



Veterinary  
Medicines  
Directorate

**Veterinary Medicines Directorate  
Annual Report & Accounts**

**2015/16**

THE VETERINARY MEDICINES DIRECTORATE IS AN EXECUTIVE AGENCY OF THE DEPARTMENT  
FOR ENVIRONMENT, FOOD & RURAL AFFAIRS

HC281

# **Veterinary Medicines Directorate**

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

## **Annual Report and Accounts 2015/16**

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# Performance Report

## Overview

### Chief Executive's Statement

The Veterinary Medicines Directorate (VMD) is a multi-disciplinary organisation with the primary role of the regulation of veterinary medicines. It is responsible for both policy and its delivery on veterinary medicines for the UK. Highly trained VMD staff seek to ensure maximum availability of safe and effective medicines for prevention and treatment of diseases and improved welfare in all animal species. We emphasise the importance of responsible medicine use, and consider human health and environmental impacts in addition to animal need. We are also mindful of the importance of veterinary medicines to a viable livestock and fish-farming industry, and continue to deal with all applications for a marketing authorisation for veterinary medicines to specified timelines, and when necessary urgency of need. We continued to seek opportunities to reduce regulatory burden, and to detect improper medicines sales and associated unfair competition to the industry, whilst seeking and introducing efficiencies to keep costs to industry to a minimum.

The VMD had a very successful year, delivering the business plan, with in-year savings and reduced costs to industry and the taxpayer, while maintaining pharmaceutical industry services independently assessed as excellent, decreased sickness absence, and achieved the 11<sup>th</sup> highest staff engagement index in the Civil Service. We have retained whole business ISO 9001 certification, and ISO 27001 for IT security standards.

The proposals for new European Regulations on Veterinary Medicinal Products, and Medicated Feedingstuffs remained our major policy issues this year. We have maintained consultation within Government, Devolved Administrations, relevant professions and Industry in order to develop a UK position, and have participated in appropriate EU Committees and made direct interactions to present that view. Related to these policy issues is the current high profile of antibiotic resistance, and in response the VMD has continued in its support of the UK 5 year Action Plan, and is leading on the issue across Member States by chairing the Heads of Medicines Agency Taskforce on veterinary antimicrobials. We have also been instrumental in the OIE (World Health Organisation for Animals) work on vaccines to reduce antibiotic use and on proposals for surveillance of resistance in animal pathogens.

Our intent for the coming year is to ensure that new ways of working are fully embedded, further efficiencies and improvements are identified which translate into reduced costs for industry and government, partnership working is expanded, and regulatory burden is further reduced.

## About the Veterinary Medicines Directorate

### Aim

Our aim is to protect public health, animal health and the environment and promote animal welfare by assuring the safety, quality and effectiveness of veterinary medicines.

### Vision

Our vision is the responsible, safe and effective use of veterinary medicinal products.

## Operating Framework

The VMD was established in 1989, became a Next Steps Agency of the Ministry of Agriculture, Fisheries & Food (MAFF) in 1990 and then an Executive Agency of the Department for Environment, Food and Rural Affairs (Defra) on 7 June 2001.

We operate within an overall policy and financial framework determined by the Secretary of State for Defra, through the Minister of State for Farming, Food and the Marine Environment. Our day-to-day management within this framework, and our performance against our key targets, is the responsibility of our Chief Executive Officer (CEO), supported by Directors of Authorisations and Operations. Our policy, legal and resources framework is set out in our [Framework Document](#).

We divide our work into three main components:

**Veterinary Pharmaceutical Industry:** the assessment of applications; issuing and maintenance of Marketing Authorisations including pharmacovigilance; the licensing of manufacturers and wholesale dealers of veterinary medicines; and inspection of manufacturers, wholesale dealers and retailers of veterinary medicines. The main customers are Marketing Authorisation holders; manufacturers and importers of veterinary medicines; manufacturers of medicated animal feedingstuffs; retailers of veterinary medicines and medicated animal feedingstuffs; the veterinary profession; other stakeholders including farmers and keepers of animals; the European Medicines Agency<sup>1</sup> (EMA); Department of Health<sup>2</sup> (DH); Food Standards Agency<sup>3</sup> (FSA) and consumers.

**Food Industry:** the surveillance for residues of veterinary medicines and banned substances in home-produced livestock and animal products, reporting of results and co-ordinating follow-up action. The VMD has contracts with other agencies and companies who carry out work on our behalf at abattoirs and other first processing industries, and on farms. We also work with other stakeholders including consumer representative groups, the European Commission and the FSA who are responsible for food safety follow-up action.

**Government:** servicing, developing and implementing new policy/legislation on all aspects of veterinary medicines; providing support to Ministers through briefing and advice on replies to correspondence and Parliamentary Questions; surveillance for residues of veterinary medicines and banned substances in imported animal products; and day-to-day management of the veterinary medicines Research and Development (R&D) programme on behalf of Defra. The VMD works closely with Ministers and officials of Defra and other government departments and Agencies including the FSA, the general public, industry, consumer representative groups, the European Commission, embassies and other representatives of foreign governments.

## Responsibilities

The VMD's main responsibilities are:

- to lead on the UK government policy for the regulation of veterinary medicines and antimicrobial resistance in animals
- the assessment, issue and maintenance of all national Marketing Authorisations (MAs) for veterinary medicines in accordance with EC and UK legislation

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<sup>1</sup> You can find out more about the EMA via [www.ema.europa.eu](http://www.ema.europa.eu)

<sup>2</sup> You can find out more about the DH via [www.gov.uk/government/organisations/department-of-health](http://www.gov.uk/government/organisations/department-of-health)

<sup>3</sup> You can find out more about the work of the FSA via [www.food.gov.uk](http://www.food.gov.uk)

- acting as Reference Member State (RMS), Rapporteur, Co-Rapporteur or Concerned Member State (CMS) for designated European applications for centralised, decentralised or mutual recognition authorisations
- controls on the manufacture and distribution of veterinary medicinal products including inspections
- enforcement of the Veterinary Medicines Regulations
- pharmacovigilance through the surveillance of Suspected Adverse Reactions (SARs)
- surveillance for residues of veterinary medicines and illegal substances in animals and animal products
- the provision and implementation of policy advice on these matters to Ministers
- the management of the Research and Development programme linked to veterinary medicine issues
- the co-ordination of Defra's work on antimicrobial resistance

## **Future Developments, Performance and Risk**

The key challenges to the VMD throughout 2015/16 and its plans for meeting them have been outlined in the VMD's Business Plan which is available at [www.gov.uk](http://www.gov.uk).

Key future developments and/or risks for the Agency are the:

- economic climate affecting the veterinary pharmaceutical industry and the volume of Authorisation applications the VMD receives
- European Commission's work to review the EU legislation on veterinary medicines, medicated feeds and residues surveillance
- implementation of the UK strategy on antimicrobial resistance and the European Commission's action plan on antimicrobial resistance

The VMD's approach to managing its principal risks is described in the Governance Statement.

## **Going concern**

The Statement of Financial Position at 31 March 2016 shows Taxpayers' Equity and other reserves of £11.7 million (at 31 March 2015 this was £10.9 million). This reflects the inclusion of liabilities falling due in future years.

The VMD received 21% of its funding from Defra and 79% from Industry through fees and charges. Parliament approves this funding annually. These income streams are expected to continue to meet the future funding for our liabilities. The VMD has already received approval for Defra funding for next year. Therefore it is appropriate to adopt a going concern basis for these financial statements.

## Performance Summary

The VMD's total expenditure for the financial year was £14m, an increase of 0.3% against 2014/15.

The VMD is reporting net operating income of £0.373m for 2015/16. However, the adjusted cost recovery result (see below) after including a cost of capital charge is £0.129m, equivalent to 101% cost recovery. Cost recovery for the VMD's operating segments are shown within the Parliamentary Accountability and Audit Report and summarised as follows:

	Income £m	Expenditure £m	Net Income £m
Veterinary Pharmaceutical Industry	7.37	7.31	0.06
Food Industry	4.09	4.08	0.01
Government	3.04	2.98	0.06
<b>Total VMD</b>	<b>14.51</b>	<b>14.37</b>	<b>0.13</b>

The costs of regulation of the Veterinary Pharmaceutical Industry are recovered through fees and charges for authorisations and inspections work. The costs of regulation of the Food Industry are recovered through charges levied on abattoirs and other food processors. The cost of government activities, enforcement, policy and other operations work are funded by Defra.

Income collected from the Veterinary Pharmaceutical Industry increased by 1.5% on 2014/15. This was mostly due to an increase in applications for marketing authorisations. Income collected from the Food Industry was 4% above 2014-15 reflecting changes in volumes and mix of food sector activity. Total Defra funding was £3.04m, a decrease of £0.201m compared to 2014/15, reflecting the VMD's contribution to efficiency savings required by Defra. Further efficiencies enabled re-allocation of funding to support and strengthen the Antimicrobial Resistance programme.

We thoroughly monitor our financial performance and continue to seek efficiency measures while maintaining our standards of performance. We managed to achieve our 2015/16 targets, while reducing charges overall.

### Staff costs

The VMD's staff costs represent 53% of the expenditure for the agency. The staff cost for 2015/16 was £7.589m, a decrease of 2% compared to 2014/15. The decrease reflected vacancies being carried in the financial year. A breakdown of staff numbers are shown within the Staff Report and staff costs in Note 3 to the Accounts.

### Purchase of Services

Purchase of services primarily relates to the contracts the VMD holds with other agencies and companies which carry out sample collection and testing on our behalf at abattoirs, other first processing industries and on farms, and work carried out monitoring antimicrobial resistance in bacteria from animals and their environment. VMD managed these contractual arrangements to identify opportunities for efficiencies savings, enabling costs to be held at the same or reduced level against those for the prior year whilst maintaining service levels.

### **Other operating costs**

The operating costs increased from £6.3m to £6.5m. This was in line with agreed budget plans to commit additional resources expenditure to support the Antimicrobial Resistance programme, a priority area of work. There was additional cost impact with an increase in industry organisations moving to receivership or liquidation.

### **Capital Expenditure**

There were no capital acquisitions in 2015/16. The land and buildings valuation at 31 March 2016 recorded a revaluation increase of £0.47m. Depreciations and amortisation costs have remained at a similar level to the prior year.

### **Cashflow**

Cash and cash equivalents have increased from £4.592m at the 31 March 2015 to £4.659m at the 31 March 2016, an increase of £0.067m. In year, VMD repaid £1.0m of its cash held to Defra through the General Fund.

In paying customers, VMD aims to follow the principles of the Better Payment Practice Code in compliance with the Public Sector Payment Policy to pay 80% of undisputed invoices within five working days. We support this initiative, and during the year paid 99.8% of undisputed invoices within five working days.

### **Business Priorities and KPIs**

The VMD's Business Plan provided a framework of deliverables and KPIs through which the VMD provides the best possible service to all its customers. The VMD successfully delivering against this plan. Details of the VMD's performance against our business priorities for the year from 1 April 2015 to 31 March 2016 can be found within the Performance Analysis section.

