



# Veterinary Laboratories Agency®

**ANNUAL REPORT AND ACCOUNTS 2007/2008**

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

HC 647



# Veterinary Laboratories Agency

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

## ANNUAL REPORT AND ACCOUNTS 2007/2008

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

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## MISSION STATEMENT

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



INVESTOR IN PEOPLE

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## CHIEF EXECUTIVE'S REVIEW

I have been Acting Chief Executive since early March 2008 and therefore the credit for the work of the Agency during 2007/08 sits with the former Chief Executive, Professor Steve Edwards. Steve has been the Chief Executive for nearly eight years and during this time he has led the organisation through various challenges including a number of disease outbreaks. Steve has moved on, prior to his retirement later this year, to be the Interim Chief Executive of our sister agency, Animal Health, and we are taking the opportunity to work closely with him in his new role.

A key challenge faced in 2007/08 was the independent audit of VLA's science as part of Defra's Quinquennial Science Audit Programme. The audit team chaired by Professor Quintin McKellar, Principal of the Royal Veterinary College, examined the quality and value for money of our science as well as our scientific outputs over the last five years. Four audit teams, which included experts from across the world, visited our network of laboratories, met with our scientists and were presented with VLA's scientific highlights. We were pleased that their report acknowledged the VLA as a 'recognised centre of excellence' and rated the science 'good' overall, with many areas of scientific excellence. This is a reflection of the excellent scientific leadership across the Agency and the massive contribution of all our scientists and support staff. I would like to take this opportunity to thank them all on this achievement.

We have seen a number of changes in governance and key stakeholders during 2007/08. A new VLA Owners Advisory Board was established, chaired by VLA's new corporate owner, the Chief Veterinary Officer (CVO) in Defra. We look forward to working with Nigel Gibbens the recently appointed CVO in this role. As part of the transformation of our parent department under the Defra Renew Programme, we also have seen the introduction of a Defra corporate customer, the Deputy CVO and we are working with him in addressing some future challenges.

The foot and mouth disease (FMD) outbreak in 2007 impacted on us from a number of different angles. Our main laboratory complex was in the surveillance zone and so our prime concern, like all other livestock owners in the area, was for the biosecurity of our own animals and the obvious impact any breach could have on long standing animal studies. I am pleased to report that our measures were successful and our livestock remained free of FMD.

As with the previous outbreak in 2001 our emergency response capability was again called upon to provide veterinary expertise in the FMD disease control centres and also large scale FMD testing. As part of future proofing following the 2001 outbreak we built a unique capability into our new Stewart Stockman building, which was in the planning stages at that time. This enables some of our Specified Animal Pathogens Order (SAPO) containment level 2 laboratories to be quickly switched over to a SAPO containment level 4 facility, should there be a disease outbreak anywhere in the UK. These laboratories are fitted with a high level of automated and robotic sample processing equipment to enable high throughput testing. This year we saw the laboratory used for the first time in earnest with over 30,000 FMD serology tests successfully carried out as part of our support to the National Reference Laboratory at the Institute for Animal Health (IAH) Pirbright.

The facility was also called upon to help combat separate outbreaks of avian influenza – H7N2 in May and H5N1 in November 2007. Most recently it has again been used to support the National Reference Laboratory at IAH Pirbright by testing almost 90,000 samples for Bluetongue virus serology during the vector free period in the first three months of 2008.

Our role in helping to counter these outbreaks exemplifies VLA's disease emergency response capability and our ability to work across organisational boundaries with colleagues in Defra, Animal Health and the Institute for Animal Health at Pirbright. As well as responding to disease emergencies we have also delivered an extensive portfolio of surveillance and research projects in our specialist areas, as well as providing key national and international reference laboratory facilities. The VLA Annual Review 2007/08 provides more details on our scientific achievements.

We have met our key business and scientific targets set by Defra Ministers and at the same time we also contributed to Defra's headcount reduction target. For the coming year we face even more challenges with a significant reduction in the income we receive from our main customer group in Defra. We will be putting plans into place to bring VLA back to full cost recovery over the next couple of years. In doing so we will be discussing options with our corporate customer to ensure that we do not put at risk the quality of our science or the professional services that we provide. To help achieve this we will be conducting a root and branch review of our business strategy so that we can draw up a stretching corporate plan for the coming five years, which reflects our agreed priorities. This plan will also include how we will address the recommendations made in the science audit. In the autumn of 2008 we will have a new Chief Executive to lead the delivery of this plan.

**Chris Morrey**  
Acting Chief Executive and Agency Accounting Officer

**22<sup>nd</sup> May 2008**

**DIRECTORS' REPORT**  
**For the year ended 31 March 2008**

**TREASURY DIRECTION**

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

**BACKGROUND INFORMATION**

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

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

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

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

**PRINCIPAL ACTIVITIES**

The principal activities of the Veterinary Laboratories Agency are to:

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

## MANAGEMENT STRUCTURE

### VLA Management Board

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

Prof. S. Edwards	Chief Executive (until 9 <sup>th</sup> March 2008)
Mr. C. Morrey	Business Director (Acting Chief Executive from 10 <sup>th</sup> March 2008)
Mr. R. Hancock	Veterinary Director
Prof. C. Thorns	Science Director
Prof. J. Preston	External Member (from 1st April 2007)
Mr D Deacon	Finance Director (from 10 <sup>th</sup> March 2008)
Mrs J Goodger	Laboratory Secretary (from 10 <sup>th</sup> March 2008)

### VLA Owners Advisory Board

It is Defra policy that each Executive Agency has a corporate owner accountable to the Defra Management Board for managing the ownership relationship with the Agency, for the VLA this is the Chief Veterinary Officer. The VLA Owners Advisory Board (VOAB) was established to assist the corporate owner in fulfilling this task. Its remit is to advise the corporate owner on; the strategic direction for the VLA, setting targets and business plans, reviewing performance, challenging the Agency on continuous improvement and setting the level of oversight consistent with capacity and risk.

