ASSURING THE SAFETY, QUALITY AND EFFICACY OF VETERINARY MEDICINES

Veterinary Medicines Directorate Annual Report & Accounts

2012/13

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

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Veterinary Medicines Directorate

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

Annual Report and Accounts 2012/13

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Contents

Chief Executive's Foreword

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

The VMD had a very successful year, fully delivering the business plan, with in-year savings and reduced costs to both business and the taxpayer, while maintaining services independently assessed as excellent, decreased sickness absence, retaining Investors in People Silver Award and a staff engagement index within the top 20 out of 95 in the Civil Service.

The major policy issue this year has been the European Commission (EC) reviews of Directives for Veterinary Medicinal Products, Residues and Veterinary Checks, and Medicated Feedingstuffs. We have maintained consultation with Government, Devolved Administrations, relevant professions and Industry in order to develop a UK position, and utilise appropriate EC Committees and direct interactions to present that view. Related to these policy issues is the current high profile of antibiotic resistance, and in response the VMD has reviewed practices and actions in the UK, prepared a joint National strategy with the Department of Health and Food Standards Agency, and is leading on the issue across Member States through its chairmanship of the Heads of Medicines Agency Taskforce on veterinary antimicrobials. The results of a European wide survey designed to identify what influences veterinary choices on antibiotic use are soon to be published. In addition, a project to establish a European wide surveillance programme for monitoring resistance trends in veterinary pathogens has been initiated.

Illegal or misleading products are potentially dangerous, and decrease consumer confidence. In keeping with our aims of ensuring that people can buy veterinary medicines that are safe and do what they claim, we are meeting some of the challenges of risk associated with on-line sales by the introduction of an internet sales voluntary accreditation scheme, one of the first of its kind in the world.

An important contributor to our improved services and efficiency has been the continuing implementation of electronic services, including the introduction of a new on-line export certificate application system and of a business wide e-filing system. Over 90% of our service delivery transactions are now paperless.

Our intent for the coming year is to ensure that new ways of working are fully embedded, further efficiencies and improvements are identified, partnership working is expanded, and for our re-vamped quality management systems to achieve ISO9001 certification.

Professor SP Borriello
Chief Executive
31 May 2013

Management Commentary

Preparation and Audit of the Accounts

The Accounts have been prepared under a direction issued on 17 December 2012 by HM Treasury under Section 7(2) of the Government Resources and Accounts Act 2000 and are audited by the Comptroller and Auditor General.

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

So far as the Accounting Officer is aware, there is no relevant audit information of which the VMD's auditor are unaware. The Accounting Officer has taken all the steps that he ought to have taken to make himself aware of any relevant audit information and to establish that the VMD's auditor are aware of that information.

About Us

Aim

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

Vision

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

Operating Framework

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

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

We divide our work into three main areas, or "operating segments":

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

[1] You can find out more about the EMA via www.ema.europa.eu
[2] You can find out more about the DH via www.gov.uk/government/organisations/department-of-health

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

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

Responsibilities

The VMD's main responsibilities are:

- the assessment, issue and maintenance of all national Marketing Authorisations (MAs) for veterinary medicines in accordance with EC and UK legislation;
- acting as Reference Member State (RMS), Rapporteur, Co-Rapporteur or Concerned Member State (CMS) for designated European applications for centralised, decentralised or mutual recognition authorisations;
- controls on the manufacture and distribution of veterinary medicinal products including inspections;
- enforcement of the Veterinary Medicines Regulations;
- pharmacovigilance through the surveillance of Suspected Adverse Reactions (SARs);
- surveillance for residues of veterinary medicines and illegal substances in animals and animal products;
- the provision and implementation of policy advice on these matters to Ministers;
- the management of the Research and Development programme linked to veterinary medicine issues; and
- the co-ordination of Defra's work on antimicrobial resistance via the Defra Antimicrobial Resistance Coordination (DARC) Group[4].

[3] You can find out more about the work of the FSA via www.food.gov.uk
[4] You can find out more about the DARC Group at www.vmd.defra.gov.uk/vet/antimicrobial_darc.aspx

Risk, Future Developments and Performance

The VMD's policy for managing its principal risks is described in the Governance Statement.

The key challenges to the VMD throughout 2013/14 and its plans for meeting them have been outlined in the VMD's Business Plan which is available on our website www.vmd.defra.gov.uk.

The key risks and/or future developments for the Agency are the:

- economic climate affecting the veterinary pharmaceutical industry and the volume of Authorisation applications the VMD receives;
- European Commission's work to review the EU legislation on veterinary medicines, medicated feeds and residues surveillance;
- implementation of the European Commission's action plan on antimicrobial resistance and the UK strategy on antimicrobial resistance;
- review of the VMD Business model, linked to any wider review in Defra of the delivery body network.

Financial Review

The VMD's total expenditure for the financial year was £13.8m a decrease of 4% against 2011/12.

The Statement of Comprehensive Net Expenditure shows "Net Operating Income" (income less expenditure) of £0.225m. However, the adjusted cost recovery result after including a cost of capital charge (see below) is £0.02m, equivalent to 100% cost recovery. The cost recovery results for the VMD's operating segments are shown in Note 5 to the Accounts, summarised as follows:

	Income £m	Expenditure £m	Cost recovery £m
Veterinary Pharmaceutical Industry	7.3	7.3	-
Food Industry	3.8	3.9	(0.1)
Government	2.9	2.8	0.1
Total VMD	14.0	14.0	-

Income collected from the Veterinary Pharmaceutical Industry decreased by 4% on 2011/12. There has been continuing growth in application volumes and the decrease in income was due to a reduced number of inspections in the programme for 2012/13. Fees to this industry were not increased during the year and a reduction of circa £1.1m to annual fees was applied to avoid excess income in this sector.

Income collected from the Food Industry increased by 1% due to fluctuations in the Food Industry activity. Charges to the Food Industry were not increased during the year, reflecting efficiency savings made.

Total Defra funding was £3.19m (2011/12: £3.46m), changes from 2011/12 being:

- £0.22m reduction to the non-statutory residues surveillance programme;
- £0.05m reduction to the antimicrobial resistance surveillance programme.

From the total funding of £3.19m, the VMD was able to surrender a surplus of £0.29m in 2012/13, primarily due a reduced requirement for Defra investigation and enforcement services, and staff cost savings for centrally funded activities.

Further reductions in operating costs compared to 2011/12 follows the successful implementation of the ongoing cost saving and efficiencies action plan impacting on many expenditure categories. Significant changes in non-pay costs were:

- A £0.31m reduction in FERA contracted services;
- A £0.18m reduction in enforcement and investigation service costs;
- A £0.10m reduction in estates maintenance and utility recharges; and
- An additional £0.12m spent on the statutory residues programme.

From 1 April 2010, in line with HM Treasury advice, the agency no longer records a Cost of Capital charge in its Accounts but continues to include a notional Cost of Capital charge in the calculation of fees and charges. The Cost of Capital charge applies to the average net assets in the Statement of Financial Position, with the exception of cash balances, to the extent that these are funded by fees and charges. The VMD's measure of Cost Recovery against its Business Plan target therefore includes a Cost of Capital Charge. A reconciliation between Net Operating Income and Cost Recovery result is provided at Note 5 to the Accounts.

Capital expenditure in the year was £0.23m, a 80% increase on 2011/12 to support routine replacement and upgrade of hardware and software.

Land & Buildings are carried in the Statement of Financial Position at "Depreciated Replacement Cost" applying to specialist buildings. Depreciated Replacement Cost is defined as "the current cost of replacing an asset with its modern equivalent asset less deductions for physical deterioration and all relevant forms of obsolescence and optimisation". The 31 March 2013 desktop valuation recorded a downward revaluation of £0.9m.

The VMD is partly funded by Defra and the position is shown in the 'Taxpayers' Equity' section of the Statement of Financial Position. The General Fund represents the value of the VMD's net current assets as at 1 April 1991, which is the date from which the first Accounts Direction became effective, plus subsequent external funding movements, plus the accumulated net operating result transferred from the Statement of Comprehensive Net Expenditure. This reserve is not distributable. The Revaluation Reserve represents the unrealised cumulative balance of indexation and revaluation adjustments to non-current assets.

Events after the reporting period

Up to the date of issue, there have been no events since 31 March 2013 that would have a significant impact on the Annual Report and Accounts or would be likely to have a significant impact on the future performance of the VMD.

Payment policy and performance

The VMD's policy is to settle all creditors' accounts within creditors' own payment terms. During the year, the VMD paid 100% of valid invoices by the due date (2011/12: 100%). In March 2010 the Government introduced a target to pay 80% of undisputed invoices within five working days. The VMD supports this initiative and during the year paid 97% (2011/12: 91%) of undisputed invoices within five working days. The trade creditor balance at 31 March 2013, as a proportion of the total undisputed amount invoiced by suppliers in the year, equates to 6 days (2011/12: 6 days).

