

**ANNUAL REPORT AND ACCOUNTS**  
**2009-10**





## ANNUAL REPORT AND ACCOUNTS 2009-10

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# 1 Chief Executive's statement

During the last year, Animal Health has worked closely with industry, government in Scotland, Wales and England, and key operational partners in local authorities and elsewhere to manage down the risks associated with poor animal health and welfare. Among other initiatives, together we have implemented new bovine tuberculosis controls, dealt with an outbreak of equine exotic disease, and started to improve movement reporting – for pigs in the first instance.

As the financial environment becomes more and more challenging, it will be of even greater importance that we work effectively together – to drive down animal health and welfare-related risks, and also the costs of managing those risks. So, over the course of 2009-10 we have focused on initiatives to reduce our costs and increase our effectiveness.

We have implemented a modern computerised system to allocate and manage the work of our field staff – enabling us to deploy them

more efficiently. We have started the removal of files and paper forms that historically we have used to run our business, through the introduction of an electronic document scanning system. We have also designed and introduced a programme to train all our field staff in enforcement, so that when we need to take action to ensure compliance with the law we do so in the most cost-effective and consistent way.

Working closely with our end-user customers, farmers and others, remains at the heart of our strategy to reduce animal health and welfare-related risk. So, we have also this year carried out our first major survey of our end-user customers, including specific research on the service exporters receive from our new International Trade Specialist Service Centre. The feedback was generally reassuring – customers fed back to us that they were happy with the standard of the services we provide, and that they trust us and value our advice. It was encouraging to hear that the centralised export service, which is

a more consistent and cheaper form of delivery than the historic local service, has enhanced the customer experience – 91% of export customers rated the service as good or better than good.

There is a great deal to be done next year and in future years to ensure that we can continue to do our part to protect Great Britain from the impacts of animal health and welfare-related risk. The work that we have undertaken, with the support of our customers, partners and staff in 2009-10, will stand us in good stead in facing the challenges ahead.

I would like to thank everyone who has helped us deliver our objectives in 2009-10: our end-user customers; operational partners including local authority teams and Official Veterinarians; policy colleagues in Scotland, Wales and England; and particularly our staff.



**Catherine Brown, Chief Executive**  
2 July 2010

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AND WELFARE-RELATED RISK  
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## 2 Who we are and what we do

### Who we are and where we work

Animal Health is an Executive Agency of the Department for Environment, Food and Rural Affairs (Defra). We operate across Great Britain on behalf of the Scottish Government, the Welsh Assembly Government and the Food Standards Agency, as well as Defra.

We directly employ about 1,700<sup>1</sup> people and work with a network of private vets all over Great Britain. This gives us the comprehensive coverage we need to work effectively with farmers and producers, those involved in animal by-products, international trade and other parts of the livestock industry; and, importantly, it means we are able to respond

swiftly and flexibly to emergencies wherever they occur.

### What we do

We play a key part in delivering the Animal Health and Welfare Strategies of governments across Great Britain. We work to prevent, control and eradicate exotic and endemic notifiable diseases, minimise the economic impact of animal disease, ensure high standards of welfare in farmed animals and improve food safety. We focus on working with others to drive down animal health and welfare-related risks.

We do this in a range of different ways: responding to suspected cases of exotic notifiable disease; providing advice and guidance to farmers and other end-user

customers; monitoring the occurrence and incidence of different diseases; checking compliance with legislative requirements; issuing approvals and licences and supporting and guiding enforcement action where appropriate to ensure compliance.

Our day-to-day activity covers a wide range of tasks for diverse customer groups. These include:

- carrying out surveillance and control work to detect the presence of endemic notifiable diseases such as bovine tuberculosis and salmonella
- when detecting cases of exotic disease, managing the breakdown and, where necessary, taking action to remove the infection
- checking the disease status of imported livestock

<sup>1</sup> 1,596 average Full Time Equivalent staff during 2009-10



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- working with Official Veterinarians certifying that animals for export have passed all necessary checks
- checking compliance with animal by-product legislation to help minimise the risk of potentially-dangerous substances entering the animal and human food chains
- conducting an annual risk-based programme of welfare inspections under the EU Cross Compliance regime. As the Competent Control Authority in this area, we undertake these on behalf of the paying agencies in the Scottish Government, the Welsh Assembly Government and the Rural Payments Agency
- responding to reports of welfare problems in livestock
- protecting the welfare of animals during transport
- dealing with incidents of other notifiable diseases such as scrapie and bovine spongiform encephalopathy
- registering and licensing the imports of endangered wildlife and products in relation to the Convention on International Trade in Endangered Species
- inspecting the facilities and processes used in dairy and egg production to ensure the safety of the human food chain and that eggs meet quality and traceability standards
- overseeing the Pet Travel Scheme which allows pet dogs, cats and ferrets from certain countries to enter the UK without quarantine as long as they meet the requirements of the scheme.

We work to prevent outbreaks of exotic disease, which are diseases

not usually present in livestock in Great Britain, such as foot and mouth disease, avian influenza, classical swine fever and rabies.

We are responsible for making sure that should such an outbreak occur we are ready to respond effectively. One of our top priorities is working with our policy colleagues, operational partners and industry to ensure that together we are ready to deal with any outbreak of notifiable exotic disease that might occur.

Our contingency plans have been developed with policy colleagues and key delivery partners, and we carry out regular exercises to ensure they work well and are effective. A key element of the plans is the establishment of National and Local Disease Control Centres to ensure a co-ordinated response across Great Britain.

Co-ordinated support is essential from delivery partners such as local authorities, the police, the Health Protection Agency, the Veterinary Laboratories Agency and the Environment Agency, as well as representatives from industry and private veterinary practices. As resources are stretched more thinly across all publicly-funded organisations, it is more important than ever to work effectively together to minimise and manage risks.

Investigating reported cases of possible exotic disease forms a significant part of our routine activity – most are negative, but we put our comprehensive contingency plans into action when they are confirmed positive.

## ANIMAL HEALTH REGIONS AND DIVISIONS

### Key

-  Specialist Service Centre
-  Animal Health Corporate Centre
-  Animal Health Regional Office
-  Contingency Planning Division
-  Animal Health Office
-  Animal Health Divisional Office
-  Scotland
-  Wales
-  England



## 3 Our strategy

**Animal Health continues to work with policy customers, industry and others to embed our strategy, developed after consultation in 2008-09, to ensure that we make the biggest contribution possible to reducing animal health and welfare-related risks across Great Britain**

We continue to work with four complementary strategic themes:

- to be the recognised experts in the delivery of animal health and welfare policy, helping our policy customers to form policy and agree implementation approaches that maximise their impact in achieving their desired outcomes, while minimising costs
- to continue to be the provider of choice to our policy customers in Scotland and Wales, as well as England, because we believe that we can deliver a better service to all three governments through a Great Britain body – large enough to sustain expertise across all the diverse fields in which we work, and to

give flexibility in tackling outbreaks of exotic disease wherever they may occur in Great Britain

- to build on our relationships with our end-user customers – really understanding their agendas and what drives their behaviours, and effectively influencing them to reduce their animal health and welfare-related risk
- to work collaboratively with others in the areas in which we work – making sure that together we make the biggest difference possible to animal health and welfare-related risks.

This section sets out in summary some of what we have achieved

within each of these themes during the report year. Our plans for the future can be found in our Business Plan, a summary of which is presented in Section 7 of this report.

### **Recognised experts in delivery**

We seek to be recognised as expert in delivery. To be so requires that we are efficient, consistent, knowledgeable, resilient and innovative and that what we do is based on the sound application of risk management principles. This year, we have worked hard on a number of initiatives to improve our performance in terms of consistency and value for money in particular.



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### Systems and processes

The Business Reform Programme (BRP) is an IT-enabled change programme designed to make us more efficient, consistent and resilient. During 2009-10, it addressed the areas of work and document management.

The improvements in work management have been implemented in the business area dealing with bovine tuberculosis (bTB) first, as this is our biggest single area of operation. The work management system will now be developed to support the rest of our activities and will be particularly useful in the management of outbreaks of exotic disease. The module and the management information it enables will help us make sure that we do the things we need to do to contain disease risk in line with the targets and timetables we have agreed with our policy customers.

We are now able to store customer documents electronically within our new IT system (Sam). The burden of paper filing and physical storage has been reduced, reducing our environmental impact and improving our efficiency. Viewing our customer contact history is now done at the touch of a button, which has helped us answer end-user customer queries more quickly and consistently. It has also made sharing information and work between our offices easier and quicker, enabling improvements in efficiency.

Protecting the data we hold about our customers is becoming even more important. In line with Cabinet Office requirements to ensure that risks relating to information assets

are managed and controlled, Animal Health has successfully deployed a training package – Protecting Information Level 1. All staff have completed this to a satisfactory standard. Animal Health has reported no data losses to the Information Commissioner's Office in 2009-10.

### Emergency preparedness

In order to strengthen our ability to respond effectively to an outbreak of exotic disease, our Contingency Planning Division (CPD) reviews and updates the annually-revised Defra Contingency Plan for Exotic Animal Diseases. The latest version was laid before Parliament in December 2009 and is subsequently amended to reflect lessons identified from exercises and incidents, such as the equine infectious anaemia outbreak in January 2010. CPD has continued to lead the co-ordination of response planning in Great Britain, working closely with the Civil Contingencies Committee, Wales Civil Contingencies Committee, Cabinet Sub-Group on Civil Contingencies, policy customers and operational partners to ensure our contingency arrangements are operable, transparent and fit for purpose.

We have also strengthened our response capability by the establishment and testing of Forward Operating Bases (FOBs) during 2009-10. There were seven exercises held during 2009-10 which incorporated the FOB structure. Feedback from these has been taken into consideration and revisions made to the FOB model to enable significant further efficiencies in the way Animal Health responds during animal disease outbreaks.

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## DETECTING DISEASE IN HORSES

Following risk-based post-import testing by Animal Health, equine infectious anaemia (EIA) was detected in two horses in Wiltshire during January 2010. These were the first cases of EIA in Great Britain since 1976 and offered an opportunity to test Animal Health's ability to respond effectively to notifiable exotic disease.

EIA is an exotic notifiable disease of equines, predominately spread via large, biting insects (e.g. horsefly) or through infected blood and body fluids. As these insects are only active between May and September, risk assessments suggested spread was likely to be limited.

The control strategy for EIA does not rely on the creation of area-based restrictions and this, together with the nature of the disease and the veterinary risk assessment, led to the decision not to set up the full National Disease Control Centre and Local Disease Control Centre structures, as detailed in the Contingency Plan for Exotic Diseases. Instead, much of the response was integrated into Animal Health's business-as-usual functions, resulting in a robust, proportionate response and considerable efficiency savings as fewer staff were mobilised.

As with all infectious diseases, responding quickly is essential. On the same day as the disease outbreak was confirmed, Animal Health humanely destroyed the two infected horses, removed the carcasses for safe disposal and disinfected the area where they were housed.

The two horses were part of a larger consignment imported from Romania via Belgium. All the horses on the infected premises (IP) were placed under

movement restrictions, along with a further horse which had been in contact with the infected animals and had already been moved to another premise (the contact premises).

Animal Health undertook repeat visits to both the premises where the restricted horses were held to provide advice, carry out clinical inspections, investigate possible onwards transmission routes and check for compliance with the movement restrictions in place. It was also necessary to carry out veterinary risk assessments for possible contamination of materials and equipment used on the IP.

Animal Health also visited premises around the IP to check for the presence of susceptible animals and carry out veterinary clinical inspections of any equines found.

*"This case demonstrated the value of targeted, risk-based post-import checks and the finding has triggered follow-up action to deal with the risk from EIA at the EU level. The disease control measures for EIA presented Animal Health and the local authority with new challenges, not least tracing potential contacts, applying restrictions to keep all remaining horses on the premises for a full 90 days and checking that they remained healthy, until a final set of blood tests demonstrated that they were not infected."*

**NIGEL GIBBENS, UK CHIEF VETERINARY OFFICER**

No further cases of EIA were confirmed and Animal Health is leading a cross-departmental lessons-learned exercise in order to improve further the wider government's ability to respond in the future.