## **Performance Analysis**

### **About the performance analysis**

This report outlines our performance against our priorities for the financial year from 1 April 2015 to 31 March 2016. It gives examples of how we are achieving our aims and highlights important events from the year. It follows the structure of our business plan for 2015/16 to 2018/19 to show how we are meeting our objectives.

### **The Defra Strategy**

The Defra Strategy sets out a shared vision and set of strategic objectives for the whole of Defra for the period up to 2020. It is intended to provide staff across the whole group of Defra organisations (including non-ministerial departments, executive agencies, non-departmental and other public bodies) with a clear, shared framework. Actions to achieve the strategic objectives are described in more detail in Defra's Single Departmental Plan.

The strategy provides a clear unifying framework for how we will design and deliver our goals, track delivery and measure success across the whole of Defra. At the heart of the strategy is our shared vision for the Defra group: creating a great place for living.

Our goals are focused on four impact objectives which explain our ambitious, long term aims, and the positive differences we will make to the UK by 2020. We have one delivery objective, which describes the high levels of service and value for money for the taxpayer which we will strive for.

The strategy sets out two organisational objectives outlining how we organise ourselves to deliver and what Defra will be like: a Defra that will act together, be simpler, avoid duplication, maximise impact, and embrace digital data.

Cutting across the strategy are four themes that are critical to achieving our objectives and will deliver important outcomes in their own right: better use of data; increasing productivity; better regulation; and working internationally.

### **Our performance**

The Minister approved Business Plan provided a framework of deliverables and KPIs through which the VMD provided the best possible service to all its customers.

## **Business Priority 1 - Policy**

### **Policy Lead on behalf of Defra for Veterinary Medicinal Products and Antimicrobial resistance**

**Why are we doing this?** The VMD has overall responsibility in the UK for veterinary medicines policy and animal health aspects of antimicrobial resistance in England in the broader context of Defra's animal health and welfare responsibilities and the contribution this makes to safeguarding public health.

Policy work over the year had a number of key strands. Discussion of the EU Commission's proposals to reform the legislative framework on veterinary medicines and medicated feed continued in EU Council working groups under the Latvian, Luxembourg and Dutch presidencies.

On antimicrobial resistance (AMR), the VMD worked closely with key stakeholders in the food chain and veterinary profession in implementing the animal health aspects of the Government's 5-year strategy, notably: supporting the development of the pig industry's electronic medicines book to collect antibiotic usage data; publication of data on antibiotic use by the poultry meat sector; publication of guidance to farm workers on livestock-associated MRSA; publication of the third combined veterinary antimicrobial resistance and sales surveillance report; and publication of the "one-health" report, a joint initiative with Public Health England to bring together current data on AMR and antibiotic usage.

We implemented a new, streamlined framework for authorising clinical trials, a commitment made in response to the Government's Red Tape Challenge.

## **Business Priority 2 - Delivery**

### **A) Facilitate wider availability of veterinary medicines**

**Why are we doing this?** We authorise veterinary medicines. Our work creates an environment that provides confidence and investment within the medicines industry and

enables exports. It protects the food chain, human and animal health as well as the environment. It also ensures that unsafe medicines can be identified and appropriate corrective action taken or, where appropriate, removed from the market.

The expectations for the VMD's performance (time and quality) in terms of handling applications, inspections and pharmacovigilance matters are set out in the published standards. Of 43 individual parameters, all met the "excellent" performance standard resulting in an overall performance against published standards of 100%, so meeting the criteria defined as excellent. The independent Veterinary Products Committee (VPC) rated the quality of the VMD initial assessments for Marketing Authorisation applications as level 1, the highest level, confirming that the VMD properly identified potentially serious risks to human and animal health and the environment and that questions were comprehensive, clear and justified.

## **B) Surveillance, research and enforcement activities that influence the responsible, safe and effective use of veterinary medicines**

**Why are we doing this?** To detect unsafe products or activities and to take corrective action so ensuring confidence in veterinary medicines, assisting competitiveness, aiding consumer confidence, assisting with safety and helping to ensure medicines, in particular antibiotics, are used responsibly so they continue to be effective to treat animals and humans.

Work went to plan for this target and success is shown by the continuing low number of positive residue samples found and the absence of any significant trends in adverse events reported following use of veterinary medicines that required immediate action.

Enforcement activity included:

- six Seizure Notices issued where illegal medicines were seized
- 3,000 internet product listings removed for illegal sale of veterinary medicinal products
- 10 Improvement Notices issued where improvements were required in accordance with the Veterinary Medicines Regulations (VMR)
- 485 letters issued regarding breaches of the VMR
- 363 cases completed from complaints and enquiries concerning borderline veterinary medicinal products

## **C) To influence EU legislative change and the development of appropriate procedures and guidance within the European Medicines Regulatory Network (EMRN)**

**Why are we doing this?** To seek, as far as possible, to ensure that EU changes do not discriminate against UK businesses and to ensure UK citizens' animals and the environment are suitably protected by influencing the position of other EU Member States. To ensure as far as possible that the regulatory framework reflects the risks involved and supports growth. There are no KPIs for these activities.

We continued to work closely with colleagues across the EU by taking an active role in the Heads of Medicines Agencies Group and its various task forces. The UK continues to lead

the task force on antimicrobial resistance and to chair the Committee for Medicinal Products for Veterinary Use (CVMP) Working Party on Antimicrobials. We have seconded a member of staff to work with the European Medicines Agency from 1 January 2016.

We have continued to work with the Commission to help develop its thinking on revising legislation on veterinary medicines, medicated feeds and residues surveillance and continued to provide additional practical support in the form of a national expert in the Directorate General for Health and Food Safety in the European Commission (DG SANTE). We have played an active role in the Council of EU working parties discussing the proposals for new legislation.

## **Business Priority 3 – Customers and Interest Groups**

### **A) To ensure that the regulatory services provided meet the needs of the veterinary pharmaceutical industry**

**Why are we doing this?** To remain competitive within the EU and to inform continual business improvement. This is important as it allows us to retain a critical mass of specialists, helps the sustainability of the operation, offers opportunities for better value for money, and provides the ability to identify possible additional services that may be desired. It also supports earning of foreign income.

An independent web based survey of the veterinary pharmaceutical industry was commissioned by the VMD in February 2016. The results showed that:

- overall level of service across all VMD activities scored Good or Excellent by 87% of respondents
- when compared against the five large agencies in the EU, 75% of respondents rated the VMD as Good or Excellent
- when compared against the five large agencies in the EU, the VMD is ranked best for nine parameters and 2nd for one of the ten parameters
- overall satisfaction compared with 2014 was similar and remained high between surveys

Feedback on company meetings was one of the sources of customer information gathered in 2015/16. A total of 61 company meetings were held from which 20 returns were submitted. An overall score of four or five (top marks) was given on every occasion (11 scored five, 9 scored four).

### **B) Provision of appropriate services to policy customers in Defra and other government departments (OGDs)**

**Why are we doing this?** To ensure the services provided meet policy customer needs in a cost efficient way to support animal, public and wider environmental health, and economic growth, in the context of animal medicines.

During April and May 2016 we carried out a survey of colleagues in government that use the VMD's policy services or who we work with to make and deliver policy. We do the survey each year to complement the regular in-year assessment of the delivery of specific policy areas. These cover veterinary medicines legislation, residues and antibiotic resistance.

We asked 10 questions about what they thought of the service we provided in 2015/16 based on Defra's formal approach to policy making.

For 30% of the areas respondents rated our service as 'excellent: no changes required'. For 50% of the areas respondents rated our service as 'good with minor changes needed'. 18% of the areas respondents recorded 'no view' against and for 2% they rated our service as 'acceptable'.

We will use the results over the coming year to improve the way we make and deliver policy.

## **C) Communications to customers and interest groups**

**Why are we doing this?** To raise awareness of the work of the VMD and why it is important that veterinary medicines are properly regulated and used. To enable effective feedback on our work.

In 2015/16, the VMD undertook a significant amount of work on its annual communications priorities and business as usual activities in line with its Communications and Engagement Strategy.

Highlights included:

- a second summit of leaders and opinion-formers in the livestock and veterinary sectors to highlight the need for a collective response to the challenge of antibiotic resistance
- ongoing engagement with stakeholders on the proposals for new European legislation on veterinary medicines and medicated feed
- a workshop with the veterinary pharmaceutical industry on enforcement and unlawful medicinal claims
- monthly updates to vets in the Veterinary Record and Veterinary Times, and quarterly updates to the pharmaceutical industry through the VMD's newsletter (MAVIS)
- attendance at industry and public events with our information stand to promote awareness of the work of the VMD, our web-based systems, and items of interest to the specific stakeholder group
- working closely with veterinary, animal welfare groups and others to give out important messages on the responsible use of antibiotics including publicising the European Antibiotic Awareness Day, handling an increasing number of media enquiries (e.g. on Antimicrobial Resistance) and using media opportunities successfully
- a number of publications sharing insights with the veterinary profession from our pharmacovigilance work
- running effective education and outreach programmes with lectures given to second/third year students at seven of the eight UK vet schools and to Surrey University MSc students.

## **Business Priority 4 – Value For Money**

### **Achieve cost recovery and delivery of Value for Money**

**Why are we doing this?** To ensure that we can demonstrate to all our customers how we

achieve best value for money (VFM), whilst understanding that cost saving is only one element of VFM. To ensure an appropriate regulatory framework is in place that supports growth whilst providing appropriate safeguards to protect the food chain, human and animal health and the environment.

The VMD recovered 101% of its total costs (including Cost of Capital). Additional analysis is provided within the Parliamentary Accounting and Audit Report.

To determine “Value for Money” the VMD follows the definitions cited by the National Audit Office to report on the economy, efficiency and effectiveness of public spending:

- Economy: minimising the cost of resources used or required – “spending less”
- Efficiency: the relationship between the output from goods or services and the resources to produce them – “spending well”
- Effectiveness: the relationship between the intended and actual results of public spending – “spending wisely”

Over the course of the year the VMD achieved value for money by:

- preparing and implementing a savings plan which generated 5% savings on the previous year funding requirement from Defra
- continuation of the programme for electronic submission of applications, and issue of invoices and associated correspondence, reducing the amount of paper used and stored; and
- maintaining its level of service whilst reducing charges overall.

## **Business Priority 5 – Capacity and Capability**

### **To ensure funding streams are used efficiently to maintain capability and capacity to deliver business objectives**

**Why are we doing this?** To enable the VMD to deliver its other business objectives by maintaining staffing and other support structures at a level that ensures the business is fit for purpose. Through risk management we aim to identify and respond to issues that could adversely affect the business. We seek continuous improvement to enable us to meet current and future business needs and to ensure we remain competitive alongside other National Competent Authorities.

Throughout the year we continued to develop our IT systems to keep them fit for purpose. The IT team continue to extend the support for our finance systems working towards integration between relevant systems to improve the efficiency of processes including e-invoicing.

The VMD continued to invest in the training and development of new staff. On average members of staff undertook 5.72 days of learning and development.

