



Veterinary Laboratories Agency®

ANNUAL REPORT AND ACCOUNTS 2008/2009

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

HC 609

Veterinary Laboratories Agency

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

ANNUAL REPORT AND ACCOUNTS 2008/2009

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, protect the economy and enhance food security through world-class veterinary research and surveillance."

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CHIEF EXECUTIVE'S REVIEW

I took over as VLA's Chief Executive on 1 October 2008 and was fortunate enough to have inherited a sound organisation with a rich scientific history dating back over 100 years. For this I must thank my immediate predecessors Professor Steve Edwards, VLA's Chief Executive since July 2000 and Chris Morrey, VLA's interim Chief Executive from March to July 2008.

I had a good knowledge of VLA before I joined as Chief Executive through my former role as Director of the Health Protection Agency's Centre for Infections at Colindale, London; and also as one of the external auditors on Defra's independent quinquennial audit of VLA's science in 2007. Despite this prior knowledge of VLA's work, I am constantly amazed at the breadth and depth of scientific work that VLA carries out for the UK Government, the international community and the commercial sector. This is something for which all VLA staff should be proud. An in-depth report on our science for 2008/09 will be featured on our website at www.vla.gov.uk and our key highlights will be included in the VLA Annual Review 2008/09.

As well as delivering a wide range of science we have also achieved our key Ministerial targets. Our financial breakeven target was achieved within the allowed tolerance, which was a particular challenging target given our reduced income levels at the start of the year.

Implementing the recommendations from the Science Audit in 2007 was also a key Ministerial target and as part of this the foundations were laid during 2008 to increase the number of PhD studentships at VLA. In conjunction with a network of top ranked academic research partners, we are offering a series of PhD studentships in topical animal, veterinary and public health subjects and it is anticipated that during 2009 we will have at least 16 additional students.

2008 saw the opening of a new VLA headquarters building at the Weybridge site, by the Chief Veterinary Officer, Nigel Gibbens. This new eco-friendly facility brings together all VLA's business support units and the Agency's office based scientists working in the Centre for Epidemiology and Risk Analysis (CERA). CERA has almost 100 scientists who apply a range of disciplines including epidemiology, statistics, risk analysis and database design to the VLA's programmes of veterinary research and surveillance projects. CERA also delivers consultancy nationally and to international organisations such as the World Health Organization (WHO) and the European Food Safety Authority (EFSA).

The new headquarters building and a new warehouse completed in March both received an 'Excellent' rating for the Building Research Establishment Assessment Method (BREEAM). The buildings feature helical wind turbines, solar panels and rain water collection tanks and the new Warehouse is our first facility to use rapeseed oil to power boilers.

Scientific collaboration with the Institute for Animal Health (IAH) continued throughout the year in order to fully utilize the skills and facilities across the two organisations. A meeting organised by the VLA and IAH discussed new approaches to detecting and assessing the prevalence of animal diseases and brought together colleagues from the two organisations as well as others from industry, government and academia. A key achievement during the year was the development of VLA's molecular and immunological testing service for bluetongue virus for pre movement and export purposes.

In the coming year we will continue to work with IAH, as well as our sister agency, Animal Health, by contributing to enhanced disease outbreak emergency response handling as part of the Management of Samples System (MoSS) project. The project aims to develop better information systems to control the handling of samples from the field through the laboratory and provide rapid access to test results to enable more effective disease identification and control.

Looking ahead, 2009/10 will continue to present many challenges for VLA and we stand ready to meet them. During 2008/09 we consulted a wide range of stakeholders and the result is a new and refreshed five year strategy¹, which is focused on delivering benefits to them. The key drivers underpinning this strategy are:

- Profile, influence and customer responsiveness
- Excellent scientific knowledge and services
- Sustainability, efficiency and flexibility

I look forward to leading on this strategy to ensure that VLA can deliver on its new mission and vision of 'being the best and being seen as the best'. I will report next year on the many benefits that we will have delivered to our stakeholders.

Professor S. Peter Borriello
Chief Executive and Agency Accounting Officer

26 May 2009

¹ A copy of the VLA strategic and corporate plan 2009/10 to 2013/14 can be obtained from director@vla.defra.gsi.gov.uk

DIRECTORS' REPORT
For the year ended 31 March 2009

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) on 2 April 1990, with the then title of Central Veterinary Laboratory (CVL). Before 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 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 former MAFF together with other bodies.

VLA's main premises are near Weybridge in Surrey. There are also 15 regional laboratories located throughout England, Wales and Scotland.

Principal Activities

VLA's main activities are to:

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

VLA Management Board

The Directorate performs this function and comprises the following members:

Prof S. Peter Borriello	Chief Executive and Agency Accounting Officer (from 1 October 2008)
Prof Steve Edwards	Chief Executive (from 16 July 2008 until 30 September 2008)
Mr Chris Morrey	Business Director (Acting Chief Executive until 15 July 2008)
Mr Roger Hancock	Veterinary Director
Prof Chris Thorns	Science Director
Prof John Preston	External Member
Mr David Deacon	Finance Director (until 15 July 2008)
Mrs Jane Goodger	Laboratory Secretary (until 15 July 2008)

VLA Owner's 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 VLA this is the Chief Veterinary Officer.

