts.



**Professor Michael Roberts**  
Chief Executive

6 June 2007

The annual report and accounts were authorised for issue on 6 June 2007.

## Cash Flow Statement

### For the year ended 31 March 2007

	Notes	2006/07 £000	2005/06 £000
Net cash inflow from operating activities	18	8,916	11,752
Capital expenditure and financial investment	20	(1,314)	(1,460)
Extra receipts paid to Defra		0	(29)
Financing:			
New commitments	15	–	–
Capital element of finance lease payments	15	–	(5)
In year repayment of funds to Defra	16	(9,000)	(7,381)
Net interest received	19	34	28
		(8,966)	(7,358)
<b>Increase / (Decrease) in cash in the period</b>	21	<b>(1,364)</b>	<b>2,905</b>

The notes on pages 40 to 48 form part of these accounts.

## Notes to the CSL Accounts

### 1. Accounting Policies

#### 1.1 Accounting Conventions

These financial statements have been prepared in accordance with the Treasury Financial Reporting Manual and the Agency Accounts Direction.

The accounts are prepared under the historic cost convention modified to include the revaluation of fixed assets at their value to the business by reference to their current costs. Without limiting the information given, the accounts meet the accounting and disclosure requirements of the Companies Act 1985 and of Accounting Standards issued or adopted by the Accounting Standards Board so far as those requirements are appropriate.

#### 1.2 Turnover

Turnover represents the amounts of goods sold and services provided (net of discounts and value added tax) from the ordinary activities of the business in the year.

#### 1.3 Tangible Fixed Assets

Tangible fixed assets are capitalised by the Agency where the purchase cost is £2k or more and where there is an expected useful economic life of more than one year. On initial recognition they are measured at cost, including any additional expenditure such as installation directly attributable bringing them into working condition.

Tangible fixed assets are restated to current value each year. Land and Buildings are restated to current value using professional valuations. The last valuation was carried out in 2005 with the next due in mid 2010. In the intervening years they are revalued through the use of appropriate published indices. All other assets are revalued annually using published indices, appropriate to each asset type.

#### 1.4 Depreciation

Depreciation is provided on all tangible fixed assets other than land at rates calculated to write off the cost or valuation (less any estimated residual value) of each asset evenly over its expected useful life as follows:

Buildings	40 years
Scientific Equipment	5 to 15 years
IT (including software)	3 to 5 years
Motor Vehicles	5 to 7 years
Furniture	10 years

This policy is varied only for those assets which are expected to remain useful for periods significantly different to those stated above. In these cases a specific life is used.

#### 1.5 Stock and Work in Progress

Work in progress is stated at the lower of cost or net realisable value. The provisions of SSAP9 relating to long-term contracts have been applied and where losses are expected on long-term contracts these have been provided for. Stock is stated at the lower of cost and net realisable value.

#### 1.6 Research and Development

Research and development expenditure is written off as incurred.

#### 1.7 Value Added Tax

CSL is covered under the VAT registration of Defra. Irrecoverable VAT is charged to the Income and Expenditure Account in the year in which it is incurred.

### 1.8 Foreign Currencies

Transactions in foreign currencies are recorded at the rate prevailing at the date of each transaction. Monetary assets and liabilities denominated in foreign currencies are converted at the rate prevailing at the balance sheet date. All differences are taken to the Income and Expenditure Account.

### 1.9 Notional Charges

The following notional costs borne on the Income and Expenditure Account are credited to the General Fund: Defra central overhead charges, audit fees and interest on capital. Notional interest on capital is calculated at 3.5% of the average net capital employed during the year.

### 1.10 Early Departure Costs

A provision is made in full when agreement has been reached with employees who wish to take the early departure option. The provision is reversed over the period until normal retirement age has been reached. The provision is based on an actuarial valuation taking account of options available to the employee.

### 1.11 Pensions

Past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS) which are described in note 6.

CSL 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 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, the Agency recognises the contributions payable for the year.

### 1.12 Leases

Where substantially all risks and rewards of ownership of a leased asset are borne by the Agency, the asset is recorded as a tangible fixed asset and a debt is recorded to the lessor of the minimum lease payments discounted by the rate implicit in the lease. The interest element of the finance lease payment is charged to the Income and Expenditure Account over the period of the lease at a constant rate in relation to the balance outstanding. Other leases are regarded as operating leases, and the rentals are charged to the Income and Expenditure Account on a straight-line basis over the term of the lease.