The VMD has ISO 9001 certification for the whole business, and ISO 27001 security certification of its Information Technology (IT) systems. An audit in September 2015 identified no issues of significance for either certification standard.

## Environmental Matters and Social and Community Issues

### Sustainability Report for the calendar year 2015

For more information please see Defra's Annual Report and Accounts – Section headed: "Sustainability in Defra", which covers the VMD.

Defra's Built Environment Sustainability Team (BEST) provides the VMD with quarterly figures on each of the following categories. Due to the availability of data this report is based on data from Quarter 4 of 2014/15 and Quarters 1 to 3 of 2015/16. This is the same basis as used for the figures in the 2014/15 report.

GREENHOUSE GAS EMISSIONS		2015	2014
Non-Financial Indicators (1,000 tCO <sub>2</sub> e)	Total gross emissions	0.22	0.25
	Total net emissions	-	-
	Gross emissions Scope 1 (direct)	-	-
	Gross emissions Scope 2 & 3 (indirect)	-	-
Related Energy Consumption (million kWh)	Electricity: Non-Renewable	0.28	0.34
	Electricity: Renewable	-	-
	Gas	0.32	0.34
	LPG	-	-
	Other	-	-
Financial Indicators (£ million)	Expenditure on Energy	*	0.037
	CRC License Expenditure**	0.004	0.002
	Expenditure on accredited offsets (e.g. Government Carbon Offsetting Fund)	-	-
	Expenditure on official business travel	0.145	0.128
*The VMD does not have these figures. From 2015/16 they form part of the overall Defra Corporate recharge costs and are not billed separately.			
**Carbon Reduction Commitment in the financial year 2014/15 of £3,929 (2013/14 of £2,427) was submitted by the Department for Environment, Food and Rural Affairs on behalf of the VMD.			

### Greenhouse Gas Emissions – Performance Commentary (including measures)

Under the Greening Government Commitments the VMD has a commitment to reduce carbon emissions by 25% from the estate and business related travel from a 2009/10 baseline (of 254 tCO<sub>2</sub>) by 2015. For the purposes of ongoing monitoring and assessment throughout the reporting period, Defra's Built Environment Sustainable Development Team developed annual indicative milestones based on a 5% reduction per annum which we have not met due to the constraints of the building.

#### Indicative Annual Milestone (tCO<sub>2</sub>)

2011/12 – 228.6  
 2012/13 – 215.9  
 2013/14 – 203.2  
 2014/15 – 190.5

### Greenhouse Gas Emissions – Controllable Impacts Commentary

The main direct impacts for the VMD are in its electricity and gas consumption and significant changes to consumption cannot be made without considerable capital investment to

introduce more energy efficient heat sources, reduce solar gain and the like. It should however be noted that we had a PowerStar voltage regulator fitted to the building and the strip lighting changed to the latest energy saving standard before the targets were set.

### Greenhouse Gas Emissions – Overview of Influenced Impacts

Greening Government Commitment: To cut domestic business travel flights by 20% by 2015 from a 2009/10 baseline. Organisation Level Target: Currently recorded as having a zero indicative baseline. Staff undertake nearly all domestic business travel using the train.

WASTE			2015	2014	
Non-Financial Indicators (tonnes)	Total Waste		8.0	21.2	
	Non Hazardous Waste	Hazardous Waste	Total	-	-
		Landfill		-	-
		Reused/recycled		-	-
		Composted		-	-
		Incinerated with energy recovery		8.0	21.2
		Incinerated without energy recovery		-	-
Financial Indicators (£k)	Total Disposal Cost		*	*	
	Non Hazardous Waste	Hazardous Waste		-	-
		Landfill		-	-
		Reused/recycled		-	-
		Composted		-	-
		Incinerated with energy recovery		-	-
		Incinerated without energy recovery		-	-

*\*The VMD does not have these figures. They are part of the overall estate costs and are not billed separately.*

### Waste – Performance Commentary (including measures)

The figures are total waste production from the VMD building. All waste on the Weybridge site the VMD shares with Defra's Animal and Plant Health Agency (APHA) goes into one stream to help the site incinerator burn less flammable waste such as animal bedding, carcasses etc. The glass and metals are extracted and flash heat treated (to ensure biosecurity).

Under the Greening Government Commitments the VMD has a commitment to reduce the amount of waste generated by 25%, from a 2009/10 baseline, by 2015. For the purposes of ongoing monitoring and assessment throughout the reporting period, Defra's BEST developed annual indicative milestones based on a 5% reduction per annum. Defra's BEST re-baselined for the VMD when the Facilities Management contractor started to weigh waste from the VMD separately from the remainder of the site. The targets below have been revised as a consequence.

#### Indicative Annual Milestone (tonnes)

2011/12 – 43.7 (revised baseline based on 2011 calendar year)  
 2012/13 – 40.2  
 2013/14 – 36.7  
 2014/15 – 33.1

The main direct impacts of waste for the VMD are in relation to paper and other office related waste. The VMD’s data cleansing, scanning and disposal project came to an end during calendar year 2015 with the expected significant decrease in waste output. This contributed to the VMD being able to reduce waste further than the target set for this year, though there is little opportunity for further reduction in the future.

We continue to work to reduce the Agency’s paper usage and hence potential waste creation. We ordered 377 boxes of paper in 2010, 320 boxes in 2011 and 289 boxes in 2012. This figure reduced to 165 boxes in 2013, 120 in 2014 and 80 in 2015. We are committed to meeting the governmental target further to reduce paper consumption by 10% in the coming year, through e-working in particular.

The VMD introduced electronic submissions of applications data from the pharmaceutical industry and this has already led to a significant reduction in the amount of paper dossiers handled, stored and disposed of by the VMD.

FINITE RESOURCE CONSUMPTION			2015	2014
Non-Financial Indicators ('000 m <sup>3</sup> )	Water Consumption (Office Estate)	Supplied	0.631	0.774
		Abstracted	-	-
	Water Consumption (Non-Office Estate)	Per FTE	0.004	0.005
		Supplied	-	-
Financial Indicators (£k)	Water Supply Costs (Office Estate)	Abstracted	-	-
		Water Supply Costs (Non-Office Estate)	*	1
			-	-

*\*The VMD does not have these figures. They are part of the overall Defra Corporate recharge costs and are not billed separately.*

**Finite Resource: Water Consumption – Performance Commentary (including measures)**

Under the Greening Government Commitments the VMD has a commitment to an overall reduction in water consumption by 2015, from a 2009/10 baseline and to improve site level water consumption per FTE. Based on an average of 160 FTEs our annual consumption would be 3.94m<sup>3</sup> per head which falls into the good performance level of consumption.

**Finite Resource: Water Consumption – Controllable Impacts Commentary**

Our main water use is in the toilet facilities. We have “water pigs” in the cisterns which reduce flush rates. We cannot do more to reduce toilet facility water usage without capital investment in new hardware. The two showers are already low volume units.

We encourage staff to use only the water they need.

**Professor SP Borriello**  
 Chief Executive  
 28 June 2016

# Accountability Report

## Corporate Governance Report

### Directors Report

#### Board and Executive Directors

The Veterinary Medicines Directorate employs two Directors in addition to the Chief Executive.

Position	Position holder	Period of Service
Chief Executive	SP Borriello	Full year
Director of Authorisations	M-O Hendrickx	Started 05/05/15
Acting Director of Authorisations	A-M Brady	Ended 30/04/15
Director of Operations	P Green	Full year

The notice period for Executive Directors is three months.

The composition of the Management Board (including non-executive members) having authority or responsibility for directing or controlling the major activities during the year is described within the Governance Statement.

The board members had no company directorships or other significant interests which conflicted with their management responsibilities in the financial year 2015/16.

#### Protecting personal data

There were no personal data-related incidents in the VMD in 2015/16. Incidents, the disclosure of which would in itself create an unacceptable risk of harm, may be excluded in accordance with the exemptions contained in the Freedom of Information Act 2000 or may be subject to the limitations of other UK information legislation.

# Statement of Accounting Officer's responsibilities

Under the Government Resources and Accounts Act 2000 HM Treasury has directed the Veterinary Medicines Directorate 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 Medicines Directorate and of its net operating income, changes in taxpayers' equity and cash flows for the financial year.

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

- observe the Accounts Direction issued by HM Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis
- make 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 accounts
- prepare the accounts on the going concern basis

The Accounting Officer for the Department for Environment, Food & Rural Affairs has designated the Chief Executive of the Veterinary Medicines Directorate as Accounting Officer of the Veterinary Medicines Directorate. 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 Agency's assets, are set out in *Managing Public Money* published by HM Treasury.

## Preparation and Audit of the Accounts

The Accounts have been prepared under a direction issued on 18 December 2015 by HM Treasury under Section 7(2) of the Government Resources and Accounts Act 2000 and are audited by the Comptroller and Auditor General.

The VMD's income and expenditure was monitored under a net control total by HM Treasury and was also incorporated into the Defra Resource Accounting total.

So far as the Accounting Officer is aware, there is no relevant audit information which has not been shared with the VMD's auditors. The Accounting Officer has taken all the necessary steps to make himself aware of any relevant audit information and to establish that the VMD's auditors are aware of that information.

The Accounting Officer takes personal responsibility for the judgements applied to determine that the annual report and accounts are fair, balanced and understandable, and confirms that annual accounts, as a whole, are fair, balanced and understandable.

# The Governance Statement

This Statement evaluates for the financial year 2015/16 the effectiveness of the Veterinary Medicines Directorate (VMD) governance arrangements, risk management, and the system of internal control.

The VMD have continued to maintain sound governance and internal controls over the last year. Overall, the governance structures and processes, risk management and internal controls within the VMD were effective, as confirmed by assurance and audit findings included in this Governance Statement.

## Governance philosophy

The VMD, as a regulatory body, works on the principle that optimum governance and prevention of realisation of risk are only possible if the key tenets of governance are embedded as part of the working culture. In particular, our working ethos is of independence, integrity and impartiality, with awareness of conflicts of interest, probity, quality, continuous improvement and on-going efficiency. This is facilitated and informed by active engagement with staff, stakeholders and customers, and a broad based recognition of the value of key elements of governance and an aspiration to do it well.

During the year we have worked with Internal Audit to review contract management, digital by default, data quality, workforce review and budgetary control and monitoring procedures as part of the assurance of the control framework. This aims to mitigate risk of fraud and error; the development of data quality processes to gain a better understanding of assurance of quality and accuracy of information presented to Boards and Committees, and assessed the development of the digital strategy, as an important element for continuing cost effective and high quality service delivery. The whole Agency ISO 9001 and ISO 27001 certification help drive service quality and improvement.

We have continued to focus on performance management both at an individual and business level and management of sickness absence, further assured by an Internal Audit review to consider the procedures for workforce planning. We achieved a Civil Service people survey engagement index score of 63% in 2015 which places us amongst the highest scoring organisations in the civil service.

## Governance arrangements

The VMD is an Executive Agency of the Department for Environment, Food and Rural Affairs (Defra). The Agency is the UK policy lead on veterinary medicines and, as the national competent authority, is responsible for the implementation of all aspects of the Veterinary Medicines Directive and related EU legislation.