Targets

The Secretary of State for Defra announced our targets to Parliament on 12 June 2012. These provide a framework of actions in which the VMD can provide the best possible service to all its customers.

Business Priority 1 – Delivery

Business Priority 1A

*The VMD's role, as regulator, is to authorise veterinary medicines, inspect premises at which they are manufactured, distributed and supplied and monitor their impact. This will be achieved by ensuring that veterinary medicines are **authorised** according to legislative requirements and based on sound science. The VMD will ensure that the ongoing benefit:risk assessment of veterinary medicines remains positive by **monitoring** the effect of their use, and **responding** to adverse reactions by taking proportionate action on quality, safety and efficacy as necessary.*

The expectations for the VMD's performance (time and quality) in terms of handling applications, inspections and pharmacovigilance matters are set out in the published standards. The overall performance against published standards corresponded to 97.3% so meeting the criteria defined as excellent. The independent Veterinary Products Committee (VPC) rated the quality of the VMD assessments for national Marketing Authorisation applications as excellent.

Business Priority 1B

Evidence of actions that influence the responsible, safe and effective use of veterinary medicines according to the legislative requirements through proportionate surveillance and inspection activities. Where necessary, use enforcement action to detect and deter illegal manufacture, distribution, advertising or use of products. Introduction and revision of current policies to carry out proportionate regulation of medicines in the veterinary sector.

Work generally went to plan for this target and its success is shown by the continuing low number of positive residue samples found and the absence of significant product-related adverse reactions to veterinary medicines. The inspection targets for veterinary practice premises and wholesale dealers were narrowly missed. This was the consequence of a much higher than expected number of new premises inspections which diverted resources away from routine, planned inspection activity.

We were responsible for eight successful prosecutions and recoveries totalling £210,000 were made in accordance with the Proceeds of Crime Act.

Business Priority 1C

Work to ensure as far as possible that UK policy principles influence EU legislative change, further the principles of market harmonisation and the development of efficient and effective procedures and guidance within the European Medicines Regulatory Network (EMRN).

We continued to work closely with colleagues across the EU by taking an active role in the Heads of Medicines Agencies Group and its various task forces. The UK continues to lead the task force on antimicrobial resistance. We took over the chair of the Committee for Medicinal Products for Veterinary Use (CVMP) Working Party on Antimicrobials.

We have continued to work with the Commission to help develop its thinking on revising legislation on veterinary medicines, medicated feeds and residues surveillance. We have also been providing additional practical support in the form of a national expert who joined the Directorate General for Health and Consumers in the European Commission (DG SANCO) in June 2012.

Business Priority 2 – Customers and Interest Groups

Business Priority 2A

Ensure that the veterinary pharmaceutical industry consider the level of service provided by the VMD to be good or excellent and that the VMD act on areas identified requiring improvement within the confines of the available resources.

Feedback on company meetings was one of the sources of customer information gathered in 2012/13. A total of 50 company meetings were held. An overall score of four or five (top marks) was given on 25 returns (15 scored five, 9 scored four) and a score of three on one from the questionnaires received in the year.

Business Priority 2B

The Defra Executive Agencies Team carried out a survey of VMD Policy customers during April 2012. The survey showed a range of scores between 4.4 and 5 showing the level of service provided by the VMD to be satisfactory and the KPI (a score of at least 4 out of 5) met. The survey will be repeated annually.

Business Priority 2C

Communications to customers and interest groups.

The VMD delivered throughout the year its Communication and Engagement Strategy. Highlights included promotion of the accredited internet retailers scheme, seeking to raise public awareness, publication of articles aimed at farmers on needlestick injuries, and regular updates to veterinary surgeons through the monthly article in the Veterinary Record. The VMD attended industry and public events with our publicity stand to promote awareness of the work of the VMD as well as our web-based systems and items of relevant interest to the specific audience.

Lectures were also given to third year students at five of the seven UK vet schools, with the previous VMD CEO conducting lectures at the other two, providing an overview on veterinary medicines regulations on areas such as prescribing and use of the cascade.

A series of enquiries from the media were handled throughout the year, with particular interest in vaccines for Schmallenberg virus.

A survey of VMD website users revealed a good degree of satisfaction with how the website functions and its contents. A number of areas for improvement were identified and these are being considered taking into account the pending required move of content onto the gov.uk website.

Business Priority 3 – Value for Money

Achieve cost recovery and demonstrate progress in the three elements of Value for Money (Economy, Efficiency and Effectiveness) whilst maintaining appropriate work and delivery standards.

Note 5 to the Accounts shows that the VMD recovered 100% of its total costs (including Cost of Capital).

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

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

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

- reducing the annual fees charged to the pharmaceutical industry by £1.1 million;
- introducing electronic filing across the whole business;
- introducing an enhanced on-line system for vets to apply for import certificates for veterinary medicines, which means most applications can now be made on-line;
- introducing an on-line application system for pharmaceutical companies to use when applying for export certificates;
- reducing the cost of the non-statutory residues surveillance programme by ~£220k following a review in conjunction with the FSA;
- more cost-effective procurement of office consumables and telephone services; when comparing the expenditure over the last six months to the same period last year, we have calculated a reduction of over £7,000 on consumables. Since January there has been a saving on telephony of £300 a month.
- restructuring business support and information management functions to release savings of ~£130k.

Business Priority 4 – Capacity and Capability

Ensuring the VMD utilises its funding streams efficiently to maintain capability and capacity to deliver its business objectives and is fit for purpose.

The VMD continued to invest in the training and development of new staff. Nine new assessor staff have joined the VMD this year bringing into the organisation a diverse set of skills and experience. These new assessors have brought the various assessment teams to full strength. Other new staff have joined the information services, business support, finance and pharmacovigilance teams.

Work progressed in the enhancement of the VMD's Quality Management System. Gap analysis work was undertaken to identify work required to achieve ISO 9001 certification and the necessary actions have been implemented. The VMD is now in a position to seek formal certification, with the certifying body having been appointed.

Throughout the year we continued to develop our Information Technology (IT) systems to keep them fit for purpose. In addition to the on-line systems mentioned above, examples of other significant activities include: enhancement of the inspections management database system to help improve efficiency for example by automatically generating reports published on the VMD website; a new system was developed and implemented to underpin the Quality Management System at the VMD; and virtualisation was implemented across all servers to make the business continuity processes even more robust.

People Strategy

Staff Numbers

At 31 March 2013 we employed 152 permanent staff (149.6 full-time equivalent) and 14 temporary staff (12.95 full-time equivalent) supplied by local employment agencies. The average number of full-time-equivalent permanent and temporary staff during the year is shown in Note 2 to the Accounts. The VMD complies with Equal Opportunities legislation and Departmental policy in relation to disabled employees. The VMD applies the Department's policies on equal opportunities and health and safety at work.

Employee Involvement

The VMD encourages staff involvement in its activities through a variety of channels including a VMD intranet, topic meetings, day-to-day line management contacts and diverse membership of project teams. Regular meetings review progress against the Business Plan and review risk. Office notices and the intranet are used to disseminate information. An annual staff meeting to review the work of the past year is addressed by the CEO. Staff have access to the staff welfare facilities offered by the Department. Trade Union membership and representation is in accordance with Departmental policies.

The VMD was re-accredited as an Investor in People (IiP) in 2012 and was awarded 'silver' status in recognition of the continuing efforts in the development and training of its staff. Our next IiP assessment will be due during June 2015.

The VMD benchmarks itself biennially against the European Foundation for Quality Management (EFQM) Excellence Model recommended by the Cabinet Office. The VMD took part in the EU Benchmarking process led by the Heads of Medicines Agencies in June 2010 and will be examined again in March 2014.

The results of benchmarking, IiP assessment and Civil Service wide employee engagement surveys have been used to inform the 2012/13 Business Improvement Delivery Plan.

Sickness Absence

The total full-time-equivalent days lost through staff sickness absence in the year was 860 compared to 1108 in 2011/12. The average working days lost per employee during the year was 5.9 compared to 7.5 in 2011/12.

Pensions

Future pensions provision is made for all permanent staff through the provisions of either the Principal Civil Service Pension Scheme or a stakeholder pension scheme with employer contributions. Details of how pension liabilities are treated in the Accounts are provided in Note 2 to the Accounts and the Remuneration Report.

Environmental Matters [and Social and Community Issues]

Sustainability Report for the calendar year 2012

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

Defra's Built Environment Sustainable Development Team provides the VMD with quarterly figures on each of the following categories. Due to the availability of data this report is based on data from Quarter 4 of 11/12 and Quarter 1 to 3 of 12/13. This is the same basis as used for the figures in the 2011/12 report.