### 1.13 Facilities Charge

A pricing mechanism exists which separately identifies the high running costs of maintaining specialist facilities for a wide range of Defra customers. By agreement with CSL's Ownership Board and Defra Finance, a separate payment mechanism funded by customer programmes was introduced in 1997/98 for maintaining the specialist facilities. The figures are shown in note 2.

**2. Turnover**

	2006/07 £000	2005/06 £000
Defra – Commissioned research and development	7,224	6,886
Defra – Facilities charge	8,500	8,013
Defra – Commissioned policy support	10,489	10,988
Defra – Other contracts	6,679	6,238
Defra – Non-departmental Public Bodies	779	503
Other Government departments	3,821	3,738
European Union	2,392	1,738
Other income	8,605	8,602
	<b>48,489</b>	<b>46,706</b>

**3. Cost of Sales**

	2006/07 £000	2005/06 £000
Staff costs	17,089	16,563
Consumables	7,122	7,311
Depreciation	3,054	3,062
	<b>27,265</b>	<b>26,936</b>

**4. Administrative Expenses**

	2006/07 £000	2005/06 £000
Staff costs	4,585	4,447
Accommodation	7,048	6,038
Office services	1,395	1,362
Operating leases	72	57
Depreciation	1,628	1,558
Travel and subsistence	1,458	1,115
Early departure costs	72	330
Defra central overheads charge (notional)	114	134
External Audit fee	44	36
Insurance	42	113
Loss / (Profit) on disposal of fixed assets	94	78
Foreign exchange losses / (gains)	93	(62)
Other	587	679
	<b>17,232</b>	<b>15,885</b>
Exceptional Item	<b>0</b>	<b>3,303</b>

The exceptional item is due to the impairment on part of the buildings and relates to the amount adjusted below original cost.

**5. Interest Payable and Similar Charges**

	2006/07 £000	2005/06 £000
Interest on capital (notional)	3,750	3,747
Finance charges payable under finance leases and hire purchase contracts	0	1
	<b>3,750</b>	<b>3,748</b>

## 6. Staff costs

(i)	2006/07	2006/07	2006/07	2005/06	2005/06	2005/06
	£000	£000	£000	£000	£000	£000
	Permanent	Others	Total	Permanent	Others	Total
Wages and salaries	16,403	823	17,226	15,923	883	16,806
Social security costs	1,176	82	1,258	1,158	84	1,242
Superannuation	3,147	0	3,147	2,941	0	2,941
	<b>20,726</b>	<b>905</b>	<b>21,631</b>	<b>20,022</b>	<b>967</b>	<b>20,989</b>
Agency staff costs			43			21
			<b>21,674</b>			<b>21,010</b>

For 2006/07 normal employers' contributions were payable to the Principal Civil Service Pension Scheme (PCSPS) at the following rates:

Salary Level: £18,500 and under	17.1%
Salary Level: £18,501 to £38,000	19.5%
Salary Level: £38,001 to £65,000	23.2%
Salary Level: greater than £65,001	25.5%

For the coming year the following rates will be applicable:

Salary Level: £19,000 and under	17.1%
Salary Level: £19,001 to £39,000	19.5%
Salary Level: £39,001 to £66,500	23.2%
Salary Level: greater than £66,501	25.5%

Employer contributions are reviewed every four years following a scheme valuation by the Government Actuary. A full actuarial valuation was carried out on 31 March 2003. The contributions reflect benefits as they are accrued, not when the costs are actually incurred, and they reflect past experience of the scheme. Further details of the schemes can be found in note 6(iii).

The average number of persons employed by CSL during the year was:

(ii)	2006/07			2005/06		
	Permanent	Others	Total	Permanent	Others	Total
Average number employed	628	52	680	622	65	687

(iii) 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](http://www.civilservice-pensions.gov.uk).

(iv) For details of the Chief Executive's and Directors' salaries please refer to the Remuneration Report which can be found on page 27.