## ON THE FRONT LINE: TAKING THE OPERATION TO THE DISEASE

In 2009, Animal Health trialled the concept of Forward Operating Bases (FOBs) as a way of helping us to respond quickly and effectively to outbreaks of disease.

The FOB is a local operational base for those staff involved in controlling the disease in the field. It will be located within an hour's drive of the infected premises where the disease control activity takes place and will provide facilities for up to 60 field staff.

The aim of the FOB is to allow staff to work closer to the front-line action and spend less time travelling. In the past, our field staff have worked from the Local Disease Control Centre, set up at the nearest Animal Health office to the site of the disease outbreak. This often meant that field staff had to travel long distances before they could start work – not ideal at a time when every minute counts in controlling disease. By developing the FOB concept, we have reduced this wasted time and increased our ability to manage outbreaks effectively.

Gordon Hickman, Head of Contingency Planning Division, said: "Through adapting our operational model, we are able to respond to situations in the field quicker. Introducing FOBs also improves resilience and hence our ability to sustain operations at high tempo over a longer period of time, essential if we are to respond effectively to changing disease management conditions."

The FOB concept was trialled during the highly-pathogenic avian influenza outbreak near Banbury in 2008, and has been further refined as part of Animal Health's Emergency Readiness and Resilience Programme and following lessons identified during the 2008-09 local exercise programme.

The FOB model facilitates the implementation of Sir Iain Anderson's recommendations for increased local decision making and improving the scalability of outbreak response set out in his 2007 foot and mouth disease review.



The FOB concept was trialled during the avian influenza outbreak near Banbury

### Organisational structure

Over the last 18 months, we have been reviewing our management arrangements and have introduced significant changes in both England and Wales. In England, the changes were introduced at the beginning of the year and in 2009 key appointments were made and the new structure began to deliver benefits – in terms of improving the consistency of delivery by our own staff and our Official Veterinarians (OVs), and building more effective links regionally with the communities we serve and our key operational partners.

In the latter part of the year, we have also undertaken a restructure of our management teams in Wales, which covers the reorganisation of our three Animal Health Divisional Offices in Wales. This will result in a move from the three Divisions into two regions: North and South Wales. The change will strengthen our operational capability and resilience; and better reflect the needs of our customers in Wales, including the Welsh Assembly Government.

The management structure will also become consistent between normal operations and outbreak emergencies, with a single Regional Operations Director supported by a Regional Veterinary Lead being responsible for regional delivery in each of North and South Wales.

As part of our drive to improve efficiency and consistency of delivery, we have continued to develop centralised delivery

capability for some key customer services. During 2009-10, the Specialist Service Centre (SSC) at Carlisle has been recognised as the single point of contact for all GB-related International Trade export-related services by all its end-user customers.

An independent customer feedback survey reported that the delivery of certification and services has improved following the centralisation of work. As well as delivering very high levels of customer satisfaction, this initiative enabled a significant saving in administration costs.

Enabled by our new Sam system and as part of our continuing drive to standardise and release efficiency savings, we are now creating a SSC in Wales for all GB-tracing activity. This will deliver benefits in terms of the speed and consistency of tracings of potentially-infected animals and other items that will enhance our effectiveness in fighting both endemic and exotic disease.

### Developing our people and expertise

Animal Health will be recognised as expert in delivery and able to work effectively with and influence our customers only if our people are all appropriately skilled and supported to deliver. During 2009-10, we have therefore paid a lot of attention to developing our people.

We continued to run our annual Employee Engagement Survey, designed to find out how our people were feeling about the organisation and what we could do better in terms of working

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OBLIGATIONS  
”



## CERTIFYING SUCCESS WITH CENTRALISATION

The establishment of the International Trade Team as a Specialist Service Centre (SSC) has provided an excellent opportunity to streamline processes and bring efficiencies that benefit both end users and Animal Health. The SSC, based in Carlisle, is responsible for issuing export health certification for animals and animal products and providing advice and support to exporters and Official Veterinarians (OVs). The SSC is now the single point of contact for all GB-related International Trade export services.

Prior to its creation, export-related work was distributed between the Animal Health offices. The concentration of this work into one office has enabled processes to be reviewed and refined to make them more efficient and to establish a centre of excellence serving both industry and our business. Management control has been greatly improved as the SSC enables a clear view of risk, productivity and quality of certification.

Simon Hewitt, Head of Specialist Service Centres, said: “Centralising our export services meant we could utilise processes and resource efficiencies that were just not possible when the work was distributed among 24 local Animal Health offices. We are continually looking to make the processes easier and more efficient for our customers while ensuring that we meet our international trading obligations.”

The greatest efficiencies have been in the resources now needed to provide export certification and advice, a saving of approximately one third on administration time previously needed. Veterinary input has also reduced significantly, and improved further in quality as the vets involved now specialise in this complex and rapidly-changing area of work. Further efficiencies have been made by establishing electronic methods of sending certification directly to certifying vets, avoiding the delays and costs of posting.



*"It seems to be quicker to process export health certificates (EHCs). Before centralisation, we had to wait 7-10 days for the EHCs and we had to be very careful with the timing, but now they seem to be able to process it within 3-4 days, which is good."*

#### MEAT EXPORTER

Working relationships with policy colleagues in Defra and the Scottish and Welsh Assembly Governments have also been strengthened. Simon said: "Working closely with colleagues in Defra, we have been able to identify work areas that sit better with Animal Health, such as the horse and pony licensing work. The transfer of this work to Animal Health now means that we can offer a one-stop shop to equine exporters. Previously, exporters had to apply to Defra for a licence and Animal Health for an export health certificate."

An independent customer satisfaction survey, carried out in October 2009, reported a satisfaction rating of 91%. "Our customers said the main reasons for giving us a high score was our high level of customer service, consistency of advice given and our speed of response. They were also pleased with the ease of our application forms and the guidance we provide. The survey has also shown areas where we can improve by making more of the process online and providing email updates. There has also been positive feedback from OV's who have identified some new potential training requirements. This initial feedback from customers is excellent and provides a firm base on which to build," said Simon.

*"To use a cliché, they tick all the right boxes: they're helpful, they know their subject; they're prompt on any enquiries, normally within half an hour; if I have a query they are straight on it."*

#### FOOD EXPORTER

effectively together. All our offices set up groups to generate and implement an action plan based on their results.

We have also continued to invest in learning and development. For our veterinary and technical staff, we arranged a comprehensive schedule of training in enforcement procedures. This enables all our field-based staff to understand fully enforcement proceedings and the associated courtroom skills required. We also provided training to our Epidemiology Field Management Team and Lead Epidemiology Veterinary Officers to ensure they are able to meet the veterinary, technical, legal and procedural requirements in an exotic disease outbreak.

Total full time equivalent (FTE) working days lost due to sickness-related absence in 2009-10 was 11,253. With total spells of absence of 2,169 during the year, this represented an average of 7.05 working days lost per FTE member of staff. This represents a decrease of 0.2 FTE working days lost relative to the previous year. The Civil Service average for 2009-10 is 8.7 working days lost per FTE member of staff, with the Defra average being 8.1 working days lost.

We are committed to providing and maintaining a healthy and safe working environment. In February 2010, a revised health and safety policy was launched which details our general approach and the arrangements put into place for managing health and safety in our business. The Agency's Health and

Safety Unit reports directly to the Chief Operating Officer and health and safety performance is reviewed monthly by the Operations Management Team and quarterly by the Animal Health Board. We continue to provide training on key health and safety issues. We work closely with our facilities management provider, Interserve, to ensure that our buildings are safely managed.

We are also committed to equality of opportunity for employees and potential employees. Animal Health gives full and fair consideration to applications for employment from people with disabilities, having regard to the nature of the employment. It similarly seeks to enable members of staff who may become disabled to continue their employment. At 31 March 2010, 6.18% (2008-09 6.4%) of staff members had a notified disability.

### **Environmental impact**

Animal Health's environmental impacts are generated largely by our accommodation, IT and travel needs. Our accommodation is provided by Defra, the Scottish Government or the Welsh Assembly Government, whose environmental policies accord with ISO 14001. A new facilities management contract (Sustainable Workplace Management) was put into service in April 2009. The contractor assists us to identify, prioritise and manage our environmental risks as part of Defra's Environmental Management System.

During early 2010, Animal Health carried out an environmental

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“CYCLE-TO-WORK FACILITIES HAVE BEEN IMPROVED AT THE CORPORATE CENTRE IN THE FORM OF IMPROVED CYCLE PARKING, CHANGING AND SHOWERING FACILITIES. THIS WILL BE USED AS THE BENCHMARK FOR THE PROVISION OF SIMILAR FACILITIES AS FUTURE REFURBISHMENTS ARE CONSIDERED

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impact and benefits realisation assessment of refurbishment works completed during 2008. The assessments considered the carbon and energy saved as a result of the technologies used and the improved methods of control adopted. During 2009-10, the average saving per refurbished site on total running costs per annum was £522.16. The total average carbon saving was 3,295 kg CO<sub>2</sub> per annum.

Our IT is provided through Defra's strategic IT outsourcing contract with IBM, which addresses environmental performance. The *Desktop Refresh* programme, rolled out to us in early 2009-10, has replaced everyone's PC with a standardised new or upgraded desktop or laptop with the latest Microsoft Vista software. Laptops use up to 70% less power than a standard desktop computer and Vista software provides central power management features to control power-saving capabilities which dramatically reduce energy consumption.

The EU Code of Conduct for Data Centres is a voluntary pan-European initiative setting energy efficiency performance standards for data centres. In March 2010, the EU granted participant status to the IBM data centre, utilised by Animal Health. We are also participating in the *Green ICT* programme which is considering wider IT factors.

Travel is driven by the policies we implement, by geography, by animal numbers, by the suspected

and actual incidence of animal disease, and by the extent to which we outsource work to private veterinary practices. The majority of travel is, of necessity, by private car.

Even if public transport existed to enable members of staff to reach and travel between farms and other locations in a timely manner, public transport would not be suitable to carry the significant volume of protective equipment and veterinary supplies required or the potentially-infectious samples, dead animals and animal parts that may be collected for analysis. Nevertheless, public transport, or alternatives such as video-conferencing, are used when possible.

To encourage employees to use more environmentally-friendly modes of transport for commuting, cycle-to-work facilities have been improved at the Corporate Centre in the form of improved cycle parking, changing and showering facilities. This will be used as the benchmark for the provision of similar facilities as future refurbishments are considered.

In addition, we have supported an awareness of, and interest in, sustainability among members of staff; have worked through our procurement activity to incorporate sustainability into contracts; and have mandated sustainability as a factor to be considered as a matter of course in all business cases.

### **Working with policy customers in Scotland, Wales and England**

We want to be the provider of choice to policy customers in Scotland, Wales and England because we believe that a single body can respond more effectively to outbreaks of exotic disease and become expert in delivering animal health and welfare policy more cost effectively than three organisations could. We recognise that this means we will need to continue to change the way we deliver to respect the different needs and priorities of our different policy customers.

As part of our organisational restructure during 2009, we introduced Directors for Scotland, Wales and England. Our Scottish and Welsh Directors are based in Edinburgh and Cardiff to ensure that we are able to focus effectively on the needs of our policy customers and build strong and influential relationships.