Membership of the board is as follows:

Dr. D. Reynolds	Chairman, Chief Veterinary Officer, Defra (until October 2008)
Mr F Landeg	Acting Chief Veterinary Officer, Defra (from November 2008)
Prof D Smith	External Member (until August 2007)
Prof C.J. Gaskell	External Member
Prof. S. Edwards	Chief Executive, VLA (until 9 <sup>th</sup> March 2008)
Mr C Morrey	Acting Chief Executive, VLA (from 10 <sup>th</sup> March 2008)
Mr. A. Burchell	DG Service Transformation Group, Defra (until 31st March 2008)
Dr A Grocock	External Member from September 2007
Prof N Brown	External Member from September 2007

## CUSTOMER INCOME

In the year Defra placed work with the Agency, which accounted for 89% of its total revenue (2006/07, 89%). The Agency continues to seek income from other sources, whilst retaining a special relationship with the Department.

## **R&D ACTIVITIES**

The research and development work of the Agency underpins the activities of Defra's Food and Farming Group (FFG) in the control of animal diseases of statutory or public health significance: such commissioned work for Defra amounted to 21% of the total income from Defra in the year (2006/07, 22%).

## **AUDIT SERVICES**

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

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

## **PAYMENT POLICY**

VLA policy is to settle all creditors' accounts within creditors' own payment terms and conditions. During the financial year the VLA paid 97% of bills by the due date (2006/07, 97%).

## **DISABLED PERSONS POLICY**

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

## **COMMUNICATION**

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

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

**PENSIONS**

All staff are eligible for membership of the Principal Civil Service Pension Scheme (PCSPS). An outline of the scheme is included in the Remuneration Report and details of how pension liabilities are treated can be found within the notes to the accounts at 1.(i).

## OPERATING AND FINANCIAL REVIEW

### AIMS AND OBJECTIVES

#### Aims

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

#### Objectives

The Agency's principal objectives are to:

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

#### Financial Performance

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

**This target was achieved in 2007/08 as shown below.**

	2007/08 (£'000)	2006/07 (£'000)
Operating income	(111,172)	(110,904)
Administration costs	<u>111,407</u>	<u>110,885</u>
Operating cost statement (deficit) / surplus	(235)	19
Adjustments disclosed in note 2 to the accounts	<u>(346)</u>	<u>(494)</u>
Deficit for the year after adjustments	<u>(581)</u>	<u>(475)</u>

Included within VLA's costs is a capital charge of £23,389,000 (2006/07, £23,551,000) comprising notional interest, depreciation, impairment on buildings to be demolished and downward asset revaluations.

## Service Performance and Quality Targets

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

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

- **Achieve 85% of ROAME R&D milestones.**  
This refers to the work we undertake on research projects for Defra and is an agreed performance measure with them. It relates to meeting the agreed milestones on the projects we undertake for them during the year, i.e. interim and final reports, and is set at project initiation stage. The customer must agree any variation to original timescale. We monitor performance in year within the VLA's Business Division and provide regular reports on progress to both Defra and internally through our milestone tracking system.  
**This target was met in each of the last 3 financial years.**
- **Achieve 85% of Surveillance deliverables on time.**  
This is similar to the above except that it relates to our surveillance work and covers a much broader range of outputs. Our surveillance work is made up of numerous projects undertaken for a number of different customers within Defra Food and Farming Group. Deliverables on projects are varied and can be a monthly report or less frequent, depending upon the nature of the individual project. We monitor and report progress in a similar manner to the above.  
**This target was met in each of the last 3 financial years.**
- **Achieve a score of 82% in the customer satisfaction survey based on a three year rolling average (previous years' targets have been for the year only and were 80% in 2006/07 and 75% in 2005/06).**  
Each year we send out a questionnaire to our main government customers, Defra and the FSA who account for over 90% of our work, asking them to score our performance against a number of set questions in relation to projects we have undertaken for them. Projects are selected across our programmes and relate to those completed during the year. The questionnaires and the comments received back allow us to identify trends (good and bad) and lessons to be learned. This process is managed within the Business Division and the results of the consolidated returns are then calculated to give an overall satisfaction score based on a weighting of individual project values. The report is circulated to SMG and the Programme Managers who are required to produce an action plan in response to any issues raised in their area.  
**This target was met in each of the last 3 financial years.**

**Quality** is central to all that we do and having independent third party certification and accreditation for our work gives our customers reassurance in placing work with us. It also ensures that we foster an environment of continual improvement in all that we do. The quality of the science of Defra's Science Agencies is subject to an independent review which is commissioned usually every 5 years, this is known as the science audit. A review of the VLA's science was undertaken during 2007/08. We have two quality targets;

- **VLA Science Audit – to achieve a score which is good or above in the majority of the assessment areas including one excellent rating.**

The science audit was commissioned by the Defra Chief Scientific Adviser and undertaken by four teams chaired by Professor Quintin McKellar, Principal of the Royal Veterinary College. The audit took place during September 2007 and a report was produced in January 2008. The findings of the report were tabled at VOAB together with the VLA's response. The Board recorded that the outcome enabled them to sign off the target.