GREENHOUSE GAS EMISSIONS		2012
Non-Financial Indicators (1,000 tCO2e)	Total gross emissions	0.23
	Total net emissions	-
	Gross emissions Scope 1 (direct)	-
	Gross emissions Scope 2 & 3 (indirect)	-
Related Energy Consumption (million KWh)	Electricity: Non-Renewable	0.35
	Electricity: Renewable	-
	Gas	0.27
	LPG	-
	Other	-
Financial Indicators (£ million)	Expenditure on Energy	0.057
	CRC License Expenditure (2011/12)*	0.005
	Expenditure on accredited offsets (e.g. GCOF)	0
	Expenditure on official business travel	0.130

*Carbon Reduction Commitment in the financial year 2011/12 £4,730 were submitted by the Department for Environment, Food and Rural Affairs on behalf of the VMD.

Greenhouse Gas Emissions – Performance Commentary (including measures)

Under the Greening Government Commitments the VMD has a commitment to reduce carbon emissions by 25% from the estate and business related travel from a 2009/10 baseline (of 254 tCO2) by 2015. For the purposes of ongoing monitoring and assessment throughout the reporting period, Defra's Built Environment Sustainable Development Team developed annual indicative milestones based on a 5% reduction per annum which we will struggle to meet due to the constraints of the building.

Indicative Annual Milestone (tCO2)

2011/12 – 228.6
2012/13 – 215.9
2013/14 – 203.2

2014/15 target – 190.5

Greenhouse Gas Emissions – Controllable Impacts Commentary

The main direct impacts for the VMD are in its electricity and gas consumption and significant changes to consumption cannot be made without considerable capital investment to introduce more energy efficient heat sources, reduce solar gain and the like. It should however be noted that we had a PowerStar voltage regulator fitted to the building and the strip lighting changed to the latest energy saving standard before the targets were set.

Greenhouse Gas Emissions – Overview of Influenced Impacts

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

<table>
<tr><th colspan="3">WASTE</th><th>2012</th></tr>
<tr><td rowspan="8">Non-Financial Indicators (tonnes)</td><td colspan="2">Total Waste</td><td>43.7</td></tr>
<tr><td>Hazardous Waste</td><td>Total</td><td>0</td></tr>
<tr><td rowspan="6">Non Hazardous Waste</td><td>Landfill</td><td>0</td></tr>
<tr><td>Reused/recycled</td><td>0</td></tr>
<tr><td>Composted</td><td>0</td></tr>
<tr><td>Incinerated with energy recovery</td><td>43.7</td></tr>
<tr><td>Incinerated without energy recovery</td><td>0</td></tr>
<tr style="display:none"></tr>
<tr><td rowspan="7">Financial Indicators (£k)</td><td colspan="2">Total Disposal Cost</td><td>*</td></tr>
<tr><td colspan="2">Hazardous Waste</td><td>0</td></tr>
<tr><td rowspan="5">Non Hazardous Waste</td><td>Landfill</td><td>0</td></tr>
<tr><td>Reused/recycled</td><td>0</td></tr>
<tr><td>Composted</td><td>0</td></tr>
<tr><td>Incinerated with energy recovery</td><td>*</td></tr>
<tr><td>Incinerated without energy recovery</td><td>0</td></tr>
<tr><td colspan="4">*The VMD does not have these figures. They are part of the overall estate costs and are not billed separately.</td></tr>
</table>

Waste – Performance Commentary (including measures)

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

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

Indicative Annual Milestone (tonnes)

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

2015 target – 33.2

Waste – Controllable Impacts Commentary

The main direct impacts of waste for the VMD are in relation to paper and other office related waste. There has been higher than normal levels of waste in the period reported because of the VMD's data cleansing scanning and disposal project. This is expected to remain at around this level for a further year and then decrease significantly when the work ends and as a result of electronic information sharing and filing. We continue to work to reduce the Agency's paper usage and hence potential waste creation. We ordered 377 boxes of paper in 2010, 320 boxes in 2011 and 289 boxes in 2012. We are committed to meeting the Governmental target further to reduce paper consumption by 10% in the coming year through e-working in particular.

Waste – Overview of Influenced Impacts

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

FINITE RESOURCE CONSUMPTION			**2012**
Non-Financial Indicators ('000 m^3)	Water Consumption (Office Estate)	Supplied	0.900
		Abstracted	-
		Per FTE	0.006
	Water Consumption (Non-Office Estate)	Supplied	-
		Abstracted	-
Financial Indicators (£k)	Water Supply Costs (Office Estate)		0.400
	Water Supply Costs (Non-Office Estate)		-

Finite Resource Consumption – Performance Commentary (including measures)

Under the Greening Government Commitments the VMD has a commitment to an overall reduction in water consumption by 2015, from a 2009/10 baseline and to improve site level water consumption per FTE. Based on an average of 149 FTEs our annual consumption would be 6.04 m^3 per head which just falls into the poor practice level of consumption.

Finite Resource Consumption – Controllable Impacts Commentary

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

Finite Resource Consumption – Overview of Influenced Impacts

We influence staff to use only the water they need.

Remuneration Report

Remuneration Policy

The remuneration of senior civil servants is set by the Prime Minister following independent advice from the Review Body on Senior Salaries. In reaching its recommendations, the Review Body 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; and
- the Government's inflation target.

The Review Body takes account of the evidence it receives about wider economic considerations and the affordability of its recommendations. Further information about the work of the Review Body can be found at www.ome.uk.com.

Service Contracts

The Constitutional Reform and Governance Act 2010 requires Civil Service appointments to be made on merit on the basis of fair and open competition. The Recruitment Principles published by the Civil Service Commission specify the circumstances when appointments may be made otherwise.

Unless otherwise stated below, the officials covered by this report hold appointments which are open-ended. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme.

Further information about the work of the Civil Service Commission can be found at www.civilservicecommission.org.uk.

Tax Arrangements

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

Salaries and Pension Benefits (Audited)

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

'Salary' includes gross salary; overtime; reserved rights to London weighting or London allowances; recruitment and retention allowances; private office allowances and any other allowance to the extent that it is subject to UK taxation. This report is based on accrued payments made by the Agency and thus recorded in these accounts.

Directors are appraised annually against a set of competencies and individually targeted objectives. Bonuses are the only form of remuneration subject to performance conditions. Bonuses paid in 2012/13 relate to performance in 2011/12 and bonuses paid in 2011/12 relate to performance in 2010/11.

No amounts have been paid during the year in respect of compensation to former senior managers or to third parties for services of a senior manager.

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

No employer contributions were made to partnership pension accounts during 2012/13 or 2011/12 in respect of the VMD's Directors.

Pay Multiples

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

Total remuneration	Highest paid Director £000	Median of other staff £	Pay multiple (ratio)
2012/13	115 - 120	29,563	4.0
2011/12	125 - 130	29,472	4.4

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

The banded remuneration of the highest paid Director in the VMD in the financial year 2012/13 was £115,000 to £120,000 (2011/12, £125,000 to £130,000). This was 4.0 times (2011/12, 4.4 times) the median remuneration of the workforce, which was £29,563 (2011/12, £29,472).

In 2012/13, no employees received remuneration in excess of the highest paid Director (2011/12: nil). Remuneration ranged from £13,172 to £117,648 (2011/12, £18,909 to £129,770).

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

No change was made to the salary of the highest-paid individual during the 2012/13 year. A non-consolidated performance related award was paid in 2011/12. The slight reduction in the pay multiple ratio in 2012/13 compared to 2011/12 was as a result of performance related award in 2011/12 paid to the highest paid Director.

Benefits in Kind

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

Pension Benefits

Cash Equivalent Transfer Values

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies.

The figures include the value of any pension benefit in another scheme or arrangement which the member has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their buying additional pension benefits at their own cost. CETVs are worked out in accordance with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008 and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

Real Increase in CETV

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

	SP Borriello Chief Executive	**J Atkinson** Director of Authorisations	**P Green** Director of Operations
	£000	**£000**	**£000**
Salary (as defined above) in 2012/13	115-120 including 0 bonus	75-80 including 5-10 bonus	65-70 including 0 bonus
Salary (as defined above) in 2011/12	125-130 including 10-15 bonus [1]	80-85 including 5-10 bonus	65-70 including 0 bonus
Real increase/(decrease) in pension and related lump sum at age 60	0-2.5 plus lump sum of 0	0-2.5 plus lump sum of 0-2.5	0-2.5 plus lump sum of 0-2.5
Total accrued pension at age 60 and related lump sum	0-15 plus lump sum of 0	20-25 plus lump sum of 30-35	15-20 plus lump sum of 45-50
CETV at 31 March 2013	198	370	275
CETV at 31 March 2012 [2]	149	323	253
Real increase/(decrease) in CETV after adjustment for inflation and changes in market investment factors	30	23	6

[1] SP Borriello's salary includes circa £65k payable to him under his previous employment as a Director of the Veterinary Laboratories Agency (VLA). Similarly, the bonus disclosed for SP Borriello is in respect of performance-related pay earned during his employment at the VLA and was funded by the VLA.