The VLA Owner's Advisory Board (VOAB) was established to assist the corporate owner fulfil 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:

Mr Nigel Gibbens	Chairman, Chief Veterinary Officer, Defra (from 21 May 2008)
Mr Fred Landeg	Acting Chief Veterinary Officer, Defra (until 21 May 2008)
Prof Chris Gaskell	External Member
Prof Steve Edwards	Chief Executive, VLA (from 16 July to 30 September 2008)
Prof S. Peter Borriello	Chief Executive and Agency Accounting Officer, VLA (from 1 October 2008)
Mr Chris Morrey	Business Director, Acting Chief Executive, VLA (until 15 July 2008)
Dr Anne Grocock	External Member
Prof Nigel Brown	External Member (until 31 August 2008)
Prof Robin Pritchard	VLA Audit & Risk Committee Chair (from 2 April 2009)
Mr Alick Simmons	Deputy Chief Veterinary Officer, Defra and Customer Board Chairman (from 26 November 2008)
Mr Chris Pleass	Head of Finance and Business Management, Food & Farming Group, Defra (from 26 November 2008)
Prof Charles Milne	Chief Veterinary Officer, Scotland (from 14 January 2009)
Dr Christianne Glossop	Chief Veterinary Officer, Wales (from 14 January 2009)

Customer Income

Our work for Defra, during the year, accounted for 89% of our total revenue (2007/08, 89%)
We continue to seek income from other sources, recognising that our core work is with Defra.

R&D Activities

Our research and development work underpins the work of Defra's Food and Farming Group (FFG) in the control of animal diseases of statutory or public health significance. This work amounted to 21% of the total income from Defra in the year (2007/08, 21%).

Audit Services

The provision of Internal Audit was supplied by RSM Bentley Jennison. The External Auditor is the Comptroller and Auditor General.

The Accounting Officer has taken all steps considered necessary to ensure that he is aware of any relevant audit information and 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's policy is to settle all creditors' accounts within creditors' own payment terms and conditions. During the year, the VLA paid 96% of bills by the due date (2007/08, 97%).

In December 2008 the Government introduced an initiative to pay suppliers within 10 working days. VLA supports this initiative and has amended financial systems to ensure accurate measurement of the initiative.

Disabled Persons Policy

We have our own Disabled Persons Officer who is responsible for VLA complying with the Civil Service Code of Practice on the employment of people with disabilities. All our posts are open to people with disabilities and our recruitment advertisements have an equal opportunity statement and the official disability symbol. We aim to retain staff who become disabled while in employment, either in their existing post or in alternative suitable work. Our policies and procedures meet the requirements of the disability Two Ticks standard. The number of disabled persons employed by VLA at 31 March 2009 was 118.

Communication

Effective communication is an important part of the development and management of VLA. Our corporate communication channels include team briefings, an intranet and newsletters which keep staff informed of VLA's performance and financial situation. These are complemented by focus groups and workshops, when appropriate, to consult and involve staff during times of change and decision-making.

Regular audits are used to monitor the effectiveness of communication and to drive improvements. The national and departmental agreements on consultation procedures have been maintained.

Pensions

All staff are eligible to join the Principal Civil Service Pension Scheme (PCSPS). An outline of the scheme is included in the Remuneration Report. Details of how pension liabilities are treated are in the notes to the accounts at 1 (i).

MANAGEMENT COMMENTARY

Aims

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

Objectives

Our main objectives are to:

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

Service Performance and Quality Targets

Our targets are set within the context of Defra's three key business areas:

- Value for public money
- Quality of service delivery
- Capacity and capability.

We provide the base data to enable Defra's Internal Audit Division to verify our performance and provide an independent assessment to Defra. This statement has their approval.

Value for Public Money

We are required to recover our full economic costs within the permitted 2% tolerance range through charges for services we provide to Defra and other public and private sector customers. In assessing performance against this target, we exclude early retirement costs and other exceptional items, but include notional insurance premiums (see note 2 to the accounts).

This target was achieved in 2008/09 as shown below.

	2008/09 (£'000)	2007/08 (£'000)
Operating income	106,024	111,172
Administration costs	<u>112,285</u>	<u>111,407</u>
Operating cost statement (deficit)	(6,261)	(235)
Adjustments disclosed in note 2 to the accounts	4,992	1,871
(Deficit)/ surplus for the year after adjustments	<u>(1,269)</u>	<u>1,636</u>

Our costs include a capital charge of £27,341,000 (2007/08, £23,212,000) comprising cost of capital, depreciation, impairment on buildings to be demolished and downward asset revaluations.

Quality of Service Delivery

This is a vital aspect of meeting our customers' requirements to ensure we continue to receive further work from them. We have five targets for service delivery:

- **Achieve 90% of Rationale Objectives Appraisal Monitoring Evaluation (ROAME) R&D milestones (previous years' targets have been set at 85%).**
This is an agreed performance measure for our work on research projects for Defra. It is set at the project initiation stage and covers the agreed milestones for the period of the projects, such as interim and final reports. The customer must agree any changes to the original timescale. The Business Division monitors performance during the year and provides regular progress reports to Defra and internally through its milestone tracking system.
This target was met in each of the last three financial years.
- **Achieve 85% of surveillance deliverables on time.**
This is similar to the above target except it covers our surveillance work and a much broader range of outputs. The surveillance work is made up of numerous projects for different customers in Defra's Food and Farming Group. The projects' deliverables vary and can be a monthly report or less frequent, depending on the nature of the individual project. We monitor and report on progress in a similar way to the above target.
This target was met in each of the last three financial years.
- **Achieve 85% of research final reports on time.**
This was a new target for 2008/09. Research projects usually span three years and this target relates to those projects completed during the year.
This target was met in 2008/09.
- **Achieve a score of 85% in the customer satisfaction survey based on a three-year rolling average. (Previous years' targets were 82% and, for the year only, 80% in 2006/07).**
Each year we send a questionnaire to our main government customers, Defra and the Food Standards Agency (FSA), who account for over 90% of our work. The survey asks them to score our performance against a number of set questions on projects from across our Science Programmes which were completed during the year. The returned questionnaires and the comments enable us to identify trends (good and bad) and lessons to be learned. This process is managed by the Business Division and the results of the consolidated returns are calculated to give an overall satisfaction score based on a weighting of individual project values. The report is circulated to the Directorate and Science Programme Managers who are required to produce an action plan in response to any issues raised in their area. A report on the outcome is presented to the Customer Board.
This target was met in each of the last three financial years.
- **Maintain current third party quality accreditations.**
We achieved a range of formal external standards such as ISO 9001 across the Agency, ISO 14001, Good Laboratory Practice, Good Manufacturing Practice, Investors in People and ISO 17025 in different areas of our operations. Maintaining these standards is an important measure of demonstrating our commitment to quality. They are subject to regular audit and inspection and maintaining them is a challenging target.
This target was met in each of the last three financial years.