The Secretary of State for Defra determines the overall policy and financial framework within which the VMD operates and the Defra ownership function is exercised by the Defra Chief Operating Officer (COO). The COO receives advice and challenge on the Agency's strategic direction and performance from the VMD Management and VMD Corporate customer. The CEO formally reports on Agency performance on a quarterly basis to the Defra Board through the COO in conjunction with the Defra Corporate Customer.

The Agency is led by the Chief Executive Officer, who is accountable to the Secretary of State for Defra for the performance and operation of the VMD and for the achievement of its business priorities in accordance with its Business Plan.

The VMD Management Board and its sub-committee the Audit and Risk Assurance Committee are each independently chaired by a Non-executive Director and between them consider all the VMD's business.

The overall governance structure and associated assurance as well as advice and challenge are enriched by independent advisory committee and regular discussions between the Chief Executive and the Chief Veterinary Officer (who also attends the ARAC and MB) and Deputy Veterinary Officer. We are also party to an external benchmarking process for our medicines functions, and hold external certification to ISO 27001 for our IT functions. Our quality assurance is further strengthened by the whole organisation ISO 9001 certification, which covers all our operational processes.

## Committee structure

### **VMD Management Board (MB)**

The VMD MB, chaired by a Non-executive Director (NED) (Julia Drown), is the internal governance board for the VMD and consists of the Chief Executive, the two Directors, the CVO and other Defra attendees and two further NEDs (David Corner and Andrew Coulson).

The Board met four times in the year. Each meeting is also attended by selected Heads of Teams as appropriate and applicable to the tabled Agenda.

The Board provides the Chief Executive with specific advice, support and challenge on:

- the delivery of key objectives agreed annually with the Minister and published in the VMD Business Plan
- achieving value for money
- regularity and propriety in the administration and operation of the VMD

### **Audit and Risk Assurance Committee (ARAC)**

The ARAC meets quarterly and is chaired by a Non-executive Director (David Corner) and consists of two further NEDs (Julia Drown and Andrew Coulson). The Committee met four times during the year to advise the CEO on the adequacy and effectiveness of the VMD's governance and risk management frameworks. It was attended by, and received reports from, a number of senior staff, internal auditors (KPMG) and external auditors (National Audit Office).

## Highlights of Board and Committee Reports

The MB and ARAC have a rolling agenda. Standard items are:

- Business Plan and Budget
- Monthly financial and quarterly performance reporting
- Strategic risk management
- New corporate policies, for example considering the VMD's assessment of business prospects and potential opportunities, and the methods of communication with stakeholders
- Audit Reports

The emphasis of consideration of these core items between the two committees differ, with risk implications and mitigations, audit programmes and audit findings being of key consideration for the ARAC; and response, implementation and strategy being of key consideration for the MB.

Reports and updates received in 2015/16 were:

- Annual Budget and a three year plan
- Draft Annual Report and Accounts
- Draft Governance Statement
- Risk Register
- National Audit Office Management Letter
- Head of Internal Audit reports
- Internal Audit strategy and work plan
- Reports and recommendations from internal audits and progress on implementation of recommendations

## Executive Management Board (EMB)

The Chief Executive, Directors and Head of Finance meet on a weekly basis as the VMD's EMB. A Head of Team on rotation, attends a sequence of four meetings. There is a standing Agenda to:

- consider and respond to current business issues
- control the VMD's financial position on a monthly basis
- consider detailed assessment of all staff issues (e.g. training, sickness, performance) on a monthly basis
- agree on the handling of key operational issues on a monthly basis
- consider potential new risks/emerging risks
- review strategic risks to the organisation on a monthly basis
- allocate human and financial resources in alignment with the strategic direction and business plan
- on a monthly basis review and update the risk register

### **Effectiveness of the Boards' and Committees' performance**

All VMD Management Board and Audit and Risk Assurance Committee meetings were quorate. Detail of attendees is shown in the minutes of the meetings published on Gov.uk.

All committees and boards are required to keep full attendance records and minutes of each meeting and are disclosed as required and protected as necessary.

The MB and ARAC assess their effectiveness at each meeting. A more formal assessment, as recommended by the Cabinet Office, of MB and ARAC performance was carried out through questionnaires issued at the March 2016 meeting, completed by Committee members and regular attendees where they had attended two or more meetings in the year. Against a bank of eighteen questions for ARAC 90% of responses were positive, 10% neutral and 0% negative based on five responses. For MB 92% of responses were positive, 8% neutral and 0% negative based on five responses.

The MB and ARAC routinely reviews the quality of the Management Information, performance data and operational indicators which align with the VMD's strategic objectives. The Board considered the data presented to be of an appropriate quality.

The minutes and action table provide evidence against which effectiveness of the EMB can be judged.

### **Compliance with the 'Corporate Governance Code'**

The focus of HM Treasury's Corporate Governance Code is on ministerial departments and sets out the protocol, accountabilities and role of departmental boards. The VMD applies the principles of the code, which requires that boards operate according to recognised precepts of good corporate governance in business: leadership, effectiveness, accountability and sustainability. It also requires that arrangements are in place for an annual evaluation of the effectiveness of the board and for results of the evaluation to be acted on.

The Executive Management Board (EMB) has formally assessed its compliance with the Corporate Governance Code to the extent that it relates to an Executive Agency and has assessed its effectiveness. It concluded that the Agency has complied with the principles and spirit of the Code during the year.

The EMB had been effective in the discharge of its responsibilities as evidenced by the full delivery of the 2015/16 Business Plan; the results of the 2015 annual staff survey, and the results of a survey of the VMD's policy customers. The outcomes of the EMB are reported to staff through the weekly Chief Executive's Newsletter and where appropriate Office Notices. To increase involvement and increase challenge from outside the Executive Team, individual Heads of Team are invited on a rolling basis to attend and contribute to the meeting.

### **Conflicts of Interest**

The VMD has in place a detailed conflicts of interest policy register for all VMD staff, and procedures that follow the requirements of the 'Corporate Governance Code' to handle conflicts of interest for all Board members. Board members are required on appointment to complete a form listing interests which could emerge as a conflict of interest. There is a standing agenda item at the start of every Board meeting on declarations of interest. Board papers related to the declared conflict are withheld from Board members who have declared a specific conflict of interest. Board members with a specific conflict of interest leave the

meeting during discussion of that item. A conflict of interest register is maintained for Board members. During 2015/16 no Board Members conflicts of interest were identified.

## Managing our risks

The VMD's primary role is in the authorisation of veterinary medicines, which is always based on assessing the benefit of medicines against their risks. Consequently the very nature of the work of the organisation is to examine risks, to reduce these to an acceptable level, and then to consider the residual risks against the benefits. This philosophy in managing risks is applicable to, and adopted in the approach to, risk management across the organisation, to identify key risks that could threaten the achievement of the VMD's objectives.

Risks facing the VMD fall under the following headings: a) Operational, b) Reputational, c) Financial, d) Staffing, e) Governance or Structural Changes, f) International and g) delivery by partners. The degree of risk is measured by considering the likelihood and impact.

The strategic risk register is regularly reviewed by the EMB, MB and ARAC. The risks are updated as necessary.

The strategic risks identified in 2015/16 were:

- Reduced confidence in veterinary medicines
- Reduced confidence in food safety
- Reduced confidence in the VMD
- Risk of litigation
- Staffing levels/skill mix/motivation
- Imposed changes to estate, impact of Gov.uk and/or imposed changes to other support services
- Overspend on funds/Failure to deliver statutory responsibilities
- Inadequate disaster recovery procedures
- Risk of fraud
- International process/regulation changes that adversely impact UK interests
- Inadequate IT services
- Inability of partner organisations to deliver on behalf of the VMD

During the year all of the risks that arose on the VMD's strategic risk register were managed appropriately. In year, one key 'red risk' for the organisation was identified relating to the outcome of the spending review.

Some key actions we implemented and progressed to help control risks included improved management of information and data requests, tracking all such demands through our communication management system and applying controls on delivery; an improved approach to succession planning with dedicated external assessment of the potential of some staff, continuation of improvements in processes for active management of performance and attendance issues; raising our concerns at senior level with delivery partners, with the Chief Operating Officer and with the Corporate Customer.

The Strategic Risk Register is supplemented by a list of "standing" controls setting out routine control measures, to ensure as far as possible we incorporate risk mitigations into our business-as-usual activities.

The VMD also seeks to identify risks that, while not significant enough to appear on the Strategic Risk Register, could still affect the successful outcome of the VMD's objectives.

These risks are managed within individual business areas and are ‘owned’ by the respective Departmental Heads or Project Leaders who report progress to Directors at regular intervals. This includes a process for escalation to the Strategic Risk Register.

## **Effectiveness of risk management**

### **Internal audit assurance**

The Internal Audit Service:

- operates under the requirements set out in Government Internal Audit Standards and the IIA-UK’s International Standards for the Professional Practice of Internal Auditing
- complies with the Public Sector Internal Audit Standards, which were effective from 1 April
- provides regular reports following an agreed plan of work informed by the Agency’s risk profile, making recommendations for improvements where appropriate

In their Annual Report, which offers their annual opinion on the adequacy and effectiveness of risk management, control and governance, the Head of Internal Audit Opinion is one of “Substantial Assurance”. This indicates that, based on the work performed, ‘The framework of governance, risk management and control is adequate and effective’.

While no significant internal control problems have been identified during the year, the VMD continually strives to build on the procedures and processes that it already has in place to manage risk.

## **Governance and Control Issues**

### **Whistleblowing**

We are committed to high standards of integrity, honesty and professionalism in all that we do. These standards are reinforced by the Civil Service Code.

Our people use the whistleblowing policy if they need to raise a concern about:

- a past, present or imminent wrongdoing within Defra/VMD; or
- wrongdoings which conflict with the Civil Service Code such as those concerning integrity, honesty, objectivity, impartiality or political impartiality.

We encourage all employees to raise any concerns as soon as possible by following these procedures. They can raise concerns via the VMD’s Whistleblowing officer. They can escalate instances of alleged or suspected fraud to the Defra Group Chief Internal Auditor immediately. In addition they are allowed to raise their concerns directly with Members of Parliament.

By raising concerns, they help us to put things right and prevent damage to our effectiveness and reputation.’

### **Business Critical Models and Quality Assurance**

An appropriate quality assurance framework is in place to assess business models relevant

to the Agency. We obtain, through MB and its sub-committee ARAC, assurance that the associated risks are properly managed. There are no business models which currently fall within the definition 'business critical models' as set out by HM Treasury.

### **Quality Management System**

The Quality Management System was introduced across all teams in the VMD in 2010. The Quality Management System ensures processes and procedures are documented. A series of audits are performed each year, using VMD staff drawn from across the organisation and trained in auditing. The audits, whilst initially team based are now largely process based and provide assurance that the documented processes and procedures are followed, with opportunities for improvements being identified and recorded. The VMD has external certification of its systems to ISO 9001.

### **Business continuity Plans**

We operate a Business Continuity Management system to ensure the operation of key activities in the event of a serious incident, inclusive of off-site IT back-up. There have been exercises to test these plans.