**This target was met in 2007/08.**

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

We already have achieved a range of formal external standards such as ISO9001 across the Agency, ISO14001, Good Laboratory Practice, Good Manufacturing Practice, Investors in People and ISO17025 in different areas of our operations. An important measure of demonstrating our commitment to quality is that these are maintained. They are subject to regular audit and inspection and maintaining them is a challenging target.

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

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

**The key activities within this target were met during the current year. The target was fully met in each of the 2 previous financial years.**

**Efficiency** savings are required by Defra from all its Agencies and NDPBs as part of its response to the Gershon Efficiency agenda. We are playing our part in this by seeking to achieve an annual 2.5% reduction in our expenditure over a three year period compared to a baseline set as 2004/05. The baseline has been agreed with the Defra unit managing this process and it takes into account non operational accounting adjustments such as write downs and some pass through items of expenditure over which we have no control. The data for validating this target is produced from our accounting system and progress is discussed regularly with Defra. The final year for this target is 2007/08.

**This target was met in each of the 3 years.**

**Collaboration** with other scientific establishments is seen as a vital component in enhancing our scientific knowledge, expertise and facilities. A major collaboration is the planned co-location of our virology department with that at the Institute of Animal Health (IAH) at a redeveloped site at Pirbright. We had a target to establish a formal framework agreement to extend collaboration with IAH. A framework agreement was prepared and endorsed by the VLA and the IAH director but the IAH governing board decided that whilst they were awaiting the Beringer review into future governance at IAH it was not appropriate at this stage to sign such an agreement.

**This target was therefore only partially met.**

## **Risk Policy**

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

## **Land and Buildings**

The premises occupied by the VLA comprise a main Laboratory site of 15 hectares near Weybridge, Surrey, with adjacent grassland and farm buildings of 75 hectares; a farm unit of 50 hectares within eight miles of the main Laboratory; and 15 Regional Laboratories throughout England, Scotland and Wales. There is an ongoing redevelopment programme at the Weybridge site and during the year £4.1m. of buildings under construction were completed and transferred into use.

## **Environment Policy and Achievement**

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

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

VLA has clearly defined responsibilities for sustainable development and the monitoring and reporting of our performance will be included in annual reports. We will also integrate sustainable development into all our policy making and procedure setting. We have published a Sustainable Development Action Plan which is available on our website.

VLA achieved ISO14001 certification for the Weybridge site in 2005 and corporate certification in 2007 covering a number of the Regional Laboratories.

## **Recruitment**

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

### **Employment of Disabled Persons**

VLA follows the Civil Service Code of Practice in the employment of disabled people. The aim is to ensure that there is no discrimination on the grounds of disability and that employment and career progression is based solely on ability. The VLA ensures that disabled job applicants are guaranteed an interview if they meet the minimum qualifications for the advertised post. Its policies and procedures meet the requirements of the disability Two Ticks standard. The number of disabled persons employed by VLA at 31 March 2008 was 108.

### **Diversity and Equality**

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

### **Employee Involvement**

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

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

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

### **Data Handling**

A review of data handling procedures within the Agency has been carried out in accordance with Cabinet Office instructions. It is confirmed that there have been no personal data related incidents.

## REMUNERATION REPORT

### Remuneration Policy

The remuneration of Senior Civil Servants is set by the Prime Minister following independent advice from the Review Body on Senior Salaries.

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

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

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

Further information about the work of the Review Body can be found at [www.ome.uk.com](http://www.ome.uk.com).

### Assessment of Performance

The Chief Executive and all senior managers 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 managers it is the Performance Management system as adopted by VLA.

### Service Contracts

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

The officials covered by this report who are Senior Civil Servants hold appointments which are open-ended until they reach the normal retiring age of 65 although they have the option to retire at 60. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme. The other officials are covered by standard VLA contracts which have no mandatory retirement age but retain the option to retire at 60.

Further information about the work of the Civil Service Commissioners can be found at [www.civilservicecommissioners.gov.uk](http://www.civilservicecommissioners.gov.uk).

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

	Salary, including performance pay [2006/07] (£k)	Real increase in pension and lump sum at age 60 (£k)	Total accrued pension at age 60 at 31/3/08 and related lump sum (£k)	CETV at 31/3/07 (£k)	CETV at 31/3/08 (£k)	Real increase in CETV as funded by employer (£k)
Prof S Edwards	90-95[95-100]	4	123	689	797	23
Mr R Hancock	85-90[75-80]	4	89	390	465	18
Mr C Morrey	80-85[80-85]	5	35	146	195	22
Prof C Thorns	75-80[65-70]	3	131	663	768	14
Mr D Deacon	0-5[n/a]	6	33	151	209	30
Mrs J Goodger	0-5[n/a]	2	56	209	253	10

Mr D Deacon and Mrs J Goodger were both appointed on the 10th March 2008.