[2] The actuarial factors used to calculate CETVs were changed in 2012/13. For consistency, the CETVs at 31 March 2012 and 31 March 2013 have both been calculated using the new factors. The CETV at 31 March 2012 differs from the corresponding figure in the last year's report which was calculated using the previous factors.

In 2012/13, a bonus payment of circa £4k was made to Steve Dean, the former Chief Executive, in respect of his employment at VMD to his retirement date of 31 July 2011.

VMD Owner Advisory Board (OAB)

Membership details of the OAB, which was replaced with a Quarterly Performance Reporting Board (QPRB) are shown on page 28. With the exception of the VMD and the external members, the OAB and QPRB members served only in their capacity as senior managers of the parent or other government department. Defra bears the cost of their representatives and the external members and details of these members' salaries, pensions, company directorships or other significant interests are included in their departments' resource accounts.

None of the external members of the OAB has held any company directorships or other significant interests during the year that, in the opinion of the members, may conflict with their management responsibilities. There are no external members of the QPRB.

External Board Members

Membership details of the Management Board are shown on page 28. The two external non-executive members also attend the Audit and Risk Committee (ARC). J Preston chairs the meeting. The following salaries and benefits-in-kind were paid to the external members:

2012/13	**J Preston £000**	**B Morris £000**
Salary (as defined above)	5-10	0-5
Benefits-in-kind	0-5	0-5
Total	**5-10**	**0-5**

2011/12	**J Preston £000**	**B Morris £000**
Salary (as defined above)	0-5	0-5
Benefits-in-kind	0-5	0-5
Total	**0-5**	**0-5**

Civil Service Pensions

Pension benefits are provided through the Civil Service pension arrangements. From 30 July 2007, civil servants may be in one of four defined benefit schemes; either a final salary scheme (**classic**, **premium** or **classic plus**); or a whole career scheme (**nuvos**). These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under **classic**, **premium**, **classic plus** and **nuvos** are increased annually in line with Pensions Increase legislation. Members joining from

October 2002 may opt for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder pension with an employer contribution (**partnership** pension account).

Employee contributions are salary related and range between 1.5% and 3.9% of pensionable earnings for **classic** and 3.5% and 5.9% for **premium**, **classic plus** and **nuvos**. Increases to employee contributions will apply from 1 April 2013. Benefits in **classic** accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years initial pension is payable on retirement. For **premium**, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike **classic**, there is no automatic lump sum. **Classic plus** is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per **classic** and benefits for service from October 2002 worked out as in **premium**. In **nuvos** a member builds up a pension based on his pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with Pensions Increase legislation. In all cases members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

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

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

Further details about the Civil Service pension arrangements can be found at the website http://www.civilservice.gov.uk/pensions.

Professor SP Borriello
Chief Executive
31 May 2013

Statement of Accounting Officer's Responsibilities

Under the Government Resources and Accounts Act 2000 HM Treasury has directed the Veterinary Medicines Directorate to prepare for each financial year a statement of accounts in the form and on the basis set out in the Accounts Direction.

The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the Veterinary Medicines Directorate and of its net operating income, changes in taxpayers' equity and cash flows for the financial year.

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

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

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

Governance Statement

The Governance Framework

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

The Secretary of State for Defra determines the overall policy and financial framework within which the VMD operates and the Defra ownership function is exercised by the Defra Chief Operating Officer (COO). The COO receives advice and challenge on the Agency's strategic direction and performance from the VMD Management and VMD Corporate customer.

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

Following appointment into the new post of COO, there was a change of emphasis within the two tier governance arrangements of an Owner Advisory Board (OAB) and Management Board. The OAB, which was chaired by a Defra Senior Official, considered all aspects of the VMD's business, and the VMD Management Board (chaired by the Chief Executive) and independently chaired Audit and Risk Committee (ARC) between them also considered all of the VMD's business. The new arrangements, implemented within the business year, are that the OAB has been replaced with a COO chaired quarterly performance reporting (QPR) Board, and the VMD Management Board is now chaired by a Non-executive Director. These arrangements were agreed by the Secretary of State in December 2012. The QPRB concentrates on key performance indicators and underlying operational indicators (such as staff numbers and health and safety) at a high, "dashboard" level. The ARC and Management Board have been re-aligned to run sequentially on the same day and to closely precede the QPR meeting. This helps to provide appropriate scrutiny and assurance for the information reviewed at the QPR which then feeds into the Defra Supervisory Board. Further, to help ensure governance is more real-time and less dependent on set-piece committee meetings, the non-executive directors are engaged in a more flexible way and are consulted between Management Board meetings.

The overall governance structure and associated assurance as well as advice and challenge is enriched by independent advisory committees (see Annex A), regular fixed discussions between the Chief Executive and the Chief Veterinary Officer and Deputy Veterinary Officer, and being party to an external benchmarking process for our medicines functions and holding external certification for our IT functions. We are in the process of strengthening our quality assurance by preparing for whole organisation ISO 9001 certification, which covers all of our operational processes.

Boards and Committees

Membership of Boards and Committees is shown at Annex B

VMD Quarterly Performance Review Board (QPRB)

The QPRB is the main governance board for the VMD, and usually meets quarterly. It provides assurance to the Minister through the Defra COO that the VMD has appropriate and effective mechanisms for financial control, audit and risk management. There was a combination of the old style OAB and QPRB meetings during the financial year, with one OAB and one QPRB.

The QPRB agrees the VMD's strategic direction, and provides the CEO with specific advice, support and challenge on:

- ensuring the alignment of the VMD's capacity and capability to deliver on behalf of Defra and Devolved Administrations;
- Ministerial targets and performance indicators to ensure they remain challenging;
- continuous review of 'shared' risks to the business and Defra;
- ensuring delivery against Ministerial and corporate performance targets taking account of the level of risk within the Business Plan;
- ensuring that Defra funding is sufficiently robust to meet the requirements of the VMD's strategy;
- value for money improvements; and
- ensuring that contingency arrangements are in place.

During the year the OAB and QPRB considered the following governance and business documents:

- Annual Report & Accounts;
- Annual Business Plan, including Ministerial targets; and
- Terms of Reference for the Board and Committees.

Supporting the work of the QPRB are three additional governance bodies: the VMD Management Board, the Audit and Risk Committee and the Executive Management Board (EMB).

VMD Management Board

The VMD Management Board, now chaired by a Non-executive Director (NED), is the internal governance board for the VMD and consists of the Chief Executive, the two Directors and two NEDs. The Board met three times in the year. Each meeting is also attended by selected Heads of Teams as appropriate and applicable to the tabled Agenda.

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

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

All Board members meet formally and informally with other senior managers. VMD have very active non-executive Directors who also engage closely with the business, to help give strong assurance and governance.

Audit and Risk Committee

The Audit and Risk Committee (ARC) meets quarterly and is the main oversight committee for the organisation. The Committee is chaired by a Non-executive Director. The Committee met quarterly during the year to advise the CEO on the adequacy and effectiveness of the VMD's governance and risk management frameworks. It was attended by, and received reports from, a number of senior staff, internal (RSM Tenon) and external auditors (National Audit Office).

Highlights of Boards' and Committee Reports

The Management Board (MB) and Audit and Risk Committees (ARC) have a rolling agenda. Standard items are:

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

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

Reports and updates received in 2012/13 were:

- Annual Budget and a three year plan
- Draft Annual Report and Accounts
- Draft Governance Statement
- Risk Register
- National Audit Office Management Letter
- Head of Internal Audit reports
- Internal Audit strategy and work plan
- Reports and recommendations from internal audits and progress on implementation of recommendations
- Focus topics: in-year these covered the VMD Research Programme; Pharmacovigilance and the Governance Statement

Executive Management Board

The Chief Executive, Directors and Head of Finance meet on a weekly basis as the VMD's Executive Management Board (EMB). There is a standing Agenda to:

- Consider and respond to current business issues
- Control the VMD's financial position on a monthly basis
- Detailed assessment of all staff issues (e.g. training, sickness, performance) on a monthly basis
- Agree on the handling of key operational issues on a monthly basis
- Consider potential new risks/emerging risks
- Review strategic risks to the organisation on a monthly basis
- Allocate human and financial resources in alignment with the strategic direction and business plan

The Boards' and Committees' performance

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

The MB and ARC assess their effectiveness at each meeting. A more formal assessment of ARC performance was carried out at the March 2013 meeting. This involved the use of a questionnaire developed by Core Defra which was adapted and issued to Committee members and regular attendees to complete. Against a bank of eight questions 89% of responses were positive, 11% neutral and none was negative based on 11 responses. The Committee are content with the way that it is operating and with its effectiveness, with no need for significant change. Challenge is provided by the Non-executive Directors and other Board members.