### **Information Management and Data security**

Data security remains critical and is assured by the VMD's maintenance of the Cabinet Office Security Standards, certification to ISO 27001. All staff are made explicitly aware of their responsibilities regarding information we hold. In year, there was a 100% successful completion of the Responsible for Information online training.

There were no data security lapses that were deemed to be significant or critical during 2015/16.

## **Significant Issues**

Good progress continued against our plans in 2015/16. The significant issues that were managed through the year and in to the future are:

- the ability to attract or retain experienced professional staff for certain skills is difficult, particularly in a buoyant veterinary medicines sector where demand for scarce experience and talent is high. This is despite high staff engagement scores
- delivery pressures due to extended recruitment timings also need careful management, with flexible mechanisms being required to balance delivery needs and to respond to dynamic customer requirements
- access to capital and the increasing cost of contracts and estates investment
- decreasing resilience of others to deliver commissioned services
- reduced R&D budget

These issues were managed by the VMD's executive team through careful workforce and succession planning; providing first-class learning and development that develops talent within the organisation; through a strong management focus on efficiencies; and through robust contract management.

## Remuneration and staff 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 has regard to the following considerations:

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

### Salaries and Pension Benefits (Audited)

The following sections provide details of the remuneration and pension interests of the VMD's Directors.

Single total figure of remuneration										
Officials	Salary (£'000)		Bonus payments (£'000)		Benefits in kind (to nearest £100)		Pension benefits (to nearest £1000) <sup>1</sup>		Total (£'000)	
	2015-16	2014-15	2015-16	2014-15	2015-16	2014-15	2015-16	2014-15	2015-16	2014-15
<b>SP Borriello</b> Chief Executive	115-120	115-120	-	-	-	-	46,000	44,000	165-170	160-165
<b>M Hendrickx</b> Director of Authorisations	80-85 <sup>2</sup>	-	-	-	-	-	32,000	-	110-115	-
<b>A-M Brady</b> Acting Director of Authorisations	5-10 <sup>3</sup>	30-35 <sup>4</sup>	-	-	-	-	8,000	36,000	10-15	65-70
<b>P Green</b> Director of Operations	70-75	70-75	10-15	-	-	-	22,000	14,000	100-105	80-85

[1] The value of pension benefits accrued during the year is calculated as (the real increase in pension multiplied by 20) plus (the real increase in any lump sum) less (the contributions made by the individual). The real increases exclude increases due to inflation or any increase or decreases due to a transfer of pension rights.

[2] Figures quoted are for the period 5 May 2015 to 31 March 2016. The full year equivalent banding is £85,000 to £90,000

[3] Figures quoted are for the period 1 April 2015 to 31 May 2015. The full year equivalent banding is £70,000 to £75,000

[4] Figures quoted are for the period 6 October 2014 to 31 March 2015. The full year equivalent banded is £65,000 to £70,000.

Salary' includes gross salary; 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. This report is based on accrued payments made by the Agency and thus recorded in these accounts.

The monetary value of benefits in kind covers any benefits provided by the employer and treated by HM Revenue and Customs as a taxable emolument. None of the Directors received any benefits in kind during the year.

Directors are appraised annually against a set of competencies and individually targeted objectives. Bonuses are the only form of remuneration subject to performance conditions. Bonuses paid in 2015/16 relate to performance in 2014/15 and bonuses paid in 2014/15 relate to performance in 2013/14.

There have been no ex gratia payments or amounts paid during the year in respect of compensation to former senior managers or to third parties for services of a senior manager.

None of the VMD Directors has held any company directorships or other significant interests during the year that, in the opinion of the Directors, may conflict with their management responsibilities.

No employer contributions were made to partnership pension accounts during 2015/16 or 2014/15 in respect of the VMD's Directors.

### Pay Multiples (Audited)

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

The full-time equivalent annualised total remuneration of the highest paid Director and the median member of staff excluding the highest paid Director are as shown in the following table:

Total remuneration	Highest paid Director £000	Median of other staff £	Pay multiple (ratio)
2015/16	115 - 120	31,655	3.8
2014/15	115 - 120	31,308	3.8

In 2015/16, no employees received remuneration in excess of the highest paid Director (2014/15: nil). Remuneration ranged from 17,495 to 119,776 (2014/15, £16,558 to £119,180).

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

### Civil Service Pensions

Pension benefits are provided through the Civil Service pension arrangements. From 1 April 2015 a new pension scheme for civil servants was introduced – the Civil Servants and Others Pension Scheme or **alpha**, which provides benefits on a career average basis with a normal pension age equal to the member's State Pension Age (or 65 if higher). From that date all newly appointed civil servants and the majority of those already in service joined **alpha**. Prior to that date, civil servants participated in the Principal Civil Service Pension Scheme (PCSPS). The PCSPS has four sections: 3 providing benefits on a final salary basis (**classic**, **premium** or **classic plus**) with a normal pension age of 60; and one providing benefits on a whole career basis (**nuvos**) with a normal pension age of 65.

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**, **nuvos** and **alpha** are increased annually in line with Pensions Increase legislation. Existing members of the PCSPS who were within 10 years of their normal pension age on 1 April 2012 remained

in the PCSPS after 1 April 2015. Those who were between 10 years and 13 years and 5 months from their normal pension age on 1 April 2012 will switch into **alpha** sometime between 1 June 2015 and 1 February 2022. All members who switch to **alpha** have their PCSPS benefits 'banked', with those with earlier benefits in one of the final salary sections of the PCSPS having those benefits based on their final salary when they leave **alpha**. (The pension figures quoted for officials show pension earned in PCSPS or **alpha** – as appropriate. Where the official has benefits in both the PCSPS and **alpha** the figure quoted is the combined value of their benefits in the two schemes). Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder pension with an employer contribution (**partnership** pension account).

Employee contributions are salary-related and range between 3% and 8.05% of pensionable earnings for members of **classic** (and members of **alpha** who were members of **classic** immediately before joining **alpha**) and between 4.6% and 8.05% for members of **premium**, **classic plus**, **nuvos** and all other members of **alpha**. 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 initial 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 their 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 the accrued pension is uprated in line with Pensions Increase legislation. Benefits in **alpha** build up in a similar way to **nuvos**, except that the accrual rate is 2.32%. In all cases members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

The **partnership** pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% up to 30 September 2015 and 8% and 14.75% from 1 October 2015 (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of 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 up to 30 September 2015 and 0.5% of pensionable salary from 1 October 2015 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**, 65 for members of **nuvos**, and the higher of 65 or State Pension Age for members of **alpha**. (The pension figures quoted for officials show pension earned in PCSPS or **alpha** – as appropriate. Where the official has benefits in both the PCSPS and **alpha** the figure quoted is the combined value of their benefits in the two schemes, but note that part of that pension may be payable from different ages.)

Further details about the Civil Service pension arrangements can be found at the website <http://www.civilservicepensionscheme.org.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 member has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their buying additional pension benefits at their own cost. CETVs are worked out in accordance with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008 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.

### Real Increase in CETV (Audited)

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.

	Accrued pension at pension age as at 31/3/16 and related lump sum £000	Real Increase in pension and related sum at pension age £000	CETV at 31/3/16 £000	CETV at 31/3/15 £000	Real increase in CETV £000
<b>SP Borriello</b> Chief Executive	20-25 plus lump sum 0	2.5-5.0 plus lump sum 0	373	302	32
<b>M Hendrickx</b> Director of Authorisations	0-5 plus lump sum 0	0-2.5 plus lump sum 0	23	-	17
<b>A Brady</b> Acting Director of Authorisations	30-35 plus lump sum 90-95	0-2.5 plus lump sum 0-2.5	645	627	7
<b>P Green</b> Director of Operations	15-20 plus lump sum 55-60	0-2.5 plus lump sum 2.5-5.0	375	326	17

### External Management Board Members (Audited)

Membership details of the Management Board are shown on page 15. The non-executive members also form the Audit and Risk Assurance Committee (ARAC). The following salaries and benefits in-kind were paid to the external members:

2015/16	D Corner £000	J Drown £000	A Coulson £000
Salary (as defined above)	0-5	0-5	0-5
Benefits in-kind	0-5	0-5	0-5
<b>Total</b>	<b>0-5</b>	<b>0-5</b>	<b>0-5</b>

  

2014/15	D Corner £000	J Drown £000	A Coulson £000
Salary (as defined above)	0-5	5-10	0-5
Benefits in-kind	0-5	0-5	0-5
<b>Total</b>	<b>5-10</b>	<b>5-10</b>	<b>0-5</b>

## Staff Report

### Staff Numbers

At 31 March 2016 we employed 148 permanent staff (143.6 full-time equivalent (FTE) and 8 temporary staff (6.9 FTE) supplied by local employment agencies. The average number of full-time equivalent permanent and temporary staff during the year, and an analysis of staff-in-post (headcount) as at 31 March 2016 by gender are shown below.

The VMD complies with Equal Opportunities legislation and Departmental policy in relation to disabled employees. The VMD applies the Department's policies on equal opportunities and health and safety at work.

The average FTE number of persons employed during the year was as follows.

	<b>2015/16</b>			<b>2014/15</b>
	<b>Permanently employed staff Number</b>	<b>Temporary staff Number</b>	<b>Total Number</b>	<b>Total Number</b>
Scientific	54	2	56	55
Administrative	95	4	99	106
	<b>149</b>	<b>6</b>	<b>155</b>	<b>161</b>

The number of staff-in-post (headcount) by gender as at 31 March 2016 was as follows.

	<b>2015/16</b>		
	<b>Male</b>	<b>Female</b>	<b>Total Number</b>
Directors	2	1	3
Other staff - Scientific	23	34	57
Other staff- Administrative	36	60	96
	<b>61</b>	<b>95</b>	<b>156</b>

### Early departure costs

Redundancy and other departure costs have been paid in accordance with the provisions of the Civil Service Compensation Scheme, a statutory scheme made under the Superannuation Act 1972. Exit costs are accounted for in full in the year of departure or earlier where a demonstrable commitment exists.

	<b>2015/16 Number</b>	<b>2014/15 Number</b>
Exit package cost band		
Up to £10,000	-	-
£10,001 – £25,000	-	-
£25,001 - £50,000	-	-
£50,001 - £100,000	1	-
<b>Total number of exit packages in cost band</b>	<b>1</b>	<b>-</b>

There were no compulsory exits in 2015/16 (2014/15: nil).

There were no senior manager exits in 2015/16 (2014/15: nil).

**Sickness absence data**

The total full-time-equivalent days lost through staff sickness absence in the year was 639 compared to 996 in 2014/15. The average working days lost per employee during the year was 4.3 compared to 6.5 in 2014/15. Short term sickness absences of 10 days or less continued to fall from 2.1 days per FTE in 2014/15 to 2.0 days per FTE in 2015/16.

**Consultancy and temporary staff expenditure**

	2015/16	2014/15
	£000	£000
Consultancy expenditure	116	45
Temporary staff expenditure	268	410
Total	<b>384</b>	<b>455</b>

Expenditure on temporary staff reduced as a consequence of progress on recruitment into vacancies. Consultants are engaged when it is better value for money to do so on specific programme work and when specialised skills are required. Additional specialist support was required in the delivery of 2015-16 AMR programme.