Capacity and Capability

- **Develop an implementation plan for the recommendations of the 2007 Science Audit and implement the first year of the plan.**

Following the independent audit commissioned by Defra a number of recommendations were received. Most of these were for Defra to implement but three were agreed to be taken forward by VLA. An implementation plan was produced and agreed by VOAB and the first year's actions were implemented as verified by Defra Internal Audit Division.

This target was met in 2008/09.

- **Conduct one tabletop notifiable disease simulation exercise to test current laboratory response capability, identify gaps and implement action plan.**

The VLA plays a critical role in the event of a notifiable animal disease outbreak and this target was set to ensure capability was tested in readiness for any actual outbreaks. A member of the Directorate in his capacity as chair of the Disease Emergency Response Committee ran a simulation of a rabies outbreak, identified actions and ensured that these were taken forward.

This target was met in 2008/09.

Risk Policy

Risk management is one of the key internal controls 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 explained within of the Statement on Internal Control.

Land and Buildings

The premises occupied by VLA comprise:

- A main laboratory site of 15 hectares near Weybridge, Surrey, with adjacent grassland and farm buildings of 75 hectares plus a farm unit of 50 hectares located within eight miles from the site.
- 15 Regional Laboratories throughout England, Scotland and Wales.

There is an ongoing redevelopment programme at the Weybridge site and during the year £34m of buildings under construction were completed and transferred into use.

Sustainable Development

We have clearly defined responsibilities for sustainable development and the monitoring and reporting of our performance is included in annual reports. We also integrate sustainable development into all our policy making and procedure setting. Our approach to environmental management is consistent with the principles of the UK Sustainable Development Strategy 'Securing the Future' which are:

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

We have an ISO 14001 accredited Environmental Management System, an Environmental Policy and a detailed Environmental Management Programme. We have published a Sustainable Development Action Plan which is available at www.vla.gov.uk.

Ten of our 16 sites, including Weybridge, have achieved ISO 14001 certification and we are working towards corporate certification across all of VLA.

Recruitment

We have systems in place to ensure that recruitment is carried out using fair and open competition, and selection is based on merit. This is subject to internal checks in line with the Civil Service Commissioners' Recruitment Code. Further information is available on our website.

Diversity and Equality

We operate a policy of equal opportunity regardless of race, age, marital status, religious beliefs, sexual orientation, disability or ethnicity. All staff are encouraged to develop themselves within their posts and progress to higher levels if they wish to do so. Progression is through fair and open competition based on merit. As required by legislation, we have published our Equality Scheme which is available at www.vla.gov.uk

Staff are able to join the various Defra groups such as the part-time and disability networks. Staff also have access to a Welfare Officer, Harassment Officers and Trade Union Representatives, as well as Personnel, if they wish to discuss any issues. There is an Agency Equal Opportunities Officer and a Diversity Champion.

Employee Involvement

We aim 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.

Staff have been involved in the development of the Equality Scheme, can attend Directorate meetings, join 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.

Staff are encouraged to take part in the 'Have Your Say' staff opinion surveys which are followed by action plans to implement areas which need improving. The last survey was held in June 2008.

We were awarded the Investor in People standard in December 1999 and since then we have maintained the standard against ever more challenging criteria. This is reflected in the opportunities available to staff to develop themselves in line with the needs of the business.

Data Handling

We have reviewed our data handling procedures in line with Cabinet Office instructions. We can confirm that there have been no personal data related incidents.

Cost Allocation and Charging

We have complied with the cost allocation and charging requirements set out in HM Treasury and Office of Public Sector Information Guidance.

Sick Absence

The average working days lost per employee during the year was 9.5 (2007/08, 9.9). 32% of staff had no sick leave during the year (2007/08, 31%).

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 must consider the following:

- 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.
- 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.

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 SCS this is the performance management system 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 line with the Civil Service Commissioners' Recruitment Code. This requires appointment to be made on merit, on the basis of fair and open competition. The Code also includes the circumstances when appointments may otherwise be made.

The officials covered by this report, who are mainly Senior Civil Servants, hold appointments which are open-ended (except the Chief Executive), 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 keep the option to retire at 60.

Further information about the work of the Civil Service Commissioners can be found at www.civilservicecommissioners.gov.uk.

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

	Salary, including performance pay [2007/08] (£k)	Real increase in pension and lump sum at age 60 (£k)	Total accrued pension at age 60 at 31/3/09 and related lump sum (£k)	CETV at 31/3/08 (£k)	CETV at 31/3/09 (£k)	Real increase in CETV as funded by employer (£k)
Prof S. Peter Borriello	55-60 [-]	1	1	-	18	16
Prof Steve Edwards	20-25 [90-95]	-	-	766	-	-
Roger Hancock	85-90 [85-90]	2	105	434	481	7
Chris Morrey	90-95 [80-85]	2	40	185	200	12
Chris Thorns	85-90 [75-80]	3	140	725	798	13
David Deacon	15-20 [0-5]	2	36	197	209	8
Jane Goodger	15-20 [0-5]	4	61	228	249	18

David Deacon and Jane Goodger were both appointed members of the Directorate from 10 March 2008 until 15 July 2008.

Full year equivalents for part year officials were:

	<u>2008/09</u>	<u>2007/08</u>
	£k	£k
Prof S. Peter Borriello	115-120	-
Prof Steve Edwards	105-110	90-95
David Deacon	65-70	65-70
Jane Goodger	55-60	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 (2007/08, nil).

Non Executive members of the Audit and Risk Committee are paid £600 for attendance of each meeting. During the year Prof Robin Pritchard (Chairman) attended three meetings and Mr Rod Morgan attended two meetings.