During 2009-10, a number of cross-border exercises were carried out to test in real time the co-ordination of the cross-government response to a significant incursion of a major exotic animal disease in Great Britain, at operational, tactical and strategic levels. Scotland, Wales and a number of Whitehall government departments were engaged and there was Ministerial involvement. The interface between disease control operations and established regional and local civil crisis response structures was thoroughly examined, together with contingent responsibilities for



**FOR MANY YEARS SCOTLAND HAS HAD A RELATIVELY STABLE LOW INCIDENCE OF TB IN CATTLE, AND IN SEPTEMBER 2009 IT WAS GRANTED OFFICIALLY TB-FREE STATUS**



## KEEPING IT FREE: OFFICIALLY TB-FREE STATUS FOR SCOTLAND

For many years, Scotland has had a relatively stable low incidence of bovine tuberculosis (bTB). In September 2009, it was granted Officially TB-Free (OTF) status by the European Commission and from February 2010 new measures to protect this status came into effect. Animal Health worked alongside the Scottish Government in supporting their application and developing the policy. A key objective was to avoid having a negative impact on low-risk cattle trade that makes an important contribution to the Scottish agricultural economy.

Working closely with the OTF Implementation Group, Animal Health has ensured that the advice and guidance offered to farmers and industry in Scotland and England, via press releases and the production of leaflets,

has been clear and enabled the new measures to be widely understood. This is important to protect Scotland from disease and safeguard trade, and builds on the feedback that Animal Health has had from its end-user customers, farmers and others, that they trust and welcome our advice.

Rupert Hine, Director of Animal Health in Scotland, said the rest of the UK had a vital role to play in helping Scotland maintain its OTF status: "The new arrangements will strengthen existing controls and should result in fewer occurrences of bTB in Scotland. By complying with the measures, farmers and livestock owners can make a significant contribution to maintaining Scotland's OTF status."

## LAYING THE GROUND FOR THE TB BATTLE: INTENSIVE ACTION PILOT AREA

In support of the Welsh Assembly Government's (WAG) comprehensive programme of action to eradicate bTB, Animal Health staff have assisted in identifying an area of approximately 300 sq km in north Pembrokeshire as an Intensive Action Pilot Area (IAPA).

The IAPA will be used as a pilot to test a variety of initiatives, including improving biosecurity on farms, managing the prevalence of bTB in the wildlife population and additional cattle control measures.

Surveillance visits were conducted in order to confirm information already held, collect new customer data and to ensure all the land in the IAPA is fully accounted for. The work was undertaken by Animal Health Officers between August and October 2009 and this confirmed

there were approximately 1,400 landowners within the area, 373 of which were cattle, goat or camelid keepers.

Between November 2009 and February 2010, Animal Health carried out more visits, which included training private veterinary surgeons for their roles within the IAPA. Visits to cattle keepers included a biosecurity assessment and action plan and advice on the impacts of additional cattle controls within the IAPA.

Visits to cattle, goat and camelid keepers will continue over the next five to six years to evaluate progress against the action plan and adjust farms' biosecurity scorings as necessary.

## LIMITING THE SPREAD: KEEPING TB OUT OF THE SOUTH EAST

In 2009, Animal Health has supported the South East Animal Health and Welfare Group (a sub group of the South East Sustainable Farming Board) in running a "Keep TB out of the South East" campaign.

The campaign was launched by the *South East Farmer* magazine in May 2009 and continued by a series of meetings organised by the NFU. Animal Health has played an important role through providing local disease data, organising a series of events for the regional Official Veterinarians and providing speakers for the NFU events.

The campaign message was based on information concerning existing data on confirmed breakdowns in the region, suggesting that virtually all bTB cases originated from cattle moved from infected areas of GB. The purpose is to remind farmers that there is a lot they can do to limit the spread of bTB across the region — it's all about careful control of livestock movements and sensible biosecurity.

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THE INDICATIONS ARE THAT  
THE MAJORITY OF  
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AND OTHERS HAVE  
RESPONDED POSITIVELY TO  
THE INFORMATION AND  
ADVICE SENT TO THEM BY  
ANIMAL HEALTH  
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## BE A GOOD EGG: INTRODUCING ADMINISTRATIVE PENALTIES

In September 2009, the new Eggs and Chicks (England) Regulations came into force and gave Animal Health new powers to issue penalty notices to producers for marketing eggs as Class A, where there has been a failure to comply with salmonella-testing requirements.

The new regulations made no changes to existing salmonella-testing requirements, according to which producers are obliged to test each flock every 15 weeks through the laying hens' production cycle. The new powers have, however, created an additional deterrent to poor practice, making early enforcement action more likely against those not adhering to the legally-required testing.

Animal Health's Egg Marketing Inspectors (EMIs) have been thoroughly checking all producers' salmonella testing and marketing records to ensure compliance with the regulations, as well as conducting National Control Programme official testing, carrying out other marketing compliance checks and Food Standards Agency hygiene inspections.

*"Animal Health worked very hard during the second half of 2009 to get*

*ready for the use of penalty notices. Their commitment to use this new enforcement mechanism has been matched by their commendable work in putting the right systems in place and providing focused training for the officers using them."*

**DEFRA LEGAL GROUP, MARINE ACT AND RURAL AFFAIRS TEAM**

By March 2010, 30 contraventions had been identified by EMIs and reported. The contraventions varied from minor slippage of testing to no testing at all.

Penalties introduced by these regulations vary from £100 to £4,500, depending on the circumstances. The precise figure is determined by Animal Health, is proportionate to the non-compliance, and takes into account pre-defined aggravating or mitigating circumstances.

Animal Health, through its EMIs, is being thorough and robust in enforcing the regulations where non-compliance is found. The indications, however, are that the majority of producers are compliant, and others have responded positively to the information and advice sent to them by Animal Health, based on the slogan "Be a Good Egg".

wider consequence management. This has helped to shape the plans for the forthcoming national and cross-border exercises.

For many years, Scotland has had a relatively stable low incidence of TB in cattle, and in September 2009 it was granted Officially TB-Free (OTF) status. Animal Health worked alongside the Scottish Government in supporting their application and ensuring that livestock imported to Scotland from other parts of the UK comply with the enhanced TB control measures. Compliance with the regime continues to be enforced through cross-checks using existing and new cattle movement reports from the British Cattle Movement Service and routine checks by local Animal Health staff. We also agreed a number of Customer Priority Indicators as the rapid tracing of potentially-infected cattle to Scotland is essential to the continuation of the OTF status.

In Wales, we have been fully involved in supporting the Welsh Assembly Government's (WAG) One Wales TB Eradication Programme. In 2009, WAG identified an area of approximately 300 sq km in north Pembrokeshire as an Intensive Action Pilot Area and sought assistance from Animal Health to co-ordinate and deliver the cattle controls within the area and to provide support in data management.

In 2009-10, Animal Health has been critical in supporting the TB Eradication Group for England in reviewing the current bTB strategy and control measures and developing a plan for reducing the incidence of bTB in cattle and moving towards eventual

eradication. Since November 2009, Animal Health has been implementing the recommended policy changes, which give farmers several new options to move or sell their TB-restricted animals. The changes, including alterations to licensing conditions, additional facilities to enable the movement and trade of affected cattle, and changes to interval testing periods, offer better support to TB-affected farm businesses wishing to sell and buy cattle, without materially compromising disease controls.

### **Influencing the behaviours of end-user customers**

Our success in achieving our purpose – reducing animal health and welfare-related risks – relies on our ability to influence the behaviours of animal keepers and other end-user customers. We have recognised the need to become expert in understanding and influencing those key groups and this will include issuing relevant, up-to-date, accessible guidance and ensuring effective enforcement.

As the recommendations of the Hampton Implementation Review<sup>2</sup> make clear, truly-effective regulation delivers its objectives by prevention rather than correction wherever possible. A dedicated team has been established to ensure that all customers affected by Animal Health's regulatory activities throughout GB have access to a comprehensive, easy-to-understand, timely and

<sup>2</sup> *Reducing administrative burdens: effective inspection and enforcement: Sir Philip Hampton. Available at: <http://www.berr.gov.uk/files/file22988.pdf>*

reliable library of critical advice and guidance to enable them to comply with relevant legislation.

In order to engage successfully with our customers, it is important that we understand them as comprehensively as possible. During 2009, the first Animal Health Customer Insight Survey was launched to help develop this understanding. It focused on our customers' requirements, gathered their feedback and highlighted areas of potential disease risk. Across England, Scotland and Wales, over 1,100 farmers and other end-user customers took part in the research. The overall results show that Animal Health has established strong relationships with its end-user customers. Our customers value our advice and trust us to help them manage their animal health and welfare-related risks.

Animal Health contributes to establishing and maintaining animal welfare standards by checking animals on farms, during transport, at market and at slaughter. Where welfare problems arise, there are a number of enforcement actions available from giving advice, issuing warning letters, serving statutory notices or referral for prosecution. In 2009-10, Animal Health contributed to a number of successful high-profile prosecutions relating to welfare and conservation-related offences.



“OUR CUSTOMERS VALUE OUR ADVICE AND TRUST US TO HELP THEM MANAGE THEIR ANIMAL HEALTH AND WELFARE-RELATED RISKS. THIS POSITIVE NEWS MEANS THAT OUR STRATEGIC OBJECTIVE OF INFLUENCING END-USER CUSTOMERS IS REALISTIC AND ACHIEVABLE”

## SATISFACTION SUCCESS: GETTING IT RIGHT WITH OUR CUSTOMERS

Research into what our customers think of the way Animal Health delivers its services was carried out during the spring and summer of 2009. The first Customer Insight Survey was launched to help Animal Health develop in-depth understanding of end-user customers and their requirements, gather end-user customer perception of Animal Health and highlight areas of potential disease risk.

Across Scotland, Wales and England more than 1,100 end-user customers, including farmers and those working in animal by-products, took part in the research through telephone interviews and focus groups.

Barry Ellis, Customer Programme Manager, who oversaw the research, said: “The overall results show that Animal Health has established strong relationships with its end-user customers. Our customers value our advice and trust us to help them manage their animal health and welfare-related risks. This really positive news means that our strategic objective of influencing end-user customers is realistic and achievable.”

*“In the past when I’ve had a query, they’ve been very helpful to me. They really know their business.”*

**FARMER**

Animal Health received high scores in terms of trust, relevance of services

and understanding of the industry, compared to other government organisations with which our customers deal. On average, satisfaction with all Animal Health’s services was high.

*“Good, honest, factual advice and regular contact and follow-ups from Animal Health without prompting.”*

**ANIMAL BY-PRODUCTS OPERATOR**

In addition to assessing the whole of Animal Health, specific interviews were also held with around 130 customers of Bristol’s Specialist Service Centre – the Wildlife Licensing and Registration Service (WLRS). Again, very high satisfaction ratings were achieved, with 82% of customers satisfied with the service delivered. A fifth of those interviewed gave the service a score of 10 out of 10.

*“The person at the end of the phone has vast knowledge which saves me days of work.”*

*“I think they’re excellent. They go out of their way to make things easy for you.”*

Customers feel that WLRS staff respond quickly and effectively to queries. They regard staff as efficient, helpful and highly knowledgeable about their area of work.

## GUARANTEEING COMPLIANCE: THE GOSHAWK CONVICTION

Close working between the Compliance Team at the Wildlife Licensing and Registration Service (WLRS), Cheshire Police and officers from the National Wildlife Crime Unit during a five-month investigation led to the successful prosecution of a father and son for illegally possessing a bird of prey.

John Simcox from Ellesmere Port appeared at Chester Magistrates Court having pleaded guilty to possessing a wild goshawk, making a false statement in an attempt to register a wild bird and making a false statement for the purpose of obtaining a certificate for a wild bird at an earlier date.

The court heard how John Simcox bought a registered bird in 1999 and in 2002 sold a 14-day old chick. Police were alerted when blood samples taken from the chick did not match those of the original bird registered.

A warrant was executed at the home of Simcox's son and, following forensic examination of DNA samples taken from the bird, charges were brought against the father and son.

"The support provided by the Compliance Team at WLRS was pivotal in achieving success in this case," said Martin Findlow, the Force Wildlife Crime Officer for Cheshire Police. "The quality of the evidence provided by them left the Simcoxs with little option but to plead guilty. I cannot praise their work highly enough."