**Tax arrangements of public sector appointees**

As part of HM Treasury's review of tax arrangements of public sector appointees, departments and their arms-length bodies are required to publish information in relation to the number of off payroll engagements lasting more than six months and costing over £220 per day that were in place on 31 January 2012 or entered into subsequently. The VMD have nil engagements to report.

**Employee Involvement**

The VMD encourages staff involvement in its activities through a variety of channels including a VMD intranet, topic meetings, day-to-day line management contacts and diverse membership of project teams. Regular meetings review progress against the Business Plan and review risk. Office notices and the intranet are used to disseminate information. An annual staff meeting to review the work of the past year and expected key future issues is addressed by the CEO. The VMD works with Defra on wellbeing activities and staff have access to both occupational health and employee assistance services. Trade Union membership and representation is in accordance with Departmental policies.

The VMD achieved re-accreditation to the Investors in People (IiP) Silver standard following our reassessment in June 2015.

**Health and Safety**

Due to mainly low risk activities and the size of the organisation the VMD continues to use the policies and advice services from Defra's Safety, Health & Wellbeing team. Only three minor work-related incidents were reported by employees during 2015/16.

**Professor SP Borriello**  
 Chief Executive  
 28 June 2016

# Parliamentary accountability and audit report (Audited)

## Fees and Charges

The agency's 2015/16 Business Plan includes one key financial performance target: to achieve 100% +/-2% cost recovery for the VMD as a whole. In assessing performance against this target, a notional Cost of Capital is recorded in addition to the costs included in the Statement of Comprehensive Net Income. For 2015/16 an overall cost recovery of 101% was achieved. However the VMD seeks to achieve cost recovery for each of its three operating components and for 2015/16 the results were as follows.

	<b>2015/16</b>			
	<b>Veterinary Pharmaceutical Industry £000</b>	<b>Food Industry £000</b>	<b>Government £000</b>	<b>Total £000</b>
Income	7,367	4,095	3,040	14,502
Expenditure	(7,075)	(4,073)	(2,981)	(14,129)
<b>Net Operating Income per Statement of Comprehensive Net Income</b>	<b>292</b>	<b>22</b>	<b>59</b>	<b>373</b>
Less: cost of capital charge	(233)	(11)	-	(244)
<b>Cost recovery surplus/(deficit)</b>	<b>59</b>	<b>11</b>	<b>59</b>	<b>129</b>
<b>Cost recovery performance</b>	101%	100%	102%	101%

	<b>2014/15</b>			
	<b>Veterinary Pharmaceutical Industry £000</b>	<b>Food Industry £000</b>	<b>Government £000</b>	<b>Total £000</b>
Income	7,256	3,927	3,241	<b>14,424</b>
Expenditure	(6,991)	(3,910)	(3,183)	<b>(14,084)</b>
<b>Net Operating Income per Statement of Comprehensive Net Income</b>	<b>265</b>	<b>17</b>	<b>58</b>	<b>340</b>
Less: cost of capital charge	(217)	(9)	-	(226)
<b>Cost recovery surplus/(deficit)</b>	<b>48</b>	<b>8</b>	<b>58</b>	<b>114</b>
<b>Cost recovery performance</b>	101%	100%	102%	101%

## Losses and Special Payments

Managing Public Money requires a statement showing losses and special payments by value and type to be shown where they exceed £300,000 in total, and those individually that exceed £300,000.

Losses may relate to cash and stores losses, book-keeping losses, losses arising from failure to make adequate charge for the use of public property or services, fruitless payments and claims abandoned as well as frauds. Special payments may relate to extra contractual, extra statutory, and ex gratia payments and compensation.

There were no losses or special payments that need to be reported in accordance with *Managing Public Money*.

## **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 Veterinary Medicines Directorate for the year ended 31 March 2016 under the Government Resources and Accounts Act 2000. The financial statements comprise: the Statements of Comprehensive Net Income, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration and Staff Report and the Parliamentary Accountability and Audit report that is described in those reports as having been audited.

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

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Chief Executive as Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the Government Resources and Accounts Act 2000. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

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

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

### **Opinion on regularity**

In my opinion, in all material respects the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

### **Opinion on financial statements**

In my opinion:

- the financial statements give a true and fair view of the state of the VMD's affairs as at 31 March 2016 and of the net operating income for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

### **Opinion on other matters**

In my opinion:

- the parts of the Remuneration and Staff Report and the Parliamentary Accountability and Audit Report to be audited have been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000; and
- the information given in the Performance Report and Accountability Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

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

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

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

### **Report**

I have no observations to make on these financial statements.

### **Sir Amyas C E Morse**

Comptroller and Auditor General  
National Audit Office  
157-197 Buckingham Palace Road  
Victoria  
London  
SW1W 9SP

14 July 2016

# Financial Statements

## Statement of Comprehensive Net Income

for the year ended 31 March 2016

	<i>Note</i>	<u>2015/16</u> £000	<u>2014/15</u> £000
Income from provision of services	2	14,502	14,424
<b>Total operating Income</b>		<b>14,502</b>	<b>14,424</b>
Staff costs	3	(7,589)	(7,753)
Purchase of services	4	(4,220)	(4,345)
Depreciation and impairment charges	4	(321)	(331)
Other operating costs	4	(1,999)	(1,655)
<b>Total operating expenditure</b>		<b>(14,129)</b>	<b>(14,084)</b>
<b>Net operating income</b>		<b>373</b>	<b>340</b>
<b>Other comprehensive expenditure:</b>			
<b>Items that will not be reclassified to net operating costs:</b>			
Net gain on revaluation of property, plant and equipment		675	778
<b>Comprehensive net income</b>		<u>1,048</u>	<u>1,118</u>
<b>for the year ended 31 March 2016</b>		<u>1,048</u>	<u>1,118</u>

All income and expenditure is derived from continuing operations.

All of the above income and expenditure is classified as "Administration". (See Note 1.14)

The notes on pages 37 to 48 form part of these accounts.

# Statement of Financial Position

as at 31 March 2016

	Note	31 March 2016		31 March 2015	
		£000	£000	£000	£000
<b>Non-current assets:</b>					
Property, plant and equipment	5	5,854		5,450	
Intangible assets	6	60		110	
Long term receivables	7	-		11	
<b>Total non-current assets</b>			<b>5,914</b>		<b>5,571</b>
<b>Current assets:</b>					
Trade and other receivables	7	3,520		3,379	
Cash and cash equivalents	8	4,659		4,592	
<b>Total current assets</b>			<b>8,179</b>		<b>7,971</b>
<b>Total assets</b>			<b>14,093</b>		<b>13,542</b>
<b>Current liabilities:</b>					
Trade and other payables	9	(2,393)		(2,672)	
<b>Total current liabilities</b>			<b>(2,393)</b>		<b>(2,672)</b>
<b>Total assets less liabilities</b>			<b>11,700</b>		<b>10,870</b>
<b>Taxpayers' equity and other reserves:</b>					
General Fund			7,526		7,371
Revaluation Reserve			4,174		3,499
<b>Total equity</b>			<b>11,700</b>		<b>10,870</b>

**Professor SP Borriello**  
 Chief Executive and Agency Accounting Officer  
 28 June 2016

The notes on pages 37 to 48 form part of these accounts.

# Statement of Cash Flows

for the year ended 31 March 2016

	<i>Note</i>	<u>2015/16</u>	<u>2014/15</u>
		£000	£000
<b>Cash flows from operating activities:</b>			
Net operating income		373	340
Adjustments for non-cash transactions:			
Depreciation, amortisation and revaluation losses	4	321	331
Defra Investigation service	4	227	231
Defra recharges (notional)	4	519	(23)
Auditors' remuneration	4	36	36
(Increase) in trade and other receivables		(130)	(939)
(Decrease)/increase in trade and other payables		(279)	130
of which decrease in accruals for non-current assets		-	12
<b>Net cash inflow from operating activities</b>		<u>1,067</u>	<u>118</u>
<b>Cash flows from investing activities:</b>			
Purchase of property, plant and equipment		-	-
Purchase of intangible assets		-	(12)
<b>Net cash outflow from investing activities</b>		<u>-</u>	<u>(12)</u>
<b>Cash flows from financing activities:</b>			
Repayment of operational funding		(1,000)	(1,000)
<b>Net financing</b>		<u>(1,000)</u>	<u>(1,000)</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<u>67</u>	<u>(894)</u>
<b>Cash at the beginning of the year</b>		<u>4,592</u>	<u>5,486</u>
<b>Cash at the end of the year</b>	8	<u><u>4,659</u></u>	<u><u>4,592</u></u>

The notes on pages 37 to 48 form part of these accounts.

# Statement of Changes in Taxpayers' Equity

for the year ended 31 March 2016

	<i>Note</i>	<b>General Fund £000</b>	<b>Revaluation Reserve £000</b>	<b>Total Reserves £000</b>
<b>Balance at 1 April 2014</b>		<b>7,787</b>	<b>2,721</b>	<b>10,508</b>
<b>Changes in taxpayers' equity for 2014/15:</b>				
Comprehensive net income for the year		340	-	340
<b>Non-Cash adjustments:</b>				
Defra Investigation Services	4	231	-	231
Defra Estates settlement		(23)	-	(23)
Auditors' remuneration	4	36	-	36
<b>Movements in Reserves</b>				
Repayment of operational funding		(1,000)	-	(1,000)
Net gain on revaluation of property, plant and equipment		-	778	778
<b>Total recognised income and expense for 2014/15</b>		<b>(416)</b>	<b>778</b>	<b>362</b>
<b>Balance at 31 March 2015</b>		<b>7,371</b>	<b>3,499</b>	<b>10,870</b>
<b>Changes in taxpayers' equity for 2015/16:</b>				
Net operating income for the year		373	-	373
<b>Non-Cash adjustments:</b>				
Defra Investigation Services	4	227	-	227
Defra corporate recharges	4	519	-	519
Auditors' remuneration	4	36	-	36
<b>Movements in Reserves:</b>				
Repayment of operational funding		(1,000)	-	(1,000)
Net gain on revaluation of property, plant and equipment		-	675	675
<b>Total recognised income and expense for 2015/16</b>		<b>155</b>	<b>675</b>	<b>830</b>
<b>Balance at 31 March 2016</b>		<b>7,526</b>	<b>4,174</b>	<b>11,700</b>

The notes on pages 37 to 48 form part of these accounts.

# Notes to the Accounts

## 1. Statement of accounting policies

The financial statements have been prepared in accordance with the 2015/16 *Government Financial Reporting Manual (FReM)* and the Accounts Direction issued by HM Treasury.

The accounting policies contained in the *FReM* apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context and comply with the guidelines issued by the International Financial Reporting Interpretations Committee (IFRIC).

Where the *FReM* permits a choice of accounting policy, a judgement has been made to select the most appropriate policy to suit the particular circumstances of the Agency, for the purpose of giving a true and fair view. The Agency's accounting policies have been applied consistently in dealing with items which are considered material in relation to the Accounts.