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

Corporate Governance

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

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

The EMB had been effective in the discharge of its responsibilities as evidenced by, *inter alia*, the full delivery of the 2012/13 Business Plan; the results of the 2012 annual staff survey (joint 17th out of 95 bodies for staff engagement); and the results of a survey, by Defra, of the VMD's policy customers. The outcomes of the EMB are reported to staff through the weekly Chief Executive's Newsletter.

Managing our risks

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

Risks facing the VMD fall under the following headings: a) Operational, b) Reputational, c) International, d) Financial, e) Legal. The degree of risk is measured by considering the likelihood and impact.

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

The strategic risks identified in 2012/13 were:

- Reduced confidence in veterinary medicines
- Reduced confidence in food safety
- Reduced confidence in the VMD
- Staffing levels/skill mix
- Quality of centralised support services
- Failure to balance the budget
- Inadequate disaster recovery procedures
- Risk of Fraud
- Risk of Litigation
- International process/ regulation changes
- Inadequate quality external IT services
- Negative impacts of revised legislation
- Staff morale
- Security of location

In the course of 2012/13, the VMD reviewed and revised the presentation of the register. No new strategic risk categories were identified during the year, although our descriptions of the risks and their causes and effects were amended in response to external changes. During the year all of the risks that arose on the VMD's strategic risk register were recorded as being managed appropriately. By the last ARC meeting there had been a net effect of managing risks down, with no "red" risks remaining, and only five "amber" risks.

Some key actions we implemented to help control risks included an improved approach to succession planning with dedicated external assessment of the potential of some staff, and improved processes for active management of performance and attendance issues, with direct training on handling difficult situations.

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

The VMD also seeks to identify risks that, while not significant enough to appear on the Strategic Risk Register, could still affect the successful outcome of the VMD's objectives. These risks are managed within individual business areas and are 'owned' by the respective Departmental Heads or Project Leaders who report progress to Directors at regular intervals. This includes a process for escalation to the Strategic Risk Register.

Effectiveness of risk management

Internal Audit Service

The Internal Audit Service:

- operates under the requirements set out in Government Internal Audit Standards and the IIA-UK's International Standards for the Professional Practice of Internal Auditing;
- complies with the Public Sector Internal Audit Standards, which were effective from 1 April; and
- provides regular reports following review and evaluation of the Agency's risk management, control and governance arrangements, making recommendations for improvements where appropriate.

In their Annual Report, which offers their annual opinion on the adequacy and effectiveness of risk management, control and governance, the Head of Internal Audit gave assurance on the effectiveness and efficiency of the VMD's arrangements. Evidence was seen that the control environment was improving in a large number of areas with specific recommendations raised and agreed by management for those issues identified in Internal Audit work.

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

Quality Management Systems

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

Business Critical Models and Quality Assurance

An appropriate quality assurance framework is in place to assess business models relevant to the Agency. Through the ARC and MB, the Agency obtain assurance that the associated risks are properly managed. There are no business models which currently fall within the definition 'business critical models' as set out by HM Treasury.

Business continuity and security

VMD operates a Business Continuity Management system to ensure the operation of key activities in the event of a serious incident. This includes the IT disaster recovery site.

Data security remains critical and is assured by the VMD's maintenance of the Cabinet Office Security Standards, certification to ISO 27001 and Government Security Intranet (GSI) accreditation.

Lapses in data security

There were no lapses in data security in the VMD during 2012/13 and therefore none is reported.

Reporting of personal data related incidents

There were no personal data-related incidents in the VMD in 2012/13. Incidents, the disclosure of which would in itself create an unacceptable risk of harm, may be excluded in accordance with the exemptions contained in the Freedom of Information Act 2000 or may be subject to the limitations of other UK information legislation.

Significant issues

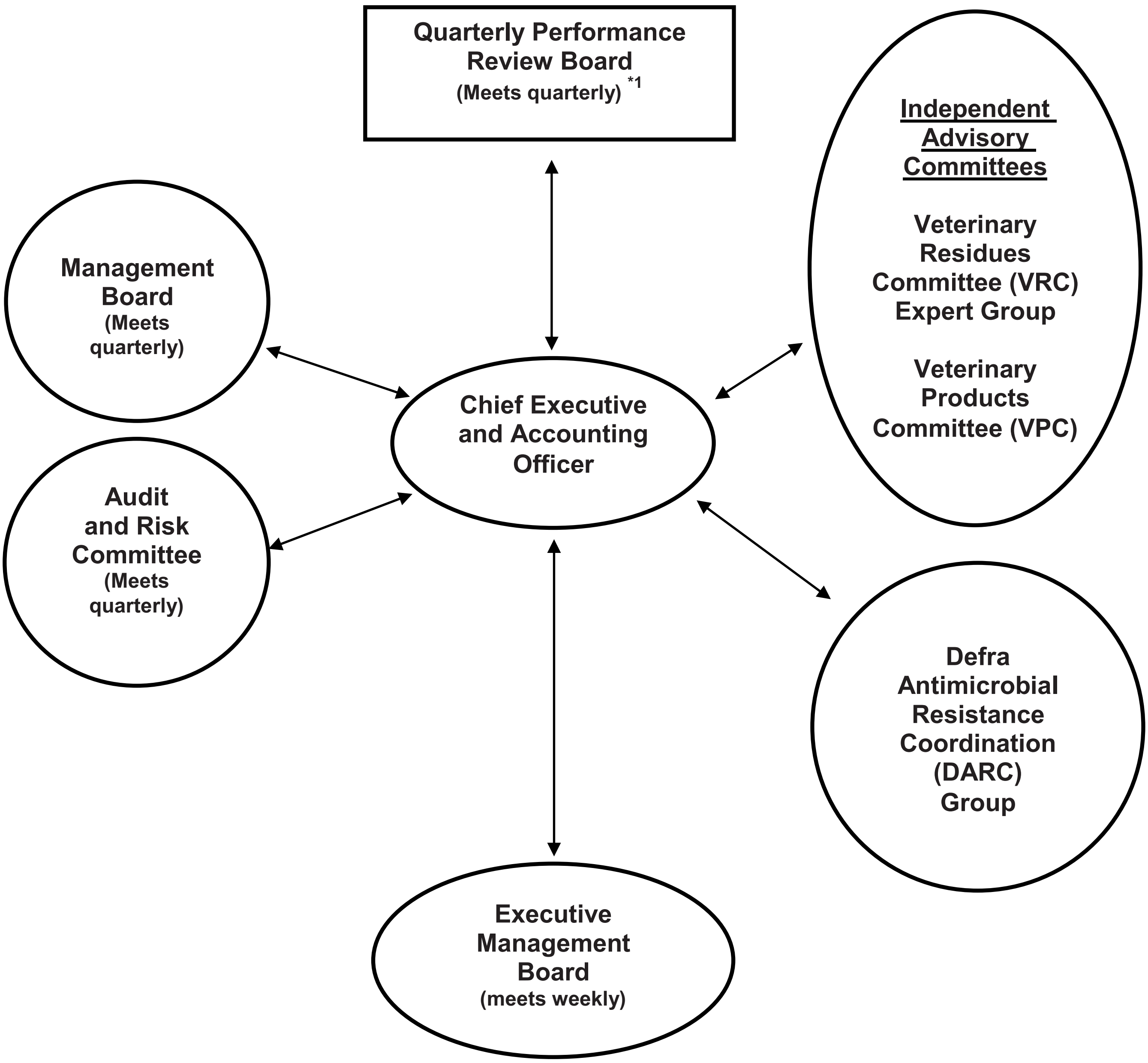
Good progress continued against our plans in 2012/13, however the significant issues being managed through the year and in the future are:

- the ability to attract or retain experienced professional staff, and the associated reward strategies in a climate of continued austerity, particularly in a buoyant veterinary medicines sector where demand for scarce experience and talent is high. Delivery pressures due to extended recruitment timings also need careful management, with flexible mechanisms being required to balance delivery needs and to respond to dynamic customer requirements.
- Future access to capital and the increasing cost of centralised processes and contracts and estates investment.

