



**Animal Health and Veterinary Laboratories Agency**

**Annual Report and Accounts**  
**2012-2013**



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2012-2013**

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Any enquiries regarding this document should be sent to us at:

Animal Health and Veterinary Laboratories Agency  
Corporate Office  
New Haw  
Addlestone  
Surrey  
KT15 3NB

Email: [AHVLA.CorporateCorrespondence@ahvla.gsi.gov.uk](mailto:AHVLA.CorporateCorrespondence@ahvla.gsi.gov.uk)

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## Chief Executive Officer's Statement

This report and set of accounts summarises the operation of the Animal Health and Veterinary Laboratories Agency (AHVLA) for 2012/13.

This year has seen many changes for the Agency, and I would like to acknowledge the work carried out by Catherine Brown and Julie Pierce, both former Chief Executive Officers, during their time with the Agency.

It has again been a challenging year, with the continued reduction on UK government spending. The Agency continues to develop its veterinary and scientific capability and in 2012/13 launched both its Science Strategy and Veterinary and Technical Services Strategy which outline our plans in these areas.

We have continued to collaborate with Defra and both the Devolved Administrations to develop and implement changes to our delivery model. We have also worked with Defra and the Welsh Government on finalising the rationalisation of our laboratory services. A consultation exercise was carried out to help inform the future delivery model for scanning surveillance in England and Wales.

Our highlights this year include our continued work on bovine TB and, in particular, we have continued to manage herd risk in Scotland on behalf of the Scottish Government, which has maintained Scotland's Officially TB Free status. This in turn has seen savings on the cost of carrying out herd tests in Scotland.

The Agency has continued to develop and strengthen its organisational structure to ensure that science and evidence-based decisions are at the heart of what we do - informing advice to policy makers and field delivery.

This has been an eventful year for the Agency and one of the most memorable highlights was AHVLA's key role in the preparations for the equestrian events at the Olympic Games. We produced regular risk assessments for the Games' organisers and, as part of our usual work at the border inspection posts (BIPs), we played a crucial role in the health certification of horses that entered the UK from outside the European Union.

I would like to thank our customers and stakeholders for their support during the year and for helping us to develop our strategies and capability. I look forward to working with you in the coming years.

I would particularly like to thank all my colleagues in AHVLA who have worked extremely hard to ensure the continued delivery of our services to our customers within a changing environment.

Chris Hadkiss  
Chief Executive Officer



8 July 2013

# 1. Annual Report

## Who we are and what we do

### Who we are

AHVLA is an executive agency of Defra and also works on behalf of the Scottish Government and Welsh Government. We also provide services to the Food Standards Agency, other government departments, the farming industry, international bodies and commercial customers worldwide.

The Agency was formed on 1 April 2011 following the merger of Animal Health, the Veterinary Laboratories Agency and elements of Defra's Food and Farming Group.

We operate from a number of sites across Great Britain (GB), with our headquarters in Weybridge. We have 21 Field Services bases, 16 Investigation Centres and Laboratories and five Specialist Service Centres. We operate at net running cost with an income in 2012/13 of £214.1m and employ approximately 2,250 staff.

### What we do

**Our role is to safeguard animal health and welfare as well as public health, protect the economy and enhance food security through research, surveillance, inspection and disease eradication.**

We primarily work to prevent, control and identify endemic, exotic and new and emerging animal disease across GB through inspection and surveillance work on farms, at markets and other livestock-related premises, and through specialist veterinary laboratory and scientific services.

Our research and surveillance work forms an important part of the evidence base used to support policy-making throughout GB and abroad. We are also a key adviser to policy decisions taken within Defra, the Scottish Government and the Welsh Government.

We are the national regulator in GB responsible for Defra, Scottish Government and Welsh Government's delivery of policies for the prevention, control and eradication of notifiable disease, upholding public health on farms and maintaining the welfare of farmed livestock.

Our range of functions includes:

- The identification and management of endemic disease, such as bovine TB, with the ultimate aim of eradication
- Surveillance for new, emerging and re-emerging animal diseases through post-mortem examinations, laboratory testing and farm visits

- Scientific research projects on bacteria, food safety, and viral, prion and parasitic diseases
- Import and export controls, and oversight of the Pet Travel Scheme (PETS)
- Protection of CITES listed endangered species through our wildlife registration and licensing role
- Provision of a national and international reference laboratory facility for a wide range of farm animal diseases
- Monitoring compliance with animal by-product legislation to help minimise the risk of potentially dangerous substances entering the food chain
- Provision of a range of specialist scientific services for private sector customers via our commercial brand, AHVLA Scientific
- Welfare inspections on farm and during transport
- Egg marketing inspections.

## **Disease outbreak response**

An important area of our work is to prevent, identify, manage and eradicate outbreaks of exotic diseases.

Exotic diseases are those not usually present in livestock in GB such as foot and mouth disease (FMD), avian influenza (AI), classical swine fever (CSF) and rabies.

It is impossible to predict the timing, scale and duration of an exotic disease outbreak but we can predict the activities required to control a range of scenarios and plan accordingly;

- Ensure the Agency retains a critical number of staff with outbreak skills for redeployment throughout the UK during an outbreak situation
- Rapid, accurate diagnosis of suspect cases through field investigations and laboratory testing
- Application of movement restrictions on individual premises and in zones through field and administrative action
- Depopulation of affected herds and disposal of carcasses
- Cleansing and disinfection of farms, vehicles and people
- Surveillance through veterinary inspection of animals, sampling and laboratory testing
- Provision of balanced, authoritative advice to enable Ministers to make high impact decisions
- Timely and well-founded information communicated to customers and stakeholders during a disease outbreak
- Understanding the epidemiology of the outbreak, using it to direct strategy
- Freeing up movements to return industries to normal business
- Provision of export certification and negotiating internationally to mitigate export bans
- Carry out regular exercises to test the UK's current contingency plans and disease control strategies.

## Highlights of our achievements in 2012/13

We are uniquely placed to deliver the priorities of Defra, the Scottish Government and Welsh Government in managing risks from animal disease, increasing the UK's resilience to deal with disease outbreaks, and supporting a thriving and competitive British food and farming sector.

The second year of operation for the merged Agency was equally as challenging as the first but we are starting to see many of the benefits gained from bringing together the three organisations in April 2011.

Our achievements have been wide and varied throughout the year and in 2012/13 we focused on a number of priorities, most notably:

### **i) Delivering savings and value for money**

- We announced the outcome of our laboratory services review in September 2011. The rationalisation of this service was taken forward in two phases and ended testing at eight out of the Agency's 16 regional laboratories. As part of phase 1, laboratory testing stopped at Truro, Langford and Thirsk on 31 March 2012, with phase 2 taking place throughout 2012/13 at Aberystwyth, Carmarthen, Luddington, Preston and Winchester. Phase 1 was completed successfully with all testing moved to other laboratory locations. This rationalisation programme is creating significant savings and has given us the opportunity to establish sustainable centres of expertise for specific types of testing which also provide a more standard and efficient service to customers. Post mortem work continues to be carried out at the Investigation Centres and this has allowed us to take forward a review of how veterinary surveillance is carried out in England and Wales as part of our Surveillance 2014 project.
- We have introduced a programme of continuous improvement for core services and processes using the principles of Lean. This looks at opportunities to reduce the burden of inefficient and complex working practices which can impact both staff and customers. The programme has included building a network of fully trained Lean practitioners who have worked on various projects including the Agency's programme of centralisation and looking at the day-to-day delivery of processes by the Specialist Service Centres. These projects will bring both financial and efficiency benefits to the Agency.

### **ii) Establishing the merged Agency**

- Pay harmonisation was completed as part of the Defra Pay Settlement 2012 for all staff with the exception of veterinary officers in VLA Band C and veterinary officers in Defra Band G. Harmonisation for this staff group will be completed with a separate process of negotiations, giving consideration to the current review of the delivery of veterinary work within AHVLA.
- All the transactional financial work (accounts payable and receivable, cash management, and payroll) previously provided in-house to VLA was transferred

to Defra Shared Services Directorate (SSD) from 1 July 2012. The majority of HR administration functions were also migrated to SSD in 2012/13.

- The annual Civil Service People Survey which measures employee engagement was carried out during October 2012. Although our engagement score remained the same as the previous year, there was an increase in positive responses to most of the key drivers of employee engagement. Following this, our directors and senior managers identified key areas where they would take action to improve engagement across the Agency. Detailed team reports were also issued to managers who discussed the results with their teams to look at and act upon suggested areas for improvement. These included creating more opportunities to listen and understand the things that matter to people and we have now set up a new system to gather and respond to people's concerns, questions and suggestions on a regular basis.

The Employee Engagement Group continues to meet regularly and provides feedback on current issues from across the organisation to the Executive Committee.

- During 2012/13 we moved the business towards a culture of continuous improvement. A new set of values was launched to support our vision, shape the culture and reflect what is important to AHVLA. Managers and leaders were given tools and training to explore how they could support their teams through organisational change and raise engagement levels amongst staff.

### **iii) Managing exotic disease outbreak and emergency response preparedness**

- We supported the equine infectious anaemia (EIA) outbreak in October 2012 in Cornwall and Devon with detailed epidemiology reports and risk assessments for different management procedures, during the period when horses that may be diseased were restricted, to prevent further dissemination of infection. The group also provided follow-on advice to help develop future control policy to manage disease risk while minimising the impact of prolonged restrictions on businesses.
- AHVLA hosted a modelling workshop looking at the influence of human behaviour, economics and politics on the validity, credibility and reliability of scientific models. It considered evidence and modelling approaches from a range of disciplines, including epidemiology, social research and economics, which also underpin disease control activities used across GB. A review of the workshop is available on the AHVLA website: <http://www.defra.gov.uk/ahvla-en/2013/03/18/ahvla-workshop-reviews-validity-credibility-scientific-models/>.
- We gathered evidence about the impact of Schmallenberg virus (SBV) on the GB sheep population to inform government and industry. This was used as a central piece of evidence to formulate Defra's future policy on SBV. We also co-ordinated the modelling by the Met Office to look at areas at risk of exposure to wind-borne midges from Europe, which informed preliminary outbreak assessments.

- The multiple national and international reference laboratories at AHVLA Weybridge provide advice in support of national and international disease control policies. This includes intelligence gathering for the early warning of disease threats. This access to data and information provides an evidence-base that can influence EU policy and international disease control policies.

In 2012/13 this was applied to known disease threats such as avian influenza and rabies which have a constantly changing global disease status, and new or emerging diseases such as Schmallenberg and Usutu viruses. These emerging diseases are either unknown or poorly understood but, through reference laboratory capability and networks, cross-cutting scientific skills were applied.

- In line with the requirements of relevant EU legislation, the UK's contingency plans are tested and validated at least twice every five years using a major UK-wide contingency exercise.

A considerable amount of work was undertaken in 2012/13 to prepare for Exercise Walnut (June 2013) that will test the UK's response to classical swine fever. We also deliver a programme of centrally co-ordinated local, regional and country-specific exercises. This programme includes cross-border exercises and is delivered in liaison with Defra, the Scottish Government, the Welsh Government, other government departments, operational partners and key stakeholders.

Each of our regions must take part in at least one local exercise a year and rehearse plans for one of the eight exotic notifiable diseases that are deemed to be of the highest priority for contingency planning purposes. In 2012/13, the regions held the following exercises:

- Exercise Ben Vorlich was held in Scotland in partnership with the Scottish Government to rehearse the multi-agency response to an outbreak of high path avian influenza (HPAI).
- Exercise Henban held in the South East region tested our capability to deal with an outbreak of avian influenza.
- Exercise Foghorn in Wales reviewed instructions and procedures for the control of HPAI in partnership with key operational partners and stakeholders to establish the level of readiness and identify improvements in the management of outbreak plans.
- Exercise Atlanta took place in the Midlands region and tested the response to foot and mouth disease, particularly in pigs.
- Exercise Pepper examined resilience within the North region in the event of an outbreak of classical swine fever and evaluated the use of the Sand Hutton site as a Forward Operations Base (FOB).

#### **iv) Bovine TB (research, policy development and eradication)**

- Most countries carrying out campaigns of bovine tuberculosis (bTB) eradication impose a ban on the use of mycobacterial vaccines in cattle including the use of vaccines against *Mycobacterium avium* subspecies *paratuberculosis* (MAP) because these vaccines can compromise the sensitivity of the front line

diagnostic test for TB – the tuberculin skin test. Recent publications by researchers at AHVLA have shown that for both cattle and goats (the latter in collaboration with the University of Barcelona) this interference can be fully mitigated by using new DIVA reagents (i.e. those that Differentiate Infected from Vaccinated Animals) in a gamma interferon-based assay. These DIVA reagents are also showing early promise as a better defined and more specific alternative to tuberculin in the skin test for cattle which would also work in the face of BCG vaccination.

- An epidemiological analysis of 'out-of-home range' TB breakdowns has been completed in the last year. Over 96% of all TB herd breakdowns had genotypes for which home range analysis was possible. Over 83% of analysable breakdowns are within homerange (2009/11) and almost 70% of out-of-home range breakdowns are within 50km of the home range. These observations highlight how useful genotyping of bTB and home range maps can be for determining the cause of an Official TB Free Withdrawn (OTF-W) breakdown, not just in high TB incidence areas of the country but also in the lower incidence, four yearly testing areas. Furthermore, they provide underpinning evidence for policy formation and directing research requirements.
- We held a workshop with Veterinary Officers (VOs) in February 2013 in collaboration with social scientists at Cardiff University to help validate the maps of endemic bTB spread. VOs gave their views of how endemic bTB is spreading in their area and social scientists trialled the methods they will use in focus groups with farmers and vets to identify social risk factors that might be associated with endemic spread.
- Scotland's Officially TB Free (OTF) status is maintained via a risk-based approach to routine herd testing combined with slaughterhouse surveillance and additional movement controls. The herd risk in Scotland is assessed and managed on an annual basis by AHVLA. Over a four year period, approximately 37% of herds in Scotland will be exempt from TB routine herd testing as a result of this approach. In 2012, 1,018 herds with a mark forward for Routine Herd Testing were exempt, saving approximately £250,000.

1,738 herds were subject to routine testing and 47 were subject to annual whole herd testing (Irish content and high risk herds). No herd breakdowns were disclosed at routine herd tests but 17 new confirmed cases were disclosed through additional surveillance and movement controls. Surveillance at slaughterhouses accounted for 11 new confirmed Officially TB Free Status Withdrawn (OTFW) TB cases. The additional movement and testing controls managed by AHVLA (post import, post movement, tracing or whole herd (Irish Content Herds) testing) disclosed six confirmed cases (including the first disclosure following testing because of non-compliance with pre-movement testing from the English HIA) out of 633 tests carried out.

All resultant breakdowns were successfully controlled by AHVLA, including the largest ever recorded in Scotland. In addition to bTB, two alpaca herds in Scotland were restricted as a result of a tracing from a confirmed breakdown in England. Scottish OTF status was maintained.

- During 2012/13, AHVLA has taken action in a number of areas to improve the quality assurance of activities related to the control of bTB.
  - Improved training for Official Veterinarians (OVs) carrying out bTB testing was introduced this year.
  - A pilot programme of field audits of OVs carrying out bTB testing in Wales was completed in April 2012. Increased quality assurance activity has continued in England and Wales. In Scotland, OVs who have not conducted a bTB test for two years and wish to continue bTB testing, have been audited. The overwhelming majority of audits were satisfactory, although some issues were identified and follow-up action taken.
  - To help ensure consistency of actions in response to audit findings, a set of sanctions has been agreed with the British Veterinary Association (BVA) and the British Cattle Veterinary Association (BCVA). Improved audit instructions have been drafted and internal consultation carried out.
  - Since July 2012, we have been rolling out access to the Sam IT system to OV practices on a phased basis. 90% of all test submissions are now received on Sam, with practices benefitting from:
    - live notification of tests, so all work instructions are received immediately and are up-to-date
    - details of an animal's previous test date and/or result where appropriate
    - a significant reduction in data entry where there is no reaction to a skin test
    - Reduced postal and administrative costs through the electronic submission of test results.

#### v) **Surveillance**

- Our consultation on the future of scanning surveillance in England and Wales ended in February 2012/13. There were 113 responses to the 20 questions asked in the consultation document and 43 general responses were sent by email or letter. Approximately 200 people attended the 10 workshops held around the country. The project will continue in 2013/14 and the responses to the consultation, the recommendations of the Surveillance Advisory Group and the experience of the project team will be used to help formulate options on the future model for scanning surveillance for Defra and Welsh Ministers to consider.
- Scanning surveillance identified multiple potential risks in 2012/13. The risks with potential impact were raised with the Veterinary Risk Group, which assessed them and made recommendations to the UK's four Chief Veterinary Officers (CVOs) on risk management. Some examples were:
  - A *Salmonella gallinarum* outbreak in Northern Ireland which resulted in disseminating information to the poultry industry and private veterinary surgeons on how to avoid introducing the disease into GB.
  - Agalactia of unknown aetiology in sheep in France.

- The risk of a public scare regarding mass mortality in water fowls. This resulted in information to local authorities on how to handle this type of report.
- Our surveillance work continued to monitor the spread of Schmallenberg virus in GB and we provided advice and guidance to the industry via letters, presentations and web page updates. Enhanced surveillance was carried out on foetal deformities and acute disease in cattle and a serological survey in sheep was conducted to assess the spread. An online survey for farmers was also launched as part of our surveillance work to measure the impact of the virus in sheep during lambing.

#### **vi) Evidence and research**

- The AHVLA Science Strategy 2012/15 was agreed and published in July 2012 following extensive consultation with a wide range of science stakeholders. The strategy has been very well received both internally and externally. A project board and team have been set up to take forward the implementation of the strategy and ensure we deliver on our key objectives.

For 2012/13 an ambitious programme of 14 projects was planned and many of these have been completed or are progressing well. Many of the projects prioritised for 2012/13 focused around reviewing structures and disciplines to ensure AHVLA has a strong and flexible science base. Highlights include:

- Reviews of the Animal Sciences Unit and Pathology areas have been completed and recommendations are being implemented.
- The Scientific Computing Strategy was published in February 2013.
- Several impact assessment narratives describing scientific success stories were completed in March 2013.
- Portfolio strategies have been drafted in collaboration with main customers.
- Four Discipline Champions in Immunology, Molecular Biology, Parasitology and Bioinformatics will be appointed to underpin the above initiatives.
- The current cost of detecting a case of bovine spongiform encephalopathy (BSE) in the EU is €1.65 million. AHVLA scientists have developed a mathematical algorithm which could potentially provide the scientific basis for reducing large scale testing of cattle for transmissible spongiform encephalopathy (TSE) in the EU. Using BSE monitoring data from across Europe, the Cattle TSE Monitoring Model (C-TSEMM) implies the current BSE monitoring regime enables the detection of one BSE case in 7,177,596 adult cattle and in a scenario where testing of healthy slaughter cattle was abandoned, the power of detection of a case would fall to one BSE case in 5,355,627 adult cattle.
- We have carried out a pilot study to evaluate the survival of live BCG vaccine during digestion as part of the work to develop an oral badger TB vaccine. The study was conducted in collaboration with the Netherlands Organisation for Applied Scientific Research and used their dynamic gastric and small intestinal

model, which simulates digestion in the upper gastrointestinal tract, to test our lead oral badger BCG vaccine candidates. Results showed that nearly all BCG cells were killed before reaching the middle section of the small intestine. This information could inform the design of modifications to existing formulations to maximise BCG survival during badger digestion.