Full year equivalents for part year officials for 2007/08 were:

	<u>2007/08</u> £k
Mr D Deacon	65-70
Mrs J Goodger	50-55

Salaries include gross salaries, performance pay or bonuses; overtime; reserved rights to London weighting or London allowances; recruitment and retention allowances; private office allowances and any other allowance to the extent that it is subject to UK taxation. There were no benefits in kind (2006/07 – nil).

The members of the Owners Advisory Board with the exception of Prof S Edwards and Mr C Morrey are either Defra employees, which bears their direct costs, or non-Defra external members whereby Defra pays expenses for their attendance at the meetings.

Appointment of the Agency's Chief Executive is by open competition. The appointment is fixed term for a period of five years and Prof. S. Edwards was appointed to this post. This term elapsed in June 2005 and the appointment was renewed for three years from 9<sup>th</sup> March 2005. An extension for a further 6 months to 8<sup>th</sup> September 2008 was agreed whilst a recruitment exercise takes place. Prof. S. Edwards was appointed interim Chief Executive of Animal Health with effect from 10<sup>th</sup> March 2008 and since that date Mr C. Morrey has been acting Chief Executive of the VLA. The appointment may be terminated subject to normal employment law considerations. The Chief Executive is a member of the Senior Civil Service and his remuneration is based upon SCS salary scales; he is entitled to a bonus based upon achievement of the Agency's targets. This is subject to external validation by Defra's Internal Audit Division who undertake a full audit.

The Chief Executive's gross cost of employment in 2007/08 including superannuation benefit, employer's NI contributions, bonus and a taxable allowance was Prof. S. Edwards £126,064 and Mr. C. Morrey £6,380 (2006/07 £129,489 Prof. S. Edwards only). Both Chief Executives are members of the Classic Pension Scheme.

### **Civil Service Pensions (CSP)**

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

Employee contributions are set at the rate of 1.5% of pensionable earnings for classic and 3.5% for Premium and Classic Plus. Benefits in Classic accrue at the rate of 1/80<sup>th</sup> 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 1/60<sup>th</sup> 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).

### **Cash Equivalent Transfer Values**

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouses' pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which the disclosure applies. The CETV figures, and from 2003-04 the other pension details, include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the CSP arrangements and for which the CS Vote has received a transfer payment commensurate to the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

Due to certain factors being incorrect in last years CETV calculator there may be a slight difference between the final period CETV for 2006/07 and the start of period CETV for 2007/08.

**Real Increase in CETV**

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

**Chris Morrey**

Acting Chief Executive and Agency Accounting Officer

22<sup>nd</sup> May 2008

### **STATEMENT OF AGENCY'S AND CHIEF EXECUTIVE'S RESPONSIBILITIES**

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

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

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

The Accounting Officer of the Department for Environment, Food and Rural Affairs has designated the Chief Executive of the Veterinary Laboratories Agency as the Accounting Officer of the Veterinary Laboratories Agency. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the Veterinary Laboratories Agency's assets, are set out in chapter 3 of Managing Public Money issued by H.M. Treasury.

## STATEMENT ON INTERNAL CONTROL

### 1. SCOPE OF RESPONSIBILITY

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

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

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

### 2. THE PURPOSE OF THE SYSTEM OF INTERNAL CONTROL

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Agency policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in the Agency for the year ended 31 March 2008 and up to the date of approval of the annual report and accounts, and accords with H.M. Treasury guidance.

### 3. CAPACITY TO HANDLE RISK

Risk Management is recognised as the key internal control. The framework for its effective operation in VLA is the responsibility of an SMG executive director (the Business Director to 9<sup>th</sup> March 2008; the Laboratory Secretary from 10<sup>th</sup> March 2008) on behalf of the Accounting Officer. Regular reports are made to VLA's Management Board, the Strategy Management Group (SMG) and to the Audit & Risk Committee where effectiveness of the processes in place are assessed. A sub-committee of the SMG, the Risk Management Steering Group is in place to ensure a consistent approach is followed and give guidance on any issues arising from the risk registers.

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

#### **4. THE RISK ENVIRONMENT**

##### **Governance**

The management structure and accountability of the VLA Board and Executive (SMG) is detailed on page 4. A register of the Directors (SMG in this instance) is maintained and reviewed annually. Support to the management structure is provided for Internal Control purposes through the Audit & Risk Committee (A&RC) which is chaired by an external member. Representatives from Internal and External Audit attend the A&RC to present and receive reports on risk and controls within the Agency. In addition Internal Audit gives an opinion on the control, risk and governance environment. The Committee's terms of reference and minutes of meetings are available to staff on our intranet. In addition the SMG has established a number of advisory sub-committees covering the areas of Science, Safety, Quality, IT and Risk all of which are chaired by an SMG member.

##### **Programme and Project Management**

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

- Each project has a project leader and we have in place published standard operating procedures for project management which include requirements for project initiation documents, planning, risk assessments, delivery, final reports etc and are available on our Intranet.
- We have an established set of training courses for new project managers and regularly review the content and appropriateness of these courses.
- Work programme performance is reviewed regularly through the year at meetings held with the programme managers and members of the SMG.
- Targets of performance are in place covering delivery of projects and these are ministerial targets and can be found on pages 8-9.
- We undertake each year a customer satisfaction survey based on a cross section of projects delivered and put in place action plans in response to any issues raised in the feedback.
- All project work is undertaken to the quality standard ISO9001 and is subject to independent external review.