The members of VOAB, with the exception of VLA representatives are either Defra employees, which bears their direct costs, or non-Defra external members and Defra pays expenses for their attendance at the meetings.

Appointment of VLA's Chief Executive is by open competition. The appointment is fixed term for three years with the possibility of a two-year extension or permanency. Prof S. Peter Borriello was appointed to this post in October 2008.

Prof Steve Edwards, the previous Chief Executive was appointed interim Chief Executive of Animal Health with effect from 10 March 2008 and returned to the VLA on 16 July 2008 until his retirement on 30 September 2008. During the period 10 March 2008 until 15 July 2008, Mr Chris Morrey was Acting Chief Executive.

The Chief Executive is a member of the Senior Civil Service and his remuneration is based on SCS salary scales. He is also entitled to a bonus based on achievement of the Agency's targets which is subject to external validation by Defra's Internal Audit Division who undertakes a full audit.

The Chief Executives' gross cost of employment in 2008/09 (including superannuation benefit, employer's NI contributions, bonus and a taxable allowance) were as follows:-

	<u>2008/09</u>	<u>2007/08</u>
	£	£
Prof S. Peter Borriello	78,520	-
Prof Steve Edwards	28,524	126,064
Chris Morrey	32,730	6,380

Prof S. Peter Borriello is a member of the Nuvos Pension Scheme. Prof Steve Edwards and Chris Morrey are members of the Classic Pension Scheme.

There were no loans to senior staff members during the year (2007/8, nil).

In addition to the above, Prof John Preston (external management board member) was paid a total of £8,110 for his services and expenses (2007/08, £4,556).

Civil Service Pensions

Pension benefits are provided through the Civil Service pension arrangements. From 30 July 2007, civil servants may be in one of four defined benefit schemes; either a 'final salary' scheme (**classic**, **premium** or **classic plus**); or a 'whole career' scheme (**nuvos**). These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under **classic**, **premium**, **classic plus** and **nuvos** are increased annually in line with changes in the Retail Prices Index (RPI). Members who joined from October 2002 could opt for either the appropriate defined benefit arrangement or a good quality 'money purchase' stakeholder pension 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**, **classic plus** and **nuvos**. Benefits in **classic** accrue at the rate of 1/80th of final pensionable earnings 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. **Classic plus** is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per **classic** and benefits for service from October 2002 worked out as in **premium**. In **nuvos** a member builds up a pension based on his pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and, immediately after the scheme year end, the accrued pension is uprated in line with RPI. In all cases members may opt to give up (commute) pension for lump sum up to the limits set by the Finance Act 2004.

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

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

Further details about the Civil Service pension arrangements can be found at the website www.civilservice-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 spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The figures include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their buying additional pension benefits at their own cost. CETVs are calculated in accordance with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

The figures at 31 March 2008 may be different to the closing figures in last year's accounts. This is due to the CETV factors being updated to comply with the Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008.

Real Increase in CETV

This reflects the increase in CETV that is funded by the employer. It does not include the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

Professor S. Peter Borriello

Chief Executive and Agency Accounting Officer

26 May 2009

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 VLA 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 VLA 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 HM 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 Defra has designated the Chief Executive of VLA as the Accounting Officer of VLA. The responsibilities of an Accounting Officer, as set out in chapter 3 of 'Managing Public Money' issued by HM Treasury, include:

- the propriety and regularity of the public finances for which the Accounting Officer is answerable,
- keeping proper records, and
- safeguarding VLA's assets.

STATEMENT ON INTERNAL CONTROL

Scope of Responsibility

As Accounting Officer, I am responsible for maintaining a sound system of internal control that supports the achievement of VLA's policies, aims and objectives, set by the Department's Ministers, while safeguarding the public funds and departmental assets, for which I am personally responsible. This is in line with the responsibilities assigned to me in HM Treasury's 'Managing Public Money'.

I ensure that the Defra Permanent Secretary, the Department's Principal Accounting Officer, is aware of the main risks managed by VLA by regular reporting of the ten highest risks. Additionally, I ensure that VLA'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 VLA, as part of Defra, has adequate financial systems and procedures in place.

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.

Internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of VLA's 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.

I received assurance from my predecessor that the system of internal control was in place at VLA prior to my appointment. Therefore I can confirm that this is the case for the year ended 31 March 2009 and up to the date of approval of the Annual Report and Accounts. This is in line with HM Treasury guidance.

Capacity to Handle Risk

Risk management is recognised as one of the main internal controls. A member of the Directorate is responsible for the framework for effective risk management in VLA (the Laboratory Secretary until 15 July 2008 and the Business Director from 16 July 2008).

Regular reports are made to VLA's Management Board, the Directorate and to the Audit & Risk Committee (A&RC) who assesses the effectiveness of the processes. The Risk Management Steering Group, a sub-committee of the Directorate, is in place to ensure a consistent approach is followed and to give guidance on any issues arising from the risk registers. A report on this sub-committee activities is made to the A&RC.

Guidance for staff on risk is available in the VLA Risk Management Strategy document and this, together with further information on risk, is available on VLA's intranet.

The Risk Environment

The management structure and accountability of the VLA Board and Executive (Directorate) is detailed on page 4. A register of the Directors (Directorate in this instance) is maintained and reviewed annually.

The A&RC, chaired by an external member, provides support to management on Internal Control. Representatives from Internal and External Audit attend the A&RC to present and receive reports on risk and controls within VLA. 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 the intranet. During the year the Directorate reviewed the structure of the advisory sub-committees and, as a result, new arrangements have been put in place. The new committees are focused on the key aspects of VLA's business, both support and delivery, and will report to a newly established Senior Staff Committee.