## 7. Tangible Fixed Assets

	Freehold Land £000	Freehold Buildings £000	Furniture £000	Vehicles £000	IT £000	Science Equipment £000	Total £000
Cost or Valuation							
At 1 April 2006	9,450	127,115	1,056	843	1,934	16,519	156,917
Additions at cost	0	278	0	231	144	789	1,442
Revaluation	0	6,586	20	8	(120)	(64)	6,430
Disposals	0	0	0	(104)	(176)	(965)	(1,245)
Impairment	0	0	0	0	0	0	0
<b>At 31 March 2007</b>	<b>9,450</b>	<b>133,979</b>	<b>1,076</b>	<b>978</b>	<b>1,782</b>	<b>16,279</b>	<b>163,544</b>
Depreciation							
At 1 April 2006	0	33,644	819	707	1,263	11,294	47,727
Provided in year	0	3,284	108	63	220	961	4,636
Revaluation	0	1,816	16	6	(71)	(45)	1,722
Disposals	0	0	0	(104)	(176)	(740)	(1,020)
Impairment	0	0	0	0	0	0	0
<b>At 31 March 2007</b>	<b>0</b>	<b>38,744</b>	<b>943</b>	<b>672</b>	<b>1,236</b>	<b>11,470</b>	<b>53,065</b>
<b>NBV At 31 March 2007</b>	<b>9,450</b>	<b>95,235</b>	<b>133</b>	<b>306</b>	<b>546</b>	<b>4,809</b>	<b>110,479</b>
<b>NBV At 1 April 2006</b>	<b>9,450</b>	<b>93,471</b>	<b>237</b>	<b>136</b>	<b>671</b>	<b>5,225</b>	<b>109,190</b>

Property values are included in the Balance Sheet where the Agency is the sole or major occupier, and a charge made for depreciation and the cost of capital. On 31 March 2005, as part of the five yearly review of departmental estate, Defra obtained an independent valuation from the Valuation Office. They valued the York site at £95,502k. The next review is in mid 2010.

**8. Stock and Work in Progress**

	31.3.07 £000	31.3.06 £000
Work in Progress	214	122
Stock of consumables and items for resale	17	39
	<b>231</b>	<b>161</b>

**9. Debtors**

<b>Amounts falling due within one year</b>	<b>31.3.07</b> £000	<b>31.3.06</b> £000
Trade debtors	3,307	3,886
Defra debtors	972	1,538
Other debtors	49	106
Defra accrued income	730	573
Other accrued income	2,052	1,953
Prepayments	524	357
	<b>7,634</b>	<b>8,413</b>

<b>Amounts falling due after one year</b>	<b>31.3.07</b> £000	<b>31.3.06</b> £000
Prepayments	2	20
	<b>7,636</b>	<b>8,433</b>

**10. Debtors – Intra Government Balances**

<b>Amounts falling due within one year</b>	<b>31.3.07</b> £000	<b>31.3.06</b> £000
Balances with other central government bodies	1,767	3,939
Balances with local authorities	11	12
Balances with public corporations and trading funds	0	56
Balances with bodies external to government	5,856	4,406
	<b>7,634</b>	<b>8,413</b>

<b>Amounts falling due after one year</b>	<b>31.3.07</b> £000	<b>31.3.06</b> £000
Balances with bodies external to government	2	20
	<b>2</b>	<b>20</b>

**11. Bank and Cash**

	31.3.07 £000	31.3.06 £000
Office of the Paymaster General	7,569	10,260
Other bank balances	2,948	1,619
Cash in hand	1	3
	<b>10,518</b>	<b>11,882</b>

Of the above balances CSL hold £896k of monies relating to Third Party Collaborators. (2005/06 £1.5m).

**12. Creditors**

<b>Amounts falling due within one year</b>	<b>31.3.07</b> £000	<b>31.3.06</b> £000
Trade creditors	617	323
Defra creditors	350	35
Extra receipts payable to Defra	0	29
Other creditors	1,046	1,865
Defra prepaid income	726	1,264
Other prepaid income	1,512	1,368
Obligations under finance leases and hire purchase contracts	0	0
Defra accruals	225	236
Other accruals	1,108	132
Other taxation and social security	428	427
	<b>6,012</b>	<b>5,679</b>

Monies held for third party collaborators	896	1,500
	<b>6,908</b>	<b>7,179</b>

There are no creditors falling due after more than one year.