Professor SP Borriello
Chief Executive
31 May 2013

Annex A

The Veterinary Medicines Directorates' governance structure



1. Was the Defra Owner Advisory Board

Annex B

Attendance of Meetings

Owners Advisory Board and members (*) of replacement Quarterly Performance Reporting Board

The members who served during the year (in person or by teleconference) at the two meetings were:

Ian Trenholm*	Director General, Chief Operating Officer, Corporate Owner, Chair	2
Nigel Gibbens	Chief Veterinary Officer	0
Alick Simmons*	Deputy Chief Veterinary Officer, Corporate Customer (Deputy Chair)	2
Peter Borriello*	Chief Executive Officer, VMD	2
Paul Green	Director of Operations, VMD	1
Jackie Atkinson	Director of Authorisations, VMD	0
Linda Simmons	Head of Finance, VMD	1
Robert Houston	Northern Ireland Executive	1
Sheila Voas	Scottish Government	0
Jonathan Pryce	Scottish Government	0
Arjen Brouwer	Welsh Government	1
Christianne Glossop	Welsh Government	0
David Atkins	Defra, Network Bodies Team	1
Andrew Spencer	Food Standards Agency	1
Richard Drummond	Defra, Animal Health Scanning and Trade Policy	2
John Preston	Non executive member, Chair of the VMD Audit and Risk Committee	1
Bruce Jones	Non executive member	1

The above membership includes those who attended either in capacity as a member of the OAB and * are also members of the QPRB.

The Management Board

The Management Board members and members (*) of the revised MB who served during the year and attendance of the three meetings were:

Peter Borriello*	Chief Executive and Agency Accounting Officer (Chair)	3
Paul Green*	Director of Operations	3
Jackie Atkinson*	Director of Authorisations	2
Amanda Denyer	Interim Head of Finance	1
Linda Simmons*	Head of Finance	2
Maggie Steel	Head of IT	2
David Rayner	Head of Core Services, Quality and Communications	3
John Preston*	External member	3
Brian Morris*	External member	3
Neil Thornton*	Defra member (member of new MB Only)	1
Neil Paterson	Head of Software Development	1
Martha Spagnuolo-Weaver	Head of Policy	1

Note: Peter Borriello chair of the MB until 30 August. Thereafter chaired by John Preston

Audit & Risk Committee

The Audit & Risk Committee members who served during the year and attendance of the four meetings were:

Members

John Preston	External member (Chair)	4
Brian Morris	External member	4

Other Attendees

Peter Borriello	Chief Executive and Agency Accounting Officer	4
Paul Green	Director of Operations	3
Jackie Atkinson	Director of Authorisations	3
Amanda Denyer	Interim Head of Finance	1
Linda Simmons	Head of Finance	3
David Rayner	Head of Core Services	4
Ellie Taylor	NAO	1
Claire Rollo	NAO	2
Simon Helps	NAO	2
Hannah Moffatt	NAO	1
Richard Plumb	RSM Tenon	2
Beth Davey	RSM Tenon	3
Philip Hall	Defra	3
Alex Wood	Defra	1
Helen Morris	Defra Internal Audit	1
Nathan Paget	Defra Internal Audit	2

The Certificate and Report of the Comptroller and Auditor General to the House of Commons

I certify that I have audited the financial statements of the Veterinary Medicines Directorate (VMD) 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 Chief Executive as Accounting Officer and auditor

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the VMD's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the VMD; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Annual Report 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 which govern them.

Opinion on regularity

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

Opinion on the financial statements

In my opinion:

- the financial statements give a true and fair view, of the state of the VMD's affairs as at 31 March 2013 and of the net operating income for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

Opinion on other matters

In my opinion:

- the 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 'Management Commentary' for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

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

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

Report

I have no observations to make on these financial statements.

Amyas C E Morse
Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP
3 June 2013

Statement of Comprehensive Net Expenditure

for the year ended 31 March 2013

	Note	2012/13			2011/12
		Staff costs £000	Other costs £000	Income £000	£000
Administration costs:					
Staff costs	*2*	(7,300)			(7,263)
Other administrative costs	*3*		(6,479)		(7,097)
Operating Income	*4*			14,004	14,847
Totals		**(7,300)**	**(6,479)**	**14,004**	**487**
Net operating income				**225**	**487**
Other comprehensive net expenditure					
Net (loss)/gain on revaluation of Property, Plant and Equipment				(542)	160
Total comprehensive net expenditure for the year ended 31 March				**(317)**	**647**

All income and expenditure is derived from continuing operations.

All of the above income and expenditure is classified as "Administration".

The notes on pages 36 to 50 form part of these accounts.

Statement of Financial Position

as at 31 March 2013

	Note	2012/13		Reclassified 2011/12	
		£000	£000	£000	£000
Non-current assets:					
Property, plant and equipment	*6*	5,395		6,055	
Intangible assets	*7*	164		151	
Long term receivables	*8*	16		19	
Total non-current assets			**5,575**		**6,225**
Current assets:					
Trade and other receivables	*8*	2,913		3,253	
Cash and cash equivalents	*9*	3,997		3,529	
Total current assets			**6,910**		**6,782**
Total assets			**12,485**		**13,007**
Current liabilities:					
Trade and other payables	*10*	(2,311)		(2,699)	
Total current liabilities			**(2,311)**		**(2,699)**
Total assets less liabilities			**10,174**		**10,308**
Taxpayers' equity					
General fund			7,184		6,776
Revaluation Reserve			2,990		3,532
Total taxpayers' equity			**10,174**		**10,308**

Professor SP Borriello
Chief Executive and Agency Accounting Officer
31 May 2013

The notes on pages 36 to 50 form part of these accounts.

Statement of Cash Flows

for the year ended 31 March 2013

	Note	2012/13	2011/12
		£000	£000
Cash flows from operating activities:			
Net operating income		**225**	**487**
Adjustments for non-cash transactions:			
Depreciation, amortisation and revaluation losses	*3*	337	402
Defra Investigation Services - charged to General Fund	*3*	147	324
Auditors' remuneration - charged to General Fund	*3*	36	33
Decrease/(increase) in trade and other receivables		343	(589)
(Decrease)/increase in trade and other payables		(388)	332
of which: (Increase) in accruals for non-current assets		(2)	(9)
Net cash inflow from operating activities		**698**	**980**
Cash flows from investing activities:			
Purchase of property, plant and equipment		(180)	(28)
Purchase of intangible assets		(50)	(92)
Net cash outflow from investing activities:		**(230)**	**(120)**
Cash flows from financing activities:			
Defra operational funding		-	-
Net financing:		-	-
Net increase in cash and cash equivalents		**468**	**860**
Cash at the beginning of the year		**3,529**	**2,669**
Cash at the end of the year	*9*	**3,997**	**3,529**

The notes on pages 36 to 50 form part of these accounts.

Statement of Changes in Taxpayers' Equity

for the year ended 31 March 2013

	Note	**General Fund £000**	**Revaluation Reserve £000**	**Total Reserves £000**
Balance at 1 April 2011		**5,932**	**3,372**	**9,304**
Changes in taxpayers' equity for 2011-12:				
Net gain on revaluation of property, plant and equipment		-	160	160
Defra Investigation Services - charged to General Fund	*3*	324	-	324
Auditors' remuneration - charged to General Fund	*3*	33	-	33
Net operating income for the year		487	-	487
Total recognised income and expense for 2011-12		**844**	**160**	**1,004**
Balance at 31 March 2012		**6,776**	**3,532**	**10,308**
Changes in taxpayers' equity for 2012-13:				
Net gain on revaluation of property, plant and equipment		-	(542)	(542)
Defra Investigation Services - charged to General Fund	*3*	147	-	147
Auditors' remuneration - charged to General Fund	*3*	36	-	36
Net operating income for the year		225	-	225
Total recognised income and expense for 2012-13		**408**	**(542)**	**(134)**
Balance at 31 March 2013		**7,184**	**2,990**	**10,174**

The notes on pages 36 to 50 form part of these accounts.

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)* and the Accounts Direction issued by HM Treasury.

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

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

1.1 Judgements and key sources of estimation uncertainty

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

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

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

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

1.2 Accounting convention

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

1.3 Property, plant and equipment

Land and Buildings are subject to professional valuation at five yearly intervals and stated at fair value, which is valued at Depreciated Replacement Cost applying to specialist buildings. Depreciated Replacement Cost is defined as "the current cost of replacing an asset with its modern equivalent asset less deductions for physical deterioration and all relevant forms of obsolescence and optimisation". Between professional valuations, annual desk top revaluations are conducted, which have regard for prevailing local and national conditions.

IT hardware equipment or software costing £2,000 or more, where there is an expected useful economic life of more than one year, are carried in the Statement of Financial Position as non-current assets at fair value.

Non-property tangible assets have been stated at fair value using appropriate indices provided by the Office for National Statistics.

Intangible non-current assets comprise software licences.