Programme and project management are key elements of our activities. 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 published standard operating procedures for project management. These include requirements for project initiation documents, planning, risk assessments, delivery, final reports etc. These are all available on our intranet.
- An established set of training courses for new project managers and regular review of the content and appropriateness of these courses.
- Work programme performance is reviewed regularly throughout the year at meetings held with the Programme Managers and members of the Directorate.
- Performance targets covering delivery of projects. These are ministerial targets detailed on pages 6 to 8.
- A customer satisfaction survey based on a cross-section of delivered projects followed by action plans in response to any issues in the feedback.
- All project work is undertaken to the quality standard ISO 9001 and is subject to independent external review.

Risk Management

The main processes we have in place for identifying, evaluating and managing risk are:

- Corporate and Divisional risk registers owned by members of the Directorate.
- Risk is an open standing agenda item at divisional management and team meetings.
- Each quarter, a written review on the top risks in the VLA Risk Register is undertaken 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 publish it on the intranet.
- A full quarterly review is undertaken at the Directorate 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 Directorate performance meeting, risk is a standing agenda item where there is the opportunity to discuss any new and emerging risks.
- At each meeting the A&RC receives a report from the director responsible for risk management on the operation of the Risk Management Framework in VLA.
- At the VLA Owner's Advisory Board (VOAB) a regular report is required on the control environment and the governance arrangements on risk. This has been provided initially by the Business Director but from 2009/10 the chair of the A&RC will submit reports on an exception basis to each meeting and provide an annual report on the committee's activities. At a specific meeting each year, VOAB will review the top risks identified by the VLA.
- During the year, the Risk Management Steering Committee completed a review of the VLA risk strategy. This proposed updates and enhancements to the strategy and the risk register which will be taken forward during 2009/10.

The top risk priorities currently identified are in the areas of achieving a balanced budget, compliance with major statutory requirements and the new sustainable workplace management arrangements.

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 intranet.
- Risk is an accepted principle and requirement for major capital investment, strategic plans and projects.
- Objective setting is linked to risk and risk owners have personal objectives to manage their risk area.

Strategy and Planning

We have a well established business planning process and each year we review and publish our Corporate Plan and produce an Annual Business Plan. These plans detail our strategic direction, the issues we face, our targets, the corporate risk register and the balanced scorecard.

In producing these plans we consult with stakeholders, our senior staff and the Trade Union Side. These documents are agreed by VOAB and approved by the Minister. Details of the targets are on pages 6 to 8.

The plans, once approved, form the basis for target and objective setting throughout VLA. The plans are published on the intranet along with a summary document to improve staff awareness and understanding.

We undertook 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 to long term. This strategy has been endorsed by VOAB and a number of work packages have been identified. These will be delivered during the life of the plan to implement the strategy.

Performance Management

Our performance management framework has been established through our strategic and business planning process. Our Annual Business Plan provides detail on the measures of performance for the year. Our performance is monitored by 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 our main performance management tool. Responsibility for the achievement of the individual scorecard measures are assigned to individual directors.
- Reviews of performance take place monthly at Directorate 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 reports are provided on the progress of the main scorecard measures and any issues of concern are raised.
- Information on our performance against the various measures is published on our intranet. We use a 'traffic light' system to identify the status of individual items.
- The scorecard is cascaded to the divisions which details how each division will contribute to the achievement of the corporate measures. A review takes place at the monthly divisional management meetings and the results are published.
- The cascaded scorecards form the basis for setting staff objectives for the year which therefore forms a direct link between personal objectives and 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 reward schemes to recognise good team performance.

Review of Effectiveness

As Accounting Officer, I am responsible for reviewing the effectiveness of our system of internal control. This is informed by the work of the internal auditors and the directors responsible for the development and maintenance of the internal control framework. Comments made by the external auditors in their management letter and other reports are also considered. We have established the following processes to maintain internal control:

- The Directorate meets monthly to consider operational performance, and then quarterly to focus on strategic and medium term issues affecting the direction of VLA compared to its plan.
- Progress on achievement of the ministerial targets is reported to the VOAB. The Chief Executive reports to the Chief Veterinary Officer and regular meetings are held during the year to discuss VLA's progress against its objectives.
- A balanced scorecard is the main internal measurement of performance and is operated in conjunction with the risk register. This scorecard forms the basis for work objective setting and is cascaded throughout VLA.

- 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. The Chairman of this committee also provides an independent opinion to VOAB.
- Risk management is a scorecard objective for the Business Director who is the nominated Risk Co-ordinator.
- All risks identified in the corporate and divisional risk registers have risk owners who are responsible for control and mitigation.
- The risk register was reviewed as part of the risk strategy review and is being amended to reflect the recommendations for 2009/10.
- To ensure that the risk of fraud is properly managed, there is a Fraud Management Policy together with a specific fraud risk register. A small team, chaired by the Business Director, manages and reviews the process.
- A separate group has been established during the year to manage information security risk and a specific register is being produced.
- RSM Bentley-Jennison, an independent company which operates to Government internal audit standards, provides internal audit services. Each year, the A&RC approve an audit strategy for the coming year, together with the Annual Plan. They submit regular reports which include an independent opinion on the adequacy and effectiveness of our system of internal control with recommendations for improvement.

During the year, ISO 9001 certification was maintained across the whole range of our activities which provides further assurance on our business processes in operation.

I have been advised in my review of the effectiveness of the system of internal control by the Directorate and the A&RC.

Professor S. Peter Borriello

Chief Executive and Agency Accounting Officer

26 May 2009

**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 March 2009 under the Government Resources and Accounts Act 2000. These comprise the Operating Cost Statement and Statement of Total 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 "Director's Report" and the "Management Commentary", 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 "Chief Executive's Review" and the unaudited parts of the "Remuneration Report". I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinions

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 2009, and of the net operating cost, total 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 "Director's Report" and the "Management Commentary", 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 May 2009*

**OPERATING COST STATEMENT
FOR THE YEAR ENDED 31 MARCH 2009**

		2008/09	2007/08
	Notes	£'000	£'000
Administration Costs:			
Staff Costs	3	41,935	42,955
Other Administration Costs	4	70,350	68,452
		<u>112,285</u>	<u>111,407</u>
Operating Income	6	106,024	111,172
Net Operating (Deficit)		<u>(6,261)</u>	<u>(235)</u>

All activities arise from continuing operations.