**13. Creditors – Intra Government Balances**

<b>Amounts falling due within one year</b>	<b>31.3.07</b> £000	<b>31.3.06</b> £000
Balances with other central government bodies	1,500	1,921
Balances with public corporations and trading funds	0	2
Balances with bodies external to government	5,408	5,256
	<b>6,908</b>	<b>7,179</b>

There are no Intra Government creditors falling due after more than one year.

**14. Provisions for liabilities and charges**

	2006/07 £000	2005/06 £000
Balance at 1 April 2006	1,542	1,891
Provided in the year	34	248
Provisions utilised in year	(539)	(679)
Unwinding of discount	38	82
<b>Balance at 31 March 2007</b>	<b>1,075</b>	<b>1,542</b>

The provision relates to early departure costs.

**15. Leases****15a. Obligations under Finance Leases and Hire Purchase Contracts**

Amounts payable	31.3.07 £000	31.3.06 £000
Within one year	0	0
In two to five years	0	0
	<b>0</b>	<b>0</b>
less: finance charges allocated to future periods	0	0
	<b>0</b>	<b>0</b>
	<b>31.3.07 £000</b>	<b>31.3.06 £000</b>

**Analysis of changes in finance leases and hire purchase contracts during the year**

Balance at 1 April 2006	0	5
New commitments	0	0
	0	5
Capital element of finance lease payments	0	(5)
<b>Balance at 31 March 2007</b>	<b>0</b>	<b>0</b>

**15b. Obligations under Operating Leases**

Commitments under leases to pay rentals during 2007/08 are given in the table below, analysed according to the period in which the lease expires.

	31.3.07 £000	31.3.06 £000
<b>Land and Buildings</b>		
Expiry within one year	0	N/A
Expiry in two to five years	39	N/A
Expiry thereafter	0	N/A
<b>Amount Payable in the following year</b>	<b>39</b>	<b>N/A</b>
<b>Other</b>	£000	£000
Expiry within one year	0	N/A
Expiry in two to five years	0	N/A
Expiry thereafter	0	N/A
<b>Amount Payable in the following year</b>	<b>0</b>	<b>N/A</b>

The above information is provided by Defra Estates Division. Prior year comparisons are not available.

**16. General Fund**

This account represents the net assets taken over by the Agency at 1 April 1992. Subsequent movements comprise surpluses / deficits generated from trading activities, introduction of capital charging and notional charges.

	2006/07 £000	2005/06 £000
Balance at 1 April 2006	91,902	97,623
Surplus / (Deficit) for the year	276	(3,137)
Extra receipts payable to Defra	0	(29)
Notional charges	3,908	3,917
Investment	3	
Repayment to Defra of excess cash funding	(9,000)	(7,381)
Transfer from Revaluation Reserve	1,085	909
<b>Balance at 31 March 2007</b>	<b>88,174</b>	<b>91,902</b>

**17. Revaluation Reserve**

	2006/07		2005/06	
	£000	£000	£000	£000
Balance at 1 April 2006		29,043		25,172
Surplus / (Deficit) on revaluation – cost	6,550		8,719	
Surplus on revaluation – depreciation	(1,793)		(2,124)	
		4,757		6,595
		<b>33,800</b>		<b>31,767</b>
Downward revaluation on impairment		0		(1,810)
Adjustment on disposal of revalued assets		(5)		(5)
Transfer to General Fund		(1,085)		(909)
<b>Balance at 31 March 2007</b>		<b>32,710</b>		<b>29,043</b>

**18. Net Cash Inflow from Operating Activities**

	2006/07	2005/06
	£000	£000
Operating surplus	3,992	582
Impairment of building	0	3,303
Depreciation	4,683	4,620
Notional charges (excl. interest on capital)	158	170
Decrease in stock	22	11
Decrease / (Increase) in work in progress	(92)	152
Decrease / (Increase) in debtors	797	(349)
(Decrease) / Increase in creditors	(271)	3,534
Decrease in provision for liabilities and charges	(467)	(349)
Loss / (Profit) on disposal of fixed assets	94	78
<b>Net cash inflow from operating activities</b>	<b>8,916</b>	<b>11,752</b>