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

## **Risk Management**

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

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

The top risk priorities currently identified are in the areas of customer requirements, Pirbright co-location project, flexible workforce and retaining appropriate key skills.

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

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

## **Strategy and Planning**

We have in place a well established business planning process whereby each year we review and publish our Corporate Plan and produce an Annual Business Plan. These plans detail the strategic direction for the Agency, the issues we face, the Agency targets, the corporate risk register and the balanced scorecard. In producing these plans we consult with our senior staff and the TUS. These documents are agreed by the VLA Owners Advisory Board and approved by the Minister. Details of the targets can be found on pages 7-9.

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

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

We will be undertaking a thorough review of our corporate strategy during 2008 consulting widely to ensure that the strategy is appropriate for the challenges that we face in the medium term.

### **Performance Management**

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

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

## **5. REVIEW OF EFFECTIVENESS**

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

- The local management board (SMG) meets monthly to consider operational performance and quarterly in relation to strategic and medium term issues affecting the direction of the Agency compared to its plan.
- Progress on achievement of the ministerial targets is reported to the VLA Ownership Board. The Chief Executive has line responsibility to the Defra Chief Veterinary Officer and regular meetings are held during the year to discuss the Agency’s progress against its objectives.

- A balanced scorecard is the main internal measurement of performance and is operated in conjunction with the risk register which is reviewed by SMG monthly. This scorecard forms the basis for work objective setting and is cascaded throughout the Agency.
- The Audit & Risk Committee meets at least three times a year to consider the effectiveness of VLA's response to audit reports and its risk management framework.
- Risk Management is a scorecard objective for the Business Director (from 10<sup>th</sup> March 2008 – the Laboratory Secretary) who is the nominated Risk Co-ordinator.
- All risks identified in the Corporate and Divisional risk registers have a risk owner responsible for control and mitigation.
- The risk register was subjected to a major review in January 2007 and a revised register of risks was produced.
- To ensure that the risk of fraud is properly managed there is a Fraud Management Policy together with a specific risk register. A small team has been established, chaired by the Business Director (from 10<sup>th</sup> March 2008 – the Finance Director), to manage and review the process.
- Internal audit services are provided by RSM Bentley-Jennison, an independent company which operates to Government internal audit standards. Each year an Audit Strategy for the coming year is approved by the A&RC together with the Annual Plan. They submit regular reports, which include an independent opinion on the adequacy and effectiveness of the Agency's system of internal control together with recommendations for improvement.

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

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

**Chris Morrey**  
Acting Chief Executive and Agency Accounting Officer

22<sup>nd</sup> May 2008

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

I certify that I have audited the financial statements of the Veterinary Laboratories Agency for the year ended 31<sup>st</sup> March 2008 under the Government Resources and Accounts Act 2000. These comprise the Operating Cost Statement and Statement of Recognised Gains and Losses, the Balance Sheet, the Cash Flow 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 been 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, the information which comprises the management commentary of the Directors' Report, the Operating and Financial Review and the Remuneration Report included in the Annual Report is consistent with the financial statements. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

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

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

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

## **Basis of audit opinion**

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Agency and Chief Executive in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Agency's circumstances, consistently applied and adequately disclosed.

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

## **Opinions**

In my opinion:

- the financial statements give a true and fair view, in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by HM Treasury, of the state of the Agency's affairs as at 31 March 2008, and of the net operating deficit, 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
- Information, which comprises the management commentary, the Directors' Report, the Operating and Financial Review and the Remuneration Report, included within the Annual Report, is consistent with the financial statements.

## **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.

*T J Burr*

*Comptroller and Auditor General*

*National Audit Office*

*151 Buckingham Palace Road*

*Victoria*

*London SW1W 9SS*

*29<sup>th</sup> May 2008*

**OPERATING COST STATEMENT  
FOR THE YEAR ENDED 31 MARCH 2008**

		2007/08	2006/07
	Notes	£'000	£'000
Administration Costs:			
Staff Costs	3	42,955	41,976
Other Administration Costs	4	68,452	68,909
		<u>111,407</u>	<u>110,885</u>
Operating Income	6	(111,172)	(110,904)
Net Operating (Deficit)/Surplus		<u>(235)</u>	<u>19</u>

All activities arise from continuing operations.

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

**BALANCE SHEET**  
**AS AT 31 MARCH 2008**

		2008	2007
	Notes	£'000	£'000
<b>Fixed Assets</b>			
Tangible fixed assets	7	290,391	272,374
<b>Current Assets</b>			
Stocks	8	3,308	2,582
Debtors and prepayments	9	6,270	5,248
Cash		768	1,040
		10,346	8,870
Creditors due within one year	10	(27,723)	(22,291)
Net Current Liabilities		(17,377)	(13,421)
Total Assets less Current Liabilities		273,014	258,953
Provisions for Liabilities and Charges	11	(488)	(580)
		272,526	258,373
<b>Taxpayers' Equity</b>			
General fund	12	184,117	175,963
Revaluation reserve	13	88,409	82,410
		272,526	258,373