- Our Newcastle disease (ND) international reference laboratory recently detected four different genetic groups of virulent ND viruses (NDV) from domestic poultry in Turkey, including two relatively new genetic groups. One of these groups has previously not been isolated outside South East Asia and the other is an emergent novel group that was previously associated with an outbreak in Estonia. This co-circulation of atypical viruses and more established strains within a single country demonstrates the unpredictable and increasingly variable risk posed by the incursion of NDV.

#### **vii) Welfare**

- We process new applications for transporter authorisations to commercially transport live animals. In 2012 we completed a renewals exercise and publicity campaign as six years had passed since the implementation of Council Regulation EC 1/2005 and many of the authorisations issued at that time had expired. This resulted in a higher than normal number of authorisations being issued during the year; we issued 20,561 Short Journey (Article 10) Type 1 Transporter Authorisations and 439 Long Journey (Article 11) Type 2 Transporter Authorisations. Our regulatory action led to one transporter having its authorisation revoked and a second transporter (based outside GB) being prohibited from transporting animals through GB.
- We provided the information required for the Multi-Agency National Control Plan (MANCAP) and statistics of regulatory activity in relation to animal welfare on farms and during transport to fulfil the UK's obligation as a member state to demonstrate compliance with the Official Food and Feed Control Regulation.

#### **viii) Better Regulation**

- The AHVLA Regulatory Hub monitors bTB data to assess the levels of compliance, the effectiveness of controls and identify areas of non-compliant behaviour. The comparative analysis of AHVLA IT systems (i.e. Sam) and other organisations' systems (e.g. BCMS) assist in identifying bTB breakdowns that are notable for their length or magnitude, and where the current controls do not appear to be having the expected outcomes. This may indicate that the disease is behaving in an unexpected manner, or that there are other factors, possibly farmer behaviour, that may be having an impact. The Regulatory Hub assesses these cases and liaises with AHVLA field staff to prioritise further investigation and to focus on particular breakdowns. This has resulted in the development of a protocol for dealing with persistent TB herd breakdowns. Where non-compliance is suspected, the Regulatory Hub works closely with local authorities to support any investigation.

## Examples of the analysis of data in 2012/13:

- A specific case led to increased focus and the herd becoming TB-free for the first time in seven years.
  - Identification of priority herds has encouraged a new approach to the way veterinary staff view long-term breakdowns. This has led to a number of breakdowns either ending or the number of reactors being significantly reduced.
  - When fraudulent behaviour has been suspected, the Regulatory Hub has used the DNA tagging protocol to cross match the DNA sample taken at time of disclosure against the reactor submitted for slaughter. Since the introduction of DNA tagging in 2011 we have not had any prosecutions which prove that this is an excellent deterrent against fraud in this area.
- 
- We have worked with policy colleagues in Defra, Welsh Government and Scottish Government to review and rationalise our advice and guidance leaflets on bTB to provide clear, easily understood information for keepers. The new material now focuses on why we test, what we look for and what the keeper of the animal is required to do by law. This also provides information on what happens next and how this will impact on the keeper.
  - A proactive approach to enforcement, implemented through the application of data analysis and intelligence techniques has led to action being taken on a number of holdings where cattle keepers fail to TB test their herds in the required timeframe. Any failure to do so undermines the TB control and eradication plan. This proactive approach promotes a clear message to cattle keepers that action will be taken in cases of overdue TB testing. Outcomes from this were:
    - Renewed focus on TB testing protocol has led to a dramatic reduction in the number of overdue TB tests.
    - Referrals of overdue TB test cases for a cross compliance reduction in Single Farm Payment have increased. This is an effective sanction against those who persistently fail to comply.
    - Intelligence and data analysis identified a number of holdings with significant numbers of cattle where non-compliance with TB testing requirements was ongoing and persistent. The identification of these holdings allowed regional staff to prioritise and target resources.
    - Intelligence identified a small number of holdings where TB testing was overdue because of wild and unmanageable cattle. Regulatory Hub is working with Defra TB policy to investigate possible amendments to the legislation.

## Our Performance 2012/13

Much of our work is determined by legislation which in turn is driven by policies to minimise disease risk. Our Ministerial and performance targets reflect the need to ensure compliance with this legislation, and also reflect the particular and differing needs of our policy customers.

The following section summarises our performance in these areas in 2012/13.

- Met – all elements of the target fully achieved
- Met in part – applied when the major elements of a target have been fulfilled
- Not met – target not achieved by the end date.

RAG (red, amber and green) thresholds are assigned by the target owner and agreed by our policy customers. They are specific to each target and vary accordingly. The assessment of each target is based on the specific RAG threshold which determines the outcome of whether the target has been 'met', 'met in part' or 'not met'.

### (i) Key Performance Outcomes 2012/13

<b>Value for Money &amp; Operational Efficiency</b>	
Full cost recovery in 2012/13 Expenditure = income Excluding hard charges and accounting adjustments due to fluctuations in property values. (2% tolerance)	<b>MET</b>
Efficiency savings in line with CSR settlement	<b>MET</b>
Reduce carbon and water usage in line with Defra targets	<b>MET IN PART<sup>1</sup></b>
Agree next steps with the changes to the surveillance model with ministers in England and Wales and begin implementation in line with the agreed plan	<b>MET</b>
<b>Capability, Resilience &amp; Outbreak Management</b>	
Introduce a national exercise programme and carry out five exercises that test cross-GB roles and responsibilities, field and laboratory capability and National Disease Control Centre (NDCC) and Local Disease Control Centre (LDCC) cover	<b>MET</b>
Deliver the next phase of the Business Reform Programme specifically Release 7 (Poultry Register replacement and Interfaces)  Demonstrate achievement of programme benefits against business case	<b>MET</b>

<sup>1</sup> Due to adverse weather conditions and heating being switched on earlier and staying on later than anticipated has resulted in the 'partially met'. However it should be noted that carbon has reduced by 1.1% on the previous year.

<b>Internal Development</b>	
Improve the staff engagement index from the 2011/12 baseline	<b>MET</b>
Implement the H&S Plan	<b>MET</b>
<b>Customer Satisfaction</b>	
Strive to maintain and develop excellent relationships with Administrations in Scotland, Wales, Northern Ireland and England, including the Animal Health and Welfare Board for England	<b>MET</b>
Deliver the Customer Insight programme for 2012/13 including establishing a baseline for livestock keeper satisfaction in England, Scotland and Wales	<b>MET</b>
<b>Delivery</b>	
Achieve a green rating in 90% of SLAs within AHVLA's control	<b>MET IN PART<sup>2</sup></b>
Develop measures that will assess the impact of AHVLA research in the medium to long term	<b>MET</b>
<b>Tuberculosis</b>	
Contribute to TB eradication and control by removing reactors within 10 working days	<b>MET IN PART<sup>3</sup></b>
Contribute to TB eradication and control by cattle movements from high risk areas being cross checked in relation to pre movement testing checks to be made with a minimum of 5% of potentially non-compliant farmers	<b>MET</b>
Contribute to TB eradication and control by the completion of tracing action within an average of 45 working days of withdrawal of OTF status	<b>MET</b>

<sup>2</sup> Some SLAs were outside AHVLA's control and the final position for the year was that 71% of SLAs were within the 90% target.

<sup>3</sup> At the end of the reporting year, 85.7% of reactor were removed within 10 for the whole of GB. The average time taken to remove reactors for GB YTD was 9.1 days which is within the 10 working days target.

## (ii) Performance Standards 2012/13

In agreement with policy customers, AHVLA was subject to Performance Standards for our field work that would demonstrate progress against key work activities. These are categorised in the following way:

Type	Description
Reactive	These performance standards reflect work completed in response to an event and are measured against a target timeframe (or a required level of quality/compliance).
Average	These performance standards reflect work completed in response to an event and reflect the average time taken to complete the activity.
Profiled	These performance standards reflect surveys or allocated work that require 100% completion by a specific deadline during the reporting year.
Volume	These performance standards reflect a volume of activity carried out.
Non Compliance	These performance standards reflect work completed in response to an event, but do not have a measurable performance aspect.

Of the agreed performance standards, 48 were measured against a RAG threshold. The end of year position reflects that 33 performance standards measured 'Met in Full' and that two required no action on the Agency's part due to nil demand.

Achievement against the remaining 13 performance standards was measured at either 'Partially Met' or 'Not Met'.

- Of the 13 performance standards, seven (six 'Partially Met', one 'Not Met') can be viewed as having been met in full by the Agency because meeting the target was dependent on action by parties outside the Agency which did not occur within the desired timescales.
- Of the six performance standards within full AHVLA control, one measured 'Partially Met' and five measured 'Not Met'.
- Three 'Not Met' performance standards related to TB; the Agency is confident that there has been no adverse impact on TB disease control in GB as a result of these missed thresholds.
- One 'Not Met' performance standard related to TSE was as a result of missing a target deadline for one case across the whole year. The low volumes associated with the target severely impacted on ability to achieve a 'Met in Full' threshold.
- The two remaining performance standards (one 'Partially Met', one 'Not Met') related to exotic disease. There were four instances across the year where the target deadline was missed, and very high RAG thresholds impacted on the ability to achieve a Green score. In each of the four cases, the missed deadline did not adversely affect disease incident management and all cases were negated.

<b>Border Controls</b>	<b>Subject to RAG Threshold</b>	<b>Met in Full</b>	<b>Partially Met</b>	<b>Not Met</b>	<b>Nil Demand</b>	<b>Total</b>
Reactive	7	5	1	1	0	7
Average	0	0	0	0	0	0
Profiled	0	0	0	0	0	0
Volume						0
Non Compliance						18
<b>Disease Risk Reduction</b>						
<b>Disease Risk Reduction</b>	<b>Subject to RAG Threshold</b>	<b>Met in Full</b>	<b>Partially Met</b>	<b>Not Met</b>	<b>Nil Demand</b>	<b>Total</b>
Reactive	2	2	0	0	0	2
Average	0	0	0	0	0	0
Profiled	0	0	0	0	0	0
Volume						0
Non-compliance						6
<b>TB</b>						
<b>TB</b>	<b>Subject to RAG Threshold</b>	<b>Met in Full</b>	<b>Partially Met</b>	<b>Not Met</b>	<b>Nil Demand</b>	<b>Total</b>
Reactive	17	10	4	3	0	17
Average	1	1	0	0	0	1
Profiled	0	0	0	0	0	0
Volume						2
Non-compliance						0
<b>Exotic Disease</b>						
<b>Exotic Disease</b>	<b>Subject to RAG Threshold</b>	<b>Met in Full</b>	<b>Partially Met</b>	<b>Not Met</b>	<b>Nil Demand</b>	<b>Total</b>
Reactive	2	0	1	1	0	2
Average	0	0	0	0	0	0
Profiled	1	1	0	0	0	1
Volume						0
Non-compliance						2
<b>Protecting the Food Chain</b>						
<b>Protecting the Food Chain</b>	<b>Subject to RAG Threshold</b>	<b>Met in Full</b>	<b>Partially Met</b>	<b>Not Met</b>	<b>Nil Demand</b>	<b>Total</b>
Reactive	6	4	1	1	0	6
Average	0	0	0	0	0	0
Profiled	2	2	0	0	0	2
Volume						0
Non-compliance						4

<b>Reportable Disease &amp; Zoonoses</b>	<b>Subject to RAG Threshold</b>	<b>Met in Full</b>	<b>Partially Met</b>	<b>Not Met</b>	<b>Nil Demand</b>	<b>Total</b>
Reactive	0	0	0	0	0	0
Average	0	0	0	0	0	0
Profiled	6	5	0	0	1	6
Volume						0
Non-compliance						0
<b>Animal Welfare</b>						
<b>Animal Welfare</b>	<b>Subject to RAG Threshold</b>	<b>Met in Full</b>	<b>Partially Met</b>	<b>Not Met</b>	<b>Nil Demand</b>	<b>Total</b>
Reactive	3	2	0	0	1	3
Average	0	0	0	0	0	0
Profiled	1	1	0	0	0	1
Volume						0
Non-compliance						17
<b>Overall Total</b>	<b>48</b>	<b>33</b>	<b>7</b>	<b>6</b>	<b>2</b>	<b>97</b>

### **(iii) Science performance metrics**

Our science research is agreed with our main customers each year. Individual strategies are drawn up for each science programme. These draw on veterinary surveillance and public health strategies as well as specific customer requirements. The programme strategies are reviewed annually.

Science performance metrics achieved for 2012/13:

- 99.5% of our research project milestones (196 out of 197)\*
- 100% of our surveillance deliverables (239)
- 100% annual reports for Defra research (38)
- 100% final reports for Defra research (16)
- 282 publications, of which 221 peer reviewed (compared to 286/226 in 2011/12)

\* One milestone was delayed by four working days after 31 March 2013 due to circumstances outside AHVLA's control.

## Equal opportunities and corporate social responsibility

- i. We recognise that our people are at the core of our success and therefore, following the merger of the agency, Animal Health, with the Veterinary Laboratories Agency on 1 April 2011, the new agency had to review and develop a large range of HR policies belonging to both former agencies and consider whether to develop new HR policies, in instances where such policies are not centrally provided by Civil Service Employee Policy.

We have recently adopted several Civil Service employee policies, including grievance, poor performance, performance management, whistle-blowing and reservists. It is also anticipated that the new Civil Service attendance management policy will be implemented across the Defra Network before the year end.

Employee policies are reviewed on an annual basis.

- ii. Under the Equality Act 2010, AHVLA has a duty to take action to promote equality of opportunity, on grounds of disability, gender, race, age, gender–reassignment, marriage and civil partnerships, pregnancy and maternity, religion or belief and sexual orientation, in policy-making, the delivery of services and employment.

Following the Government's decision to stop production of Equality Impact Assessments, a new approach to paying due regard to the Equality Duty has now been embedded into the Agency's policy and project planning process. Guidance on the Equality Duty has been revised, with new FAQ documents and a checklist to help staff become familiar with the new process and apply the correct approach to decisions affecting colleagues, customers and other stakeholders.

AHVLA aims to be a diverse and inclusive Agency that can attract and retain talented people from the widest range of backgrounds and offer all our employees equality of opportunity to progress and achieve their potential on merit.

As part of this commitment, we operate the 'Two Ticks' system in recruitment, which guarantees an interview to any candidate who has declared a disability and meets the minimum essential criteria for the post. In addition, we plan to make 'Unconscious Bias' a mandatory e-learning course for all employees who recruit, interview and manage the performance of others, to raise awareness and support all of our employees in becoming diversity confident.

We actively consider temporary and permanent reasonable adjustments to enable every individual to be fully effective in their employment, training, career development and promotion. Disability leave is also available, which provides paid time off work for the purposes of assessment, treatment and rehabilitation for disabled employees.

The Defra family also operates four staff networks, including a Disability Network (DisNet). DisNet is aimed at providing a formal channel for communication with

other disabled staff as well as acting as a channel of communication with management to help develop and promote diversity and equality policies.

AHVLA also has access to an external Equality and Diversity Scrutiny Advisory Group that acts as a 'critical friend' and offers specialist expertise. Our Trade Unions and our central Diversity team are keen to support us in taking actions that deliver diversity and equality of opportunity for our people at work.

AHVLA staff have access to Defra intranet pages on diversity and inclusion which provide guidance on specific topics, information about our staff networks, access to policies, reports and diversity monitoring data, a diversity calendar and contact details for further advice.

- iii. Corporate strategies for well-being, social responsibility and managing attendance are in place which take a holistic view of people issues by incorporating them into frameworks that support the key employment aspects of staff recruitment and retention.

Sickness absence is closely monitored by each Directorate. Policies are in place to reduce staff sickness absence including return-to-work interviews, occupational health professionals provide advice on the medical and Equality Act aspect of cases while counselling, information, training and advisory services are available through a contracted Employee Assistance Programme, or our internal Wellbeing Advisor.

In AHVLA, an average of 6.7 days per employee were lost to sickness absence during the reporting year ending 31 March 2013. This represents a decrease compared to the average of seven days per employee for the year ending 31 March 2011.

As part of the wider Defra family, we have continued to demonstrate our commitment to the Corporate Social Responsibility agenda by providing information on a dedicated internal website that supports staff to identify and undertake volunteering activities in the wider community. AHVLA's Executive Committee has recently re-affirmed the Agency's commitment to offer staff one day's special leave with pay each year to use their skills to help others by volunteering individually, or as part of a team. AHVLA is actively working with Civil Service local ambassadors to help identify and broker the right opportunities for our staff.

We operate flexible working to enable people to fulfil their personal and work responsibilities, including formal rights for parents and carers of adults.

## Complaints

Complaints to the Parliamentary Ombudsman from members of the public must be made via a Member of Parliament or equivalent in Scotland and Wales. During 2012/13, the Ombudsman received no complaints about the Agency.

We aim to resolve complaints within 15 working days as set by Ministerial targets and at the point of service. If, however, a complainant is not satisfied with the response received locally, he or she can escalate the complaint to our Corporate Office where it is reviewed by the Customer Services team. If a complainant remains dissatisfied, a formal internal review of the case is carried out by one of our directors. In 2012/13, 46 complaints were escalated to the Corporate Office of which six have progressed to the formal internal review stage. None have been upheld.

The complaints range from dissatisfaction with TB testing and compensation to pet travel.

## Safety, Health and Wellbeing (SHaW)

In 2012/13 our Safety Team joined the Health Team and the Wellbeing Officer to improve the delivery of these services to staff across the whole Agency.

During the year, 312 incidents were reported compared with 310 in the previous year. This figure includes 11 (9) Reporting of Injuries, Diseases and Dangerous Occurrences Regulations (RIDDOR) reports in the period, although there was a drop of six Lost Time Events.

	2011/12	2012/13	Change
Total Reports	310	312	+2
RIDDOR	9	11	+2
Lost Time Events	16	10	-6
Accidents	179	175	-4
Near Miss Reports	106	116	+10

The team's resources were mainly focused on addressing shortcomings identified from Health & Safety Executive (HSE) investigations into two RIDDOR reportable incidents, one relating to an incident which occurred in 2011/12. These activities included a thorough inspection of all of the Agency's Containment Level 3 facilities across GB, the review and re-launch of 15 Codes of Practice and alignment of all safety critical Standard Operating Procedures.

Following the HSE's investigation into the RIDDOR event which occurred in 2011/12, a Crown censure was issued against AHVLA.

In response to the Crown censure, we have initiated a number of actions to improve the Agency's safety record and culture:

- The appointment of a new Health & Safety professional advisor reporting directly to the Chief Executive.
- The completion of the first programme of inspections of Containment 3 facilities that handle Specified Animal Pathogens Order (SAPO) 3, Advisory Committee on Dangerous Pathogens (ACDP) 3 and/or SAPO 4 pathogens or material likely to contain these pathogens. A further similar programme is planned for 2013. The inspection teams consist of members of the Agency's Executive Committee, senior scientists and H&S personnel.
- A staff survey to understand and baseline the Agency's safety culture. This was followed up with an in-depth discussion with six focus groups to understand the survey results. Three priorities were identified as needing development: usability

of procedures, accident and near miss reporting and resources for H&S. HSE's full report will be used to formulate an action plan for 2013/14.