Nevin Hunter, Head of Compliance at WLRS, said: "This case highlights how agencies work together to tackle wildlife crime. It is the first case for nearly 10 years where DNA technology has been used to disprove the claimed origin of a protected goshawk. This has been coupled with excellent investigative work by Cheshire Police and the National Wildlife Crime Unit, supported by the Animal Health Compliance Team, disproving other claims relating to the origin of the bird involved."

Simcox was jailed for eight weeks and banned from possessing Schedule 4 birds for five years. His son received a 12-month conditional discharge with costs of £60 awarded against him and he was also banned from possessing Schedule 4 birds for five years.

Nevin said: "In addition to our responsibilities to protect wild populations of birds such as the goshawk, we have a responsibility to support the majority of falconers who comply with the legislation with regard to registration and trade in captive bred birds. This conviction serves to show our commitment to support those complying with the law while targeting those intent upon breaking it." The Hawk Board, the representative body for falconry in the UK, echoed these views.



“  
THIS CONVICTION SERVES  
TO SHOW OUR COMMITMENT  
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”



### **Working effectively with others**

Designing cost-effective delivery mechanisms and delivering efficiently requires collaborative working across a network of organisations that all have a contribution to make. We therefore need to develop the ability to co-ordinate and collaborate across organisational boundaries to design and deliver integrated solutions to our policy and end-user customers.

### **Industry, other government agencies and local authorities**

We recognise the importance of industry input into the design of any systems or processes which have to be used by livestock keepers/handlers. During 2009-10, the Livestock Partnership Programme has continued to look at ways of improving livestock ID and tracing. The team has successfully worked with industry and government to identify ways of delivering benefits for all.

The Pig Industry Automation of Movement Reporting Project (Pig Movements Project) is improving the accuracy of pig movement data and the speed of its delivery, while reducing administrative burdens on both industry and government. In 2009-10, the project, which is being run in partnership with the British Pig Executive, has covered all farm-to-slaughter movements, but will ultimately deliver electronic reporting of all pre-validated pig movements in England and Wales into the Animal Movements Licensing System by August 2011.

“

IT IS TESTIMONY TO THE PROFESSIONALISM OF THE ANIMAL HEALTH TEAM AND OTHER STAKEHOLDERS THAT THE DEVELOPMENT OF THE PROJECT IS PROGRESSING WITH SUCH ENTHUSIASM FROM BOTH GOVERNMENT AND INDUSTRY PARTNERS

”



## PUTTING A STOP TO PAPERWORK: THE PIG MOVEMENTS PROJECT

In September 2009, the Livestock Partnership team within Animal Health initiated a project to improve the accuracy of pig movement data and the speed of its delivery, and also reduce administrative burdens on industry and government.

The team issued a formal Request for Information to external organisations for potential models and proposals to improve movement reporting processes. After a full assessment, agreement was reached by a panel consisting of both government representatives and industry experts to explore a proposal presented by the British Pig Executive (BPEX), a division of the Agriculture and Horticulture Development Board. The proposal built upon a successful trial, started in March 2009, which ran in partnership between BPEX and the Livestock Partnership. The trial enabled a selection of pig producers to submit combined movement and food chain information data electronically.

The trial demonstrated how the electronic capture of movement data has benefits for both industry and government. The processes involved are almost paperless, quicker to complete and result in much faster transmission of more accurate data to the Animal Movements Licensing System (AMLS), used to record animal movement information and issue licences. All the parties involved in the trial recognised the improvements in movement reporting and could see the benefits to operations.

*"This project is a demonstration of how effectively the pig industry and government can work in partnership to deliver tangible benefits for all. The English pig industry prides itself with being at the forefront of innovation and was quick to embrace the opportunity to deliver a modern, efficient and effective electronic pig movement service that would reduce the administrative burden for industry and enhance the efficiency of pig movement traceability. It is testimony to the professionalism of the Animal Health team and other stakeholders that the development of the project is progressing with such enthusiasm from both government and industry partners."*

**STEWART HOUSTON CBE, BPEX AND NATIONAL PIG ASSOCIATION CHAIRMAN**

The Pig Movements Project has continued to build on the progress made by the trial. It runs in partnership with industry, with the ultimate aim being to deliver electronic reporting of 100% of pig movements in England and Wales into the AMLS by August 2011.

A Local Authority Reference Group has been set up to help identify and address any potential issues and BPEX has begun its communications to the industry, with initial articles appearing in the national trade press throughout the final months of 2009. BPEX has been tasked with all-industry communications which will be a key factor in achieving the 100% target for electronic reporting.

## COMMUNICATING WITH CAMELID KEEPERS

In 2009, Animal Health — for the first time — has been leading the response to assist camelid keepers with the issues raised by TB.

Llamas, alpacas, guanacos and vicunas are collectively known as camelids. There are very few guanacos and vicunas in the UK, however increasing numbers of alpaca and llama are being kept — many herds now operate on a commercial basis.

Recently, there has been an increase in the number of TB incidents in camelids in GB and other countries worldwide. Infected camelids pose a significant risk to others within the herd, to other herds through movements and potentially to other livestock, people and local wildlife.

At present, camelids fall outside movement controls and registrations that apply to domestic species such as cattle and sheep — advice and guidance is therefore not easily accessible. The distribution of camelid herds nationally in GB shows a concentration of TB cases in the areas where bTB is high. This situation understandably raised concerns in the camelid societies as well as in Animal Health.

Animal Health set up a meeting to bring together Animal Health, senior industry representatives, Defra and the Veterinary Laboratories Agency (VLA). Animal Health led the meeting with presentations being made by veterinary staff to describe the tests available, policy relating to non-bovine species and post-mortem findings. This not only provided an excellent opportunity to share information but also enabled essential networking to be established between officials and camelid society members.

*“On behalf of the camelid attendees, a very big thank-you to you and to all those who gave presentations for a highly-productive meeting. We very much enjoyed meeting all the Animal Health team. Your ambitious agenda was most successful and produced plenty for us to follow up. You gave us a comprehensive picture of how Animal Health, VLA and Defra work together and we left with a better appreciation of TB Policy and Delivery and the problems it presents to one and all.”*

### INTERNATIONAL LIVESTOCK AGENT

It was agreed that Animal Health would produce an information leaflet for herd owners and keepers to convey key advice and guidance.

In addition, a series of road shows was held throughout England in early 2010 for herd owners and keepers, arranged by the British Alpaca Society and presented by a camelid veterinary surgeon, with Animal Health staff in attendance to strengthen further the links between the industry and Animal Health.



ON BEHALF OF THE CAMELID ATTENDEES,  
A VERY BIG THANK-YOU TO YOU AND TO  
ALL THOSE WHO GAVE PRESENTATIONS  
FOR A HIGHLY PRODUCTIVE MEETING. WE  
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ANIMAL HEALTH TEAM





During 2009-10, it became apparent that camelid ownership had increased significantly in recent years, together with the number of TB incidents in camelids. To address this issue, Animal Health held a meeting to bring together senior industry representatives, Defra policy and the Veterinary Laboratories Agency to explore the current situation and future ways of working to improve the relationship between Animal Health and the camelid industry.

Much of our work on disease control also involves close collaboration with industry – examples include the work we are doing on bTB, jointly with our policy customers in Scotland, Wales and England.

The restructure of our operational model in England and Wales has better aligned us with partner organisations operating within the Government Office regions. In doing so, we have improved our collaborative working relationships and enhanced our delivery.

Our enforcement work also relies on effective collaboration. For example, Animal Health has been involved in Operation Tram – a huge global operation involving 19 countries tackling illegal trade in traditional Chinese medicines containing endangered species.

### **Official Veterinarians**

In 2009, we continued the process to enhance our working arrangements with private veterinarians. This included the centralisation of appointments at

## TARGETING ILLEGAL TRADE: OPERATION TRAM

During February 2010, the Wildlife Licensing and Registration Service was involved in an international operation, co-ordinated by INTERPOL, targeting the illegal trade in traditional medicines containing protected wildlife products.

National wildlife enforcement authorities, police, customs and specialised units from 19 countries worked together as part of Operation Tram.

During the operation, investigations and inspections revealed a large amount of medicines either containing or marketing the use of illegal ingredients, such as tiger, bear and rhinoceros. In the UK, Animal

Health's Wildlife Inspectors were heavily involved and at one premises more than 600 kilos of products were seized. Over £9 million worth of products were seized globally.

David Higgins, Manager of the INTERPOL Environmental Crime Programme, said: "This operation has again proved that while environmental criminals may cross borders and display high levels of organisation, so too will the international law enforcement community in its efforts to apprehend these criminals. The success of the operation would not have been possible without the close co-operation and dedication of those involved."





“ANIMAL HEALTH HAS BEEN INVOLVED IN OPERATION TRAM — A HUGE GLOBAL OPERATION INVOLVING 19 COUNTRIES TACKLING ILLEGAL TRADE IN TRADITIONAL CHINESE MEDICINES CONTAINING ENDANGERED SPECIES

”

the SSC, providing a dedicated one-stop support service. Certified and trained OVVs continue to constitute an essential part of our delivery capability.

They undertake the bulk of effort required to deliver our surveillance testing regime for bTB, as well as many other tasks. We have recently started preliminary work to improve further the customer and business relationship between Animal Health and the private veterinary practitioners appointed to work as OVVs – particularly by looking at reducing the administrative burdens associated with carrying out OVV work.

We spend more than £20m per annum on OVV services and we will tender this work to make sure that high quality standards are consistently applied and value for public money is assured.

## 4 Performance against targets

The majority of our work is determined by legislation which, in turn, is driven by policies to minimise disease risk in Great Britain and, through working collaboratively with other countries, in the EU and across the world. Our targets reflect the need to ensure compliance with this legislation, and also reflect the particular and differing needs of our policy customers and our own business development priorities. The following section summarises our

performance in 2009-10 for the key Ministerial strategic and customer priority targets. These are described as:

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

RAG (red, amber and green) thresholds are assigned to

Customer Priority Indicators by the target owner and agreed by our policy customers. They are specific to each target and will vary. The assessment of each target is based on the specific RAG threshold, which determines the outcome of whether the target has been met, met in part or not met.

Performance against targets has been audited by, and agreed with, Defra's Internal Audit.





## Ministerial strategic targets 2009-10

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### PRIMARY CATEGORY: VALUE FOR MONEY

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- TARGET:** Achieve a further 3.5% (£4m) efficiency saving by the end of the 2009-10 financial year, and identify options to enable a further 5% of savings to be made in the following financial year.
- MET:** £3.2m was returned to Food and Farming Group (FFG) within the financial year. This was made up of £1.7m relating to the pay award that was absorbed through reduction in headcount (consultants and natural wastage), and £1.5m returned through areas of efficiency. Over £2m was also absorbed by Animal Health taking on areas of new work with no allocated funding. The budget allocation for 2010-11 has not been finalised but Animal Health is working with FFG to include efficiencies.
- The 2009-10 final operational expenditure position was around £98m after ring-fencing IT funding and hard charges. For 2010-11, £8m has been assumed for efficiency savings, although applying the 5% target to controllable operational spend would have resulted in only a £4.9m target. These budgets are under review with FFG.

- 
- TARGET:** Working with those policy customers who request it, identify areas in which end-user customers should be bearing more of the costs associated with regulation. Produce pricing proposals and develop a charging mechanism to support the introduction of an increased volume and scale of charges to support delivery of policy outcomes.
- MET:** The current charging mechanism has been reviewed and agreed as appropriate for the revision of current charges. Animal Health has completed all that is within its control for rollout. The legislation update is driven by Defra and rollout will continue into 2010-11.