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

1.4 Depreciation and amortisation

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

During the year, asset lives were in the following ranges:

Freehold land	Not depreciated
Freehold buildings	43 years (residual life)
Furniture, fittings and office equipment	10 years
IT hardware	3-5 years
IT software	3-10 years
Software licences	3-10 years

1.5 Operating income

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

1.6 Income recognition

Income received in advance of work done is deferred to future periods to the extent necessary to cover the work estimated to be outstanding at the year end. Income receivable for work done in the year is accrued to the extent necessary to cover the work estimated to be complete at the year end.

1.7 Defra service recharges

Defra service recharges are charged to the Statement of Comprehensive Net Expenditure where invoiced. Where Defra service recharges are not invoiced they are charged to the General Fund. Defra services recharges relate to Investigation and Enforcement, Estates Maintenance and Human Resources.

1.8 Value Added Tax (VAT)

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

1.9 Financial instruments

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

1.10 Research and development

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

1.11 Pensions

Past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS) which are described in the Remuneration Report and Note 2.3. The defined benefit schemes are unfunded and are non-contributory except in respect of dependants' 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 payment of future benefits is a charge on the PCSPS. In respect of the defined contribution schemes, the Agency recognises the contributions payable for the year.

1.12 Leases

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

1.13 Administration and programme expenditure

All of the VMD's income and expenditure is classified as "Administration". The classification of income or expenditure as administration or programme follows the definition of administration costs as set out in HM Treasury's Consolidation and Budgeting Guidance 2012/13.

1.14 General Fund

The net operating result for each year is transferred from the Statement of Comprehensive Net Expenditure to the General Fund. The General Fund represents the value of the VMD's net assets less liabilities as at 1 April 1991, which is the date from which the first Accounts Direction became effective, plus subsequent external funding movements, plus the accumulated net operating result transferred from the Statement of Comprehensive Net Expenditure. This reserve is not distributable.

1.15 Revaluation Reserve

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

1.16 Impending application of newly issued standards not yet effective

VMD provides disclosure in Note 17 that it has not yet applied a new accounting standard and known and reasonable estimatable information relevant to assessing the possible impact that initial application of the new standard will have on the VMD's financial statements.

2. Staff costs

2.1 Staff cost summary

Staff costs consist of the following:

	2012/13			2011/12
	Permanently employed staff	Temporary staff	Total	Total
	£000	£000	£000	£000
Wages and salaries	5,308	496	5,804	5,784
Social security costs	462	-	462	455
Other pension costs	1,034	-	1,034	1,028
Sub-total as reported in Statement of Comprehensive Net Expenditure	**6,804**	**496**	**7,300**	**7,267**
Less recoveries in respect of outward secondments	(57)	-	(57)	(4)
	6,747	**496**	**7,243**	**7,263**

Included in the permanently-employed staff costs is an accrual for untaken annual leave of £182,000 (2011/12: £130,000). This comprises of £143,000 (2011/12: £102,000) wages and salaries, £11,000 (2011/12: £8,000) social security costs and £28,000 (2011/12: £20,000) other pension costs.

2.2 Senior managers' remuneration

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

2.3 Pensions

The Principal Civil Service Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme but the VMD is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out at 31 March 2007. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

For 2012/13, employers' contributions of £1,015,000 were payable to the PCSPS (2011/12: £1,012,000) at one of four rates in the range 17.1% to 25.5% of pensionable pay, based on salary bands (the rates in 2010/11 were between 17.1% and 25.5%). The scheme's Actuary reviews employer contributions every four years following a full scheme valuation. The salary bands and contribution rates were revised for 2009/10 and will remain unchanged until 2013/14.

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 account, a stakeholder pension with an employer contribution.

Employer's contributions of £9,000 (2011/12: £16,000) were paid to one or more of a panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3% to 12.5% of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay.

At the balance sheet date, no contributions were payable to the partnership pension providers (2011/12: £nil) and no contributions were prepaid (2011/12: £nil). No individuals retired early on ill-health grounds during the year and therefore no additional pension liabilities have been accrued for this purpose.

2.4 Early departure costs

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

	2012/13	**2011/12**
Exit package cost band	**Number**	**Number**
Up to £10,000	-	1
£10,001 – £25,000	-	6
£25,001 - £50,000	1	3
£50,001 - £100,000	-	-
Total number of exit packages in cost band	**1**	**10**

There were no compulsory exits in 2012/13 (2011/12: nil).

There were no senior manager exits in 2012/13 (2011/12: nil).

2.5 Staff numbers

The average number of full-time equivalent persons employed during the year was as follows.

	2012/13			**2011/12**
	Permanently employed staff	**Temporary staff**	**Total**	**Total**
	Number	**Number**	**Number**	**Number**
Scientific	43	2	45	47
Administrative	102	9	111	115
	145	**11**	**156**	**162**

3. Other administrative costs

	Note	2012/13 £000	Reclassified 2011/12 £000
(i) Direct subcontracting costs			
Services provided by Industry		33	39
Services provided by Other Government Departments:			
Food and Environment Research Agency		2,599	2,907
Food Standards Agency		460	463
Animal Health and Veterinary Laboratories Agency		812	774
Treasury Solicitors Department		185	-
Marine Scotland		106	110
Medicines and Healthcare products Regulatory Agency		12	18
Centre for Environment, Fisheries and Aquaculture Science		7	9
		4,214	**4,320**
(ii) Other costs			
IT systems maintenance		272	265
Travel and subsistence		176	160
Communications		111	127
Training		97	81
Stationery and publications		87	123
Independent expert committees		94	95
Professional programme and technical fees		84	84
Document storage		39	54
Office related goods		34	16
Internal Audit		33	33
Operating leases		33	30
Movement on provision for bad debts		3	43
Other costs		85	111
		1,148	**1,222**
(iii) Departmental recharges			
Defra service recharges:			
Estates maintenance		391	491
Legal Services		-	208
Human Resources		88	97
Statutory Residues programme		118	-
Defra Investigation Service - charged to the General Fund		147	324
Auditors' remuneration		36	33
		780	**1,153**
(iv) Depreciation, amortisation and revaluation losses			
Depreciation of property, plant and equipment	*6*	296	316
Amortisation of intangible assets	*7*	39	59
Losses on disposal of non-current assets		2	27
		337	**402**
Total other administrative costs		**6,479**	**7,097**

Within the Statement of Comprehensive Net Expenditure the full cost of occupation is reflected in relation to buildings that are held on the Agency's Statement of Financial Position. The costs are proportionate to occupation and include rates, utilities, management overheads and facilities management.

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

Additional analysis has been disclosed in Note 3 to indicate the nature of Defra recharges and to provide additional breakdown of 'Other costs' incurred by the Agency. The prior year comparatives have been reclassified to be consistent with the current year's disclosure.

4. Operating income and costs

4.1 Operating Income

Income was earned from the following business segments:

	2012/13			2011/12
	External £000	Defra £000	Total £000	Total £000
Veterinary Pharmaceutical Industry	7,328	6	7,334	7,661
Food Industry	3,722	44	3,766	3,725
Government	46	2,858	2,904	3,461
	11,096	**2,908**	**14,004**	**14,847**

4.2 Operating Costs

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

	2012/13 %	2011/12 %
Veterinary Pharmaceutical Industry	77	77
Food Industry	4	4
Government	19	19
	100	**100**

5. Key Performance Target

The agency's 2012/13 Business Plan includes a key financial performance target: to achieve 100% cost recovery as a whole. In assessing performance against this target, a notional Cost of Capital is recorded in addition to the costs included in the Statement of Comprehensive Net Expenditure. For 2012/13 an overall cost recovery of 100% was achieved. However the VMD seeks to achieve cost recovery for each of its three operating segments and for 2012/13 the results were as follows:

	2012/13			
	Veterinary Pharmaceutical Industry £000	**Food Industry £000**	**Government £000**	**Total £000**
Income	7,334	3,766	2,904	**14,004**
Expenditure	(7,126)	(3,836)	(2,817)	**(13,779)**
Net Operating Income per Statement of Comprehensive Net Expenditure	208	(70)	87	**225**
Less: cost of capital charge	(197)	(10)	-	**(207)**
Cost recovery surplus/(deficit)	11	(80)	87	**18**
Cost recovery performance	100%	98%	103%	**100%**

	2011/12			
	Veterinary Pharmaceutical Industry £000	**Food Industry £000**	**Government £000**	**Total £000**
Income	7,661	3,725	3,461	**14,847**
Expenditure	(7,268)	(3,773)	(3,319)	**(14,360)**
Net Operating Income per Statement of Comprehensive Net Expenditure	393	(48)	142	**487**
Less: cost of capital charge	(199)	(10)	-	**(209)**
Cost recovery surplus/(deficit)	194	(58)	142	**278**
Cost recovery performance	103%	98%	104%	**102%**

The information in Notes 4.2 and 5 is provided for fees and charges purposes.