- Significant investment in the training of staff at all levels including; Board members, directors and senior managers attending British Safety Council's Health & Safety (H&S) for Directors and Senior Management course, 12 delegates completing NEBOSH Certificates (National Examination Board in Occupational Safety and Health) and a further 12 participating in IOSH (Institution of Occupational Safety and Health) Managing Safety training. A programme of First Aid for Lone Workers training has begun for all field staff. Internal training continued to be delivered by the SHaW team including Stress Awareness for Managers and Individuals, Working in Containment, Fire Prevention Training, Risk Assessment Workshop and Manual Handling course.
- The accident and incident reporting system has been amended to ensure that statistics are aligned to the HSE's categories. This means that information will be directly comparable across the Defra family and wider.

### RIDDOR 2012/13

RIDDOR Category	Number of Incidents 2012/13
Fatal	0
Major Injury – fractures, amputations, loss of consciousness, acute illness	1 - fractured arm during the TB testing of cattle
Over 7 Day Injury – where a person is unable to perform their normal work duties for more than seven consecutive days	7 – TB testing, slips / trips, manual handling
Disease	0
Dangerous Occurrence – accidental release of a biological agent likely to cause severe human illness or release of any substance that may damage health	3 – Q Fever, TSE
Total	11

A major concern is the number of injuries including two RIDDOR events which occurred during the TB testing of cattle. To address this concern, we have initiated a mandatory programme of cattle handling training for all field staff which includes a section on cattle behaviour.

## **Sustainability**

During the year we remained committed to improving the environmental performance of our business operations, preventing pollution and, where practical, following best practice in environmental management.

### **About the data**

There are still limitations to the accuracy of our sustainability data and we continue to work with Defra and Interserve, our facilities management service provider, to further improve the quality of our internal controls. Energy and water consumption figures are based on billed amounts and are therefore subject to adjustments in subsequent periods. Defra is currently unable to fully capture utility data that forms part of landlord service charges. Work is ongoing to improve the accessibility of this data.

Q4 figures for 2012/13 are not yet available and therefore Q4 figures of 2011/12 have been used to calculate baseline figures.

### **Greening Government Commitments (GGC) targets**

The scope of the report is aligned to the GGC. Further information on the GGC is available at <http://sd.defra.gov.uk/gov/green-government/commitments/>

The GGC sets out targets on reducing greenhouse gas emissions, waste and water, and making procurement of goods and services even more sustainable. By 2015, against a 2009/10 baseline, we aim to:

- reduce the amount of waste we generate by 25%
- reduce greenhouse gas emissions from the whole estate and business related transport by 25%
- reduce water consumption and report on office water use against best practice benchmarks
- ensure we buy more sustainable and efficient products and engage with our suppliers to understand and reduce the impacts of our supply chain
- reduce the number of domestic flights by 20%.

### **Waste**

We have reduced the total amount of waste we generate by 22.7% and have reduced the amount sent to landfill by 44.8%. Re-tendering of the current contract will improve consistency across the estate and widen the scope of what can be recycled.

### **Carbon and energy**

The major contributing factor to our carbon foot print is the Weybridge site, due to the scale and nature of the work carried out on this site. With the help of Defra's Built Environment Sustainability Team and Interserve, a number of proposals were selected to help reduce consumption. These were developed through the Carbon Reduction Programme which is continually identifying and reviewing opportunities for improving

energy efficiency and implementing initiatives within the Agency. This plan is regularly updated using regular benchmarking and targeting of energy use at property level and through in-depth energy surveys. Initiatives fall into four categories:

- Improved management of building plant and machinery through ongoing training and development of facilities management staff and implementation of more effective control mechanisms (timers, thermostats etc).
- Implementation of technologies (such as low energy lighting, voltage optimisation) which improve the energy efficiency of buildings.
- Campaigns to encourage staff to consider more efficient ways of working and to have a greater awareness of the energy they are using.
- Input to estate strategy enabling the department to consider energy and sustainability performance when considering property rationalisation.

Following the initial planning and design stage, these proposals are now at the installation phase.

We continue to take part in the Carbon Reduction Commitment, a major government initiative that offsets our greenhouse gas emissions from energy supplies. We also adopt Defra's travel policy which aims to strike an appropriate balance between costs and benefits, taking into account convenience, carbon emissions and care of staff. Travel should only be undertaken when there is no other practical business alternative and where travel is necessary, sustainability and environmental issues should be taken into account.

## **Water**

To help reduce water consumption across the estate, washrooms are fitted with Eco shields and water savers (saving 1 litre per flush). However, a considerable amount of water is consumed by scientific processes on the Weybridge site. Water is used in many essential processes to ensure sterile laboratory environments are maintained and to prevent risk of contamination.

At present, 34% of our office-based sites fall into the 'good – best practice' category for water consumption per member of staff.

## **Paper**

The Print Optimisation programme, rolled out to former Animal Health staff during 2011/12 has helped reduce paper consumption throughout the year by using default settings for back to back, draft black and white printing and reducing the number of devices across Defra from 2050 to only 900. The same programme is being introduced for former VLA staff. The new devices are also accredited under the EMCA (Environmental Management and Coordination Act) scheme for energy efficiency.

In March, a strategy agreed by the Public Expenditure Committee was launched. The 'Closed Loop' programme for procurement of paper offers significant benefits by ensuring secure destruction of printed papers and improving sustainability by recycling waste paper into copier paper.

## **Rationalisation**

The rationalisation of our existing estate has been a driving force in improving our performance.

- In 2012/13, we began to see the benefits of closing Quantock House in Taunton during the previous year.
- In April, we vacated the Newcastle Quadrant and Unit B2 buildings and re-located to the Longbenton site with former VLA staff.
- Likewise in May we vacated the Bury St Edmunds building in Southgate Street and re-located to the former VLA site in Rougham Hill.
- In July we relocated the Chelmsford office to a smaller space, reducing our footprint further still.

Conservation of resources was fundamental in these refurbishments and relocations, using reconditioned furniture, fixtures, fittings and equipment for the offices and laboratories. Rationalisation of the Weybridge site is currently underway with a planned 40% reduction in total.

## **Environmental Management Systems (EMS)**

We are committed to running our business in the most sustainable way which means that we consider all aspects of our daily operations, and take steps to minimise their impacts on the environment.

We currently have ISO 14001 certification at the following sites.

- Worcester, Leicester, Preston, Carlisle, Stafford, Gloucester, Truro (May 2002)
- Weybridge (March 2005)
- Bury, Starcross and Newcastle (February 2007)
- Shrewsbury, Sutton Bonington and Winchester (March 2008)
- Langford, Preston and Carmarthen (January 2009)
- Luddington (July 2009)

## **Governance**

All our major contracts are handled by Defra through its Sustainable Operations and Procurement Strategy. This is developed and delivered through a Sustainability Governance Board which reports to Defra's Management Board on a monthly basis. Defra's procurement team works with suppliers of new contracts to minimise packaging waste, and consider sustainability more widely in their service provision.

## **Adaptation to climate change**

Climate change adaptation surveys are carried out estate-wide by Defra. These are used to inform estate strategy decisions on rationalisation and office relocations.

<b>Energy consumption</b>		<b>2012/13</b>	<b>2011/12</b>	<b>2010/11</b>	<b>2009/10</b>
Non-financial indicators (KWh)	Electricity	14,314,849	17,142,036	18,070,732	18,582,079
	Gas	35,977,714	28,712,909	48,301,231	31,965,464
	Oil	403,410	377,966	13,707,486	728,695
	Biomass	524,239	203,145	684,917	110,256
	CHP <sup>2</sup> Heat	2,800,744	951,609	9,149	1,310,117
	CHP <sup>2</sup> Power	7,368,296	4,028,916	6,240	5,983,756
Financial indicators (£)	Electric	1,339,238	-	-	-
	Gas	953,495	-	-	-
Carbon Reduction Commitment (CRC) expenditure		-	159,346.64	-	-

<b>Carbon emissions</b>		<b>2012/13</b>	<b>2011/12</b>	<b>2010/11</b>	<b>2009/10</b>
Non-financial indicators (Tonnes)	Total carbon emissions	20,292	19,043	20,008	21,933
	Emissions from UK business transport only	1,498	2,032	3,720	3,720

Domestic flight figures have only become available from 2011/12 which forms the baseline of 1341, with a target of 1073 by 2015. Data collected from Redfern Travel and the online expenses system indicates that 874 domestic flights were taken in 2012/13.

<b>Waste</b>		<b>2012/13</b>	<b>2011/12</b>	<b>2010/11</b>	<b>2009/10</b>
Non-financial indicators (Tonnes)	Total waste	1,846	1,711	1,950	2,388
	Hazardous waste	20	34	114	885
	Reused, recycled, composted	197	209	169	218
	Incinerated with energy recovery	1,189	792	794	844
	Incinerated without energy recovery	394	625	770	350
	Landfill	51	50	100	92

<b>Water</b>		<b>2012/13</b>	<b>2011/12</b>	<b>2010/11</b>	<b>2009/10</b>
Non-financial indicators (M3)	Total water consumption	209,691	214,919	212,926	186,004
Financial indicators (£)	Total costs	358,232	-	-	-

## **Plans and priorities 2013/14**

The Agency continues to be at the forefront of scientific and veterinary capability on animal health and welfare. We will continue to work with industry and our delivery partners to safeguard animal health and welfare, and public health.

In 2013/14, AHVLA will continue to support the government's priorities by:

- making further efficiencies to meet reductions in government funding, building on those already achieved through AHVLA's Business Reform Programme (BRP) and Shaping AHVLA; specifically Surveillance 2014 which will propose a new, more cost effective and efficient delivery model for surveillance in England and Wales; and reviewing the way we deliver TB testing through private veterinary surgeons
- seeking new sources of Agency income therefore, providing better value for money for taxpayers, including progressing work on charging for services currently provided free to industry
- continuing to provide scientific evidence to assist in tackling bovine tuberculosis
- working in close partnership with Defra, Welsh Government and Scottish Government to continue to deliver the most effective and economical solutions to animal health and welfare that reflect the different priorities of each administration
- collaborating with partners such as universities, private laboratories etc. throughout the UK and elsewhere by identifying and building links to ensure that our scientific and veterinary capability is maintained and strengthened
- continuing to monitor animal disease threats and help increase Great Britain's resilience to deal with disease outbreaks.

For 2013/14 we used a balanced scorecard approach to set our targets as KPIs under four themes:

- 1. Internal Business Processes**
- 2. Financial Sustainability**
- 3. Customer Satisfaction**
- 4. Learning & Growth**

Full details of our plans can be found in the AHVLA Corporate & Business Plan 2013/14 on our website.

## 2. Governance and the Remuneration Report

The creation of AHVLA has brought together field services, regulation, expertise and scientific capability on animal health and welfare into one agency. We provide agreed animal health and welfare and public health related services for Defra in England, for the Scottish Government and Welsh Government, the Food Standards Agency, other government departments, the farming industry, international bodies and commercial customers worldwide.

The Secretary of State for Defra is answerable to Parliament for AHVLA.

### Quarterly Performance Reviews

Our performance is overseen by Defra and the Devolved Administrations through a Quarterly Performance Review. It meets quarterly and consists of Defra's Chief Operating Officer, the Scottish, Welsh and Northern Irish Governments, AHVLA's Chief Executive and the Defra Corporate Customer. The Quarterly Performances Review agrees what is then reported to the Defra Supervisory Board.

In June 2012 the new post of Defra Director General Chief Operating Officer (DG COO) took departmental Corporate Owner responsibility for the effective functioning of all Defra's Executive Agencies. This change provided a timely opportunity to review the way in which Executive Agencies are governed; both in relation to Agencies' internal governance (e.g. Agency Management Boards) and Defra's governance of the Agencies (e.g. Strategic Advisory Boards). The revised governance arrangements, agreed with the Devolved Administrations, were first announced in January 2013, replaced Strategic Advisory Boards with Quarterly Performance Reviews and are focused on business and financial performance and future strategy.

The new arrangements should deliver a streamlined, easy-to-administer system, more focused on assessing business and financial performance; but which nevertheless provides DG COO with an acceptable level of assurance, meets Cabinet Office/HM Treasury best practice guidance on governance and provides sharper, more relevant input to the Defra Supervisory Board through the provision of tighter management information which has been subjected to effective analysis. The arrangements are also intended to provide a strategic horizon-scanning function and greater internal challenge to ensure that Agencies are clear on how they will adapt to key Government drivers; such as how they will contribute to growth; how they would cope with budget reductions and how they might better collaborate and share resource and expertise with other Agencies. More focused meetings with the corporate owner, through the Quarterly Performance Review (QPR) meetings, should provide an improved means to track and manage risk.

### Members of the AHVLA Board at 31 March 2013<sup>4</sup>

Chris Hadkiss	Chief Executive from 7 January 2013
Nina Purcell	Chief Operating Officer

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<sup>4</sup> The composition and the roles and responsibilities within the Board have been revised for 2013/14 to comply with the 'Corporate governance in central government departments – Code of good practice'.

Glyn Hewinson	Chief Scientist
Joan Skerry	Director of Change, Quality and Communications
Simon Hall	Veterinary Director
Claire Evans	Director of Corporate Services from 8 October 2012
Tony Foster	Non-Executive Director
John Preston	Non-Executive Director
Kim Worts	Non-Executive Director (non-aligned Defra Director) from 1 February 2013

**The following were members of the AHVLA Board for part of 2012/13**

Catherine Brown	Chief Executive to 30 September 2012
Julie Pierce	Chief Information Officer and Director of Corporate Services to 30 September 2012; Interim Chief Executive from 1 October 2012 to 6 January 2013
Richard Bowen	Human Resources Director to 3 December 2012
Rupert Hine	Director of Advice Services to 14 February 2013

**Audit Committee Non-Executive Directors**

Tony Foster	Committee Chairman
Jim Oatridge	
Robin Pritchard	

No member of the AHVLA Board holds company directorships, or has other significant interests that may conflict with their management responsibilities in AHVLA.

**Risk Management**

Risks are assessed by each cost centre and for major projects, and the AHVLA Board considers these and assesses corporate risks. The Audit Committee has reviewed the adequacy of the Agency's risk management processes during the year.

**Internal and External Audit**

For the year ended 31 March 2013, AHVLA's planned programme of internal audit work was completed and has helped inform the Governance Statement. The Agency's Framework Document, reflecting the Government Resources and Accounts Act 2000, lays down that external audit is to be provided by the National Audit Office.

Both Internal and External Audit regularly attend the Audit Committee meetings.

As Accounting Officer, I have taken all reasonable steps to make myself aware of information relevant to the external audit and to establish that our auditors are aware of that information. As far as both I and members of the AHVLA Board are aware, there is no relevant audit information that has not been brought to the National Audit Office's attention.

## **Remuneration Report**

Defra's Senior Civil Service Pay Committee, chaired by the Permanent Secretary, determines the remuneration and performance conditions of the AHVLA Board members. Consolidated pay awards and non-consolidated bonuses are assessed in accordance with normal Civil Service procedures and Defra's remuneration policy which is subject to the recommendations of the Senior Salaries Review Body.

In reaching its recommendations on remuneration, the Senior Salaries 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 Senior Salaries Review Body takes account of the evidence it receives about wider economic considerations and the affordability of its recommendations. Further information about its work can be found at [www.ome.uk.com](http://www.ome.uk.com)

## **Service Contracts**

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

With the exception of Chris Hadkiss, Tony Foster and John Preston, the AHVLA Board members at 31 March 2013 hold open-ended appointments until they reach normal retirement age. The CEO, Chris Hadkiss is on a renewable three-year fixed term contract. The employment of the Chief Executive and of the other AHVLA Board members may be terminated in accordance with normal Civil Service procedures. Early termination, other than for misconduct, would result in compensation being payable as set out in the Civil Service Compensation Scheme.

Catherine Brown left as Chief Executive on 30 September 2012 to take up the role as Chief Executive of the Food Standards Agency.

Julie Pierce is employed under a Fixed Term Appointment, which has been extended to 31 August 2013. Julie was appointed as Interim Chief Executive from 1 October 2012 until 6 January 2013, at which point she transferred on secondment to Defra as Chief Information Officer.

Chris Hadkiss was appointed as Chief Executive on 7 January 2013, joining the Agency from the Forensic Science Service.

Claire Evans was appointed on an interim basis as Director of Corporate Services on 8 October 2012. The amounts payable in the table below are the amounts paid to the recruitment agency in respect of her services for the period to 31 March 2013.

Tony Foster and John Preston continued in their role as Non-Executive Directors for the AHVLA Board.