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### PRIMARY CATEGORY: BUILDING CAPABILITIES

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- TARGET:** Working with our policy customers and operational partners, design and deliver exotic animal disease exercises across Great Britain, testing response to cross-border incidents and planning for multiple-outbreak centres. To be delivered in conjunction with operational partners.
- MET:** Thirteen local and regional exercises have been planned and delivered during the year. In addition to the 13 local exercises, two policy tabletops have also been delivered. CPD staff have attended the majority of exercises as observers and all exercises have involved the operational partners that would be involved in an outbreak. Following each exercise, a full lessons identified review has been undertaken. A report will be produced in May summarising the programme and the main recommendations. The Agency has local and national plans to establish multiple-outbreak centres and these are tested during cross-border and national exercises.
- 
- TARGET:** Design, build and rollout the TB work management module of the BRP.
- MET:** Bovine tuberculosis go-live activities have been completed. System changes went live on 1 March 2010 and were rolled out to 11 pathfinder offices. Rollout to all staff in the remaining offices was completed on 29 March 2010.
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**PRIMARY CATEGORY: QUALITY SERVICE DELIVERY**


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- TARGET:** Test the impact of changes to our service delivery model by engaging with specific customer groups. Focus on centralised delivery of services relating to International Trade, aim to achieve a customer satisfaction standard of 90%. We will establish focus groups for strategically-important customer segments. Specifically, in 2009-10 we will focus on (i) the animal by-products industry and (ii) cattle farmers. We will consult with customer panels on improving customer service, policy development and provision of advice and guidance.
- MET:** A wide-ranging Customer Insight Survey sought to gain an in-depth understanding of all Animal Health's customers. Focus group meetings and in-depth interviews have been held with various customer groups, including cattle keepers and animal by-product operators. In addition, a satisfaction survey was conducted with International Trade customers to test the impact of centralising services in Carlisle. The results were very positive, with an overall satisfaction level of 91%. Surveys have also been carried out with customers of the Wildlife Licensing and Registration Service (WLRS).
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**Customer priority indicators**


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- TARGET:** By 31 March 2010, carry out a veterinary risk assessment of all animal by-product (ABP) plants to determine the inspection regime for that plant (Regulation 1774/2002 and National ABP Regulations).
- MET:** 98.7% achieved across Great Britain by the end of the year.
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- TARGET:** Ensure that in cases where unnecessary pain or distress is disclosed (D scores), the average time for appropriate action by the Agency to have taken place is no more than 21 days.
- MET:** Average time is 14 days.
- 
- TARGET:** By 30 June 2009, complete 50% of all allocated cross compliance inspections and 100% by 30 November 2009 to enable GB paying agencies to meet their Single Payment Scheme deadlines.
- MET IN PART:** 99.9% of visits completed. One obstruction visit with the local authority cancelled due to adverse weather conditions. The Rural Payments Agency was content with the action taken to conclude the outstanding visit. The cancelled visit is included in the 2010 Cross Compliance Inspection list. (100% was required to meet this target.)
- 
- TARGET:** To ensure that a Veterinary Inspector is despatched to any report of a Category A exotic notifiable disease report case, requiring a visit, within 30 minutes.
- MET IN PART:** 86% achieved across Great Britain by the end of the year. Full investigations completed at the earliest opportunity when report cases are notified late evening/night, and could not be undertaken due to lack of light. (95% was required to meet this target.)
- 
- TARGET:** By the end of March 2010, all Animal Health Regional Offices in England will meet the agreed standards of preparedness as set out and measured by the Emergency Readiness and Resilience Management Assurance Scheme (ERMAS) to ensure the Agency can effectively respond to an outbreak/incident of exotic animal disease.
- MET:** ERMAS visits and assessments undertaken in every Region and Division with best practice and guidance being issued.
-

<b>TARGET:</b>	Follow up all non-compliances found at post-import checks at destination and take required action within five working days.
<b>MET:</b>	94.6% achieved across Great Britain by the end of the year. (90% required to meet this target.)
<b>TARGET:</b>	To ensure that all consignments of exported cattle traced from new TB breakdowns are notified to AH Global (Defra IAH) within 15 working days from the date of confirmation of disease.
<b>NOT MET:</b>	This target has three stages that must be met in order to meet the 15-day target. Large volume of tracings led to some incidents being forwarded to the British Cattle Movement Service outside of the 10-day target, having an impact on successfully meeting the overall 15-day deadline.
<b>TARGET:</b>	Follow up all non-compliances identified at reconciliation and audit of export health certificates within five working days.
<b>MET:</b>	97.7% achieved across Great Britain by the end of the year. (90% required to meet this target.)
<b>TARGET:</b>	To ensure that satisfactory blood samples are collected from eligible animals for compulsory gamma-interferon tests.
<b>MET:</b>	99.3% achieved across Great Britain by the end of the year. (98% required to meet this target.)
<b>TARGET:</b>	Ensure tracing action is completed within an average of nine weeks from date of confirmation of all at-risk animals/herds.
<b>MET:</b>	Average time is three weeks.
<b>TARGET:</b>	Remove reactors/IRs/DCs from breakdown herds within 10 working days from disclosure (excluding dispute cases).
<b>NOT MET:</b>	Improvements demonstrated through the year with Quarter 2 and 3 assessed as amber. Delays caused by adverse weather conditions had an impact in Quarter 4; however, the year-to-date performance continued to show improvement.
<b>TARGET:</b>	Remove reactors/IRs/DCs from breakdown herds within an average of 10 working days from disclosure (excluding dispute cases) (Scotland only).
<b>MET:</b>	Average time is 5½ days.
<b>TARGET:</b>	Ensure tracing action is initiated within 10 working days from date of confirmation.
<b>NOT MET:</b>	Improvements demonstrated through year with Quarter 2 and 3 assessed as amber. Delays caused by adverse weather conditions had an impact on Quarter 4; however, the year-to-date performance continued to show improvement. To increase the speed and efficiency of tracings, this function is going to be centralised to a new Specialist Service Centre in Cardiff in 2010.
<b>TARGET:</b>	Overdue tests: Animal Health will have completed appropriate action on all overdue tests within three months of the test becoming overdue.
<b>NOT MET:</b>	A new internal policy introduced from July 2009. Quarter 3 assessed as amber, demonstrated improvements in performance. To continue the improvement of performance against this target, changes have been made to the overdue policy for 2010.

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**TARGET:** Regular (quarterly) Regional Operations Director review of salvage data. Liaison with slaughterhouses to ensure appropriate payment received.

**MET:** Quarterly review of salvage data and liaison with slaughterhouses undertaken throughout the year. Improvement in salvage receipt returns and effective relationships with slaughterhouses established. As a result, liaison with slaughterhouses will continue in the future.

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**TARGET:** By 31 December 2009, to complete Health Check Wales (HCW) tests.

**MET IN PART:** Over 99% of HCW tests were completed by 31 December 2009. Target narrowly missed by 0.3%. (100% required to meet this target.)

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**TARGET:** By the end of the financial year, undertake a veterinary risk assessment of plants approved to undertake TSE testing of fallen adult cattle to determine the inspection regime for that plant.

**MET:** 100% achieved across Great Britain by the end of the year.

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## 5 Governance and the Remuneration Report

**Animal Health provides agreed public health, animal health and welfare services for Defra in England, for the Scottish Government, for the Welsh Assembly Government and for the Food Standards Agency in accordance with relevant legislation and European Union directives and regulations. The Agency is financed primarily by Defra, and the Secretary of State for Defra is answerable for Animal Health to Parliament.**

### Strategic Advisory Board

Animal Health's work is overseen by a Strategic Advisory Board. It meets quarterly and consists of senior officials from Defra, the Scottish Government, the Welsh Assembly Government, Animal Health's Chief Executive and three non-executive directors.

The Strategic Advisory Board advises the Secretary of State and Ministers in the Scottish Government and the Welsh Assembly Government on policy and operational matters relating to

Animal Health and monitors the performance, efficiency and financial and managerial regularity of the Agency.

The Strategic Advisory Board recommends to Ministers the strategic direction the Agency should follow within the context of wider departmental and governmental objectives. The Board met regularly during 2009-10 to agree strategic direction, monitor activity and progress and to provide support and guidance to the Agency.

### Animal Health Board

The Animal Health Board's principal responsibilities are to formulate the strategic direction for the Agency, to set this out in corporate and business plans agreed with policy customers, to control and monitor performance and delivery in accordance with these plans and to identify and manage corporate risks. During the year, the Animal Health Board met regularly to review and decide upon strategy and policy and to monitor, evaluate and drive performance.

“  
THE ANIMAL HEALTH BOARD'S  
PRINCIPAL RESPONSIBILITIES  
ARE TO FORMULATE THE  
STRATEGIC DIRECTION FOR THE  
AGENCY, TO SET THIS OUT IN  
CORPORATE AND BUSINESS  
PLANS AGREED WITH POLICY  
CUSTOMERS, TO CONTROL AND  
MONITOR PERFORMANCE AND  
DELIVERY IN ACCORDANCE WITH  
THESE PLANS AND TO IDENTIFY  
AND MANAGE CORPORATE RISKS  
”



The directors who served on the Animal Health Board during 2009-10 were:

#### MEMBERS OF THE ANIMAL HEALTH BOARD AT 31 MARCH 2010

<b>Catherine Brown</b>	Chief Executive
<b>Richard Bowen</b>	Human Resources Director
<b>Andy Foxcroft</b>	Field Services Director until 1 April 2009 and Director of Animal Health England from 1 April 2009
<b>Rob Paul</b>	Director of Veterinary and Technical Services until 8 June 2009 and then Chief Operating Officer from 8 June 2009
<b>Julie Pierce</b>	Interim Director of Information Management and Technology until 5 October 2009 and then Chief Information Officer from 5 October 2009
<b>Jeff Cant</b>	Interim Finance Director from 1 September 2009
<b>Rupert Hine</b>	Director of Animal Health Scotland from 1 April 2009
<b>Nick Coulson</b>	Director of Veterinary and Technical Services from 3 August 2009
<b>Mike Steel</b>	Director of Animal Health Wales from 1 March 2010
<b>Tony Foster</b>	Non-Executive Director

#### MEMBERS OF THE ANIMAL HEALTH BOARD FOR PART OF 2009-10

<b>David Robson</b>	Finance Director until 31 August 2009
<b>Tony Edwards</b>	Director of Animal Health Wales from 1 April 2009 until 31 December 2009

#### AUDIT COMMITTEE NON-EXECUTIVE DIRECTORS

<b>Tony Foster</b>	Committee Chairman
<b>Philip Riley</b>	until 4 September 2009
<b>Margaret May</b>	from 1 September 2009
<b>Jim Oatridge</b>	from 1 September 2009

No member of the Animal Health Board holds company directorships, nor has other significant interests that may conflict with their management responsibilities in Animal Health.

Jeff Cant left the organisation on 14 May 2010, with finance thereafter being represented at Animal Health Board level by Julie Pierce, Director of Corporate Services and Chief Information Officer.

#### Risk management

Risks are assessed by each cost

centre and major project and the Animal Health Board considers these and assesses corporate risks. The Audit Committee has continued to review the adequacy of the Agency's risk management processes during the year.

#### Internal and external audit

For the year ended 31 March 2010, Animal Health's planned programme of internal audit work was completed and has informed the Statement on Internal Control. The Agency's Framework Document,

reflecting the Government Resources and Accounts Act 2000, lays down that external audit is to be provided by the National Audit Office. Both Internal and External Audit regularly attend the Audit Committee's meetings.

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

#### Remuneration Report

##### Remuneration policy

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

In reaching its recommendations on remuneration, the Senior Salaries Review Body has regard to the following considerations:

- the need to recruit, retain and motivate suitably-able and qualified people to exercise their different responsibilities
- regional/local variations in labour markets and their effects on the recruitment and retention of staff
- Government policies for improving the public services,



including the requirement on departments to meet the output targets for the delivery of departmental services

- the funds available to departments as set out in the Government's departmental expenditure limits and
- the Government's inflation target.

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

### Service contracts

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

With the exception of Catherine Brown, Julie Pierce, Jeff Cant and Tony Foster, the Animal Health Board members at 31 March 2010 hold open-ended appointments until they reach normal retirement age. The employment of the Chief Executive and of the other Animal Health Board members may be terminated in accordance with normal Civil Service procedures. Early termination, other than for misconduct, would result in compensation being payable as set out in the Civil Service Compensation Scheme.