**19. Returns on Investments and Servicing of Finance**

	2006/07	2005/06
	£000	£000
Interest paid	0	(1)
Interest received	34	29
	<b>34</b>	<b>28</b>

**20. Capital Expenditure and Financial Investment**

	2006/07	2005/06
	£000	£000
Payments to acquire fixed assets	1,442	1,470
Receipts from disposal of fixed assets	(128)	(10)
	<b>1,314</b>	<b>1,460</b>

**21. Analysis of Changes in Cash during the year**

	2006/07	2005/06
	£000	£000
Balance at 1 April 2006	11,882	8,977
Net cash flow	(1,364)	2,905
<b>Balance at 31 March 2007</b>	<b>10,518</b>	<b>11,882</b>

**22. Capital Commitments**

There were no Capital Commitments for 2006/07 or 2005/06.

**23. Related Party Transactions**

During the year CSL had dealings with the Department for Environment, Food and Rural Affairs and its sponsored bodies, notably the Pesticides Safety Directorate and Veterinary Medicines Directorate. None of the Laboratory Advisory Board members, members of the key management staff or other related parties have undertaken any material transactions with CSL.

Robert Bolton held the position of Commercial Director of CSL and Chief Executive of Forsite Diagnostics Ltd during the formation and legal proceedings relating to the spin-out of Forsite Diagnostics. Mr Bolton received no financial recompense for these actions. CSL received £240k consideration for the sale of the Company. All matters were conducted at arms' length in the presence of lawyers.

## 24. Investment in Associated Company

In January 2007, CSL sold the majority of its existing business relating to lateral flow devices to an external party, SGBio Ltd. CSL received a cash and share consideration for the sale.

A new company called Forsite Diagnostics Limited (FDL) was formed. CSL retains a 24% shareholding, with a non-executive representation, with limited powers, on the FDL Board. Six CSL staff transferred under TUPE arrangements to the new organisation; and fixed assets and stocks with a net value of £140k were also purchased from CSL by the investors and transferred into FDL.

Under the agreement CSL is expected to benefit from the future sale of FDL, which will realise cash proceeds. In addition, CSL has a small percentage shareholding in the Parent, SGBio Ltd, which may also realise future cash benefits. CSL provides ongoing various site and R&D services to FDL, for which FDL is charged at full cost recovery rates.

At 31 March 2007, the net fixed and current assets (excluding cash and loans) of FDL were valued at £12k, with CSL's share accordingly being £3k. FDL will provide its Board of Directors with regular management reports and accounts, which will allow CSL to assess its shareholder value at appropriate reporting dates.

## 25. Financial Performance Target

CSL was set one financial performance target:

To recover the full economic costs of operation on a resource accounting basis, recognising the normal costs of operation:

For the purpose of assessing performance against this target a number of areas are adjusted to reach the deficit or surplus for the year based on the normal costs of operation.

	2006/07 £000	2005/06 £000
Surplus / (Deficit) from Income and Expenditure Account	276	(3,137)
Impairment of building	0	3,303
Loss / (Profit) on disposal of fixed assets	94	78
Early Departure Costs	0	0
Defra funded early departures	0	0
<b>Adjusted Surplus</b>	<b>370</b>	<b>244</b>

In 2006/07 CSL generated income of £48,489k against full economic costs of £48,119k. The adjusted surplus of £370k therefore represents 100.8% recovery of costs.

## 26. Derivatives and Other Financial Instruments

The Agency is required to disclose the role that Financial Instruments had during the year in creating or changing the risks faced by the Agency in undertaking its activities. The non trading nature of the Agency's activities, and the way that agencies are financed, means that the Agency is not exposed to the degree of financial risk faced by other business entities. CSL 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.

The Agency is therefore not exposed to significant liquidity risk, as it has no borrowing facilities and its net resource requirements are financed annually through Parliament. There is no exposure to interest rate risk as the Agency's main financial assets and liabilities carry nil or fixed rates of interest. Exposure to currency risk is minimised by trading in Sterling, Euros and Dollars and reviews are carried out on bank balances. The Agency therefore does not use derivatives or other financial instruments for mitigating such risks, or for other purposes.