## Emoluments and Pension Entitlements (Audited)

The emoluments and pension entitlements of the AHVLA Board members in 2012/13 were as follows (2011/12 in italics):

	Emoluments Banding	Bonus Banding	Real increase in pension and lump sum at age 60	Total accrued pension benefits at age 60 at 31 March 2013	CETV at 31 March 2012	CETV at 31 March 2013	Real increase in CETV
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Directors on the AHVLA Board at 31 March 2013</b>							
<b>Chris Hadkiss</b> Chief Executive from 7 January 2013	<b>30-35</b> <b>(full-time equivalent 125-130)</b> <i>(0)</i>	<b>0</b> <i>(0)</i>	<b>2</b>	<b>65-70</b>	<b>724</b>	<b>772</b>	<b>20-25</b>
<b>Nina Purcell</b> Chief Operating Officer	<b>65-70</b> <i>(65-70)</i>	<b>0</b> <i>(0-5)</i>	<b>4</b>	<b>115-120</b>	<b>493</b>	<b>535</b>	<b>12.5-15</b>
<b>Glyn Hewinson</b> Chief Scientist	<b>50-55</b> <b>(full-time equivalent 65-70)</b> <i>(50-55)</i>	<b>0-5</b> <i>(0)</i>	<b>2</b>	<b>85-90</b>	<b>364</b>	<b>390</b>	<b>5-7.5</b>
<b>Joan Skerry</b> Director for Change, Quality and Communications	<b>70-75</b> <i>(50-55)</i>	<b>0</b> <i>(0)</i>	<b>3</b>	<b>105-110</b>	<b>539</b>	<b>583</b>	<b>12.5-15</b>
<b>Simon Hall</b> Veterinary Director	<b>75-80</b> <i>(55-60)</i>	<b>5-10</b> <i>(0)</i>	<b>2</b>	<b>85-90</b>	<b>375</b>	<b>403</b>	<b>5-7.5</b>
<b>Claire Evans</b> Director of Corporate Services from 8 October 2012	<b>60-65</b> <b>(full time equivalent 140-145)</b> <i>(0)</i>	<b>0</b> <i>(0)</i>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>
<b>Tony Foster</b> Non-Executive Director	<b>5-10</b> <i>(5-10)</i>	<b>0</b> <i>(0)</i>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>
<b>John Preston</b> Non-Executive Director	<b>0-5</b> <i>(5-10)</i>	<b>0</b> <i>(0)</i>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>
<b>Kim Worts</b> Non-Executive Director (Non-aligned Defra Director) from 1 February 2013	<b>0</b> <i>(0)</i>	<b>0</b> <i>(0)</i>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>

<b>Band of Highest Paid Director's Total Remuneration (£'000)</b>					<b>145-150</b> (150-155)		
<b>Median Total Remuneration</b>					<b>25,782</b> (27,203)		
<b>*Ratio</b>					<b>5.7</b> (5.6)		
<b>Directors on the AHVLA Board during 2012/13</b>							
<b>Catherine Brown</b> Chief Executive to 30 September 2012	<b>70-75</b> (full-time equivalent <b>130-135</b> (130-135))	<b>10-15</b> (10-15)	<b>3</b>	<b>15-20</b>	<b>145</b>	<b>171</b>	<b>25-27.5</b>
<b>Julie Pierce</b> Chief Information Officer and Director of Corporate Services to 30 September 2012, and Interim Chief Executive from 1 October 2012 to 6 January 2013	<b>125-130</b> (full-time equivalent <b>135-140</b> (140-145))	<b>10-15</b> (10-15)	<b>2</b>	<b>15-20</b>	<b>155</b>	<b>197</b>	<b>22.5-25</b>
<b>Rupert Hine</b> Director for Advice Services to 14 Feb 2013	<b>75-80</b> (full-time equivalent <b>85-90</b> (70-75))	<b>0</b> (0)	<b>1</b>	<b>45-50</b>	<b>145</b>	<b>157</b>	<b>0-2.5</b>
<b>Richard Bowen</b> HR Director to 3 December 2012	<b>55-60</b> (full-time equivalent <b>80-85</b> (80-85))	<b>0</b> (0)	<b>2</b>	<b>15-20</b>	<b>215</b>	<b>258</b>	<b>25-27.5</b>
<b>Audit Committee</b>							
<b>Tony Foster</b> Non-Executive Director Chair of the Audit Committee	<b>0-5</b> (5-10)	<b>0</b> (0)	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>
<b>Robin Pritchard</b> Non-Executive Director	<b>5-10</b> (5-10)	<b>0</b> (0)	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>
<b>Jim Oatridge</b> Non-Executive Director	<b>0-5</b> (0-5)	<b>0</b> (0)	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>

Emoluments include gross salary, bonuses and other allowances to the extent that they are subject to United Kingdom taxation.

Due to a pensions revaluation by the Cabinet Office during the year, the Cash Equivalent Transfer Value (CETV) as at 31 March 2012 shown in the above table differs from that included within the Remuneration Report for 2011/12 to comply with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008.

Although the costs for the Chief Executive and members of the AHVLA Board are included in AHVLA's Statement of Accounts, they are formally employed by Defra, AHVLA's parent Department.

Under arrangements made by Defra, Richard Bowen received £2,864 Additional Housing Cost Allowance in 2012/13 which is included in his emoluments reported above (2011/12, £3,920). He also received an advance on salary of £12,500 from Defra on his appointment in 2005/06 which is repayable from January 2010 over eight years. The balance outstanding on this loan as at 31 March 2013 stood at £6,250 (31 March 2012, £9,375). The benefit from this loan for 2012/13 has been estimated at £200 (2011/12, £200).

Under the terms of her employment, Julie Pierce received £18,172 in Detached Duty in lieu of a house move for the duration of the contract. This amount is included within her emoluments reported above (2011/12, £15,582), along with an amount of £nil in respect of paid untaken leave (2011/12, £10,975).

Under the terms of his employment, Rupert Hine received £18,661 in Detached Duty in lieu of a house move. This amount is included within his emoluments reported above (2011/12, £9,257).

Loans may be made to staff to cover season ticket advances and relocation. As at 31 March 2013 there were no such outstanding loans to AHVLA Board members (2011/12, £nil).

CETV shown is the actuarially assessed capitalised value of pension benefits accrued by scheme members. This is calculated by Defra in accordance with the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

The pension information for each member of the AHVLA Board shows the benefits each member has accrued as a consequence of their total membership in the Principal Civil Service Pension Schemes (PCSPS). This includes the value of benefits from other PCSPS employments, benefits transferred into the PCSPS from other pension schemes and additional pension benefit purchased by members at their own expense, as well as the benefit accrued from service in AHVLA. All funding, to finance the deferred remuneration the accrued pension benefits represent, is paid to the Treasury. Further information on these pension schemes is provided in Note 4 in the Statement of Accounts.

No amounts have been paid during the year in respect of compensation or awards to former senior managers.

## Review of Tax Arrangements of Public Sector Appointees

As part of the *Review of Tax Arrangements of Public Sector Appointees* published by the Chief Secretary to the Treasury on 23 May 2012, Departments published information in relation to the number of off payroll engagements – at a cost of over £58,200 per annum – that were in place on 31 January 2012. Departments are now required to present two sets of data in relation to off payroll engagements in place as at 31 January 2012 and all new off payroll engagements between 23 August and 31 March for more than £220 per day and more than six months as follows:

	<b>AHVLA</b>
<b>Number in place on 31 January 2012</b>	21
Number that have since come onto the organisation's payroll	0
Number that have since been re-negotiated/re-engaged, to include contractual clauses allowing the department to seek assurance as to their tax obligations	All contracts are through GPS frameworks which include a clause to allow for disclosure of taxable arrangements
Number that have not been successfully re-negotiated, and therefore continue without contractual clauses allowing the department to seek assurance as to their tax obligations	0
Number that have come to an end	1
<b>Total</b>	20

	<b>AHVLA</b>
<b>Number of new engagements</b>	6
Number of new engagements which include contractual clauses giving the department the right to request assurance in relation to income tax and National Insurance obligations	Recruited through GPS frameworks which include a clause to allow disclosure of tax arrangements
Number for whom assurance has been requested and received	Letters not issued in 2012/13. They have since been issued May 2013
Number for whom assurance has been requested but not received	Letters not issued in 2012/13. They have since been issued May 2013
Number for whom assurance has been requested but not received	N/A
Number that have been terminated as a result of assurance not being received	N/A
<b>Total</b>	6

Chris Hadkiss  
Chief Executive Officer



8 July 2013

### 3. Financial Review

This has been a year of consolidation following the merger of Animal Health with the Veterinary Laboratories Agency and the continued development of the new agency providing a platform for further progress in future years. In 2012/13 AHVLA reported a loss of £4,480k, against a surplus of £3,435k in the previous year. However the loss for this financial year is after an impairment<sup>5</sup> charge of £7,993k, the prior year being an impairment credit of £224k. This impairment charge is as a result of a professional valuation of land and buildings carried out by DTZ Limited during the year ended 31 March 2013. The valuation decreased the values of land and buildings. Valuations resulting from changes in market value result in an impairment where the asset is revalued below its historical cost carrying amount. Without this impairment charge the results for the year would be £3,513k surplus.

We continued to operate within the Government's austerity measures. This includes working with funding constraints on both staffing levels and capital investment. Despite this situation we have ended the year with only a small loss after impairment charges.

During the year the Agency ran a Voluntary Early Departure scheme costing £3,202k that was funded by Defra, our parent Department, which led to the release of 91 staff.

We expect to face ongoing challenges from reduced funding and will address these by reducing costs and increasing value for money from operations.

#### Income

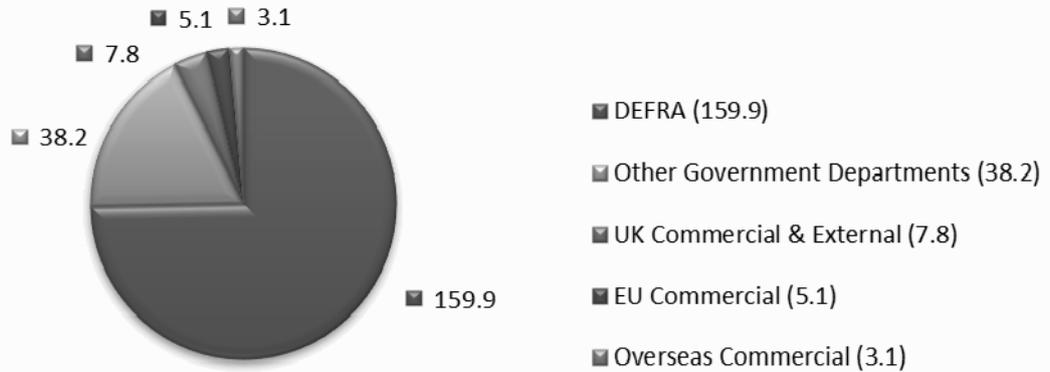
The funding available to AHVLA will continue to decrease until 2015 following the devolution of Scotland and Wales. There is also the question of whether we will be able to reallocate funding across the whole Agency.

Income fell by £1,502k from 2011/12 and the major changes by source from 2011/12 were:

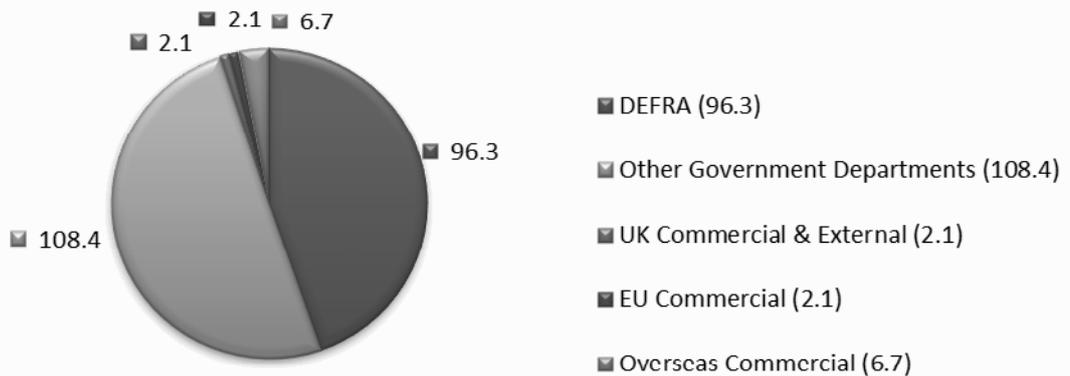
<b>Income</b>	<b>2012/13</b> %	<b>2011/12</b> %
DEFRA	75%	45%
Other Government Departments	18%	50%
UK Commercial & External	4%	1%
EU Commercial	2%	1%
Overseas Commercial	1%	3%
<b>TOTAL</b>	<b>100%</b>	<b>100%</b>

<sup>5</sup> See Notes to the Accounts number 5

### AHVLA 2012-13 Gross Income (£m)



### AHVLA 2011-12 Gross Income (£m)



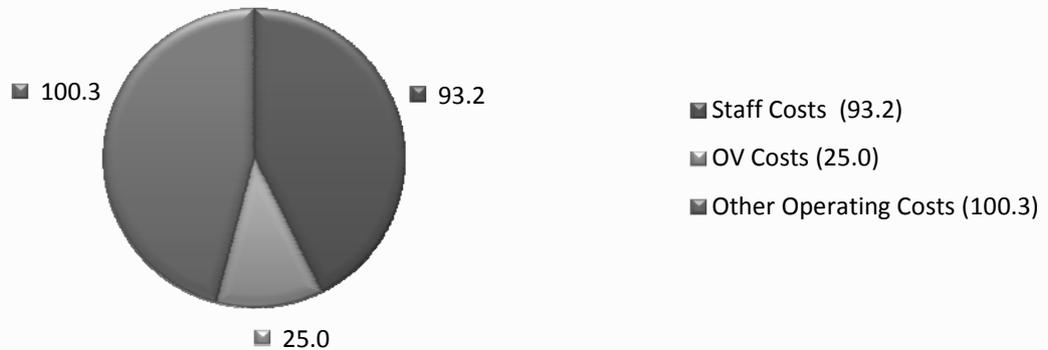
Income figure comparisons to last year are identified in the Note 7 of the Accounts.

#### Costs

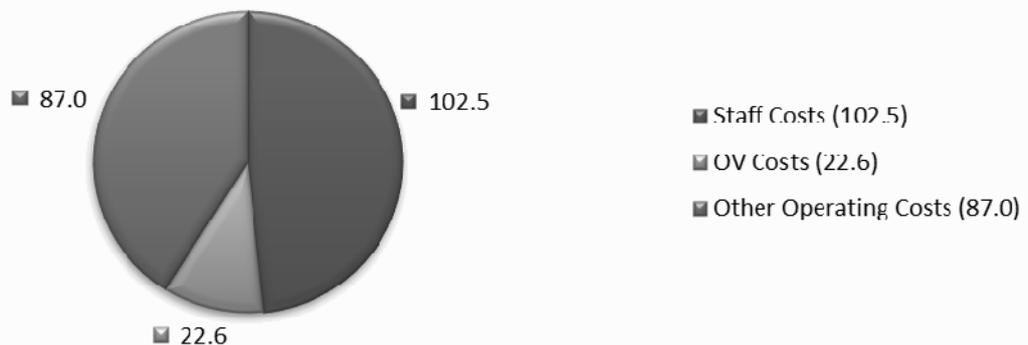
Total costs for the year are £218,561k compared to £212,148k in 2011/12; however costs include an impairment charge of £7,993k, the prior year being an impairment credit of £224k.

Expenditure	2012/13 %	2011/12 %
Staff Costs	43%	48%
OV Costs	11%	11%
Other Operating Costs	46%	41%
<b>TOTAL</b>	<b>100%</b>	<b>100%</b>

### AHVLA 2012-13 Gross Cost (£m)



### AHVLA 2011/12 Gross Cost (£m)



The Agency's total costs mostly related to people and in 2012/13 £93,288k was spent on staff costs, £9,182k (8.9%) down year on year. However, there are a number of significant movements within this figure, the principal ones of which are £4,101k reduction in staff exit costs, £9,207k reduction in staff, NI and pension costs offset by a £3,572k increase in contractor costs. The additional reliance is due to the clearance of audit qualification and the inability to recruit permanent staff. At the year end there were 42 staff on fixed term contracts or other short term arrangements. This is 1.9% of the workforce. This, together with current work practices enables the Agency to operate a flexible resourcing strategy to better cope with changes in demand.

Official Veterinarian (OV) costs have risen to £24,957k from £22,638k in 2012/13 reflecting the increased use of external veterinary services.

Other non-staff operating costs include further work on the Business Reform Programme (BRP), hard charges from Defra for corporate services, and notional costs. In the year this amounted to £100,316k, the major elements of which are £28,659k depreciation, amortisation and impairment of assets. This represents an increase of

£12,707k year on year. This is an increase in impairment costs of £8,217k, due to changes in market conditions and a £4,490k increase in depreciation due to the full year charge for BRP Release 6 that was capitalised from 1 November 2011, £39,718k hard charges which is in line with the previous year; £30,886k general operating costs that are comparable in total with the prior year but include a £1,889k increase in Veterinary Consumables due to increased tests carried out as a result of policy changes and a £1,037k decrease in office services that reflects the decreased number of staff employed by the Agency.

## **Capital**

The main assets of the Agency are non-current assets. Property, plant and equipment asset values are dominated by the value of the specialised land and buildings occupied by the science, laboratory and research departments of the Agency. These mainly comprise specialist laboratories and it is due to the specialised nature of these that they are included on the Agency's Statement of Financial Position. This is different treatment from those locations occupied by the field teams, which are mainly office accommodation and are retained on the Statement of Financial Position of Defra.

Intangible non-current assets are almost entirely comprised of internally generated software, the total of which is expected to increase further, albeit at a slower rate as more modules of BRP are constructed and implemented.

Capital expenditure in the year on property, plant and equipment was substantially higher than in previous years due principally to continued investment in buildings. The spend on intangible assets of £4,398k, is less than the previous year of £5,007k due to the slow down of the BPR which is due to complete March 2014.

## **Cashflow**

The reported cashflow shows a decrease in cash and cash equivalents from £13,420k in 2011/12 to £10,291k for this financial year.

Debtor days outstanding at the end of March 2013 were 36.2, compared to 50.4 days at the end of the previous year.

In paying creditors, AHVLA aims to follow the principles of the Better Payment Practice Code in compliance with the Public Sector Payment Policy, and continues to adhere to the Government's initiative to pay 80% of undisputed invoices within five working days. The Agency has achieved 97%.

<b>Supplier Payments</b>	<b>£'000</b>	<b>Number</b>
Total invoices paid in the year	50,430	23,568
Total invoices paid within reduced payment target	48,730	22,729
Percentage of invoices paid within target	97%	96%
Total invoices paid within contractual terms	50,349	23,531
Percentage of invoices paid to contract	100%	100%

### **Audit**

As far as the Accounting Officer is aware, there is no relevant audit information of which the Agency's auditors are unaware. The Accounting Officer has taken all the steps that he ought to have taken to make him aware of any relevant audit information and to establish that the Agency's auditors are aware of that information. The accounts that follow are audited by the Comptroller and Auditor General (C&AG) for which the Agency incurs a fee of £200k.

## 4. Statement of Accounts

### Statement of Accounting Officer's Responsibilities

Under the Government Resources and Accounts Act 2000, HM Treasury has directed AHVLA 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 AHVLA and of its income and expenditure, recognised gains and losses and cash flows for the financial year.

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

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

The Accounting Officer of Defra has designated the Chief Executive of AHVLA as Accounting Officer for the Agency. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding AHVLA's assets, are set out in *Managing Public Money*, published by HM Treasury.

## Governance Statement

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

I am directly accountable to Ministers for the operation of the Agency within the policy framework set by the Minister, and to the Permanent Secretary for Defra, the Department's Principal Accounting Officer, for the financial management of AHVLA. As Accounting Officer my three prime financial responsibilities are:

- to ensure that there are proper financial systems in place which promote the efficient and economical conduct of business and the achievement of value for money, that safeguard financial propriety and regularity and ensure that there is a high standard of financial management and administration in AHVLA
- to ensure audit arrangements which give adequate assurance on money received and expenditure incurred and on the proper management and control of funds at the disposal of AHVLA
- to ensure that the AHVLA's spending is for the purposes allowed by the Framework Document of the Agency and that no other spending is incurred.

Whilst this statement covers the full 2012/13 financial year I have only held these responsibilities since taking up post on 7 January 2013. Therefore, to cover the full year I must take assurance from the interim governance statements that were produced by the previous AHVLA Accounting Officers. However, I am aware of existing internal control issues that were not identified in those interim statements:

- The Board composition did not comply with the 'Corporate governance in central government departments – Code of good practice'. I have addressed this for the 2013/14 financial year.
- There was insufficient support to the Board in relation to finance and performance and for the 2013/14 financial year I am introducing a new Finance and Performance Committee.
- The effectiveness of the Audit Committee required strengthening; this was highlighted through a self-assessment exercise. The Chair of the Audit Committee will progress measures to achieve this throughout 2013/14.
- Risk visibility at Board level and linkage to business identified risks was impaired. Action to address this began in January 2013 and will continue in 2013/14.
- There were significant issues with the H&S culture within the Agency. Work began on addressing this from January 2013 with the appointment of the new Chief Executive. In June 2013 a specific Health and Safety Advisor was appointed who will lead the ongoing action plan throughout 2013/14.