Catherine Brown was appointed as Chief Executive of Animal Health on 16 July 2008 on a three-year fixed-term contract.

Richard Bowen was appointed to the role of HR Director on a three-year fixed-term contract commencing on 2 January 2006, and which was extended to 1 January 2010. His appointment has now been made permanent.

Julie Pierce was appointed Information Management and Technology Director on 1 November 2008 on an interim basis. On 5 October 2009 Julie took up the role of Chief Information Officer on a two-year fixed-term contract ending

on 30 September 2011. She did not receive any non-cash or pension benefits from Animal Health prior to taking on the two-year employment contract.

Jeff Cant was appointed as Finance Director on 1 September 2009 on an interim basis. He did not receive any non-cash or pension benefits from Animal Health.

Tony Foster continued in his role as Non-Executive Director for the Animal Health Board.

### EMOLUMENTS AND PENSION ENTITLEMENTS (AUDITED)

The emoluments and pension entitlements of the Animal Health Board members in 2009-10 were as follows (2008-09 in italics):

	Emoluments banding	Real increase in pension and lump sum at age 60	Total accrued pension benefits at age 60 at 31 March 2010	CETV at 31 March 2009	CETV at 31 March 2010	Real increase in CETV
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Directors on the Animal Health Board at 31 March 2010</b>						
<b>Catherine Brown</b> <i>Chief Executive</i>	145-150 <i>(125-130)</i>	3	7	34	62	21
<b>Rob Paul</b> <i>Director of Veterinary and Technical Services to 8 June 2009, and then Chief Operating Officer from 8 June 2009</i>	90-95 <i>(85-90)</i>	5	36	446	552	71
<b>Richard Bowen</b> <i>HR Director</i>	90-95 <i>(95-100)</i>	1	8	117	143	17
<b>Jeff Cant</b> <i>Finance Director from 1 September 2009</i>	135-140 <sup>1</sup> (full year equivalent 275-280) <i>(0)</i>	N/A	N/A	N/A	N/A	N/A
<b>Julie Pierce</b> <i>Information Management and Technology Director to 5 October 2009</i> <i>Chief Information Officer from 5 October 2009</i>	200-205 <i>(to 5 October 2009)<sup>2</sup></i> <i>(95-100; full year equivalent 230-235)</i> 45-50 <i>(from 5 October 2009)</i>	1	1	0	10	9
<b>Nick Coulson</b> <i>Director of Veterinary and Technical Services from 3 August 2009</i>	50-55 <i>(full year equivalent 80-85)</i> <i>(0)</i>	2	40	608	668	20
<b>Andy Foxcroft</b> <i>Director for England from 1 April 2009</i>	80-85 <i>(45-50; full year equivalent 65-70)</i>	1	4	25	44	16

	Emoluments banding	Real increase in pension and lump sum at age 60	Total accrued pension benefits at age 60 at 31 March 2010	CETV at 31 March 2009	CETV at 31 March 2010	Real increase in CETV
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Rupert Hine</b> Director for Scotland from 1 April 2009	70-75 (0)	11	41	86	122	30
<b>Mike Steel</b> Director for Wales from 1 March 2010	5-10 (full year equivalent (65-70) (0))	0	0	0	2	2
<b>Tony Foster</b> Non-Executive Director	10-15 (15-20)	N/A	N/A	N/A	N/A	N/A
<b>Directors during 2009-10</b>						
<b>David Robson</b> Finance Director to 31 August 2009	30-35 (full year equivalent (80-85) (90-95))	2	21	345	407	32
<b>Tony Edwards</b> Director for Wales from 1 April 2009 to 31 December 2009	65-70 (full year equivalent (85-90) (0))	1	40	749	822	17
<b>Audit Committee</b>						
<b>Tony Foster</b> Non-Executive Director Chair of the Audit Committee	5-10 (0-5; full year equivalent 0-5)	N/A	N/A	N/A	N/A	N/A

<sup>1</sup> In the period to 31 March 2010 Jeff Cant was employed on a temporary basis through a recruitment agency. The amount disclosed above represents the amount paid by Animal Health to the recruitment agency and includes VAT. The total amount paid was £139,200.

<sup>2</sup> In the period from 1 April 2009 to 5 October 2009 Julie Pierce was employed on a temporary basis through a recruitment agency. The amount disclosed above represents the amount paid by Animal Health to the recruitment agency and includes VAT. The total amount paid was £201,210.

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

Due to a pensions revaluation by the Cabinet Office during the year, the Cash Equivalent Transfer Value (CETV) as at 31 March 2009 shown in the above table differs from that included within the Remuneration Report for 2008-09 to comply with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008.

Although the costs for the Chief Executive and members of the Animal Health Board are included in

Animal Health's Statement of Accounts, they are formally employed by Defra, Animal Health's parent Department.

Under arrangements made by Defra, Richard Bowen received £5,170 Additional Housing Cost Allowance in 2009-10, which is included in his emoluments reported above (2008-09 £8,212). He also received an advance on salary of £12,500 from Defra on his appointment in 2005-06, which is repayable from January 2010 over eight years. The benefit from this loan for 2009-10 has been estimated at £200 (for 2008-09 this value was £200).

Loans may be made to staff to cover season ticket advances and relocation. As at 31 March 2010, there were no outstanding loans to Animal Health Board members (2008-09 nil).

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

The pension information for each member of the Animal Health Board shows the benefits each member has accrued as a consequence of their total membership in the Principal Civil Service Pension Schemes (PCSPS). This includes the value of benefits from other PCSPS employments, benefits transferred into the PCSPS from other pension schemes and additional pension benefit purchased by members at their own expense, as well as the benefit accrued from service in Animal Health. All funding to finance the deferred remuneration the accrued pension benefits represent is paid to the Treasury. Further information on these pension schemes is provided in Note 7 in the Statement of Accounts.

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



**Catherine Brown, Chief Executive**  
2 July 2010

## 6 Financial review

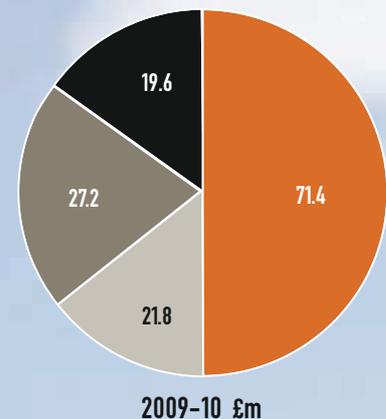
Animal Health's Statement of Accounts reports the results for the year 1 April 2009 to 31 March 2010. It is prepared on an accruals basis in accordance with Section 7(2) of the Government Resources and Accounts Act 2000, the Accounts Direction issued by HM Treasury and the *Government Financial Reporting Manual (FReM)*, published by HM Treasury. The accounting policies contained within the FReM apply International Financial Reporting Standards as adapted or interpreted for the public sector context.

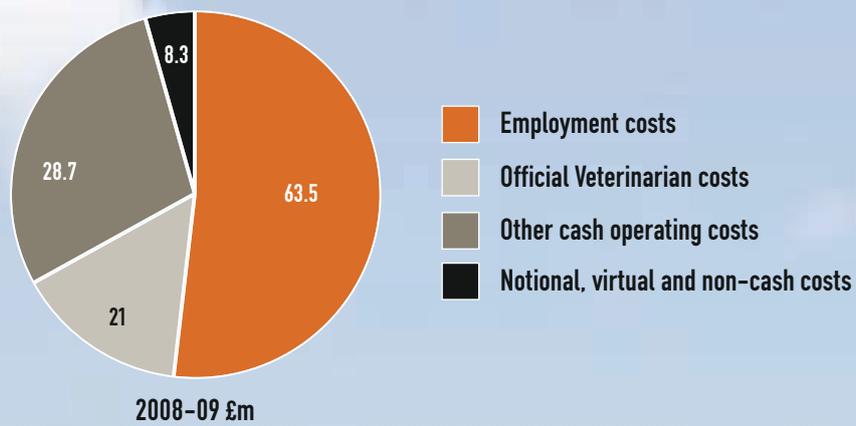
The Statement of Accounts for the year ended 31 March 2010 is set out in Section 8. Animal Health follows Defra's accounting policies where appropriate to Animal Health's own activities, to simplify the preparation of Defra's Consolidated Account.

In accordance with IFRS 3, *Business Combinations*, and FReM 4.2.15, the 2009-10

Statement of Accounts restates the 2008-09 costs to include the comparative costs of the horse licensing work that was transferred from Defra to Animal Health on 1 April 2009. In addition, the comparative figures have been restated to take account of changes to the figures as a result of the introduction of International Financial Reporting Standards (IFRS) to government accounts.

**CHART 1: RESULTS FOR THE YEAR**





Within the overall expenditure for the year, Animal Health's net operating costs in 2009-10 of £134m were £16.4m more than in 2008-09, reflecting increases in activity volumes, changes of policy and further development of the Agency's Business Reform Programme (BRP).

Animal Health's operating costs are predominantly people related, with employment costs constituting £71.4m (51%) of 2009-10 gross expenditure and Official Veterinarian (OV) costs constituting £21.8m (15.6%) of gross spend. Other operating costs of £46.8m include expenditure of £14.8m or 10.5% for all other operating costs paid in cash, including further development work on the Business Reform and Livestock Programmes. Other operating costs also included hard charges from Defra for corporate services of £12.4m (8.9%). Notional and non-cash costs during 2009-10, including the virtual charge from Defra to cover accommodation, amounted to £19.6m (14%).

Although expenditure has been managed within the agreed available resources, the accounting policy for how funding is recognised for statutory accounts purposes follows that set by Defra and other central government departments, and results in the Statement of Financial Position showing net current liabilities of £19.3m (2008-09 restated £20.3m).

This occurs because the accounting policy followed by central government departments accounts for expenditure on an accruals basis but funding on a cash basis in

accordance with the Net Cash Requirement voted by Parliament – rather than in accordance with the resources voted by Parliament. The effect of this policy is that, although commitments entered into during the year were in line with available resources, the difference between the available resources and the cash required in the year is not treated as an asset to finance the creditors or provisions at year end, and therefore a net liability results as noted above. As the Government Resources and Accounts Act 2000 states that cash is not to be held in advance of need, cash to fund the creditors and provisions in Animal Health's Statement of Financial Position as at 31 March 2010 will be provided by Defra during 2010-11, when they become due for payment. Given this undertaking by Defra, it is considered appropriate to prepare the Statement of Accounts on a going concern basis.

#### Supplier payments

In paying creditors, Animal Health aims to follow the principles of the Better Payment Practice Code in compliance with the Public Sector Payment Policy, and continues to adhere to the Government's initiative to pay suppliers within 10 working days of submitting a properly-presented and non-disputed invoice.

No interest was paid in respect of the Late Payment of Commercial Debts (Interest) Act 1998 (2008-09 £nil).

#### Accounts summary

No research and development work was undertaken, and no charitable donations were made during the year ended 31 March 2010.

Prior to 1 April 2009, Animal Health received a hard charge from Defra for all services provided centrally. From 1 April 2009, the charge relating to accommodation became a virtual charge following the decision to source these services through an external provider. All hard and virtual charges are set by Defra, which also provides the budget to fund these.

Animal Health's Statement of Financial Position shows that the main assets of the Agency are intangible fixed assets. These are almost entirely comprised of internally-generated software, the total of which is expected to increase further as more modules of the BRP are constructed and implemented.

Animal Health's IT infrastructure and IT hardware are provided by Defra through IBM, with whom Defra has entered into a strategic

**TABLE 1: SUPPLIER PAYMENTS**

	£'000	Number
Total invoices paid in year	42,641	14,052
Total invoices paid within 10-day target	42,599	14,039
Percentage of invoices paid within target	99.9%	99.9%
Total invoices paid within contractual terms	42,641	14,052
Percentage of invoices paid to contract	100%	100%

partnership. Similarly, with the exception of property in Scotland where the Scottish Government provides the Agency with accommodation, all accommodation used by Animal Health is either owned by, or leased through, Defra.