The notes on pages 25 to 37 form part of these accounts.

BALANCE SHEET
AS AT 31 MARCH 2009

		2009	2008
	Notes	£'000	£'000
Fixed Assets			
Tangible fixed assets	7	274,403	290,391
Current Assets			
Stocks	8	4,318	3,308
Debtors and prepayments	9	5,623	6,270
Cash		697	768
		<u>10,638</u>	<u>10,346</u>
Creditors due within one year	10	(19,144)	(27,723)
Net Current Liabilities		<u>(8,506)</u>	<u>(17,377)</u>
Total Assets less Current Liabilities		265,897	273,014
Provisions for Liabilities and Charges	11	(377)	(488)
		<u>265,520</u>	<u>272,526</u>
Taxpayers' Equity			
General fund	12	190,696	184,117
Revaluation reserve	13	74,824	88,409
		<u>265,520</u>	<u>272,526</u>

The notes on pages 25 to 37 form part of these accounts.

Professor S. Peter Borriello
Chief Executive and Agency Accounting Officer

26 May 2009

**CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 MARCH 2009**

		2008/09	2007/08
	Notes	£'000	£'000
Net cash inflow from operating activities	14(a)	11,905	30,845
Other financial receipts			
Proceeds of sale of tangible fixed assets		12	57
Capital expenditure and financial investments			
Purchase of tangible fixed assets		(11,488)	(21,045)
Net cash inflow before financing		429	9,857
Financing			
Cash paid to Defra	12	(500)	(10,129)
(Decrease) in cash	14(b)	(71)	(272)

**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 31 MARCH 2009**

	2008/09	2007/08
	£'000	£'000
(Deficit) for the year	(6,261)	(235)
(Deficit)/Surplus on revaluation of tangible fixed assets	(12,215)	11,002
Total recognised gains and losses relating to the year	(18,476)	10,767

NOTES TO THE ACCOUNTS

1. Accounting Policies

The accounts have been prepared in accordance with the 2008/09 Financial Reporting Manual (FRM) issued by HM Treasury. The particular accounting policies adopted by VLA 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
Computer equipment	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. Due to the nature of work in progress, commercial and European Union income is not recognised until customers are invoiced. 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 held at the Office of the Paymaster General.

(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**

Audit fees and interest on net assets excluding cash held at the Office of the Paymaster General are included in the operating cost statement on a notional basis.

(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 Agency is required to meet the additional costs of benefits beyond the normal PCSPS benefits in respect of employees who retire early. The Agency provides in full for this cost when the early retirement has been agreed and is binding on the Agency.

(k) **Operating income**

Operating income represents the value of goods and services provided by the Agency during the year. Where income is in respect of work carried out on long term scientific projects, it is based on activities carried out during the year. Income received in excess of these activities is carried forward as payments in advance unless the project is complete. Where the level of activities carried out exceeds income, it is carried forward as a debtor to the extent that it is deemed recoverable.

(l) **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.

(m) 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.

(n) Financial Assets and Liabilities

The Agency classifies its non derivative financial assets as loans and receivables. Financial assets and liabilities are recognised at fair value (the transaction price plus any directly attributable transaction costs).

(o) Derivative Financial Instruments and Hedging

The Agency does not use derivative instruments such as interest rate swaps or any other hedging facilities.

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 2008/09 as shown by the table below:

	2008/09 £'000	2007/08 £'000
Income	106,024	111,172
Expenditure	112,285	111,407
(Deficit) for the year before agreed adjustments	(6,261)	(235)
Add early retirement costs (note 4)	124	75
add: exceptional costs arising from compensation claims	14	27
less: indexation decrease/(increase) recognised in Operating Cost Statement	2,837	(177)
less: impairment of fixed assets	2,293	2,217
less: notional insurance premium	(276)	(271)
(Deficit) / surplus for the year after adjustments	(1,269)	1,636

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. During 2008/09 it was agreed that impairment of fixed assets is an item outside of VLA's control. The 2007/08 comparative has been adjusted accordingly.

3. Staff Costs

	2008/09	2007/08
(a) Staff costs:	£'000	£'000
Wages and salaries	32,111	32,748
Social security costs	2,385	2,468
Pension costs	6,151	6,191
	<u>40,647</u>	<u>41,407</u>
Agency and Consultancy Costs	1,288	1,548
	<u>41,935</u>	<u>42,955</u>

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

	2008/09	2007/08
Management	4	4
Scientists	649	655
Veterinarians	91	95
Scientific Support	182	188
Admin & Finance	284	272
	<u>1,210</u>	<u>1,214</u>

The average number of Agency and Consultancy staff employed throughout the year was 25 (2007/08, 26). No staff costs were capitalised during the year (2007/08, nil).

(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).

For 2008/09, employers' contributions of £6,045,000 were payable to the PCSPS (2007/08, £6,063,000) 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 were revised but the rates will remain the same. (The rates have changed with effect from April 2009). The contribution rates are set to meet the cost of the benefits accruing during 2008/09 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 2008/09 of £99,000 (2007/08, £119,000) were paid to a panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3 to 12.5% of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay. In addition, for 2008/09 employers' contributions of £7,000 (2007/08, £9,000), 0.8% 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

	2008/09	2007/08
	£'000	£'000
Cash based costs:		
Consumable supplies	12,706	14,593
Accommodation and utilities	17,322	13,138
Site services	9,712	10,917
Personnel costs	1,474	1,272
Travel and subsistence	938	969
Property income	(315)	-
Defra overheads	1,170	-
Non-cash costs:		
Depreciation (note 7)	12,817	11,893
Downward asset revaluations	4	20
Loss on disposal of fixed assets	39	20
Impairment of fixed assets	2,293	2,217
Revaluation of land and buildings	2,837	(177)
Early retirement costs (note 11)	124	75
Notional costs:		
Cost of capital on Land and Buildings	9,571	9,570
Cost of capital on other Net Assets	(181)	(311)
Property income	(232)	-
Building maintenance	-	3,525
Defra overheads	-	676
Audit fees	71	55
	70,350	68,452
	70,350	68,452

The notional audit fee includes the National Audit Office's audit fee of £61,000 for the audit of the 2008/09 financial statements (2007/08, £55,000), and an audit fee of £10,000 for the audit of the Agency's IFRS Trigger Point 1 submission to HM Treasury. No remuneration was paid to the auditors for non-audit work.