These issues and the developments that I have introduced, since taking Accounting Officer responsibility to address them, are further explained below.

## **AHVLA Introduction**

AHVLA is a Net Running Cost (NRC) Executive Agency of Defra. Governance arrangements are formalised within a Framework Document which is available at: <http://www.defra.gov.uk/ahvla-en/publication/ahvla-framework-document/>.

As a NRC Agency a proportion of the overall GB budget previously provided by Defra has been devolved to the Scottish Government and Welsh Government. The change to overall NRC Agency status, as part of the merger, has seen a move from a centrally funded and drawn down budget to cover the running costs of the Agency to an invoicing system, based on deliverables through Service Level Agreements with Defra, Scottish Government and the Welsh Government.

Maintaining the drive to full merger of the former organisations in this second year has been the major focus for 2012/13, both in terms of a cultural and a business process approach. Continuing the merger with reducing resources whilst continuing to achieve business outputs has tested the internal control system. Some weaknesses have been revealed that are detailed in the Significant Issues below and as a result improvements have been, and will continue to be made.

## **Governance of AHVLA**

The system of internal control begins with the Defra Chief Operating Officer acting on behalf of the Defra Supervisory Board in all AHVLA ownership matters. This role is line manager to my Chief Executive role and responsibilities include providing assurance to the Supervisory Board that appropriate governance arrangements are in place within the Agency.

Support to this role is provided through regular performance reports and other management information flows from AHVLA to Defra. There are also numerous informal links, including between non-executive directors, and in functional areas such as finance, human resources and science.

As Chief Executive and Accounting Officer I have personal responsibility and accountability to Parliament through ministers, and also to the devolved administrations in Scotland and Wales in relation to activities within their areas. In addition, I am responsible for the delivery of the AHVLA strategy and resources, both financial and people. In delivering these responsibilities I am supported and challenged by the AHVLA Board.

The AHVLA Board ensures the agency meets its ministerial and key targets and manages corporate level risks. It focuses on change and assuring itself that the processes for governance and management control are working across the agency. The Board meets quarterly and, with effect from April 2013<sup>6</sup>, its members are:

- Non-executive Director (Chair)
- Chief Executive Officer
- Chief Operating Officer

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<sup>6</sup> The members of the Board in 2012/13 are identified in Section 2 Governance and The Remuneration Report

- Director of Corporate Services (Finance Director)
- Veterinary Director
- Chief Scientist
- Director of Change, Quality and Communications
- Defra Non-aligned Director
- Two additional Non-executive Directors

It assists both decision making and also the management of the interfaces with the Scottish Government and Welsh Government. Standing agenda items include strategic direction, performance and finance, business risk and H&S.

The AHVLA Board receives reports from all committees as considered appropriate and necessary.

On taking up appointment I recognised that the Agency did not comply with the 'Corporate governance in central government departments – Code of good practice', specifically in relation to the Board's composition. I confirm that now, as Accounting Officer, I and the AHVLA Board, conform to the guidance and regulations provided by HM Treasury, Cabinet Office and effect any recommendations of the Public Accounts Committee and other Parliamentary select committees.

### ***Committees of the AHVLA Board***

The merger on 1 April 2011 required the implementation of an appropriate governance structure and as a result the terms of reference and membership of all committees and boards were reviewed at that time. The ongoing development of the Agency required subsequent self-reviews and this will continue as I further develop the governance arrangements within AHVLA. All committees and boards within the overall governance structure of the Agency are required to keep full attendance records and minutes for each meeting, which are disclosed as required and protected as necessary.

The AHVLA Board is supported by three committees:

- The Executive Committee responsible for implementing improvement, monitoring performance against targets and managing the change agenda
- The Customer Board is the customer interface whose membership includes the Chief Veterinary Officers for the UK, Wales and Scotland.
- The AHVLA Strategic Health & Safety Committee identifies the strategy the agency will follow to ensure that it meets its obligations to manage H&S and to promote good safety practice and reviews the H&S Risk Register and considers escalation of risks to corporate level.

To strengthen the support to the Board and the Agency's governance I am establishing an additional Finance and Performance Committee from 2013.

The Audit Committee, which is an additional advisory committee of the AHVLA Board, provides support in the areas of risk, internal control and governance. It is an advisory body with no executive powers. It provides an independent assessment of the work and performance of the organisation. Chaired by a non-executive director, it meets regularly

during the year to review and consider financial management and reporting, both internal and external audit, operational activity, risk and assurance, H&S and any other relevant matters that need to be addressed.

Towards the end of the 2012/13 financial year the Audit Committee has performed a self-assessment exercise with members using the National Audit Office (NAO) Effectiveness Tool. The information from this exercise is being analysed but initial review indicates that I need to significantly improve the Committee's ability to provide oversight of the risk management process and that the Committee and Management must improve in its collaboration, consideration and challenge of internal audit. The Committee must also develop the ability to identify opportunities for enhancing its own effectiveness. These issues will be addressed as part of the improvement to the internal control system in 2013/14.

### ***Effectiveness of Board Performance***

Overall I consider that, in 2012/13 AHVLA has performed well to remove the issues that caused the limitation in scope the audit qualification placed on the Agency's 2011/12 accounts by the C&AG and the Board has been effective in both driving and directing this action. However, I consider that the Board has been less effective in directing on other performance issues. Specifically areas of H&S, with the resulting Crown Improvement Notices and Crown Prohibition Notice being delivered to the Agency by the HSE during 2012/13. I will specifically detail these later under Significant Issues but whilst those notices have now been complied with the fact that the H&S issues arose has highlighted a wider concern over the general quality of information on assurance that is available to the Board. Whilst the internal control framework that I describe below provides the assurance platform I consider that there is opportunity to improve the quality of information that is available to the Board. I am therefore introducing a process of Internal Control and Quality Self Certification. This will see a cascade from the Board of a core set of internal control and quality requirements, evidenced through quality indicators, which each Director will be required to certify. Whilst not in place for 2012/13, development of this process will be a major part of the improved internal control system that I wish to deliver within 2013/14.

### ***Internal Control Framework***

The system of internal control within AHVLA is intended to provide reasonable, but not absolute assurances to me, as Accounting Officer, and the AHVLA Board that levels of risk are managed to a suitable standard and that through efficient, effective and economic processes, all major risks are mitigated to the best of AHVLA's ability.

The system utilises a number of resources to confirm the adequacy of the control. I have already referred to the top level control demonstrated through the Defra Supervisory Board, the Agency Audit Committee, the Executive Committee, the Customer Board and the AHVLA Strategic Health & Safety Committee; in addition there are teams, structures and processes that play significant roles in specific areas:

### *Information security*

The Information Security Forum chaired by the Chief Information Officer (CIO) overviews information security. It meets at least quarterly to:

- review any security events and incidents and identify emerging trends
- review information security risks and their mitigation
- review any audit findings and improvement plans
- review security awareness broadcast messages.

Below this, all staff are made explicitly aware of their responsibilities regarding the information of the Agency. There was a 100% successful completion of the Protecting Information Level 1 online training. Indeed, AHVLA has gone above the mandatory level and required all staff at EO grade or above to complete Level 2 of this training (1590 staff).

Also each office has to complete mandatory clear desk checks and these have presented no significant issues. All Information Asset Owners provide reports to the Security Team, who have followed up on these and access control has been further tightened with Web-based Offspring Cohort Cull system (WebOCC) required access reduced by 90% and System for Recording Animal By Product Information (SRABPI) access levels amended to avoid duplication. These are Senior Information Risk Owner approved before being returned to Defra.

These activities form the core programme of work undertaken to maintain good information security management within the Agency and, as a result no reportable personal information related incidents occurred during 2012/13 and there were no other data related incidents deemed to be significant or critical.

### *Programme Control*

The Business Reform Programme Board meets monthly to review the programme in relation to the strategic context and considers:

- The general programme control
- Progress against the plan
- The financial position
- Risks and issues

Control is also demonstrated through appropriate Office of Government Commerce (OGC) gateway reviews.

### *Financial Management and Control*

Financial management and control continues to be reviewed by the AHVLA Board through regular financial reports. It is further controlled by Stewardship Reports provided by budget holders on a quarterly basis. In addition, there is assurance provided by Defra's Shared Services Directorate on the accuracy, completeness and

security of the data the directorate transacts on behalf of the former Animal Health element of AHVLA. From 1 July 2012, the entire Agency has been on-boarded to use the systems provided by Defra's Shared Services Directorate, and this common platform will greatly assist the assurance review going forward.

For 2012/13 a further control against fraud and bribery has been introduced with all staff required to complete mandatory Counter Fraud training, as appropriate to their grade and responsibilities. I confirm that there have been no reported instances of fraud in the financial year.

As stated previously, from 2013/14 I will further strengthen the governance of financial management with the introduction of the Finance and Performance Committee as an additional support to the Board.

### *Performance Management*

Staff performance management is conducted in line with the AHVLA Performance Management tool, which is available to all staff and management through the intranet, and all staff have access to an HR Business Partner should the need arise. It is the responsibility of all line managers to have regard to this in their dealings with their staff, and ensure that all levels of performance are treated appropriately.

### *Quality Management and the Quality Assurance Framework*

The retention of ISO9001 certification across the range of former Veterinary Laboratories Agency element of AHVLA provides further assurance on the operation of business processes, along with other quality systems in use across AHVLA. Going forward into 2013/14, I will be developing the quality management approach across the whole of the Agency by introducing a range of quality indicators that will need to be demonstrated.

I confirm that the business critical models identified in November 2012 as part of the Macpherson review of quality assurance of government models are still extant, with the exception of Bovine TB Model for England and Wales (BoTMEW) which is no longer identified as business critical. For these identified models the appropriate level of quality assurance has been applied but going forward I recognise that we can strengthen the level of formal documentation that demonstrates the level and type(s) of quality assurance applied to each model and I am currently addressing this. No additional models have been identified as business critical in the financial year.

### *Independent Audit*

Overarching all of the above within the internal control framework is the work undertaken by independent audit functions.

### *Internal Audit*

RSM Tenon are the Agency's Internal Auditors acting in accordance with the Government Internal Audit Standards. They provide an overall independent opinion on the adequacy and effectiveness of the Agency's internal controls based upon a Red to Green rating together with recommendations for improvement where necessary. They also produce an annual assurance statement concerning the overall control framework, confirming that internal audit assurance has been obtained through their review. During 2012/13 they have conducted the following audits;-

#### **Completed**

Central Key Financial Controls – Audit opinion = Amber/Green

Change Programme – Audit opinion = Green

Governance Structure (follow up) – Audit Opinion = Adequate Progress

H&S – An advisory audit identifying adequate progress

Anti-Bribery and Fraud Policy Review – An advisory audit without a formal Audit Opinion

Software Asset Management within Scientific Department – An advisory audit without a formal Audit Opinion

Income verification and Charge Out Rates – An advisory audit without a formal Audit Opinion

Official Veterinarian Expenditure – Audit opinion = Green

Key Financial Controls Regional Visits – Audit opinion = Green

Data Quality – Audit opinion = Amber/Green

Commissioning, Service Level Agreements and Contract Management – Audit opinion = Amber/Green

#### **In progress**

Performance Management

Based upon the evidence from these audits and additional information available to them for 2012/13 RSM Tenon have provided an overall Amber opinion for the framework and indicated that, although further work is required, the Agency is travelling in a positive direction as a result of the changes that have commenced towards the end of the year.

### *External Audit*

The National Audit Office audits, on behalf of the C&AG, AHVLA's statutory accounts and provides both an independent challenge and assistance to the Agency in governance, finance and effectiveness. In this year the NAO have completed two Departmental reports that relate to AHVLA:

- improving the delivery of animal health and welfare services through BRP
- streamlining farm oversight.

These reports have made a number of recommendations which AHVLA are working with Defra to satisfy.

## ***Risk Profile***

AHVLA exists to mitigate the risk to the economy and public health of notifiable animal disease, with veterinary and scientific risks being primarily addressed through the policies the Agency executes and the operating procedures through which these are delivered.

However, as with any organisation, AHVLA also faces specific risks to its ability to operate efficiently and to deliver its objectives. The Agency has a risk management policy and a hierarchical identification and management process that is supported by a commercially procured risk management tool. Under this approach risk registers are maintained at appropriate levels within the organisation with each register informing the next in the chain. Within this overall risk management framework there are risk registers associated with key areas of work, including H&S, the Information Security Forum and the BRP that feed into the overall risk view for the Agency.

Issues highlighted, particularly in the previous year's RSM Tenon Risk Maturity review, prompted AHVLA to appoint a Risk and Assurance Manager in the second half of the year. To address these issues, initially an internal review was undertaken at the end of the third quarter. This review identified that there were some weaknesses within the process in linking risks at different levels and as a result visibility of the risk profile would be impaired. As a result, I have established an action plan to address these concerns. I have a small Corporate Governance team who now facilitate the flow of identified risks within the Agency hierarchy and highlight the emerging and aggregated risks that are identified at lower levels. Across the Agency we are now focusing more upon a 'cause and effect' recognition when identifying risks and from a corporate level we are considering the effect of the most challenging risks from budgetary, efficiency, reputational and compliance perspectives. This revised approach will continue to develop within 2013/14 but initially it has brought together at the executive level a set of key risks to the Agency associated to:

- H&S
- Funding cuts and charging
- Security
- Resilience and the ability to react to a disease outbreak
- Loss of expertise
- Delivery of OV services
- Reputational damage as a result of external animal related incidents

## ***Risk Effectiveness***

The approach to managing risks within AHVLA must continue to mature. There will need to be ongoing development in 2013/14, particularly in relation to understanding the risks associated with the environment that AHVLA operates in. Public awareness of animal related events in 12/13 have highlighted the need for AHVLA to consider risks associated to both reputational damage and security as result of the work that it undertakes. I will ensure that this focus continues as I now consider that I have a basis for assessing AHVLA's risk appetite, managing the risks that I can influence and better understanding the residual risks that the organisation faces.

The most significant risks relate to:

- Spending cuts to the Agency and its operational partners and the resulting impact upon the ability to react in a disease outbreak. Work is being undertaken to quantify this risk and to reinforce the importance of animal health work to delivery partners. The overall risk with regards to notifiable animal disease appears within the Government's National Risk Register to the consequences such an incident can create.
- Breaching HSE legislation and failing to maintain a strong H&S culture. The evidence in this financial year identifies that this risk has been realised in certain areas. There must be significant improvement in this area and I am enhancing the expertise within AHVLA by recruiting a specialist H&S Advisor who will report direct to me.

Looking forward, I believe that the approach to risk management that is now being put in place better positions the Agency to identify developing risks at an early point and to maintain an active role in horizon scanning and identifying and mitigating new risks. The changes that I am introducing will allow the Executive Committee, Board and Audit Committee to be aware of the most challenging risks and to have confidence that appropriate efficient, effective and economic mitigation is in place.

### ***Significant Issues***

I have highlighted previously that the Agency's approach to managing risks has been developed within the later part of the year and will be further developed in 2013/14. I have also identified the need to improve the quality of information available to the Board and the processes that I am putting in place to achieve this. The following are the other significant issues that have been identified:

- During 2012/13 a number of H&S incidents were identified by the HSE. This has resulted in two Crown Improvement Notices (CIN) and a Crown Prohibition Notice being placed upon the Agency:
  - CIN – demands of the role exceeds capability of individual appointed – now resolved
  - CIN – arrangements for monitoring, maintaining and verifying seal ability of a building inadequate – now resolved
  - CPN – labelling and tracking of biological materials inadequate – now resolved

Also, Crown Censure Procedures have been initiated as a result of a reportable incident in 2011 and a hearing took place on 29 April 2013. Remedial actions relating to this Censure, including amended and strengthened test transfer procedures and new codes of practice being published, have been completed as have those relating to the Notices served this year. The Agency has further responded both to additional specific required actions and in general, by escalating the importance that is placed on H&S within the business. This includes reviews of H&S policies, new job descriptions and training for senior management to ensure they understand their responsibilities, targeted training

for key groups of staff, a new governance structure, improvements to Board reporting, investment in the H&S team; and involvement in best practice groups of laboratory organisations. I would identify that the most recent Specified Animal Pathogens Order 2008 inspection in March 2013 did not identify any enforcement action but I recognise that there is further work required in developing a more H&S focused culture. To this end, as explained earlier, I am appointing an H&S Advisor and recruited a candidate who is both fully qualified and experienced in working in a similar complex organisation.

- The 2011/12 financial audit resulted in a qualified audit report being presented by the C&AG on the grounds of limitation in audit scope. Audit testing identified, for a number of different reasons, that the detailed records in place at the point of income generation could not support income in the accounts of £17.57m. During 2012/13 the Agency worked to ensure that this was not replicated during that financial year, by ensuring adequate systems and processes were in place to provide the full audit trail for all figures within the financial statements. Responsibility for ensuring that this audit trail is in place and accurate has been devolved to the regional directors who should ensure this is all done. Workshops were held and communications increased to explain what is required and why. During the last quarter, following a review by Corporate Finance to ensure that processes and procedures are accurately being followed, Internal Audit have been conducting a further review with the aim being to provide adequate assurance to the NAO that the issue is not being repeated. The strengthening of the controls has been noted but it is recognised that work must continue during 2013/14 to fully implement them.
- The other particularly significant issue flagged by the NAO in their 2011/12 year end audit was the need to continue to build financial management capability in the Agency's finance team and more widely. A plan is underway to address the issues identified, some of which has already been implemented and has seen nine temporary or permanent staff recruited during the year. Work to strengthen the Agency in this area will continue.
- A current risk to the Agency that has been flagged to Defra is the reliance on the services provided by private vets, on whom we spend over £20m per year. Although the Agency has done much good work over the last few years to improve the quality and consistency of TB testing performed by these private vets, there is still no contract between us and the practices that carry out this work, specifying the quality of the work required and sanctions for those providers who do not deliver to that quality. There had been no tender or other market testing exercise to determine whether there were other providers who may have been able to provide the service at a lower price. This has been identified as a risk from the perspective of guardianship of public funds, and AHVLA is currently proposing to tender to regularise the position, improve the enforceability of quality frameworks, and ensure that we are getting best value for money.

No further significant issues have arisen that require additional disclosure.

## **Conclusion**

In conclusion I believe, from the assurances that I have received from the interim governance statements, the Audit Committee, Board and both Internal and External Audit, that lessons have been learned within this financial year and that steps have been taken to improve the internal control framework, particularly in the areas of financial and risk management. However, I also consider that these can be further improved and that as an Agency there are challenges, notably in budgetary and H&S matters, which require significant control improvements going forward. Specifically these controls will be achieved by:

- strengthening the effectiveness of the Board
- an enhanced approach to compliance and Quality Assurance with the introduction of evidence based quality indicators
- developing and strengthening the role of the Audit Committee
- the establishment of the Finance and Performance Committee
- improving the collaboration with and challenge to the Internal Audit function.

Chris Hadkiss  
Chief Executive Officer



8 July 2013

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

I certify that I have audited the financial statements of Animal Health and Veterinary Laboratories Agency for the year ended 31 March 2013 under the Government Resources and Accounts Act 2000. The financial statements comprise: the Statements of Comprehensive Net Expenditure, 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 Report that is described in that report 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 Animal Health and Veterinary Laboratories Agency's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Animal Health and Veterinary Laboratories Agency; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. 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 who 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.