As a result of the introduction of IFRS during the 2009-10 financial year, the way in which these relationships are disclosed in the accounts of Animal Health has changed considerably. Included within tangible fixed assets is the value of the right of use for the IT assets utilised by Animal Health, but that are owned by Defra, as required under IFRIC 12 *Service Concession Arrangements*. This has been offset by an equal and opposite lease liability to reflect the substance of the transaction.

Similarly, IFRIC 4 *Determining whether an Arrangement contains a Lease* has led to additional disclosure within the operating lease section of the Statement of Accounts to reflect Animal Health's occupation and utilisation of properties not owned by the Agency, but by, or through, Defra.

**Expenditure by country and by activity**

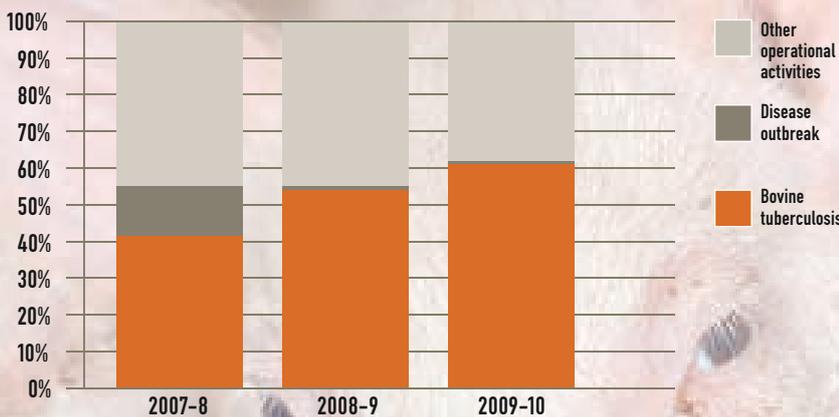
The segmental analysis included within the financial statements provides an indication of where the reported spend of Animal Health was spent in England, Scotland and Wales and in cost centres that cover the whole of Great Britain. Given the wide risks this expenditure seeks to mitigate, the variety and variability of activity undertaken, and the Agency's remit, costs which are incurred for the benefit of the whole

of Great Britain cannot be readily allocated between jurisdictions. Chart 2 below shows the split of Animal Health's operational expenditure for the last three financial years.

The year-on-year changes as a result of the volume of disease outbreaks illustrate the reactive nature of much of the Agency's work. As a consequence, the ability to predict and manage demand is limited, making the Agency reactive to changes in work focus and dependent upon the particular priorities at a given moment in time.

Should there be another outbreak, then the Agency would be required to manage with the resources that it has available at that time, and other work would need to be prioritised.

**CHART 2: OPERATIONAL EXPENDITURE PROFILE**



## 7 Plans and priorities

In an increasingly tough financial environment, we must find ways of reducing costs while still delivering key outcomes.

This section covers our intentions and activities for the financial year 2010-11. It reflects the strategic themes discussed previously in Section 3, which have been agreed as the basis for our ongoing development.

### Expert in delivery

Organisations that are expert in delivery are efficient, consistent, knowledgeable, resilient and innovative. To be recognised as expert, and to be influential, also requires strong relationship management and communication skills. In an increasingly tough financial environment, we must find ways of reducing costs while still delivering key outcomes. We

want to be the recognised experts in delivering the desired outcomes of our policy customers:

- influencing the setting of policy outcomes by providing advice supported by evidence
- leading on the design of cost-effective delivery mechanisms
- implementing and delivering efficiently and consistently
- ensuring value for money by obtaining the maximum benefit with the resources available.

This will require us to become more focused on risk and risk management. Priorities relating to this theme include:

- the implementation of a

Specialist Service Centre (SSC) for tracing animals to support better the management of exotic and endemic diseases

- the introduction of IT-enabled data capture to support improved efficiency and cost reductions in TB test management
- the implementation of the restructure of the management teams in Wales
- ongoing professional development of our staff and further development of people policies to support target outcomes
- improvements in appointments and provision of training for Official Veterinarians (OVs).



### Working with policy customers in Scotland, Wales and England

We want to be the provider of choice to policy customers in Scotland, Wales and England. This is because we believe that a single body can respond more effectively to outbreaks of exotic disease and become expert in delivering animal health and welfare policy more cost effectively than three organisations could. We recognise that this means we will need to change the way we deliver to respect the different needs and priorities of our different policy customers.

The following priorities are identified:

- developing our relationship with our national policy customers and showing how our work supports and delivers their strategic priorities

- emergency preparedness and contingency planning, including the national exercise planned for 2010, involving national and local government, and our delivery partners
- continuing focus on English, Scottish and Welsh government initiatives, including responsibility and cost sharing in England, Scotland's Environmental and Rural Services (SEARS) partnership and the development of disease control programmes such as those for bovine viral diarrhoea in Scotland and bovine tuberculosis (bTB) eradication in Wales.

### Influencing the behaviours of end-user customers

Fundamental to influencing our end-user customer groups is an

understanding of their different perspectives and needs, having the ability to issue relevant and accessible guidance and ensuring effective enforcement where appropriate.

Specific measures identified are:

- implementation of required changes identified as a result of the customer insight research, including the development of a set of service standards
- the provision of a library of easy-to-understand, timely and reliable critical advice and guidance to enable end-user customers to comply with relevant legislation
- development in enforcement – including the completion of an enforcement training programme, a review of management information requirements of enforcement data, a review of the legislation in



all areas which Animal Health operates from an enforcement perspective and continuing strategic dialogue with enforcement partners such as local authorities.

### Working effectively with others

Designing cost-effective delivery mechanisms and delivering efficiently requires collaborative working across a network of organisations that all have a contribution to make. We will, therefore, need to develop an ability to co-ordinate and collaborate across organisational boundaries to design and deliver integrated solutions to our customers.

Our priority work areas include:

- working on bTB, specifically with our involvement in the One Wales TB Eradication

Programme and supporting the continuation of Scotland's Officially TB-Free (OTF) status

- leading the work on biosecurity and contingency planning for the SEARS partnership programme
- working with industry and the Rural Payments Agency on long-term initiatives to improve further livestock ID and tracing
- formalising and further improving the customer and business relationship with private veterinary practitioners appointed to work as OVs
- collaboration across the Defra family and with Scottish and Welsh partners in the delivery of new cost-effective IT solutions and overall IT cost reductions.

Individually, these objectives are stretching, together, they are extremely challenging. In seeking to achieve them, we need to be alert to

changes in our operating environment – in farming practice and the implications this has for disease prevention and control activity; in veterinary practices which currently work with livestock; the development of the Animal Health Bill; and developments in animal health and welfare policy in Scotland, Wales and England.

It is possible that a number of factors which cannot be accurately forecast could significantly affect our ability to achieve these objectives. Not the least of these would be a large outbreak of an exotic notifiable disease or a significant reduction in resources.

Other key risks to achieving these objectives include potential changes resulting from the Animal Health Bill and changes in the animal health and welfare delivery landscape.



## 8 Statement of Accounts

### Statement of Accounting Officer's responsibilities

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

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

- observe the Accounts Direction issued by HM Treasury, including the relevant accounting and disclosure requirements and apply suitable accounting policies on a consistent basis
- make judgements and estimates on a reasonable basis

- state whether applicable accounting standards as set out in the *Government Financial Reporting Manual* have been followed and disclose and explain any material departures in the financial statements
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Agency will continue in operation.

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



**Catherine Brown, Chief Executive**  
2 July 2010

## Statement on Internal Control

### SCOPE OF RESPONSIBILITY

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

Animal Health's work is overseen by a Strategic Advisory Board, which consists of senior officials from Defra, the Scottish Government, the Welsh Assembly Government and three non-executive directors. The Board advises the Secretary of State and Ministers on policy and operational matters relating to Animal Health and monitors the performance, efficiency and financial and managerial regularity of the Agency. The Board also recommends to Ministers the strategic direction the Agency should follow within the context of wider departmental and governmental objectives. I also sit on this Board, which meets on a quarterly basis to agree strategic direction, monitor activity and

progress and to provide support and assistance to the Agency, and it is through this body that any risks that are relevant to the Agency are flagged to Ministers.

### The purpose of the system of internal control

Animal Health's system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve objectives and goals; it can therefore provide only reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to:

- identify and prioritise the risks to the achievement of Animal Health's objectives and goals
- evaluate the likelihood of those risks being realised, and their impact should they be realised
- manage those risks efficiently, effectively and economically.

The system of internal control has been in place at Animal Health for the year ended 31 March 2010 and up to the date of approval of the Annual Report and Accounts, and accords with Treasury guidance.

## Capacity to handle risk

The Agency exists to mitigate the risk to the economy and public health of notifiable animal disease.

Veterinary risks are primarily addressed through the policies the Agency executes and by the operating procedures by which they are delivered.

Organisational and corporate risks that can affect the Agency's ability to deliver its remit were assessed by the Animal Health Executive Board up until April 2009, when a new governance structure was introduced to reflect the increased importance of the business change programme. The Animal Health Board was formed during April 2009, replacing the Animal Health Executive Board, and remains responsible for the overall management of the Agency's risk exposure. Strategic risks such as those associated with business change, changes in the animal health and welfare delivery landscape, the delivery of strategic IT, dependencies on partners to enable the Agency to deliver its objectives and goals are assessed by the Animal Health Board and the Executive Management Team, who in turn report to the Animal Health Board. Risks associated with operational delivery during and between outbreaks of exotic animal disease are reviewed by the Delivery Management Team, which reports to the Executive Management Team, with significant residual risks being escalated to the Animal Health Board for consideration. In addition to considering these risks individually, the Animal Health Board also reviews their potential cumulative impact.

The Audit Committee has reviewed the adequacy of the Agency's risk-management processes through the course of the year.

During the year, Animal Health delivered risk management workshops to key staff in all offices in order to raise the overall awareness within the Agency. This has been supported by the issuing of updated risk management procedures on the Operations Manual, which has been flagged to all staff. Our internal auditors have provided an opinion of substantial assurance on this area since these changes were implemented.

## The risk and control framework

Animal Health's system of internal control has continued to develop during the financial year in line

with the Agency's development and in accordance with HM Treasury Guidance. This has included activity in the following key areas:

### RISK MANAGEMENT

The risk management process in use within Animal Health aids understanding and promotes consistency in the way risks are managed across the Agency.

The aim of Animal Health's risk management process is to facilitate a standard approach to the management of risk through Identifying, Assessing, Addressing, Reviewing and Reporting.

- **Identify** – the risk originator must describe the components of the risk in unambiguous terms and provide data to help evaluate the likelihood of the risk occurring and the impact to Animal Health if the risk occurs.
- **Assess** – the risk co-ordinator must consider the evaluated risk and how it should be treated. This is done using the Terminate, Reduce, Accept or Pass-On method as outlined in the Animal Health risk template and instructions available to all staff. The risk co-ordinator must make a recommendation of what further action is required to the risk owner. If necessary, the risk must be added to the appropriate risk register.
- **Address** – the risk owner must ensure the appropriate action is taken or escalate the risk by following the specified escalation route.
- **Review and report** – the risk co-ordinator must ensure that the risk register is updated regularly so it can be reviewed on a monthly basis.

Every risk will have an owner and co-ordinator. The owner is accountable for the management of those risks and the co-ordinator is the point of contact and reports to the owner. The risk co-ordinator also assesses the information and enters the risk on the relevant risk register.

To assist in the assessment and central review of risk, an online risk management system 4Risk has been adopted by Animal Health. Each cost centre within Animal Health must maintain its own risk register. Each risk register must be reviewed and updated on a monthly basis. As part of the quarterly Stewardship Report, each cost centre manager must confirm that they have reviewed and updated their risk register.