Building maintenance and Defra overheads were treated as notional costs in 2007/08. In 2008/09 they are cash based costs, with building maintenance being included in the charge for accommodation and utilities.

5. Segmental Analysis

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

	Income 2008/09 £'000	Surplus/ (Deficit) 2008/09 £'000	Income 2007/08 £'000	Surplus/ (Deficit) 2007/08 £'000
Defra and other Government	100,238	(7,273)	104,991	(940)
Commercial activities	3,925	343	4,748	470
Overseas activities	1,861	669	1,433	235
Total	<u>106,024</u>	<u>(6,261)</u>	<u>111,172</u>	<u>(235)</u>

Commercial income from private veterinary surgeons of £1,976,000 (2007/08, £1,708,000) 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 H M Treasury 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:

	2008/09 £'000	2007/08 £'000
Defra		
Food and Farming Group		
- Diagnostic testing and other services	38,634	45,328
- Provision of surveillance network including related capital charges	37,276	34,882
- Animal Health and Welfare Evidence Base and Veterinary Professional Services	19,973	20,380
Agencies	348	406
Other	10	30
	<u>96,241</u>	<u>101,026</u>
Non-Defra income		
Food Standards Agency	1,948	1,936
Other Government	635	571
European Union	1,414	1,458
Commercial and overseas	5,786	6,181
	<u>106,024</u>	<u>111,172</u>

7. Tangible Fixed Assets

	Freehold land and buildings £'000	Leasehold land and buildings £'000	Vehicles, plant and machinery £'000	Computer equipment £'000	Laboratory equipment £'000	Assets under construction £'000	TOTAL £'000
Cost or valuation							
At 1 April 2008	277,862	9,736	2,166	2,641	27,500	31,998	351,903
Additions	-	-	185	29	1,758	9,516	11,488
Transfers	33,694	-	1,515	-	-	(35,209)	-
Disposals	(519)	-	(55)	(758)	(2,519)	(4,306)	(8,157)
Indexation	(10,995)	567	105	(82)	155	-	(10,250)
At 31 March 2009	<u>300,042</u>	<u>10,303</u>	<u>3,916</u>	<u>1,830</u>	<u>26,894</u>	<u>1,999</u>	<u>344,984</u>
Depreciation							
At 1 April 2008	32,380	1,864	1,563	2,511	20,154	3,040	61,512
Provided in year	10,503	498	260	101	1,455	-	12,817
Disposals	(519)	-	(49)	(758)	(2,474)	(4,306)	(8,106)
Indexation	1,841	126	62	(78)	114	-	2,065
Impairment	1,027	-	-	-	-	1,266	2,293
At 31 March 2009	<u>45,232</u>	<u>2,488</u>	<u>1,836</u>	<u>1,776</u>	<u>19,249</u>	<u>-</u>	<u>70,581</u>
Net book value							
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>
At 31 March 2009	<u>254,810</u>	<u>7,815</u>	<u>2,080</u>	<u>54</u>	<u>7,645</u>	<u>1,999</u>	<u>274,403</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.

The Valuation Office Agency has projected negative indexation for 2009/10 in respect of some land and buildings. The total reduction in value, which is reflected above, is £26,976k of which £24,043k has been charged to the Revaluation Reserve and £2,933k to the Operating Cost Statement.

8. Stocks

	2009 £'000	2008 £'000
Work in progress	2,481	1,712
Raw materials and consumables	733	814
Finished goods and goods for resale	1,104	782
	<u>4,318</u>	<u>3,308</u>

9. Debtors and Prepayments

Amounts falling due within one year:

	2009 £'000	2008 £'000
Defra and Defra Agency debtors and accrued income	2,574	3,072
Other government debtors and accrued income	669	475
Trade debtors	1,774	2,188
Prepayments	593	442
VAT	13	93
	<u>5,623</u>	<u>6,270</u>

There are no amounts owing from local authorities, NHS Trusts, public corporations or trading funds (2008, £nil).

10. Creditors Due Within One Year

	2009 £'000	2008 £'000
Defra - receipts in advance	3,657	4,335
- creditors and accruals	6,567	12,234
Other government creditors and receipts in advance	403	15
Trade creditors and receipts in advance	1,630	1,308
Accruals	6,094	9,047
PAYE and National Insurance	793	784
	<u>19,144</u>	<u>27,723</u>

There are no amounts owing to local authorities, NHS Trusts, public corporations or trading funds (2008, £nil).

11. Provisions for Liabilities and Charges

Early retirement costs:

	2009 £'000	2008 £'000
Provision for future costs	88	42
Adjustment to previous provision	36	33
Charge to Operating Cost Statement	<u>124</u>	<u>75</u>

The movements in the early retirement provision are shown below:

Balance at 1 April	488	580
Utilised in year	(235)	(167)
Increase in provision charged to Operating Cost Statement	88	42
Adjustment to previous provision	36	33
Balance at 31 March	<u>377</u>	<u>488</u>

The Agency is required to meet the additional costs of benefits beyond the normal PCSPS benefits in respect of employees who retire early. The Agency provides in full for this cost when the early retirement has been agreed and is binding on the Agency. Costs may increase as a result of inflation applied to payments.