## **Basis for qualified opinion on financial statements**

The audit evidence available to me was limited because the Animal Health and Veterinary Laboratories Agency recognised income in 2011-12 of £17.57m for which it could not provide evidence that it had been appropriately charged to the Agency's customers. Furthermore it was unable to provide evidence which confirmed that all income due to it in 2011-12 had been recognised. My audit opinion on the financial statements for the period ended 31 March 2012 was modified accordingly.

My opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures and the corresponding figures. Further details on the reasons for my qualified opinion can be found in my report on page 60.

## **Qualified opinion on financial statements**

In my opinion, except for the possible effects of the matters described in the basis for qualified opinion paragraph:

- the financial statements give a true and fair view of the state of Animal Health and Veterinary Laboratories Agency's affairs as at 31 March 2013 and of the net operating cost 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 part of the Remuneration Report to be audited has been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000; and
- the information given in the Annual 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**

In respect solely of the limitation of scope on my work relating to prior year income, described above:

- I have not obtained all the information and explanations necessary for the purpose of my audit; and
- Proper accounting records have not been maintained.

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

- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records and returns; or

- the Governance Statement does not reflect compliance with HM Treasury's guidance.

**Amyas C E Morse            11 July 2013**  
**Comptroller and Auditor General**

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

## **Report of the Comptroller and Auditor General to the House of Commons**

### ***Background***

**1** The Animal Health and Veterinary Laboratories Agency (the Agency) is an executive agency of the Department for Environment, Food and Rural Affairs (Defra) and was established on 1 April 2011, as a result of a merger of Animal Health and the Veterinary Laboratories Agency. Defra's Advice Services Team also transferred to the new Agency at the same time. The role of the Agency is to help safeguard animal health and welfare as well as public health, protect the economy and enhance food security through research, surveillance and inspection.

**2** The merger required that common accounting policies were adopted, and these included a change to the accounting policy for the recognition of income for the former Animal Health. As a consequence, Animal Health was required to raise invoices to support the income earned from services to its sponsor department, Defra, and the devolved administrations in Wales, Scotland and Northern Ireland. The Agency did not retain sufficient information in 2011-12 to support the charges raised and to confirm that they were complete and accurate. For two Animal Health related income transaction streams, totalling £17.57 million, the Agency was unable to provide me with sufficient evidence to support the validity and completeness of the invoices raised. I therefore limited the scope of my opinion on the 2011-12 financial statements in respect of this £17.57 million of income.

### ***Progress since my report on the 2011-12 financial statements***

**3** In response to my qualification of the 2011-12 Financial Statements, the Agency has improved understanding across its regional offices of the requirement to retain evidence to support invoices. In addition the Agency created a team within its Corporate Finance function to review the supporting documentation and ensure that it adequately supported invoices raised.

**4** Following prioritisation of the issue within the Agency, records to support year to date invoices for the period April 2012 to December 2012 were reconciled and reviewed. Processes were amended and records were retained on a monthly basis from January 2013. As a result I was able to obtain sufficient evidence to support the 2012-13 income streams reported in the Financial Statements.

**5** The Agency did not review and reconcile records to support invoices related to 2011-12. This income is from Defra and the devolved administrations, and it is reviewed at the year-end and capped to be within 2% over or under of the amount of associated expenditure. Any change in income arising from further review would therefore be limited, and have no net impact on Government income or expenditure. The Agency's management therefore determined that there would not have been significant benefit arising from review and reconciliation of 2011-12 income streams and I agree with the Agency's assessment that this would not represent value for money. The absence of additional evidence to support the 2011-12 income means, however, that I do not have evidence to support the comparability of the current year and prior year income figures reported in the financial statements.

***Qualified opinion on income***

**6** As the Agency has not undertaken additional work in respect of the prior year income streams I am unable to obtain the necessary audit evidence that these are comparable with the current year income streams. I have therefore limited the scope of my audit opinion on the financial statements for the year ended 31 March 2013 in respect solely of the prior year income streams reported. My opinion on the income streams reported for 2012-13 is not qualified.

**Amyas C E Morse                      11 July 2013**

**Comptroller & Auditor General**

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

**AHVLA**  
**STATEMENT OF COMPREHENSIVE NET EXPENDITURE**  
**For the year ended 31 March 2013**

<b>ADMINISTRATION COSTS</b>			
	Note	2012-13	2011-12
		£'000	£'000
Staff Costs	4	93,288	102,470
Other Administrative Costs			
Official Veterinarian Costs	5	24,957	22,638
Other Operating Costs	5	100,316	87,040
		<b>218,561</b>	<b>212,148</b>
Operating Income	7	(214,081)	(215,583)
		<b>(214,081)</b>	<b>(215,583)</b>
Net Operating Cost/(Income)		<b>4,480</b>	<b>(3,435)</b>
<b>OTHER COMPREHENSIVE EXPENDITURE</b>			
	Note	2012-13	2011-12
		£'000	£'000
Net loss on revaluation of Property, Plant and Equipment	17	3,697	5,031
Net gain on revaluation of Intangibles	17	(1,166)	(4,179)
<b>Total Comprehensive Expenditure/(income) for the year ended 31 March 2013</b>		<b>7,011</b>	<b>(2,583)</b>

All income and expenditure is derived from continuing operations.  
The notes on pages 68 to 100 form part of these financial statements.

## STATEMENT OF FINANCIAL POSITION

### As at 31 March 2013

	Note	31 March 2013 £'000	31 March 2012 Restated £'000	31 March 2011 Restated £'000
<b>Non Current Assets</b>				
Property, Plant and Equipment	8	218,263	233,714	244,401
Intangible Assets	9	61,998	66,730	66,239
Long Term Receivables				21
<b>Total Non Current Assets</b>		<b>280,261</b>	<b>300,444</b>	<b>310,661</b>
<b>Current Assets</b>				
Inventories	11	4,467	4,117	1,914
Trade and Other Receivables	12	21,483	31,100	6,682
Other Current Assets	12	28,756	18,574	5,690
Cash and Cash Equivalents	13	10,291	13,420	8,166
<b>Total Current Assets</b>		<b>64,997</b>	<b>67,211</b>	<b>22,452</b>
<b>Total Assets</b>		<b>345,258</b>	<b>367,655</b>	<b>333,113</b>
<b>Current Liabilities</b>				
Trade and Other Payables	14	(4,826)	(13,493)	(6,434)
Other Liabilities	14	(50,342)	(57,347)	(41,128)
Provisions	16	(1,880)	(1,389)	(821)
<b>Total Current Liabilities</b>		<b>(57,048)</b>	<b>(72,229)</b>	<b>(48,383)</b>
<b>Non Current Assets less Net Current Liabilities</b>		<b>288,210</b>	<b>295,426</b>	<b>284,730</b>
<b>Non Current Liabilities</b>				
Lease Obligations	15	(1,765)	(3,996)	(6,989)
Provisions	16	(25)	(73)	(405)
		<b>(1,790)</b>	<b>(4,069)</b>	<b>(7,394)</b>
<b>Assets less Liabilities</b>		<b>286,420</b>	<b>291,357</b>	<b>277,336</b>
<b>Taxpayers' Equity</b>				
General Fund	17	233,454	246,314	228,795
Revaluation Reserve	17	52,966	45,043	48,541
<b>Total Taxpayers' Equity</b>		<b>286,420</b>	<b>291,357</b>	<b>277,336</b>

The notes on pages 68 to 100 form part of these financial statements.

Chris Hadkiss  
Chief Executive Officer



8 July 2013

**STATEMENT OF CASH FLOWS**  
**For the year ended 31 March 2013**

	Note	2012-13	2011-12
		£'000	Restated £'000
Cash flows from operating activities	18	7,175	8,813
Cash flows from investing activities	18	(8,573)	(9,067)
Cash flows from financing activities	18	<u>(1,731)</u>	<u>5,508</u>
Net (decrease) / increase in cash and cash equivalents in the period		(3,129)	5,254
Cash and cash equivalents at the beginning of the period	13	<u>13,420</u>	<u>8,166</u>
Cash and cash equivalents at 31 March		10,291	13,420

The notes on pages 68 to 100 form part of these financial statements.  
 Note 18 provides a reconciliation between Net Operating Costs and Cash Flow.

**STATEMENT OF CHANGES IN TAXPAYERS EQUITY**  
**For the year ended 31 March 2013**

	Note	General Fund £'000	Revaluation Reserve £'000	Total Reserves £'000
<b>Balance at 1 April 2011</b>		<b>228,795</b>	<b>48,541</b>	<b>277,336</b>
Transfers between reserves	17	2,646	(2,646)	-
Non-Cash Charges - notional charges	5	392	-	392
Non-Cash Adjustments	17	2,545	-	2,545
Comprehensive Expenditure for the Year		3,435	(852)	2,583
Net Parliamentary Funding - drawn down	18	8,501	-	8,501
<b>Balance at 31 March 2012</b>		<b>246,314</b>	<b>45,043</b>	<b>291,357</b>
Transfers between reserves	17	(10,454)	10,454	-
Non-Cash Charges - notional charges	5	1,052	-	1,052
Non-Cash Adjustments	17	522	-	522
Comprehensive Expenditure for the Year		(4,480)	(2,531)	(7,011)
Net Parliamentary Funding - drawn down	18	500	-	500
<b>Balance at 31 March 2013</b>		<b>233,454</b>	<b>52,966</b>	<b>286,420</b>

The notes on pages 68 to 100 form part of these financial statements.  
Note 17 provides a full analysis of the Reserves.

## **NOTES TO THE ACCOUNTS**

### **1 Statement of accounting policies**

The financial statements have been prepared in accordance with the 2012-13 Government Financial Reporting Manual (FReM) issued by HM Treasury.

The accounting policies contained in the FReM apply International Financial Reporting Standards, as adapted or interpreted for the public sector context and comply with the guidelines issued by the International Financial Reporting Interpretation Committee.

Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of AHVLA for the purpose of giving a true and fair view has been selected. The particular policies adopted by AHVLA are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

#### **1.1 Accounting Conventions**

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, intangible asset, inventories, and certain financial assets and liabilities, where material.

#### **Administration and Programme Expenditure**

The Statement of Comprehensive Net Expenditure is required to be analysed between administration and programme income. The Agency is run on a net running cost basis and therefore the figures in the accounts of AHVLA are charged wholly to Defra's administrative budget with the exception of movement in provisions, which are considered to be AME and due to materiality this has not been analysed separately.

#### **Significant Judgements and Estimation Uncertainty**

The preparation of financial statements required management to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent 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 forecasts of future events and actions.

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

##### **a. Key Judgements**

###### **Depreciation and Amortisation**

The Agency depreciates and amortises non-current assets across deemed useful economic life as per Note 1.7.

##### **b. Key Estimates**

###### **Indexation Rates**

The Agency values non-current assets at current replacement cost as described in note 1.4 and 1.5. The Agency uses indexation rates published by the Office for National Statistics as a basis for estimating current replacement cost.

###### **Accrued Official Veterinarian Costs**

The Agency estimates the value of tests undertaken by Official Veterinarians prior to the reporting date, where tests results have not been received by that date. Estimates of the value accrued are based upon the volume of tests allocated to Official Veterinarians in March and historic test costs.

## **Project Accruals and deferred income**

The Agency is responsible for managing scientific project progress, income received and expenditure incurred on each project. Projects 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 accruals or deferred income in this regard by reference to stage of completion of any ongoing projects.

### **1.2 Income Recognition**

Income is credited to the Statement of Comprehensive Net Expenditure on an accruals basis when the work that generates that income is provided.

### **1.3 Funding Recognition**

AHVLA follows the *FReM* requirement to recognise funding as being the Net Cash Requirement voted by Parliament, rather than the delegated proportion of the Department's Expenditure Limit. This is recognised within Taxpayers Equity within the Statement of Financial Position.

### **1.4 Property, Plant and Equipment**

Assets are capitalised as tangible non-current assets in the month expenditure is incurred if they are intended for use on a continuing basis and their original purchase cost, on an individual or grouped basis, is £2,000 or more.

AHVLA occupies both specialist laboratory and non-specialist administrative accommodation. Although ownership of both types of property lies with Defra, as the Agency derives direct economic benefit from the specialist accommodation, which allows for the charging of tests and research, these properties are included on the Statement of Financial Position of AHVLA. The split of this disclosure is made on a site by site basis and includes sites where the Agency has enhanced a property originally held via Defra under the terms of an operating lease in order to bring that property to a condition fit for purpose for the Agency's operations.

Non-specialist administrative accommodation does not provide the Agency with any economic benefit and therefore these are treated and disclosed as Operating Leases. Title to the freehold land and buildings shown in the accounts is held as follows:

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

Freehold land and buildings are stated at fair value and are professionally revalued at least every 5 years at Depreciated Replacement Cost (DRC), in accordance with guidance issued by the Royal Institute of Chartered Surveyors (RICS), the last revaluation having taken place in 2012, which covered all freehold land and buildings with a value greater than £1m. Properties are revised annually by means of a desk top review undertaken by DTZ Limited, where every valuation is reviewed having regard to local and national indices and local knowledge. This professional independent valuation adheres to the principles outlined in the RICS Red Book. The only exception to this revaluation are the properties that are occupied as part of an operating lease through

Defra, and where the Agency has invested considerably over time to bring that property to a fit for purpose condition.

Non property tangible assets are valued monthly at current replacement cost, which equates to fair value, by using appropriate indices provided by the Office for National Statistics. Any permanent upward revaluation is credited to the Revaluation Reserve. A deficit on revaluation is debited to the Statement of Comprehensive Net Expenditure if the deficit exceeds the balance held for previous revaluations of the relevant asset in the Revaluation Reserve. During the year, as part of the amalgamation of the fixed asset registers for the separate parts of the business prior to the merger on 1 April 2011, decisions were taken to use whichever index was felt most appropriate at the time.

Subsequent expenditure is capitalised if the criteria for initial capitalisation are met, i.e. if it is probable that economic benefits will flow to the Agency, and that the cost of the expenditure can be reliably measured.

Assets in the Course of Construction are not depreciated or revalued until the project concerned is brought into service. Tangible Assets in the Course of Construction mainly relate to Buildings.

### **1.5 Intangible Non Current Assets**

Intangible Assets comprise software licences, which are valued at historic cost and internally generated software - including assets in the course of construction - which are regularly re valued by using appropriate indices provided by the Office for National Statistics. Software licences are capitalised where the licence period is for more than one year and the cost is greater than £500. Software licences are amortised over the term of the licence or their useful economic life, if shorter.

Assets in the Course of Construction are not depreciated or re valued until the project concerned is brought into service. Assets in the Course of Construction mainly relate to internally developed computer software and systems, which includes capitalisation of contractor costs, on projects costing in excess of £50,000.

Costs related to internally generated assets are classified as relating to either research or development phases. The Agency's expenditure on research activities is written off to the Statement of Comprehensive Net Expenditure as incurred, due to the inherent uncertainty surrounding the economic benefit resulting from it. Capitalisation of development costs is contingent on fulfilment of all of the criteria noted in International Accounting Standard (IAS) 38 (Intangible Assets).

### **1.6 Service Concession Arrangements (IFRIC 12)**

Through Defra, AHVLA has entered into a contract with IBM for the supply of IT services. The contract is for a term of eight years from February 2010. The contract falls within the scope of *IFRIC 12* as interpreted by the *FReM* and is disclosed within the accounts as a service concession arrangement. A lease liability has been included to reflect the capital value of payments to IBM to lease IT infrastructure assets throughout the duration of the eight year contract. A matching asset has been raised to reflect the benefit that the Agency will derive from having access to IBM's IT infrastructure assets. Depreciation has been applied on a straight line basis consistent with the Agency's

depreciation policy. These IT infrastructure assets, which consist of laptops, servers and hardware, are classed as one tangible service concession asset under property, plant and equipment.

### **1.7 Depreciation and Amortisation**

AHVLA has adopted Defra's accounting policy on depreciation and amortisation. All non-current assets are depreciated or amortised to write off their cost or valuation on a straight-line basis over their anticipated useful economic life. Depreciation is not charged on Assets in the Course of Construction. The principal asset lives are in the following ranges:

Land and Buildings	5 - 60 years
Office Equipment, Furniture & Fittings	5 - 30 years
IT Hardware and Software	2 - 20 years
Vehicles, Plant and Machinery	5 - 15 years
Scientific & Laboratory Equipment	5 - 10 years

A full month's depreciation is charged to the Statement of Comprehensive Net Expenditure in the month following acquisition and in the month of disposal. Amortisation of Intangible Assets commence when the developed asset is fully brought into use and is based on a systematic allocation over the period during which the Agency is expected to benefit from the use of the intangible asset. Asset lives are typically in the range of 2-10 years. The Agency does not hold any intangible assets with an indefinite useful life.

### **1.8 Impairment**

Impairments are recognised when the recoverable amount of non-current assets falls below their carrying amount.

In line with an adaptation in the *FReM*, any permanent diminution in the value of an asset due to clear consumption of economic benefit or service potential will be recognised in full as an impairment loss in the Statement of Comprehensive Net Expenditure. However, in order to align the balance in the Revaluation Reserve with that which would have resulted through strict application of *IAS 36, Impairment of Assets*, an amount up to the value of the impairment is transferred to the General Fund for the individual asset concerned.

Downward revaluations, resulting from changes in market value, only result in an impairment where the asset is revalued below its historical cost carrying amount. In these cases the accounting treatment is as for any other impairment, with amounts being firstly set against any accumulated balance in the revaluation reserve, and any amount in addition to this being recognised as an impairment and recorded in the Statement of Comprehensive Net Expenditure.

### **1.9 Inventories**

Inventory, which consists of Veterinary and Scientific Consumables and stocks of both raw and finished Reagents, is stated at the lower of cost and net realisable value. During 2012/13 a costing exercise was undertaken which resulted in a revised valuation for certain items of finished good stock.

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

AHVLA is covered by Defra's VAT registration. Input VAT is generally not recoverable and output VAT generally does not apply, except as specified in HM Treasury (Contracting Out) Direction and HM Treasury (Taxing) Direction, respectively. Costs are shown inclusive of VAT where applicable.

### **1.11 Cash and Cash Equivalents**

Cash and cash equivalents comprise cash held with UK banks at the reporting date. Bank accounts are held with the Government Banking System.

### **1.12 Hard Charges / Notional Charges**

Defra centrally provides a number of services through hard or notional charges. The value of both hard and notional charges is determined by Defra. Further details are provided in Note 5.

### **1.13 Employee Benefits**

#### **a. Pensions**

Pension arrangements are described in Note 3 to the Accounts. Pension contributions are charged to Operating Expenditure on an accruals basis.

Pension benefits are provided through the civil service pension arrangements, full details of which can be found in the Remuneration Report and in Note 3.

Past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS). The defined benefit schemes are unfunded and are non-contributory, except in respect of dependents' benefits. 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 the 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.

#### **b. Other employee benefits**

The Agency recognises a liability and expense for all employee benefits, including unused annual leave accrued at the Statement of Financial Position date, provided these amounts are material in the context of the overall staff costs.