### 1.1 Judgements and key sources of estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities and the reported amount of income and expenditure. All estimates are based on knowledge of current facts and circumstances, assumptions concerning past events, and forecast of future events and actions. Where appropriate, the relevant notes to the Accounts provide further detail on estimation techniques.

In the process of applying the Agency's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements.

**Deferred Income:** The Agency is responsible for managing the progress of, and income earned from, scientific assessments. Individual assessments may span across more than one financial year and the preparation of the financial statements requires the Agency to determine, based on an evaluation of the terms and conditions of the arrangements, that it fully and accurately reflects the completeness of any deferred income in this regard by reference to the stage of completion of any ongoing assessments.

**Non-current Assets/Depreciation:** The Agency carries its non-current assets at fair value as stated in note 1.3 below. The charge for depreciation for each non-current asset is based on an estimate of its useful life.

### 1.2 Accounting convention

These accounts have been prepared on an accruals basis under the historical cost convention, modified to account for the revaluation of property, plant and equipment and intangible assets.

### 1.3 Property, plant and equipment and intangible assets

Land and Buildings are subject to professional valuation at five yearly intervals and stated at fair value, which is valued at Depreciated Replacement Cost applying to specialist buildings. Depreciated Replacement Cost is defined as "the current cost of replacing an asset with its modern equivalent asset less deductions for physical deterioration and all relevant forms of

obsolescence and optimisation”. Between professional valuations, annual desk top revaluations are conducted, which have regard for prevailing local and national conditions.

Non-property assets costing £10,000 or more, where there is an expected useful economic life of more than one year, are carried in the Statement of Financial Position at fair value, using appropriate indices provided by the Office for National Statistics.

Intangible non-current assets comprise software licences.

Losses on revaluation are charged to the Revaluation Reserve to the extent that gains have been recorded previously and otherwise to the Statement of Comprehensive Net Income.

#### 1.4 Depreciation and amortisation

Depreciation and amortisation are provided at rates estimated to write off the valuation of property, plant and equipment and software licences on a straight-line basis over the estimated useful life of the asset. Componentisation has been adopted for the Agency’s freehold building asset, with each component capitalised and depreciated separately. Estimated useful lives, component values and residual values are revised annually.

Asset lives are normally within the following ranges:

Freehold land	Not depreciated
Freehold buildings	41 years (residual life)
Furniture, fittings and office equipment	15 years
IT hardware	5 years
IT software	5-10 years
Software licences	5-10 years

#### 1.5 Impairment reviews

Property, plant and equipment and intangible assets are subject to an annual impairment review. Any impairment will be recognised as required by IAS 36 Impairment of Assets and accounted for as set out in *FReM*.

#### 1.6 Operating income

Operating income is income which relates directly to the operating activities of the Agency. It principally comprises fees and charges for services provided on a full cost recovery basis to external customers, as well as public repayment work.

#### 1.7 Revenue recognition

Revenue is recognised in line with IAS 18. Income is recognised when the revenue can be reliably measured and the future economic benefits pertaining to the VMD are probable. Income received in advance of work done is deferred to future periods to the extent necessary to cover the work estimated to be outstanding at the year end. Income receivable for work done in the year is accrued to the extent necessary to cover the work estimated to be complete at the year end.

### **1.8 Defra service recharges**

Commencing from 1 April 2015 Defra corporate services costs are no longer directly invoiced to Network Bodies. Defra services recharges relate to Investigation and Enforcement, Estates Maintenance and Human Resources and Legal Charges. As these costs remain with the Agency budget notional recharges are included in the Statement of Comprehensive Net Income and charged to the General Fund.

### **1.9 Value Added Tax (VAT)**

Most of the Agency's activities are outside the scope of VAT. As a result, input tax cannot generally be recovered. Irrecoverable VAT is included in the operating costs and non-current asset additions. However, under a Treasury concession applying to government departments, input VAT recovery is possible on certain specified contracted out services attributable to those activities. For those limited activities where output VAT is charged, directly attributable input VAT can be recovered under the normal rules.

### **1.10 Financial instruments**

Financial assets and financial liabilities are recognised in the Agency's Statement of Financial Position when the Agency becomes a party to the contractual provisions of the instrument.

### **1.11 Research and development**

The VMD is responsible for the management of Defra's Veterinary Medicines Research and Development programme. However the programme costs are borne by Defra and not by the VMD. Therefore only the costs of administering the programme are recognised in the VMD accounts.

### **1.12 Pensions**

Pension benefits are provided through the Civil Service pension arrangements which are described in the Remuneration Report. The defined benefit schemes are unfunded. The Agency recognises the expected cost of these elements on a systematic and rational basis over the period during which it benefits from employees' services by payment to the PCSPS of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS. In respect of the defined contribution schemes, the Agency recognises the contributions payable for the year.

### **1.13 Leases**

All payments under operating leases are charged to the Statement of Comprehensive Net Income. An operating lease is a lease other than a finance lease. A finance lease is one which transfers substantially all the risks and rewards of ownership to the lessee. The Agency does not have any finance leases.

### **1.14 Administration and programme expenditure**

All of the VMD's income and expenditure is classified as "Administration". The classification of income or expenditure as administration or programme follows the definition of administration costs as set out in HM Treasury's Consolidation and Budgeting Guidance 2015/16.

### **1.15 General Fund**

The net operating result for each year is transferred from the Statement of Comprehensive Net Income to the General Fund. The General Fund represents the value of the VMD's net assets less liabilities as at 1 April 1991, which is the date from which the first Accounts Direction became effective, plus subsequent external funding movements, plus the accumulated net operating result transferred from the Statement of Comprehensive Net Income.

### **1.16 Revaluation Reserve**

The Revaluation Reserve represents the unrealised cumulative balance of indexation and revaluation adjustments to non-current assets.

### **1.17 Impending application of newly issued standards not yet effective**

IAS 8 requires disclosures in respect of new IFRSs, amendments and interpretations that are, or will be applicable after the reporting period. There are a number of IFRSs, amendments and interpretations that have been issued by the International Accounting Standards Board that are effective for future reporting periods. The VMD has not adopted any new IFRS standards early.

No amendments are anticipated to have an impact on the financial statements.

## 2. Operating Income

Income was earned from the following business segments:

	2015/16			2014/15
	External £000	Defra £000	Total £000	Total £000
Veterinary Pharmaceutical Industry	7,362	5	7,367	7,256
Food Industry	4,057	38	4,095	3,927
Government	46	2,994	3,040	3,241
	<b>11,465</b>	<b>3,037</b>	<b>14,502</b>	<b>14,424</b>

## 3. Staff Costs

Staff costs consist of the following:

	2015/16			2014/15
	Permanently employed staff £000	Temporary staff £000	Total £000	Total £000
Wages and salaries	5,650	268	5,918	6,137
Social security costs	488	-	488	497
Other pension costs	1,183	-	1,183	1,119
<b>Sub-total as reported in Statement of Comprehensive Net Income</b>	<b>7,321</b>	<b>268</b>	<b>7,589</b>	<b>7,753</b>
Less recoveries in respect of outward secondments	(19)	-	(19)	(46)
	<b>7,302</b>	<b>268</b>	<b>7,570</b>	<b>7,707</b>

Included in the permanently-employed staff costs is an accrual for untaken annual leave of £226,000, (2014/15: £221,000). This comprises of £178,000 (2014/15: £174,000) wages and salaries, £13,000 (2014/15: £13,000) social security costs and £35,000 (2014/15: £34,000) other pension costs.

The average number of full-time equivalent permanent and temporary staff during the year and an analysis of staff in post (headcount) as at 31 March 2016 by gender are shown in the Staff Report.

### Senior managers' remuneration

Details of the Chief Executive's and Directors' salaries and pension entitlements are shown in the Remuneration Report.

### Pensions

The Principal Civil Service Pension Scheme (PCSPS) and the Civil Servant and Other Pension Scheme (CSOPS) - known as "alpha" are unfunded multi-employer defined benefit scheme but the VMD is unable to identify its share of the underlying assets and liabilities. The scheme actuary valued the scheme as at 31 March 2012. You can find details

in the resource accounts of the Cabinet Office: Civil Superannuation ([www.civilservicepensionscheme.org.uk/](http://www.civilservicepensionscheme.org.uk/)).

For 2015/16, employers' contributions of £1,165,748 were payable to the PCSPS (2014/15 £1,108,754) at one of four rates in the range 20.0% to 24.5% of pensionable earnings, based on salary bands (the rates in 2014/15 were between 16.7% and 24.3%). The Scheme Actuary reviews employer contributions usually every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2015/16 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 of £11,933 (2014/15: £8,519) were paid to one or more of the panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3% to 12.5% of pensionable earnings up to 30 September 2015 and from 8% to 14.75% of pensionable earning from 1 October 2015. Employers also match employee contributions up to 3% of pensionable earnings.

In addition, employer contributions of £480, 0.8% of pensionable pay up to 30 September 2015 and 0.5% of pensionable pay from 1 October 2015, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service or ill health retirement of these employees.

Contributions due to the partnership pension providers at the balance sheet date were £1,047. Contributions prepaid at that date were nil.

No individuals retired early on ill-health grounds during the year and therefore no additional pension liabilities have been accrued for this purpose.

#### 4.1 Operating Costs

Costs that cannot be directly allocated to operating components are allocated according to staff time utilised. Staff time utilised during the year was as follows:

	<u>2015/16</u>	<u>2014/15</u>
	%	%
Veterinary Pharmaceutical Industry	75	73
Food Industry	4	3
Government	21	24
	<u>100</u>	<u>100</u>

**4.2 Other administrative costs**

	<i>Note</i>	<u>2015/16</u> £000	<u>2014/15</u> £000
<b>(i) Purchase of services<sup>(1)</sup></b>			
Services provided by Industry:			
FERA Science Limited (formerly FERA)		2,372	-
Other Services provided by Industry		21	30
Services provided by Other Government Departments:			
Food and Environment Research Agency (FERA)		-	2,535
Animal and Plant Health Agency (APHA)		1,132	1,047
Food Standards Agency (FSA)		547	557
The Scottish Government (SG)		107	88
Government Legal Department (GLD)		-	59
Medicines and Healthcare Products Regulatory Agency (MHRA)		33	18
Centre for Environment, Fisheries and Aquaculture Science (CEFAS)		8	11
		<b>4,220</b>	<b>4,345</b>
<b>(ii) Depreciation and impairment charges</b>			
Depreciation of property, plant and equipment	5	271	276
Amortisation of intangible assets	6	50	50
Losses on disposal of non-current assets	5&6	-	5
		<b>321</b>	<b>331</b>
<b>(iii) Other operating costs</b>			
IT systems maintenance		319	316
Professional programme and technical services		116	45
Travel and subsistence		189	164
Communications		78	78
Training		68	72
Stationery and publications		39	53
Independent expert committees		34	50
Office related goods and services		32	38
Internal Audit		43	38
Operating leases		34	34
Movement on provision for bad debts		99	31
Other costs		156	114
Defra service recharges:			
Estates maintenance		374	273
Human resources		100	122
Legal services		55	-
Statutory Residues programme		-	(40)
Defra Investigation Services		227	231
Auditors' remuneration		36	36
		<b>1,999</b>	<b>1,655</b>
<b>Total operating expenditure</b>		<b>6,540</b>	<b>6,331</b>

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

- (1) Purchase of services primarily relates to the contracts the VMD holds with other agencies and companies who carry out sample collection and testing on our behalf at abattoirs, other first processing industries and on farms and work carried out monitoring antimicrobial resistance in bacteria from animals and their environment.