12. General Fund

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:

	2009 £'000	2008 £'000
Balance at 1 April	184,117	175,963
(Deficit) for the year	(6,261)	(235)
Cash paid to Defra	(500)	(10,129)
Notional costs	(161)	4,256
Cost of capital (notional)	9,390	9,259
Transfer from revaluation reserve	4,111	5,003
Balance at 31 March	<u>190,696</u>	<u>184,117</u>

13. Revaluation Reserve

	2009 £'000	2008 £'000
Balance at 1 April	88,409	82,410
Adjustment on indexation	(7,235)	12,523
Backlog depreciation on indexation	(2,143)	(1,344)
Indexation increase recognised in Operating Cost Statement	(96)	(177)
Transfer to General Fund	(4,111)	(5,003)
Balance at 31 March	<u>74,824</u>	<u>88,409</u>

14. Notes to the Cashflow Statement

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

	2008/09 £'000	2007/08 £'000
(a) Reconciliation of operating surplus to net cash inflow from operating activities:		
Operating (deficit)	(6,261)	(235)
Cost of capital	9,390	9,259
Depreciation charge	12,817	11,893
Fixed asset impairment	2,293	2,217
Loss on disposal of fixed assets	39	20
Revaluation of land and buildings	2,837	(177)
Downward asset revaluations	4	20
(Increase) in stocks	(1,010)	(726)
Decrease/ (Increase) in debtors	647	(1,022)
(Decrease) / Increase in creditors and provisions	(8,690)	5,340
Notional costs	<u>(161)</u>	<u>4,256</u>
Net cash inflow from operating activities	<u>11,905</u>	<u>30,845</u>
	2008/09 £'000	2007/08 £'000
(b) Analysis of change in cash balances during the year:		
Balance at 1 April	768	1,040
(Decrease) in cash	<u>(71)</u>	<u>(272)</u>
Balance at 31 March	<u>697</u>	<u>768</u>

The PGO bank account balance was £697,000 at 31 March (2008, £768,000).

15. Capital Commitments

	2009 £'000	2008 £'000
Commitments at 31 March for which no provision has been made:		
Authorised but not contracted	-	1,144
Authorised and contracted	-	9,223
	<u>-</u>	<u>9,223</u>
	<u>-</u>	<u>10,367</u>

No Capital Commitments are shown as at 31 March 2009 due to the post balance sheet event as shown in note 20.

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) Professor John Preston (external member of the VLA Management Board) was paid £4,333 (inclusive of expenses) for professional services other than his Board responsibilities. Other than this none of the Board Members, members of the key management staff or other related parties has undertaken any material transactions with VLA during the year.

17. Operating Leases

Operating lease rentals charged to the operating cost statement in the year amounted to £328,549 (2007/08, £276,086).

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

	2008/09 £'000	2007/08 £'000
Expiring within one year	13	23
Expiring between one and five years	184	19
Expiring in over five years	29	163
	<u>226</u>	<u>205</u>

Rental payments in respect of plant and machinery amount to £31k (2007/08, £35k). Property leases amount to £195k (2007/08, £170k).

18. Contingent Liabilities

There are no contingent liabilities at 31 March 2009 (31 March 2008, nil)

19. Financial Instruments

VLA does not face the degree of exposure to financial risk that commercial businesses do. In addition financial assets and liabilities generated by day-to-day operational activities are not held in order to change the risks facing the Agency in undertaking its activities. VLA relies upon Defra for its cash requirements, having no power itself to borrow or invest surplus funds and the Agency's main financial assets and liabilities have either a nil or a fixed rate of interest related to the cost of capital (currently 3.5%). The short-term liquidity and interest rate risks are therefore slight and there is no foreign currency risk as all income and expenditure, and material assets and liabilities, are denominated in sterling.

Financial Assets by category

	Loans and Receivables £'000	2008/09 Total £'000
Cash	697	697
Trade debtors	1,774	1,774
Other debtors	3,243	3,243
	<u>5,714</u>	<u>5,714</u>

The above figures exclude statutory debtors which relate to VAT due from HM Revenue and Customs.

None of the Financial Assets have been subject to impairment.

An analysis of the ageing of the non impaired trade debtors is shown below:-

	0-30 days £'000	30-60 days £'000	Over 60 days £'000	Total £'000
As at 31 March 2009	<u>1,234</u>	<u>148</u>	<u>392</u>	<u>1,774</u>

Financial Liabilities by category

	Financial Liabilities £'000	2008/09 Total £'000
Trade Creditors	1,631	1,631
Accruals	16,720	16,720
	<u>18,351</u>	<u>18,351</u>

The above figures exclude statutory creditors which relate to Tax and Social Security due to HM Revenue and Customs. All Financial Liabilities are payable within one year.

Credit Risk

The Agency's principal financial assets are bank balances and trade and other receivables. These represent VLA's maximum exposure to credit risk in relation to financial assets. The credit risk is primarily attributable to its trade receivables. The amounts presented in the Balance Sheet are net of provisions for doubtful receivables estimated by the Agency's management based on prior experience and their assessment of current economic value.

Set out below is the movement in the provision for bad and doubtful debts relating to the Agency's trade receivables.

	31 March 2009 £'000
Provision at 1 April 2008	38
Charges to Operating Cost Statement	37
Provision Used	<u>(25)</u>
Balance at 31 March 2009	<u><u>50</u></u>

Hedging

The Agency does not involve itself in any hedging transactions.

20. Post Balance Sheet Events

On 1 April 2009 all of the Agency's freehold and leasehold land and buildings and related balances were transferred to Defra. The charges primarily incurred by VLA in respect of these assets will be replaced by an annual charge from Defra for usage of the Estate.

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 29 May 2009.

**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 2009 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 2008/09.
3. The accounts shall be prepared so as to:
 - a) give a true and fair view of the state of affairs at 31 March 2009 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.

Ken Beeton

Director, Financial Management and Reporting, Her Majesty's Treasury
18 December 2008

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

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