#### **c. Early Departure Costs**

The Agency is required to meet the additional costs of benefits beyond the normal PCSPS benefits in respect of employees who retire early. The Agency provides in full for this cost when the early retirement programme has been announced and is binding on the Agency. The Early Departure Provision for additional pension costs is the liability of the AHVLA, however, it is actually paid and recharged by Defra.

### **1.14 Financial Instruments**

The Agency holds a range of financial instruments, aggregated into classes based on their nature. The majority of these relate to contracts for 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. As a result of the low risk there is no requirement to disclose in terms of *IFRS 7, Financial Instruments: Disclosures*.

### **1.15 Provisions, Contingent Liabilities and Assets**

In accordance with *IAS 37, Provisions, Contingent Liabilities and Contingent Assets*, AHVLA provides for its obligations arising from past events where a reliable estimate of

the obligation can be made and it is probable that the obligation will be required to be settled. Where material, the future costs have been discounted using the rate of 2.2% (2011-12, 2.2%) as directed by HM Treasury.

In addition to contingent liabilities disclosed in accordance with IAS 37, the Agency discloses, for Parliamentary reporting and accountability purposes certain statutory and non-statutory contingent liabilities where the likelihood of a transfer of economic benefit is remote.

A contingent asset is disclosed where an inflow of economic benefits is probable.

### **1.16 Leases**

A finance lease is one which transfers substantially all the risks and rewards of ownership to the lessee. If a leasing arrangement is in force for a substantial period of the useful expected life of the asset, then the lessee is assumed to carry all of the risk. An operating lease is a lease other than a finance lease.

The Agency has no finance leases, other than the service concession arrangements referred to in Note 1.6.

All payments under operating leases are charged to the Statement of Comprehensive Net Expenditure as they are incurred. Operating lease incentives are accounted for on a straight line basis over the length of the lease. The determination of a lease is based upon the substance of that arrangement – whether the arrangement is dependent upon the use of a specific asset and conveys the right to use that asset.

### **1.17 Research and development**

Research expenditure is written off as incurred but Development work is capitalised on internally generated IT Software, providing it meets the criteria noted in International Accounting Standard (IAS) 38 (Intangible Assets).

### **1.18 Foreign currency translation**

Assets and liabilities in foreign currencies are translated into sterling using the rate of exchange at the statement of financial position date, or where appropriate, the rate of exchange fixed under the terms of the relevant transaction. Transactions in foreign currencies are translated into sterling using the rate at the date of the transaction. Differences on translation are written off to the Statement of Comprehensive Net Expenditure.

### **1.19 Impending Application of Newly Issued Accounting Standards Not Yet Effective**

At the date of authorisation of these financial statements, the following standards relevant to the Agency are not yet applied and not expected to have an impact:-  
IAS 1 Presentation of Financial Statements (Other Comprehensive Income);  
IAS19 Post-Employment Benefits (Pensions);  
IAS 27 Separate Financial Statements;  
IFRS 9 Financial Instruments, Classification and Measurement; and  
IFRS 13 Fair Value Measurement.

## 2 Restatement of AHVLA 2011/12 comparative figures

	£'000
Total Net Operating Cost per AHVLA 2011/12 Accounts	<u>(3,435)</u>
Adjustment to Net Operating Cost due to restatement adjustments	-
Revised Net Operating Cost per AHVLA Restated 2011/12 Accounts	<u><u>(3,435)</u></u>
Total Taxpayer's Equity per AHVLA 2011/12 Accounts	291,357
Adjustment to Taxpayer's Equity due to restatement adjustments	-
Revised Taxpayer's Equity per AHVLA Restated 2011/12 Accounts	<u><u>291,357</u></u>

The Accounts for the AHVLA for 2011/12 have been restated to reflect both the change in accounting treatment of accrued and deferred income, (previously treated as work in progress), and to reflect the correct netting off of non-current assets earmarked for demolition.

The above table reflects the overall changes to the Accounts but the detail can be seen in Notes 8,11,12 and 14.

### 3 Operating Segments

#### a. Expenditure and Income

2012-13

Region/Office	Actual Income £'000	Actual Expenditure £'000	Surplus/ (Deficit) £'000
England	47,006	50,402	(3,396)
Scotland	5,570	5,670	(100)
Wales	12,138	12,276	(138)
GB Revenue	5,522	62	5,460
Field Costs	70,236	68,410	1,826
Specialised Service Centre	7,519	7,397	122
Veterinary Science Policy Advice and Epidemiology	4,570	6,154	(1,584)
Lab Services	7,814	9,815	(2,001)
Specialist Scientific Support	22,868	26,187	(3,319)
HQ Services	27,974	30,905	(2,931)
Hard Charges - Other than Depreciation	73,100	60,212	12,888
Other	-	9,481	(9,481)
Sub total Revenue	214,081	218,561	(4,480)
Sub total Capital	-	11,937	(11,937)
Totals	214,081	230,498	(16,417)

The table summarises the Management Accounts received by the AHVLA during the course of 2012/13 and is split in terms of operations and the different types of funding.

#### b. Gross Assets

An allocation of Gross Assets is not provided to the Chief Operating Decision Maker (AHVLA Board) on a regular basis and accordingly no analysis is provided here.

#### c. Interest

The Agency had no interest revenue or expense.

#### d. Liabilities

The AHVLA Board does not require an analysis of liabilities by segment for the purposes of allocating resource or assessing performance. Accordingly no analysis is included in these accounts.

#### 4 Staff Numbers and Related Costs

	2012-13	2011-12
	£'000	£'000
Salaries	67,079	75,032
Employer's National Insurance Contributions	5,294	5,610
Employer's Pension Contributions	12,561	13,499
	<u>84,934</u>	<u>94,141</u>
Contractor Costs	5,406	1,834
Staff Exit Costs	3,202	7,303
Staff Leave Accrual	(254)	(808)
	<u>93,288</u>	<u>102,470</u>

Contractor costs have been separately identified as they are not employed staff and are not included in the table of average number of full time equivalent staff.

In addition to the costs shown above, Contractor Costs of £1,439k (2011-12, £2,100k) have been capitalised. These are included within the additions to IT Software and Assets in the Course of Construction shown in Note 9 – Intangible Assets.

Under *IAS 19, Employee Benefits*, an accrual has been established for the employee benefits payable in the next 12 months.

##### a. Pension Contributions

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme but AHVLA is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out as at 31 March 2011. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation ([www.civilservice-pensions.gov.uk](http://www.civilservice-pensions.gov.uk)).

For 2012-13, employers' contributions of £12,361k were payable to the PCSPS (2011-12, £11,882k) at one of four rates in the range 16.7% to 24.3% of pensionable pay based on salary bands. The scheme's Actuary reviews employer contributions every four years following a full scheme valuation. The salary bands and contribution rates were revised for 2010-11 and will remain unchanged until 2014-15. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

Employees can opt to open a partnership pension or a stakeholder pension with an employer contribution. Employers' contributions of £200k (2011-12, £1,617k) were paid to one or more of a panel of four appointed stakeholder pension providers. Employer contributions are age related and range from 3.0% to 12.5% of pensionable pay.

AHVLA also match employee contributions up to 12.5% of pensionable pay. In addition, employer contributions of £nil (2011-12, £nil) were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirements of these employees. Contributions due to the partnership pension providers at the 31 March 2013 were £16k (2012, £nil). Contributions prepaid at 31 March 2013 were £nil (2012, £nil).

No persons (2011-12, no persons) retired early on ill-health grounds; the total additional accrued pension liabilities in the year amounted to £nil (2011-12, £nil).

**b. Average Number of Full Time Equivalent Staff**

	2012-13	2011-12
	FTE	FTE
Science Staff	601	599
Veterinary Staff	336	325
Technical Staff	291	364
Administrative and Managerial Staff	1,024	1,268
	<u>2,252</u>	<u>2,556</u>

	2012-13	2011-12
	FTE	FTE
Permanent	2,210	2,491
Fixed Term Contracts	25	35
Casual and Temporary	17	30
	<u>2,252</u>	<u>2,556</u>

The remuneration and emoluments of the AHVLA Board are set out in the Remuneration Report in the Annual Report and Accounts.

**c Reporting of Civil Service and Other Compensation Schemes – Exit Packages**

During the year 74 (2011/12, 249) employees left AHVLA under early release schemes with a further 17 agreeing to do so by 31 March 2013. The details are as per the table below.

Exit Package Cost Band	Total number of exit packages by cost band 2012-13	Total number of exit packages by cost band 2011-12
<£10,000	4	23
£10,000 - £25,000	29	108
£25,000 - £50,000	43	85
£50,000 - £100,000	12	30
£100,000 - £150,000	2	3
£150,000 - £200,000	1	-
£200,000>	-	-
Total number of exit packages by type	91	249
Total resource cost (£'000)	3,202	7,245

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. Where the department has agreed early retirements, the additional costs are met by the department and not by the Civil Service Pension Scheme. Any ill-health retirement costs are met by the pension scheme and are not included in the table. There were 4 compulsory redundancies during 2012-13 (2011-12, none), and these are included within the above table.

## 5 Non Pay Running Costs

	2012-13	2011-12
	£'000	£'000
Official Veterinarian Costs		
Official Veterinarian Costs	24,957	22,638
Operating Costs		
Veterinary and Laboratory Consumables	12,553	10,664
Office Services	10,683	11,720
IT Costs	1,475	2,464
Travel and Subsistence	3,861	3,589
Accommodation and Utilities	1,344	627
Training	505	905
Recruitment	284	480
Loss on Disposal of Fixed Assets	161	177
Disease Eradication Costs	20	-
	<u>30,886</u>	<u>30,626</u>
Hard Charges		
Estates Management and Accommodation Services	22,974	22,524
IT Services	12,978	14,511
Accounting and HR Services	3,423	2,659
Procurement and Contract Services	110	110
Internal Audit	101	156
Legal Services	132	110
	<u>39,718</u>	<u>40,070</u>
Notional Charges		
Next Generation HR	626	-
Defra Investigation Services	226	195
External Audit	200	197
	<u>1,052</u>	<u>392</u>
Non-Cash Costs		
Depreciation and Amortisation	20,666	16,176
Impairments	7,993	(224)
	<u>28,659</u>	<u>15,952</u>
	<u>100,316</u>	<u>87,040</u>

Official Veterinarians are qualified veterinarians in private practice who undertake work on behalf of AHVLA. The charge against operating costs for the year ended 31 March 2013 is based on activity undertaken by Official Veterinarians and paid for during the year together with:

- Activity carried out in the year but not paid for at the year-end for which test results forms had been received; and

- Accrued payments for activity carried out in the year not paid for at the year-end for which test result forms had not been received.

With effect from 1 April 2009 the responsibility for the upkeep and maintenance of the Estate occupied by AHVLA offices was outsourced as part of a Department wide facilities management contract across the Defra family. Estates Management and Accommodation costs are now hard charged to AHVLA. AHVLA still incur some Accommodation and Utility costs not covered by the outsourcing contract. Estates Management and Accommodation services charges are now provided by DTZ Limited, as this is an agent of Defra, the charges have been analysed under the hard charges category.

Within the Statement of Comprehensive Net Expenditure the full cost of occupation is reflected in relation to buildings that are either owned or leased by Defra or specialised properties held on the Agency's Statement of Financial Position. The costs are proportionate to occupation and include rates, utilities, management overheads, facilities management and associated capital charges. For Defra leasehold properties this also includes rental costs. There are no rental costs for Defra freehold properties. The estimated value of non-specialised freehold property owned by Defra but occupied by AHVLA is £4,221k (2011-12, £4,766k).

Within Estates Management and Accommodation Services £1,930k (2011-12, £2,038k) relate to facilities management costs associated with the proportion of occupation of buildings that are either owned or leased by Defra or specialised properties held on the Agency's Statement of Financial Position. The commitments are consistent with arrangements containing a lease as defined by *IFRIC 4, Determining Whether an Arrangement Contains a Lease*.

The IT Services Hard Charge is in relation to the use of IT infrastructure assets supplied under contract with IBM. We have not been able to separate the finance and service charge elements of these costs.

Notional charges include the services of Defra Investigation Services. The External Audit fee includes the Comptroller & Auditor General audit fee of £200k for the audit of the 2012-13 financial statements (2011-12, £197k). No remuneration was paid to the auditors for non-audit work.

## **6 Interest Payable and Similar Charges**

AHVLA incurred no charges for interest or similar charges during 2012-13 (2011-12, £nil).

## 7 Income

	2012-13	2011-12
	£'000	£'000
Defra	(159,910)	(96,256)
Other Government Departments	(38,196)	(108,388)
UK Commercial & External	(7,764)	(2,149)
EU Commercial	(5,067)	(2,079)
Overseas Commercial	(3,144)	(6,711)
<b>As per Financial Accounts</b>	<b>(214,081)</b>	<b>(215,583)</b>

	2012-13	2011-12
	£'000	£'000
Compliance and Surveillance	(80,372)	(102,320)
Research and Development	(17,744)	(18,254)
Diagnostic Testing	(2,860)	(3,454)
Scientific Products	(925)	(804)
Communications and Engagement	(20,810)	(15,840)
Disease Incident Intervention	(54,498)	(14,633)
Approvals	(8,385)	(10,236)
Other	(28,487)	(50,042)
<b>As per Financial Accounts</b>	<b>(214,081)</b>	<b>(215,583)</b>

The amounts collected as agent for the Consolidated Fund (which are otherwise excluded from these financial statements) were:

	2012-13 £'000	2011-12 £'000
Fines and penalties	-	16
Amount payable to the Consolidated Fund	-	16
Balance held at start of the year	4	51
Payments into the Consolidated Fund	(4)	(63)
Balance held on trust at the end of the year	-	4

Fines and penalties income relates to penalty notices issued under the Eggs and Chicks (England) Regulations 2009 and the Eggs and Chicks (Wales) Regulations 2010.

## 8 Property, Plant and Equipment

2012-13

	Land £'000	Buildings £'000	Scientific Equipment £'000	Office Equipment and Furniture £'000	Plant and Motor Vehicles £'000	IT Assets £'000	Assets in the Course of Construction £'000	Total £'000
<b>Cost or valuation</b>								
1 April 2012	17,488	204,858	29,385	5,787	4,377	12,005	11,412	285,312
Additions	-	5,278	1,906	-	68	100	838	8,190
IBM Asset Movement	-	-	-	-	-	(1,383)	-	(1,383)
Transfers	-	11,412	-	-	-	(341)	(11,412)	(341)
Disposals	-	(3)	(1,331)	(193)	(317)	(2)	-	(1,846)
Impairment	(700)	(17,800)	-	-	-	-	-	(18,500)
Revaluation	86	2,012	4,124	562	424	1,003	-	8,211
<b>31 March 2013</b>	<b>16,874</b>	<b>205,757</b>	<b>34,084</b>	<b>6,156</b>	<b>4,552</b>	<b>11,382</b>	<b>838</b>	<b>279,643</b>
<b>Depreciation</b>								
1 April 2012	(5)	(15,673)	(21,666)	(4,094)	(2,265)	(7,895)	-	(51,598)
Charged	-	(5,579)	(1,713)	(553)	(313)	(161)	-	(8,319)
IBM Asset Depreciation	-	-	-	-	-	(617)	-	(617)
Transfers	-	-	-	-	-	257	-	257
Disposals	-	-	1,264	169	280	2	-	1,715
Impairment	-	-	-	-	-	-	-	-
Revaluation	-	5	(2,008)	(145)	(160)	(510)	-	(2,818)
<b>31 March 2013</b>	<b>(5)</b>	<b>(21,247)</b>	<b>(24,123)</b>	<b>(4,623)</b>	<b>(2,458)</b>	<b>(8,924)</b>	<b>-</b>	<b>(61,380)</b>
<b>Net Book Value</b>								
<b>31 March 2013</b>	<b>16,869</b>	<b>184,509</b>	<b>9,961</b>	<b>1,533</b>	<b>2,094</b>	<b>2,458</b>	<b>838</b>	<b>218,263</b>
<b>31 March 2012</b>	<b>17,483</b>	<b>189,185</b>	<b>7,719</b>	<b>1,693</b>	<b>2,112</b>	<b>4,110</b>	<b>11,412</b>	<b>233,714</b>
<b>Asset Financing:</b>								
Owned	16,869	184,509	9,961	1,533	2,094	599	838	216,404
Service Concession Arrangements	-	-	-	-	-	1,859	-	1,859
<b>Net Book Value at 31 March 2013</b>	<b>16,869</b>	<b>184,509</b>	<b>9,961</b>	<b>1,533</b>	<b>2,094</b>	<b>2,458</b>	<b>838</b>	<b>218,263</b>

DTZ Limited undertook a professional valuation of land and buildings during the year ended 31 March 2013. The valuation decreased the values of land and buildings which are reflected in the above values as at 31 March 2013 of which £9,090k (2011-12, £5,074k) was charged to Revaluation Reserve and £9,410k (2011-12, £nil) to the Statement of Comprehensive Net Expenditure. This revaluation was carried out by DTZ using the depreciated replacement cost method, taking into account both current and expected future economic conditions.

The figures for 2011/12 have been restated to reflect the correct treatment with regards properties earmarked for demolition by offsetting an accrual of £2.196m against those properties to bring the net book value down to zero.