6. Property, plant and equipment

	Land £000	Buildings £000	IT Equipment £000	Furniture Fittings & Equipment £000	Total £000
Cost or Valuation:					
At 1 April 2012	470	8,250	936	366	10,022
Additions	-	-	180	-	180
Disposals	-	-	(83)	(44)	(127)
Revaluation	(40)	(829)	130	6	(733)
At 31 March 2013	**430**	**7,421**	**1,163**	**328**	**9,342**
Depreciation:					
At 1 April 2012	-	(2,805)	(857)	(305)	(3,967)
Charged in year	-	(235)	(49)	(12)	(296)
Disposals	-	-	81	44	125
Revaluation	-	315	(119)	(5)	191
At 31 March 2013	**-**	**(2,725)**	**(944)**	**(278)**	**(3,947)**
Net Book Value:					
At 31 March 2013	**430**	**4,696**	**219**	**50**	**5,395**
At 31 March 2012	470	5,445	79	61	6,055
Cost or Valuation:					
At 1 April 2011	470	7,933	971	367	9,741
Additions	-	-	25	-	25
Disposals	-	(38)	(60)	(5)	(103)
Revaluation	-	355	-	4	359
At 31 March 2012	**470**	**8,250**	**936**	**366**	**10,022**
Depreciation:					
At 1 April 2011	-	(2,394)	(840)	(294)	(3,528)
Charged in year	-	(228)	(76)	(12)	(316)
Disposals	-	13	59	4	76
Revaluation	-	(196)	-	(3)	(199)
At 31 March 2012	**-**	**(2,805)**	**(857)**	**(305)**	**(3,967)**
Net Book Value:					
At 31 March 2012	**470**	**5,445**	**79**	**61**	**6,055**
At 31 March 2011	470	5,539	131	73	6,213

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

The Land and Buildings were valued at 31 March 2013 by an independent valuer in accordance with guidance issued by the Royal Institution of Chartered Surveyors. Buildings were valued at Depreciated Replacement Cost applying to specialist buildings in accordance with IAS 16, defined as “the current cost of replacing an asset with its modern equivalent asset less deductions for physical deterioration and all relevant forms of obsolescence and optimisation”.

7. Intangible assets

	£000
Cost or valuation:	
At 1 April 2012	840
Additions	52
Disposals	-
At 31 March 2013	**892**
Amortisation:	
At 1 April 2012	(689)
Charged in year	(39)
Disposals	-
At 31 March 2013	**(728)**
Net Book Value:	
At 31 March 2013	**164**
At 31 March 2012	151
Cost or valuation:	
At 1 April 2011	744
Additions	104
Disposals	(8)
At 31 March 2012	**840**
Amortisation:	
At 1 April 2011	(638)
Charged in year	(59)
Disposals	8
At 31 March 2012	**(689)**
Net Book Value:	
At 31 March 2012	**151**
At 31 March 2011	**106**

Intangible assets comprise software licences.

8. Trade receivables and other current assets

	2012/13	Reclassified 2011/12
Amounts falling due within one year:	**£000**	**£000**
Trade receivables	1,171	1,546
Balances with other central government bodies	510	769
Other receivables	6	7
VAT recoverable	49	43
Prepayments and accrued income	1,177	888
	2,913	**3,253**
Amounts falling due after more than one year:		
Other receivables	16	19
Total trade receivables and other current assets	**2,929**	**3,272**

Trade receivables are shown net of a provision of £45,000 (2011/12: £181,000) for bad and doubtful debts. The provision is calculated according to the age and status of the debt and recent sector-specific debt-recovery information.

Included in receivables there are no balances with local authorities, NHS bodies, public corporations or trading funds (2011/12: £nil).

Balances with other central government bodies at the year-end includes £510,000 with Defra and its agencies (2011/12: £769,000).

For 2012/13 amounts falling due after more than one year have been disclosed. The prior year comparatives have been reclassified to be consistent with the current year's disclosure.

9. Cash and cash equivalents

	2012/13	2011/12
	£000	**£000**
Balance at 1 April	3,529	2,669
Net change in cash and cash equivalents	468	860
Balance at 31 March	**3,997**	**3,529**

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

10. Trade payables and other current liabilities

	2012/13	Reclassified 2011/12
Amounts falling due within one year:	**£000**	**£000**
Trade payables	22	47
Balances with other central government bodies	389	565
Balances with public corporations and trading funds	-	-
Other taxation and social security	169	166
Accruals and deferred income	1,731	1,921
Total trade payables and other current liabilities	**2,311**	**2,699**

Included in payables there are no balances with local authorities or NHS bodies (2011/12: £nil).

Balances with other central government bodies at the year-end includes £214,000 owing to Defra and its agencies (2011/12: £397,000).

At the year end the VMD had no payables falling due after more than one year (2011/12: £nil).

For 2012-13 amounts due to the Cabinet Office have been included within the balances with other central government bodies. The prior year comparatives have been reclassified to be consistent with the current year's disclosure.

11. Capital commitments

There were no contracted commitments at 31 March 2013 (2011/12: £nil).

12. Commitments under operating leases

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

Obligations under operating leases comprise:

	2012/13	2011/12
	£000	**£000**
Contract Hire cars		
Not later than one year	27	11
Later than one year not later than five years	28	17
Total	**55**	**28**

13. Other financial commitments

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

	2012/13	2011/12
	£000	£000
Not later than 1 year	172	297
Later than 1 year but not later than 5 years	687	1,172
Later than 5 year but not later than 10 years	1,031	1,464
Later than 10 year but not later than 15 years	-	586
Total	**1,890**	**3,519**

14. Losses statement

Managing Public Money requires a statement showing losses and special payments by value and type to be shown where they exceed £250,000 in total, and those individually that exceed £250,000.

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

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

15. Related party transactions

As the VMD is an Executive Agency of Defra and is sponsored by them, Defra is regarded as a related party. During the year, the VMD has had significant transactions with Defra and a number of its agencies, including Animal Health Veterinary Laboratories Agency (AHVLA), Food and Environment Research Agency (FERA) and Centre for Environment, Fisheries and Aquaculture Science (CEFAS).

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

16. Financial instruments

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

17. Impending application of newly issued standards not yet effective

The VMD has reviewed the IFRSs in issue but not yet effective to determine if it needs to make any disclosures in respect of those new IFRSs that are or will be applicable. References to 'new IFRSs' includes new interpretations and any new amendments to IFRSs and Interpretations. It has been determined that the following new standards relevant to the VMD were issued but not yet effective.

IAS 1 Presentation of Financial Statement (Other Comprehensive Income)
IAS 19 Post-Employment Benefits (Pensions)
IFRS 13 Fair Value Measurement

These standards have not been adopted by the VMD ahead of their implementation date. The future impact of these is not considered to be significant.

The VMD has also reviewed the changes in the *FReM* and determined that there will be no significant impact on the accounts from 2012/13.

18. Events after the reporting period

The VMD's financial statements are laid before the House of Parliament by the Secretary of State for Defra. In accordance with the requirements of IAS10, events after the reporting period are considered up to the date on which the accounts are authorised for issue. This is interpreted as the date of the Certificate and Report of the Comptroller and Auditor General. There are none to report.

Glossary

AHVLA	Animal Health and Veterinary Laboratories Agency
ARC	Audit and Risk Committee
CEO	Chief Executive Officer
COO	Chief Operating Officer
CETV	Cash Equivalent Transfer Value
CMS	Concerned Member State
CVMP	Committee for Medicinal Products for Veterinary Use
DARC	Defra Antimicrobial Resistance Coordination Group
Defra	Department for Environment, Food & Rural Affairs
DG SANCO	Directorate General for Health and Consumers – European Commission
DH	Department of Health
EC	European Commission
EFQM	European Foundation for Quality Management
EMA	European Medicines Agency
EMB	Executive Management Board
EMRN	European Medicines Regulatory Network
EU	European Union
EFQM	European Foundation for Quality Management
Fera	Food and Environment Research Agency
FReM	Financial Reporting Manual
FSA	Food Standards Agency
FTE	Full Time Equivalent
GSi	Government Secure Intranet
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
IiP	Investors in People
IT	Information Technology
KPI	Key Performance Indictors
MA	Marketing Authorisation
MAFF	Ministry of Agriculture, Fisheries and Food
MB	Management Board
NED	Non-Executive Director
OAB	Owner Advisory Board
PCSPS	Principal Civil Service Pension Scheme
PFI	Public Finance Initiative
QPRB	Quarterly Performance Review Board
R&D	Research and Development
RMS	Reference Member State
SARs	Suspected Adverse Reactions
VMD	Veterinary Medicines Directorate
VMP	Veterinary Medicinal Product
VPC	Veterinary Products Committee

ASSURING THE SAFETY, QUALITY & EFFICACY OF VETERINARY MEDICINES

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