**5. Property, plant and equipment**

	<u>Land</u> <u>£000</u>	<u>Buildings</u> <u>£000</u>	<u>Information</u> <u>Technology</u> <u>£000</u>	<u>Furniture</u> <u>&amp; Fittings</u> <u>£000</u>	<u>Total</u> <u>£000</u>
<b>Cost or Valuation:</b>					
At 1 April 2015	291	4,944	1,004	282	6,521
Additions	-	-	-	-	-
Disposals	-	-	(181)	(3)	(184)
Revaluation	-	471	13	2	486
<b>At 31 March 2016</b>	<b>291</b>	<b>5,415</b>	<b>836</b>	<b>281</b>	<b>6,823</b>
<b>Depreciation:</b>					
At 1 April 2015	-	-	(818)	(253)	(1,071)
Charged in year	-	(202)	(66)	(3)	(271)
Disposals	-	-	181	3	184
Revaluation	-	202	(11)	(2)	189
<b>At 31 March 2016</b>	<b>-</b>	<b>-</b>	<b>(714)</b>	<b>(255)</b>	<b>(969)</b>
<b>Carrying Value</b>					
<b>At 31 March 2016</b>	<b>291</b>	<b>5,415</b>	<b>122</b>	<b>26</b>	<b>5,854</b>
<b>Cost or Valuation:</b>					
At 1 April 2014	460	6,925	1,068	299	8,752
Additions	-	-	-	-	-
Disposals	-	-	(75)	(17)	(92)
Revaluation	(169)	(1,981)	11	-	(2,139)
<b>At 31 March 2015</b>	<b>291</b>	<b>4,944</b>	<b>1,004</b>	<b>282</b>	<b>6,521</b>
<b>Depreciation:</b>					
At 1 April 2014	-	(2,724)	(814)	(261)	(3,799)
Charged in year	-	(202)	(69)	(5)	(276)
Disposals	-	-	74	13	87
Revaluation	-	2,926	(9)	-	2,917
<b>At 31 March 2015</b>	<b>-</b>	<b>-</b>	<b>(818)</b>	<b>(253)</b>	<b>(1,071)</b>
<b>Carrying Value</b>					
<b>At 31 March 2015</b>	<b>291</b>	<b>4,944</b>	<b>186</b>	<b>29</b>	<b>5,450</b>
At 31 March 2014	460	4,201	254	38	4,953

Revaluation movements result from the indexation and/or the revaluation of non-current assets.

The Land and Buildings were valued at 31 March 2016 by an independent valuer (Montagu Evans) in accordance with guidance issued by the Royal Institution of Chartered Surveyors. Buildings were valued at Depreciated Replacement Cost applying to specialist buildings in accordance with IAS 16, defined as “the current cost of replacing an asset with its modern equivalent asset less deductions for physical deterioration and all relevant forms of obsolescence and optimisation”.

**6. Intangible assets**

	<b>Software Licences</b>
	<b>£000</b>
<b>Cost or valuation:</b>	
At 1 April 2015	931
Additions	-
Disposals	(4)
<b>At 31 March 2016</b>	<b>927</b>
<b>Amortisation:</b>	
At 1 April 2015	(821)
Charged in year	(50)
Disposals	4
<b>At 31 March 2016</b>	<b>(867)</b>
<b>Carrying Value</b>	
<b>At 31 March 2016</b>	<b>60</b>
<b>Cost or valuation:</b>	
At 1 April 2014	931
Additions	-
Disposals	-
<b>At 31 March 2015</b>	<b>931</b>
<b>Amortisation:</b>	
At 1 April 2014	(771)
Charged in year	(50)
Disposals	-
<b>At 31 March 2015</b>	<b>(821)</b>
<b>Carrying Value</b>	
<b>At 31 March 2015</b>	<b>110</b>
At 31 March 2014	160

## 7. Trade receivables and other current assets

Amounts falling due within one year:	<b>31 March 2016</b>	<b>31 March 2015</b>
	<b>£000</b>	<b>£000</b>
Trade receivables	2,156	2,304
Balances with other central government bodies	1	4
Other receivables	13	7
VAT recoverable	160	46
Prepayments	163	123
Accrued Income	1,027	895
	<b>3,520</b>	<b>3,379</b>
Amounts falling due after more than one year:		
Other receivables	-	11
<b>Total trade receivables and other current assets</b>	<b>3,520</b>	<b>3,390</b>

Trade receivables are shown net of a provision of £56,000 (2014/15: £46,000) for bad and doubtful debts. The provision is calculated according to the age and status of the debt and recent sector-specific debt-recovery information.

## 8. Cash and cash equivalents

	<b>2015/16</b>	<b>2014/15</b>
	<b>£000</b>	<b>£000</b>
Balance at 1 April	4,592	5,486
Net change in cash and cash equivalents	67	(894)
<b>Balance at 31 March</b>	<b>4,659</b>	<b>4,592</b>

All balances were held in accounts administered by Government Banking Services.

## 9. Trade payables and other current liabilities

Amounts falling due within one year:	<b>31 March 2016</b>	<b>31 March 2015</b>
	<b>£000</b>	<b>£000</b>
Trade payables	7	21
Balances with other central government bodies	417	1,014
Balances with public corporations and trading funds	1	1
Other taxation and social security	157	157
Accruals	596	282
Deferred Income	1,215	1,197
<b>Total trade payables and other current liabilities</b>	<b>2,393</b>	<b>2,672</b>

At the year end the VMD had no payables falling due after more than one year (2014/15: £nil).

## 10. Capital commitments

There were no contracted commitments at 31 March 2016 (2014/15: £nil).

## 11. Commitments under operating leases

Total future minimum lease payments under operating leases are given in the table below for each of the following periods:

**Obligations under operating leases comprise:**

	<u>2015/16</u>	<u>2014/15</u>
	<u>£000</u>	<u>£000</u>
<b>Contract Hire cars</b>		
Not later than one year	30	6
Later than one year not later than five years	40	7
<b>Total</b>	<u>70</u>	<u>13</u>

## 12. Other financial commitments

Defra has entered into a contract (which is not a lease or PFI contract) for Estate Maintenance and Facilities Management services associated with buildings that are either leased by Defra or held on the Agency's Statement of Financial Position. The Agency incurs a charge proportionate to the benefit it receives from this contract. Based on Defra's estimate, the payments to which the Agency is committed at the year end, analysed by the period during which the commitment expires are as follows:

	<u>2015/16</u>	<u>2014/15</u>
	<u>£000</u>	<u>£000</u>
Not later than 1 year	152	182
Later than 1 year but not later than 5 years	609	728
Later than 5 years but not later than 10 years	457	728
<b>Total</b>	<u>1,218</u>	<u>1,638</u>

The above contract has been disclosed as cancelling would create an adverse operational impact to Defra and would incur considerable financial penalties. The commitment for the Interserve FM contract includes the Core FM contract, Reactive FM and all approved contract variations that impact the future cost of the contract. The commitment for the Interserve contract is subject to change as the size of the Estate adjusts through Strategic Alignment.

## 13. Related party transactions

As the VMD is an Executive Agency of Defra, Defra is regarded as a related party. During the year, the VMD has had significant transactions with Defra and a number of its agencies, including the Animal and Plant Health Agency (APHA).

The VMD has transacted with various other central government bodies. Most of these transactions have been with the Medicines and Healthcare products Regulatory Agency (MHRA), Food Standards Agency (FSA) and The Scottish Government. None of the board members, key managerial staff or other related parties has undertaken any material transactions with the VMD during the year other than reimbursement for travel and subsistence in the normal course of business.

#### **14. Financial instruments**

As the cash requirements of the VMD are met through the Estimates process, financial instruments play a more limited role in creating and managing risk than would apply to a non-public sector body. The majority of financial instruments relate to contracts to buy non-financial items in line with the Agency's expected purchase and usage requirements and the Agency is therefore exposed to little credit, liquidity or market risk.

#### **15. Events after the reporting period**

The VMD's financial statements are laid before the House of Parliament by the Secretary of State for Defra. In accordance with the requirements of IAS10, events after the reporting period are considered up to the date on which the accounts are authorised for issue. This is interpreted as the date of the Certificate and Report of the Comptroller and Auditor General.

On 23 June, the EU referendum took place and the people of the United Kingdom voted to leave the European Union. Until exit negotiations are concluded, the UK remains a full member of the European Union and all the rights and obligations of EU membership remain in force. During this period the Government will continue to negotiate, implement and apply EU legislation. It will be for the Government, under the new Prime Minister, to begin negotiations to exit the EU. The outcome of these negotiations will determine what arrangements apply in relation to EU legislation and funding in future once the UK has left the EU.

Up to the date of issue, there have been no other events since 31 March 2016 that would have a significant impact on the Annual Report and Accounts or would be likely to have a significant impact on the future performance of the VMD.

## Glossary

AMR	Antimicrobial Resistance
APHA	Animal and Plant Health Agency
ARAC	Audit and Risk Assurance Committee
BEST	(Defra's) Built Environment Sustainability Team
CEO	Chief Executive Officer
COO	Chief Operating Officer
CEFAS	Centre for Environment, Fisheries and Aquaculture Science
CETV	Cash Equivalent Transfer Value
CMS	Concerned Member State
CVMP	Committee for Medicinal Products for Veterinary Use
DARC	Defra Antimicrobial Resistance Coordination Group
Defra	Department for Environment, Food & Rural Affairs
DG SANTE	Directorate General for Health and Consumers – European Commission
DH	Department of Health
EC	European Commission
EMA	European Medicines Agency
EMB	Executive Management Board
EMRN	European Medicines Regulatory Network
EU	European Union
FERA	Food and Environment Research Agency
FReM	Financial Reporting Manual
FSA	Food Standards Agency
FTE	Full Time Equivalent
GSI	Government Secure Intranet
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
IP	Investors in People
IT	Information Technology
KPI	Key Performance Indicators
MA	Marketing Authorisation
MAFF	Ministry of Agriculture, Fisheries and Food
MB	Management Board
MHRA	Medicines and Healthcare products Regulatory Agency
NAO	National Audit Office
NED	Non-Executive Director
OGD	Other Government Departments
PCSPS	Principal Civil Service Pension Scheme
PFI	Public Finance Initiative
R&D	Research and Development
RMS	Reference Member State
SARs	Suspected Adverse Reactions
VFM	Value For Money
VMD	Veterinary Medicines Directorate
VMR	Veterinary Medicines Regulations
VMP	Veterinary Medicinal Product
VPC	Veterinary Products Committee

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