2011-12								
Restated	Land £'000	Buildings £'000	Scientific Equipment £'000	Office Equipment and Furniture £'000	Plant and Motor Vehicles £'000	IT Assets £'000	Assets in the Course of Construction £'000	Total £'000
<b>Cost or valuation</b>								
1 April 2011	17,476	206,602	29,878	5,727	4,385	14,930	10,930	289,928
Additions	-	503	486	-	9	72	3,703	4,773
IBM Asset Movement	-	-	-	-	-	(2,995)	-	(2,995)
Transfers	-	3,221	-	-	-	-	(3,221)	-
Disposals	-	(388)	(920)	-	(37)	(4)	-	(1,349)
Impairment	-	-	(76)	26	16	2	-	(32)
Revaluation	12	(5,080)	17	34	4	-	-	(5,013)
<b>31 March 2012</b>	<b>17,488</b>	<b>204,858</b>	<b>29,385</b>	<b>5,787</b>	<b>4,377</b>	<b>12,005</b>	<b>11,412</b>	<b>285,312</b>
<b>Depreciation</b>								
1 April 2011	(3)	(12,851)	(20,817)	(3,355)	(1,968)	(6,533)	-	(45,527)
Charged	(2)	(3,059)	(1,741)	(716)	(331)	(196)	-	(6,045)
IBM Asset Depreciation	-	-	-	-	-	(1,178)	-	(1,178)
Transfers	-	-	-	-	-	-	-	-
Disposals	-	231	898	-	37	4	-	1,170
Impairment	-	-	-	-	-	-	-	-
Revaluation	-	6	(6)	(23)	(3)	8	-	(18)
<b>31 March 2012</b>	<b>(5)</b>	<b>(15,673)</b>	<b>(21,666)</b>	<b>(4,094)</b>	<b>(2,265)</b>	<b>(7,895)</b>	<b>-</b>	<b>(51,598)</b>
<b>Net Book Value</b>								
<b>31 March 2012</b>	<b>17,483</b>	<b>189,185</b>	<b>7,719</b>	<b>1,693</b>	<b>2,112</b>	<b>4,110</b>	<b>11,412</b>	<b>233,714</b>
<b>31 March 2011</b>	<b>17,473</b>	<b>193,751</b>	<b>9,061</b>	<b>2,372</b>	<b>2,417</b>	<b>8,397</b>	<b>10,930</b>	<b>244,401</b>
<b>Asset Financing:</b>								
Owned	17,483	189,185	7,719	1,693	2,112	251	11,412	229,855
Service Concession Arrangements	-	-	-	-	-	3,859	-	3,859
<b>Net Book Value at 31 March 2012</b>	<b>17,483</b>	<b>189,185</b>	<b>7,719</b>	<b>1,693</b>	<b>2,112</b>	<b>4,110</b>	<b>11,412</b>	<b>233,714</b>

Included within IT assets above are service concession assets held under a “Right of Use” arrangement with IBM as follows:

	2012-13	2011-12
	£'000	£'000
Balance at 1 April	3,859	8,031
Extension to the service concession arrangement		19
Adjustment to the service concession arrangement	(1,383)	(3,013)
Depreciation	(617)	(1,178)
Balance at 31 March	1,859	3,859

## 9 Intangible Assets

2012-13	Software Licences £'000	IT Software £'000	Assets in the Course of Construction £'000	Total £'000
<b>Cost or valuation</b>				
1 April 2012	58	121,962	4,324	126,344
Additions	-	-	4,398	4,398
Transfers	170	2,361	(2,190)	341
Disposals	-	-	(66)	(66)
Impairment	-	-	-	-
Revaluation	2	15,743	-	15,745
31 March 2013	230	140,066	6,466	146,762
<b>Amortisation</b>				
1 April 2012	(23)	(59,591)	-	(59,614)
Charged	(3)	(11,727)	-	(11,730)
Transfers	(170)	(87)	-	(257)
Disposals	-	-	-	-
Impairment	-	-	-	-
Revaluation	-	(13,163)	-	(13,163)
31 March 2013	(196)	(84,568)	-	(84,764)
<b>Net Book Value</b>				
31 March 2013	34	55,498	6,466	61,998
31 March 2012	35	62,371	4,324	66,730

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2011-12

	Software Licences £'000	IT Software £'000	Assets in the Course of Construction £'000	Total £'000
<b>Cost or valuation</b>				
1 April 2011	58	101,352	11,920	113,330
Additions	-	-	5,007	5,007
Transfers	-	12,603	(12,603)	-
Disposals	-	-	-	-
Impairment	-	258	-	258
Revaluation	-	7,749	-	7,749
31 March 2012	58	121,962	4,324	126,344
<b>Amortisation</b>				
1 April 2011	(20)	(47,071)	-	(47,091)
Charged	(3)	(8,950)	-	(8,953)
Transfers	-	-	-	-
Disposals	-	-	-	-
Impairment	-	-	-	-
Revaluation	-	(3,570)	-	(3,570)
31 March 2012	(23)	(59,591)	-	(59,614)
<b>Net Book Value</b>				
31 March 2012	35	62,371	4,324	66,730
31 March 2011	38	54,281	11,920	66,239

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## 10 Financial Instruments

As the cash requirements of the AHVLA are met through the Estimate 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. Accordingly no disclosure is deemed necessary.

## 11 Inventories

	2012-13	2011-12	2010-11
	£'000	Restated £'000	Restated £'000
Veterinary & Laboratory Consumables	843	901	882
Reagent stocks - raw materials	1,064	1,665	513
Reagent stocks - finished goods	2,825	1,999	616
Obsolescence provision	(265)	(448)	(97)
	<u>4,467</u>	<u>4,117</u>	<u>1,914</u>

The comparative figures for 2011/12, as originally approved and presented before Parliament, included an amount of £2,232k in relation to Work In Progress. Further investigation during the year has identified that this is not Work in Progress, so this entry has been adjusted accordingly, by transferring the respective elements to accrued income (£2,133k) and deferred income (£99k) as appropriate.

In addition to this, the detail within the note has been changed to more accurately reflect the gross and obsolescence values of the types of stock lines involved. During 2012/13 a costing exercise was undertaken which resulted in a revised valuation for certain items of finished good stock.

## 12 Trade Receivables and Other Current Assets

	2012-13	2011-12
	£'000	Restated £'000
<b>Amounts falling due within one year :</b>		
Trade receivables	21,169	29,758
Other receivables	314	1,342
<b>Trade and Other Receivables</b>	<b>21,483</b>	<b>31,100</b>
<b>Other Current Assets</b>		
Deposits and advances	18	19
Prepayments and accrued income	28,738	18,555
	<b>28,756</b>	<b>18,574</b>
<b>As at 31 March</b>	<b>50,239</b>	<b>49,674</b>

Trade receivables and other current assets include £46,242k due from other central government bodies (2012, £40,549k), £nil from local authorities (2012, £7k) and £26k from other public bodies (2012, £1k).

The above trade receivables and other current assets exclude £nil (2012, £4k) that is payable to the Consolidated Fund once the debts are collected. These are in relation to Eggs and Chicks Regulations.

All of the above are current assets.

The comparative figures for 2012 have been restated by £2,133k to account for the WiP adjustment as noted in Note 11.

## 13 Cash and Cash Equivalents

	2012-13	2011-12
	£'000	£'000
Government Banking Services	10,291	13,420
	<b>10,291</b>	<b>13,420</b>

Government Banking Service is part of HM Revenue & Customs and has procured banking services from the Royal Bank of Scotland Group and Citibank. As funds held in these accounts will be transferred to the Exchequer on a daily basis these accounts will not be classified as commercial bank accounts.

Cash and cash equivalents above exclude £nil (2012, £nil) that is payable to the Consolidated Fund.

## 14 Trade Payables and Other Current Liabilities

	2012-13	2011-12
	£'000	Restated £'000
<b>Trade and Other Payables</b>		
Trade payables	(979)	(8,072)
Other payables	(886)	(2,578)
Payroll Payables	(2,961)	(2,843)
	<u>(4,826)</u>	<u>(13,493)</u>
<b>Other Liabilities</b>		
Accruals and deferred income	(49,887)	(52,717)
Other taxation	(455)	(4,630)
	<u>(50,342)</u>	<u>(57,347)</u>
<b>Provisions</b>	(1,880)	(1,389)
<b>As at 31 March</b>	<u>(57,048)</u>	<u>(72,229)</u>

Trade payables and other current liabilities due within one year include £24,294k due to other central government bodies (2012, £34,526k), £5k due to other public bodies (2012, £9k), and £nil due to Local Authorities (2012, (£2k)).

Included within other payables is the current liability of £500k to pay for the "Right of Use" assets to IBM. (2012, £847k)

The above trade payables and other current liabilities exclude £nil (2012, £4k) that is payable to the Consolidated Fund once the debts are collected. These are in relation to Eggs and Chicks Regulations.

All of the above are Current Liabilities.

The comparative figures for 2012 have been restated by £99k to account for the WiP adjustments as noted in Note 11.

## 15 Lease Obligations Due in More Than One Year

	2012-13	2011-12
	£'000	£'000
Not later than one year	500	847
Balance in Current Liabilities	<u>500</u>	<u>847</u>
Later than one year and not later than five years	1,765	3,251
Later than five years	-	745
Balance in Non Current Liabilities	<u>1,765</u>	<u>3,996</u>
Balance at 31 March	<u>2,265</u>	<u>4,843</u>

Lease obligations arise from the adoption of *IFRIC 12 Service Concession Arrangements* in respect of IBM Right of Use Assets and IBM who provide the valuation of the asset have also provided Defra with a lease charge applicable to the whole contract including Core Defra, its agencies and Non Departmental Public Bodies. This has been allocated to AHVLA on the basis of the headcount within the organisation as a percentage of the total.

## 16 Provision for Liabilities and Charges

	Early Departure Costs £'000	Taxation £'000	Other £'000	Property Related Provision £'000	Total £'000
At 1 April 2011	671	150	46	360	1,227
Provided in the year	285	54	56	683	1,078
Provisions not required written back	(252)	-	-	(200)	(452)
Provisions utilised in the year	(262)	(114)	-	(15)	(391)
At 31 March 2012	442	90	102	828	1,462
Provided in the year	23	3	82	922	1,030
Provisions not required written back	-	-	(42)	(3)	(45)
Provisions utilised in the year	(412)	(90)	-	(40)	(542)
At 31 March 2013	53	3	142	1,707	1,905

	Early Departure Costs £'000	Taxation £'000	Other £'000	Property Related Provision £'000	Total £'000
Not later than one year	28	3	142	1,707	1,880
Balance in Current Liabilities	28	3	142	1,707	1,880
Later than one year and not later than five years	25	-	-	-	25
Later than five years	-	-	-	-	-
Balance in Non Current Liabilities	25	-	-	-	25
At 31 March 2013	53	3	142	1,707	1,905

### **Early Retirement**

The movement in the early retirement provision represents additional staff that were released from the Agency during the year. The provision for staff that left during the financial year under the old release scheme relates to the additional superannuation payable between the date of departure and the point where the former employee reaches normal retirement age. The provision for staff leaving under the new release scheme relates to their agreed lump sum payment payable on departure from the Agency where they had agreed to leave their post prior to 31 March 2013, with any differences to that provided being adjusted within 2013-14.

The Agency meets the additional costs of the benefits beyond the normal PCSPS benefits in respect of employees who retire early by paying the required amounts annually to the PCSPS over the period between the early departure and normal retirement date. The Agency provides for this in full when the early retirement programme becomes binding by establishing a provision for the estimated payments discounted by the Treasury discount rate, where material.

### **Property Related Provisions**

Following advice that AHVLA will be responsible for future dilapidations on specialist building areas, (where the Agency has to return premises to their original condition upon leaving) and for the removal of asbestos identified in occupied property, a comprehensive review of our future plans for occupied properties identified an additional provision of £922k (2011-12, £827k) in respect of properties that the Agency would be vacating in 2013-14 and the short term future. The balance of £1,747k is made from dilapidations of £1,286k (2011-12, £538k) and asbestos of £461k (2011-12, £289k).

### **Taxation**

The taxation provision has altered during the year as from 1 May 2012 the Agency ceased to pay equipment supplement without the correct tax dispensation. Defra agreed to pay the amount that was provided for the previous financial year.

### **Other**

A provision of £138k has been entered to adequately provide for emerging litigation issues.

Provisions that fall due within one year are transferred to current liabilities.

## 17 Reserves

<b>GENERAL FUND</b>	2012-13	2011-12
	£'000	£'000
At 1 April	246,314	228,795
Net Operating (Income)/Cost for the Year	(4,480)	3,435
Net Cash Requirement Received from Defra	500	8,501
Notional Charges	1,052	392
Transfer (to) / from Revaluation Reserve	(10,454)	2,646
Adjustments in year between AHVLA and Defra	522	2,545
At 31 March	233,454	246,314

Movements in the period consist of amounts generated from operational activities, the costs of group reconstruction and notional and non-cash charges. Adjustments in year between AHVLA and Defra represent transfers of costs between the two organisations. The reserve is not distributable.

The Net Cash Requirement figure in 2012-13 represents funds advanced to the Agency by Defra to allow for fluctuations in cash flow as a result of the switch to the Net Running Cost basis.

## Revaluation Reserve

	Tangible Assets £'000	Intangible Assets £'000	Total £'000
<b>Balance at 1 April 2011</b>	45,848	2,693	48,541
Net loss on revaluation of property, plant and equipment	(5,031)	-	(5,031)
Net gain on revaluation of intangible assets	-	4,179	4,179
Transfers between reserves	(1,839)	(807)	(2,646)
In Year Movement	<u>(6,870)</u>	<u>3,372</u>	<u>(3,498)</u>
<b>Balance at 31 March 2012</b>	38,978	6,065	45,043
Net loss on revaluation of property, plant and equipment	(3,697)	-	(3,697)
Net gain on revaluation of intangible assets	-	1,166	1,166
Transfers between reserves	2,512	7,942	10,454
In Year Movement	<u>(1,185)</u>	<u>9,108</u>	<u>7,923</u>
<b>Balance at 31 March 2013</b>	37,793	15,173	52,966

## 18 Net Cash Flow

	2012-13	2011-12
		Restated
	£'000	£'000
<b>Cash flows from operating activities</b>		
Net Operating Costs	(4,480)	3,435
Adjustments for non-cash transactions	29,711	16,344
Loss on disposal of non current assets	161	177
Increase in Trade and Other Current Assets	(565)	(37,302)
Increase in inventories	(350)	(2,203)
Net (Decrease) / Increase in Trade and Other Payables	(18,269)	25,562
Use of provisions	443	234
Net Operating Costs excluding Notional and Non-Cash Costs	6,651	6,247
Non-Cash Adjustments	525	2,566
<b>Net cash outflow from operating activities</b>	<b>7,175</b>	<b>8,813</b>
	2012-13	2011-12
	£'000	£'000
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment	(8,190)	(4,773)
Purchase of intangible assets	(4,398)	(5,007)
<i>IFRIC 12</i> IBM Asset Movement	1,383	2,995
Increase / (Decrease) in capital payables	2,597	(2,284)
Proceeds from the disposal of non current assets	36	2
<b>Net cash outflow from investing activities</b>	<b>(8,573)</b>	<b>(9,067)</b>
	2012-13	2011-12
	£'000	£'000
<b>Cash flows from financing activities</b>		
Net cash requirement received from Defra	500	8,501
Decrease in non current lease obligations	(2,231)	(2,993)
<b>Net financing</b>	<b>(1,731)</b>	<b>5,508</b>
	2012-13	2011-12
	£'000	£'000
<b>Change in Cash and Cash Equivalents</b>		
At 1 April	13,420	8,166
(Decrease) / Increase in cash	(3,129)	5,254
At 31 March	10,291	13,420

## 19 Capital Commitments

There were £1,110k material direct capital expenditure commitments at 31 March 2013 (2012, £3,848k).

The Agency has no committed indirect capital spend on the Business Reform Programme (BRP), where costs will be capitalised thereafter in accordance with the agreed policy. At 31 March 2013, AHVLA was committed to time and materials BRP-related spend of £nil during 2012-13 (2011-12, £1,342k).

Through the agreement in place covering accommodation occupied by AHVLA the Agency has a capital commitment in 2012-13 of £1,110k (2011-12, £3,848k), which will be charged to the Accounts in the normal way.

## 20 Commitments Under Operating Leases

	2012-13	2011-12
	£'000	£'000
Leasehold property operating lease payments due in:		
Not later than one year	1,402	1,783
Later than one year and not later than five years	2,898	3,824
Later than five years	4,246	2,902
	<u>8,546</u>	<u>8,509</u>

Within the operating leases commitment disclosure, is disclosure of the costs relating to the proportion of the occupation of Defra leasehold properties. These arrangements between AHVLA and Defra reflect a future commitment to reimburse Defra for the underlying rentals paid to landlords for the provision of leasehold accommodation. These commitments are consistent with arrangements containing a lease as defined by *IFRIC 4 Determining Whether an Arrangement Contains a Lease*.

Of the above £410k (2011-12, £322k) related to Land and £8,137k related to buildings (2011-12, £8,187k).

## 21 Obligations Under Service Concession Arrangements

	2012-13	2011-12
	£'000	£'000
Obligations under service concession arrangements due in:		
Not later than one year	15,156	13,889
Later than one year and not later than five years	56,392	52,399
Later than five years	-	10,322
	<u>71,548</u>	<u>76,610</u>

AHVLA as an Executive Agency of Defra has entered into a service concession arrangement with IBM that covers the whole Department. It aims to support the Agency by providing a modernised IT infrastructure, in line with the wider government IS strategy, which will give the Department access to cost effective IT services and infrastructure. All service concession assets are classed as one tangible IT service concession asset.

The contract is for a term of eight years from February 2010. The contract prices are subject to an annual incremental increase, applied from 1 April the start of the financial year. This increase is based on the consumer price index (CPI) as at the end of January in the previous financial year. There are no beneficial entitlements at the end of contract, although the Agency has the option to purchase specified assets at net book value on exiting the contract.

During the term of the contract, AHVLA has the right to use assets owned by IBM, and IBM are obliged to provide the IT assets for use at a level dictated by performance obligations placed on IBM, and underlying IT product developments commissioned by the Agency. AHVLA has an obligation to spend a specified amount of money each year on undertaking IT projects, which is currently set at approximately one third of the amount the Agency spends on IT projects annually.

There is flexibility in terms of termination providing the option to end the service or key aspects thereof. The financial penalty for this clause is on a sliding scale depending on several factors, including time left on the contract.

AHVLA is committed to meet the remainder of the payments to IBM that relate to the service element of the contract referred to in Note 1.6. Amounts payable are as the above table.

## 22 Other Financial Commitments

	2012-13	2011-12
	£'000	£'000
Facilities management costs relating to DEFRA leasehold, specialised and freehold properties due in:		
Not later than one year	11,015	11,186
Later than one year and not later than five years	42,305	42,621
Later than five years	63,458	74,487
	<u>116,778</u>	<u>128,294</u>

Other financial commitments relate to ICT service charges relating to Defra's agreement with IBM that do not qualify as service concession arrangements, and facilities management costs associated with the proportion of occupation of buildings that are either owned or leased by Defra or specialised properties held on the Agency's Statement of Financial Position. The commitments are consistent with arrangements containing a lease as defined by *IFRIC 4 Determining Whether an Arrangement Contains a Lease*.

## 23 Contingent Liabilities

There were no material contingent liabilities at 31 March 2013 (2011-12, £nil).

## 24 Losses and Special Payments

	2012-13	2011-12
Cases	89	276
Cost (£'000)	144	157

Of the above £nil (0 instances) (2011-12, £2k (41 instances)) related to stores losses, with the remainder relating to cash losses and special payments.

## 25 Related Party Transactions

AHVLA is an Executive Agency of Defra and is also a supplier of services to Defra. During the period ended 31 March 2013 Defra provided AHVLA with remuneration for services and provided a number of services to AHVLA. In addition AHVLA had a number of operational transactions with the Department's other Executive Agencies, (the Food and Environmental Research Agency, the Rural Payments Agency, and the Veterinary Medicines Directorate), and with other Government bodies, notably the Scottish Government, the Welsh Assembly Government, the Food Standards Agency and the Meat Hygiene Service.

£207k was paid in the year on an arms length basis to Honddu for veterinary services (2011-12, £178k). These transactions are disclosed as a partner in the practice is married to an AHVLA member of staff.

None of AHVLA's Board members, other key managerial staff or other related parties undertook any material transactions with AHVLA during the period. The Agency keeps a fully updated Register of Interests.

## 26 Events After The Reporting Period

From 1 April 2013 the Wildlife Unit and its associated activities transferred to AHVLA from the Food and Environmental Research Agency (FERA).

AHVLA's financial statements are laid before the Houses of Parliament by the Secretary of State for Defra. *IAS 10, Events After the Reporting Period*, requires AHVLA to disclose the date on which the accounts are authorised for issue. The authorised date for issue is 11 July 2013.



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