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

**Chris Morrey**  
Acting Chief Executive and Agency Accounting Officer

22<sup>nd</sup> May 2008

**CASH FLOW STATEMENT  
FOR THE YEAR ENDED 31 MARCH 2008**

		2007/08	2006/07
	Notes	£'000	£'000
Net cash inflow from operating activities	14(a)	30,845	29,847
Other financial receipts			
Proceeds of sale of tangible fixed assets		57	43
Capital expenditure and financial investments			
Purchase of tangible fixed assets		(21,045)	(20,132)
Net cash inflow before financing		9,857	9,758
Financing			
Cash paid to Defra	12	(10,129)	(9,180)
(Decrease)/ Increase in cash	14(b)	(272)	578

**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES  
FOR THE YEAR ENDED 31 MARCH 2008**

	2007/08	2006/07
	£'000	£'000
(Deficit)/ Surplus for the year	(235)	19
Surplus on revaluation of tangible fixed assets	11,002	11,871
Total recognised gains and losses relating to the year	10,767	11,890

## NOTES TO THE ACCOUNTS

### 1. ACCOUNTING POLICIES

The accounts have been prepared in accordance with the 2007/08 Financial Reporting Manual (FRM) issued by HM Treasury. The particular accounting policies adopted by the Agency are described below. They have been applied consistently in dealing with items considered material in relation to the accounts.

#### (a) Accounting convention

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

#### (b) Tangible fixed assets

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

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

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

#### (c) Depreciation

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

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

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

#### (d) Work in progress and stocks

Work in progress represents costs incurred on specific projects including direct materials and labour plus attributable overheads less provision for known or expected losses as soon as foreseen. Stocks are stated at the lower of cost, or net current replacement cost where materially different, and net realisable value.

(e) **Capital charge**

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

(f) **Research and development**

Research and development expenditure is written off as incurred.

(g) **Value added tax**

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

(h) **Notional charges**

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

(i) **Pensions**

Past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme, which are described in the Remuneration Report and at note 3(c). The defined benefit elements of the schemes are unfunded and are non-contributory except in respect of dependents' benefits. VLA recognises the expected cost of these elements on a systematic and rational basis over the period during which it benefits from employees' services, by payment to the Principal Civil Service Pension Scheme (PCSPS) of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS. In respect of the defined contribution elements of the schemes, VLA recognises the contributions payable for the year.

(j) **Early departure costs**

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

In accordance with the FReM, full provision is set up in the accounts for the early departure costs that are to be borne by the Agency. Provision is not set up for the remainder, which is to be met centrally; however such costs are included in the full costs of the Agency's operations for charging purposes. In 2007/08 these centrally funded costs amounted to nil (2006/07 - £4,883).

(k) **Foreign currency translation**

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

(l) **Leased Assets**

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

**2. KEY PERFORMANCE TARGET**

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

The target has been achieved in 2007/08 as shown by the table below:

	2007/08 £'000	2006/07 £'000
Income	111,172	110,904
Expenditure	111,407	110,885
(Deficit)/Surplus for the year before agreed adjustments	<u>(235)</u>	<u>19</u>
Add/ (less) early retirement costs (note 4)	75	(18)
add: exceptional costs arising from compensation claims	27	51
less: indexation increase recognised in Operating Cost Statement	(177)	(264)
less: notional insurance premium	(271)	(263)
Deficit for the year after adjustments	<u><u>(581)</u></u>	<u><u>(475)</u></u>

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

**3. STAFF COSTS**

	2007/08	2006/07
(a) Staff costs:	£'000	£'000
Wages and salaries	32,748	32,015
Social security costs	2,468	2,460
Pension costs	6,191	6,036
	41,407	40,511
Agency and Consultancy Costs	1,548	1,465
	42,955	41,976

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

	2007/08	2006/07
Management	4	5
Scientists	655	651
Veterinarians	95	100
Scientific Support	188	193
Admin & Finance	272	284
	1,214	1,233

The average number of Agency and Consultancy staff employed throughout the year was 26 (2006/07 – 23).

(c) The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi employer defined benefit scheme but VLA is unable to identify its share of the underlying assets and liabilities. The scheme actuary valued the scheme as at 31 March 2007. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation ([www.civilservice-pensions.gov.uk](http://www.civilservice-pensions.gov.uk)).

For 2007/08, employers' contributions of £6,063,000 were payable to the PCSPS (2006/07 £5,926,000) at one of four rates in the range 17.1% to 26.5% of pensionable pay, based on salary bands. The scheme's Actuary reviews employer contributions every four years following a full scheme valuation. From 2008/09, the salary bands will be revised but the rates will remain the same. (The rates will be changing with effect from April 2009). The contribution rates are set to meet the cost of the benefits accruing during 2007/08 to be paid when the member retires, and not the benefits paid during this period to existing pensioners.

Employees can opt to open a **partnership** pension account, a stakeholder pension with an employer contribution. Employers' contributions for 2007/08 of £119,000 (2006/07 £102,000) were paid to a panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3 to 12.5 per cent of pensionable pay. Employers also match employee contributions up to 3 per cent of pensionable pay. In addition, for 2007/08 employers' contributions of £9,000 (2006/07 £8,000), 0.8 per cent of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees.

#### 4. OTHER ADMINISTRATION COSTS

	2007/08	2006/07
	£'000	£'000
Cash based costs:		
Consumable supplies	14,593	16,108
Accommodation and utilities	13,138	11,516
Site services	10,917	11,312
Personnel costs	1,272	1,311
Travel and subsistence	969	944
Non-cash costs:		
Depreciation (note 7)	11,893	11,708
Downward asset revaluations	20	54
Loss on disposal of fixed assets	20	19
Impairment of fixed assets	2,217	3,034
Revaluation of land and buildings	(177)	(264)
Early retirement costs (note 11)	75	(18)
Notional costs:		
Interest on Land and Buildings	9,570	8,974
Interest on other Net Assets	(311)	(219)
Building maintenance	3,525	3,725
Defra overheads	676	652
Audit fees	55	53
	68,452	68,909
	68,452	68,909

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

## 5. SEGMENTAL ANALYSIS

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

	Income 2007/08 £'000	Surplus/ (Deficit) 2007/08 £'000	Income 2006/07 £'000	Surplus/ (Deficit) 2006/07 £'000
Defra and other Government	104,991	(940)	104,601	(601)
Commercial activities	4,748	470	4,705	398
Overseas activities	1,433	235	1,598	222
<b>Total</b>	<b>111,172</b>	<b>(235)</b>	<b>110,904</b>	<b>19</b>

Commercial income from Private Veterinary Surgeons of £1,708,000 (2006/07 £1,675,000) has been included in Defra and other Government figures on the grounds that it partly funds the casework surveillance programme.

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

## 6. OPERATING INCOME

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

	2007/08 £'000	2006/07 £'000
Defra		
Food and Farming Group		
- Diagnostic testing and other services	45,328	45,200
- Provision of surveillance network including related capital charges	34,882	33,282
- Animal Health and Welfare Evidence Base and Veterinary Professional Services	20,380	21,353
Agencies	406	430
Other	30	39
	<u>101,026</u>	<u>100,304</u>
Non-Defra income		
Food Standards Agency	1,936	2,679
Other Government	2,029	1,618
Commercial and overseas	6,181	6,303
	<u>111,172</u>	<u>110,904</u>

**7. TANGIBLE FIXED ASSETS**

<b>Cost or valuation</b>	Freehold land and buildings £'000	Leasehold land and buildings £'000	Vehicles, plant and machinery £'000	Computer equipment £'000	Laboratory equipment £'000	Assets under construction £'000	TOTAL £'000
At 1 April 2007	265,045	9,274	2,205	2,689	25,464	17,302	321,979
Additions	-	-	54	69	2,162	18,760	21,045
Transfers	4,064	-	-	-	-	(4,064)	-
Disposals	(2,934)	-	(71)	-	(500)	-	(3,505)
Indexation	11,687	462	(22)	(117)	374	-	12,384
At 31 March 2008	<u>277,862</u>	<u>9,736</u>	<u>2,166</u>	<u>2,641</u>	<u>27,500</u>	<u>31,998</u>	<u>351,903</u>
<b>Depreciation</b>							
At 1 April 2007	23,411	1,272	1,441	2,381	18,783	2,317	49,605
Provided in year	9,430	516	203	234	1,510	-	11,893
Disposals	(2,934)	-	(66)	-	(428)	-	(3,428)
Indexation	979	76	(15)	(104)	289	-	1,225
Impairment	1,494	-	-	-	-	723	2,217
At 31 March 2008	<u>32,380</u>	<u>1,864</u>	<u>1563</u>	<u>2,511</u>	<u>20,154</u>	<u>3,040</u>	<u>61,512</u>
<b>Net book value</b>							
At 31 March 2007	<u>241,634</u>	<u>8,002</u>	<u>764</u>	<u>308</u>	<u>6,681</u>	<u>14,985</u>	<u>272,374</u>
At 31 March 2008	<u>245,482</u>	<u>7,872</u>	<u>603</u>	<u>130</u>	<u>7,346</u>	<u>28,958</u>	<u>290,391</u>

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

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

**8. STOCKS**

	2008 £'000	2007 £'000
Work-in-progress	1,712	1,114
Raw materials and consumables	814	755
Finished goods and goods for resale	782	713
	3,308	2,582

**9. DEBTORS AND PREPAYMENTS**

Amounts falling due within one year:

	2008 £'000	2007 £'000
Defra and Defra Agency debtors	3,072	1,888
Other government debtors	475	19
Trade debtors	2,188	2,593
Prepayments	442	528
VAT	93	220
	6,270	5,248

There are no amounts owing from local authorities, NHS Trusts, public corporations or trading funds (2007 - £nil).

**10. CREDITORS DUE WITHIN ONE YEAR**

	2008 £'000	2007 £'000
Defra - payments in advance	4,335	3,846
Defra - creditors and accruals	12,234	9,637
Other government creditors	15	120
Trade creditors	1,308	986
Accruals and deferred income	9,047	6,883
PAYE and National Insurance	784	819
	27,723	22,291

There are no amounts owing to local authorities, NHS Trusts, public corporations or trading funds (2007 - £nil).

## 11. PROVISIONS FOR LIABILITIES AND CHARGES

### EARLY RETIREMENT COSTS:

	2008 £'000	2007 £'000
Provision for future costs	42	-
Adjustment to previous provision	33	(18)
Charge/ (Credit) to Operating Cost Statement	75	(18)

The movements in the early retirement provision are shown below:

Balance at 1 April	580	751
Utilised in year	(167)	(153)
Increase in provision charged to Operating Cost Statement	42	-
Adjustment to previous provision	33	(18)
Balance at 31 March	488	580

## 12. GENERAL FUND

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

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

	2008 £'000	2007 £'000
Balance at 1 April	175,963	169,151
Land transferred to Defra	-	(985)
(Deficit)/ Surplus for the year	(235)	19
Cash paid to Defra	(10,129)	(9,180)
Notional costs	4,256	4,430
Interest payable (notional)	9,259	8,755
Transfer from revaluation reserve	5,003	3,773
Balance at 31 March	184,117	175,963

**13. REVALUATION RESERVE**

	2008 £'000	2007 £'000
Balance at 1 April	82,410	74,312
Adjustment on indexation	12,523	12,884
Backlog depreciation on indexation	(1,344)	(749)
Indexation increase recognised in Operating Cost Statement	(177)	(264)
Transfer to General Fund	<u>(5,003)</u>	<u>(3,773)</u>
Balance at 31 March	<u>88,409</u>	<u>82,410</u>

**14. CASHFLOW**

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

(a) Reconciliation of operating surplus to net cash inflow from operating activities:	2007/08 £'000	2006/07 £'000
Operating (deficit)/ surplus	(235)	19
Notional interest	9,259	8,755
Depreciation charge	11,893	11,708
Fixed asset impairment	2,217	3,034
Loss on disposal of fixed assets	20	19
Revaluation of land and buildings	(177)	(264)
Downward asset revaluations	20	54
(Increase) in stocks	(726)	(309)
(Increase)/ Decrease in debtors	(1,022)	3,687
Increase/ (Decrease) in creditors and provisions	5,340	(1,286)
Notional costs	<u>4,256</u>	<u>4,430</u>
Net cash inflow from operating activities	<u>30,845</u>	<u>29,847</u>

(b) Analysis of change in cash balances during the year:	2007/08 £'000	2006/07 £'000
Balance at 1 April	1,040	462
(Decrease)/ Increase in cash	<u>(272)</u>	<u>578</u>
Balance at 31 March	<u>768</u>	<u>1,040</u>

The PGO bank account balance was £768,000 at 31 March (2007 £1,040,000).

## 15. CAPITAL COMMITMENTS

	2008 £'000	2007 £'000
Commitments at 31 March for which no provision has been made:		
Authorised but not contracted	1,144	8,224
Authorised and contracted	9,223	17,513
	10,367	25,737

## 16. RELATED PARTY TRANSACTIONS

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

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

These are:     Veterinary Medicines Directorate  
                  Animal Health  
                  Central Science Laboratory

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

## 17. OPERATING LEASES

Operating lease rentals charged to the operating cost statement in the year amounted to £276,086 (2006/07 £261,084).

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

	2007/08 £'000	2006/07 £'000
Expiring within one year	23	45
Expiring between one and five years	19	31
Expiring in over five years	163	142
	205	218

Rental payments in respect of plant and machinery amount to £ 35k (2006/07 - £43k).  
Property leases amount to £ 170k (2006/07 - £175k).

## 18. CONTINGENT LIABILITIES

There are no contingent liabilities at 31<sup>st</sup> March 2008 (31<sup>st</sup> March 2007 £50,000 likelihood – medium)

## **19. FINANCIAL INSTRUMENTS**

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

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

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

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

## **20. POST BALANCE SHEET EVENTS**

Veterinary Laboratories Agency's financial statements are laid before the Houses of Parliament by the Secretary of State for Environment, Food and Rural Affairs. FRS21 requires Veterinary Laboratories Agency to disclose the date on which the accounts are authorised for issue. The authorised date for issue is 29th May 2008.

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

1. This direction applies to the Veterinary Laboratories Agency, an Executive Agency of the Department for Environment, Food and Rural Affairs.
2. The Veterinary Laboratories Agency shall prepare accounts for the year ended 31 March 2008 in compliance with the accounting principles and disclosure requirements of the edition of the Government Financial Reporting Manual issued by H M Treasury (“the FReM”) which is in force for 2007-08.
3. The accounts shall be prepared so as to:
  - a) give a true and fair view of the state of affairs at 31 March 2008 and the income and expenditure, total recognised gains and losses, and cash flows of the Veterinary Laboratories Agency for the financial year then ended; and
  - b) provide disclosure of any material expenditure or income that has not been applied to the purposes intended by Parliament or material transactions that have not conformed to the authorities which govern them.
4. Compliance with the requirements of the FReM will, in all but exceptional circumstances, be necessary for the accounts to give a true and fair view. If, in these exceptional circumstances, compliance with the requirements of the FReM is inconsistent with the requirement to give a true and fair view the requirements of the FReM should be departed from only to the extent necessary to give a true and fair view. In such cases, informed and unbiased judgement should be used to devise an appropriate alternative treatment, which should be consistent with both the economic characteristics of the circumstances concerned and the spirit of the FReM. Any material departure from the FReM should be discussed in the first instance with the Treasury.

David Watkins  
Head of Financial Reporting Policy Team, Her Majesty's Treasury  
11 December 2007

## LOCATIONS

### MAIN LABORATORY

Weybridge New Haw, Addlestone, Surrey, KT15 3NB

### REGIONAL LABORATORIES

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

### SURVEILLANCE CENTRES

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