The delivery risk register is monitored and updated by the Delivery Management Team on a monthly basis. Any significant risks are escalated to the corporate risk register, which is monitored and updated by the Animal Health Board.

Information risk has been controlled during the year by making all staff explicitly aware of their responsibilities regarding the information of the Agency, and through the provision of Cabinet Office on-line training – Protecting Information Level 1 to a satisfactory standard. The information asset owner provides quarterly reports to the Defra senior information risk owner, which are reviewed as to the effectiveness of controls and identifies if such incidents have taken place. Animal Health reported no protected personal data-related incidents to the Information Commissioner's Office in 2009-10 and there were no other protected personal data-related incidents.

### DATA RISK MANAGEMENT

As set out in Cabinet Office guidance, incidents, the disclosure of which would in itself create an unacceptable risk of harm, may be excluded from this report on data risk management 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.

### Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the Agency who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Animal Health Board, the Audit Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

My review of the effectiveness of internal control is also informed by:

- the framework established for Animal Health's accountability with Defra, the Scottish Government

- and the Welsh Assembly Government
- quarterly reporting to the Agency's Strategic Advisory Board which oversees Animal Health on behalf of the Secretary of State for the Environment, Food and Rural Affairs, Defra's Accounting Officer, the Scottish Government and the Welsh Assembly Government, and by regular meetings with Defra, the Scottish Government and the Welsh Assembly Government
- meetings of the Animal Health Board, Executive and Delivery Management Team to review Animal Health's strategic direction and risks, and performance against the Agency's objectives and goals
- the work of the Agency's managers and staff who have responsibility for developing, supporting and operating within the internal control framework
- risk management arrangements under which key risks that could affect achievement of Animal Health's objectives and goals are actively managed
- stewardship reporting through which each Animal Health Regional and Divisional Office and other business units report on risk and compliance with the internal control framework
- assurance provided by Defra's Shared Services Directorate on the accuracy, completeness and security of the data the directorate transacts on behalf of Animal Health
- the work of the Audit Committee which monitors the system of internal control, reviews the assurance map currently being put in place and has the authority to challenge and escalate where potential risks are identified
- the results of the work of the External Auditors
- reports by Internal Audit, prepared in accordance with Government Internal Audit Standards, which include their independent opinion on the adequacy and effectiveness of the Agency's internal controls together with recommendations for improvement where necessary. Internal Audit provided a number of reports in the year which have provided opinions on assurance regarding the adequacy of the controls considered, including an annual assurance statement covering the control framework.

### SIGNIFICANT INTERNAL CONTROL ISSUE

Having been advised by the Animal Health Board and by the Audit Committee, one significant weakness has been identified in the system of internal control,

although it did not affect the achievement of Animal Health's objective or goals during the year.

The financial year 2009-10 saw an increase in the profile and pace of business change, not only in the Business Reform Programme, which commenced in 2006, but also in the strategic change projects. In support of these, the Agency set up a Programme and Project Team during the early part of 2009. The subsequent need to recruit short-term, experienced staff in these areas led to an increase in the number of interim, temporary and contracting staff. In September 2009, as part of a review commissioned by the Agency into the numbers of these individuals being employed, senior management in Animal Health was made aware of an undisclosed conflict of interest concerning a member of senior management in the process of recruiting contractors. The contract with the individual involved was terminated, and she left Animal Health at the end of October 2009.

Internal Audit was asked by Animal Health to investigate the procurement, use and management of non-payroll staff across the Agency. Its work identified that Animal Health had failed in some instances to comply with internal procedures, EU procurement rules and had failed to follow Office of Government Commerce policies and standards on public procurement. These failures led to the Agency paying contractor rates that varied from those on agreed Government procurement frameworks. As a result of the work of internal audit, and the follow-on reconciliations performed by Animal Health, it was discovered that during 2009-10 the Agency had effectively overpaid some contractors by £634k and made savings on other contractors of £547k.

An internal review into the ongoing use and rates of contractors resulted in updated processes and

procedures for their recruitment. There has since been a reduction in the numbers of such individuals being utilised by the Agency, decreasing from 102 during October 2009 to 33 at the end of March 2010. I can confirm that the use and management of non-payroll staff is now undertaken in line with EU procurement rules and Office of Government Commerce policies and standards of public procurement. Senior management is confident that the processes and procedures now in place are robust enough to prevent any recurrence.

During 2010-11, Animal Health will continue to develop its system of internal control through continual improvement, responding to evolving best practice and changes in its business environment to ensure that the new governance and organisational structure meets the anticipated changes in the environment in which the Agency operates.

Payment to suppliers of Animal Health are made on our behalf by Defra's Shared Services Directorate (SSD). In addition to the above weakness, in May 2010 SSD advised us that two payments that were intended to be made in March 2010 to an authorised supplier on behalf of one of their customer organisations were diverted and paid into a third-party bank account. SSD initially suspended further payments, although it has now resumed weekly payment runs subject to additional manual controls agreed with Defra Internal Audit and the NAO. The matter has been referred to the police whose enquiries are continuing.



**Catherine Brown, Chief Executive**

2 July 2010

## The certificate and report of the Comptroller and Auditor General to the House of Commons

I have audited the financial statements which are prepared on a going concern basis. The financial statements note the announcement by the Secretary of State for Environment Food and Rural Affairs of the merger of Animal Health and the Veterinary Laboratories Agency as one of the first outcomes of a review of Defra delivery bodies. Notwithstanding this announcement, I am content that the basis of preparation remains appropriate and that the evidence available to me at the date of this report does not indicate that there is a material uncertainty which may cast doubt upon Animal Health's ability to continue as a going concern.

### RESPECTIVE RESPONSIBILITIES OF THE CHIEF EXECUTIVE AND AUDITOR

As explained more fully in the Statement of Chief Executive Responsibilities, the Chief Executive 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 the financial statements in accordance with applicable law and 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 Agency's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Agency; and the overall presentation of the financial statements.

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

### OPINION ON REGULARITY

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

### OPINION ON THE FINANCIAL STATEMENTS

In my opinion:

- the financial statements give a true and fair view of the state of the Agency's affairs as at 31 March 2010, and of the net operating cost, changes in taxpayers' equity and cash flows 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 "Chief Executive's statement", "Who we are and what we do", "Our strategy", "Performance against targets", the part of the "Governance and the Remuneration Report" that is not audited, "Financial review" and "Plans and priorities" for the financial year for which the financial statements are prepared is consistent with the financial statements.

### MATTERS OF 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 are not in agreement with the accounting records or returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Statement on Internal Control does not reflect compliance with HM Treasury's guidance.

### REPORT

I have audited the financial statements which are prepared on a going concern basis. The financial statements note the announcement by the Secretary of State for Environment Food and Rural Affairs of the merger of Animal Health and the Veterinary Laboratories Agency as one of the first outcomes of a review of Defra delivery bodies. Notwithstanding this announcement, I am content that the basis of preparation remains appropriate and that the evidence available to me at the date of this report does not indicate that there is a material uncertainty which may cast doubt upon Animal Health's ability to continue as a going concern.

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

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

8 July 2010

**OPERATING COST STATEMENT**

For the year ended 31 March 2010

	Note	2009-10 £'000	2008-09 Restated £'000
Employment costs	7	71,395	63,463
Programme costs			
Official Veterinarian costs	8	21,802	20,953
Other operating costs	8	46,795	37,028
		<u>139,992</u>	<u>121,444</u>
Income			
Cost recoveries	11	6,009	3,857
		<u>6,009</u>	<u>3,857</u>
Net operating costs	21	<u>133,983</u>	<u>117,587</u>

In accordance with IFRS 3 *Business Combinations* and FReM 4.2.15, the results for 2008-09 have been restated following the transfer to Animal Health of horse licensing work with effect from 1 April 2009.

All income and expenditure is derived from continuing operations.

Figures for 2008-09 have been restated to comply with International Financial Reporting Standards.

The notes on pages 68 to 95 form part of these accounts.

## STATEMENT OF FINANCIAL POSITION

As at 31 March 2010

	Note	31 March 2010 £'000	31 March 2009 Restated £'000	01 April 2008 Restated £'000
<b>Non-current assets</b>				
Property, plant and equipment	12	13,434	7,168	7,295
Intangible assets	13	57,091	43,489	30,673
Long term receivables	16	25	29	28
<b>Total non-current assets</b>		<b>70,550</b>	<b>50,686</b>	<b>37,996</b>
<b>Current assets</b>				
Inventories	15	215	238	183
Trade and other receivables	16	198	540	5,243
Other current assets	16	4,289	3,621	2,514
Cash and cash equivalents	17	687	1,588	14
<b>Total current assets</b>		<b>5,389</b>	<b>5,987</b>	<b>7,954</b>
<b>Total assets</b>		<b>75,939</b>	<b>56,673</b>	<b>45,950</b>
<b>Current liabilities</b>				
Trade and other payables	18	(5,667)	(2,752)	(6,634)
Other liabilities	18	(19,064)	(23,570)	(23,631)
<b>Total current liabilities</b>		<b>(24,731)</b>	<b>(26,322)</b>	<b>(30,265)</b>
<b>Non-current assets less net current liabilities</b>		<b>51,208</b>	<b>30,351</b>	<b>15,685</b>
<b>Non-current liabilities</b>				
Lease obligations	19	(9,575)	(2,564)	(3,857)
Provisions	20	-	(72)	(1,025)
		<b>(9,575)</b>	<b>(2,636)</b>	<b>(4,882)</b>
<b>Assets less liabilities</b>		<b>41,633</b>	<b>27,715</b>	<b>10,803</b>
<b>Taxpayers' equity</b>				
General fund	21	35,370	27,328	10,159
Revaluation reserve	21	6,263	387	644
<b>Total taxpayers' equity</b>		<b>41,633</b>	<b>27,715</b>	<b>10,803</b>

In accordance with IFRS 3 *Business Combinations* and FReM 4.2.15, the results for 2008-09 have been restated following the transfer to Animal Health of horse licensing work with effect from 1 April 2009.

Figures at 1 April 2008 and 31 March 2009 have been restated to comply with International Financial Reporting Standards

The notes on pages 68 to 95 form part of these accounts.



**Catherine Brown, Chief Executive**

2 July 2010

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**STATEMENT OF CASH FLOWS**


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For the year ended 31 March 2010

	Note	2009-10 £'000	2008-09 Restated £'000
Cash flows from operating activities	22	(115,087)	(106,781)
Cash flows from investing activities	22	(17,395)	(20,659)
Cash flows from financing activities	22	131,561	133,297
Net(decrease)/increase in cash and cash equivalents in the period		(921)	5,857
Cash and cash equivalents at the beginning of the period	17	1,588	(4,269)
Cash and cash equivalents at the end of the period before adjustments for payments due to the Consolidated Fund		667	1,588
Payments of amounts due to the Consolidated Fund		20	-
Cash and cash equivalents at 31 March	17	687	1,588

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**STATEMENT OF CHANGES IN TAXPAYERS' EQUITY**


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For the year ended 31 March 2010

	Note	General Fund £'000	Revaluation Reserve £'000	Total Reserves £'000
<b>Balance at 31 March 2008</b>		11,937	644	12,581
Adjustments due to adoption of IFRS	4	(1,778)	–	(1,778)
<b>Balance at 1 April 2008</b>		10,159	644	10,803
<b>Changes in taxpayers' equity for 2008-09</b>				
Net gain/(loss) on revaluation of property, plant and equipment	21	–	38	38
Net gain/(loss) on revaluation of intangible assets	21	–	(275)	(275)
Transfers between reserves	21	20	(20)	–
Non-cash charges – cost of capital	8	721	–	721
Non-cash charges – notional charges	8	603	–	603
Transfer of functions	21	65	–	65
Adjustments between Animal Health and Defra	21	50	–	50
Net operating cost for the year	22	(117,587)	–	(117,587)
<b>Total recognised income and expense for 2008-09</b>		(105,969)	387	(105,582)
Funding from parent	22	133,297	–	133,297
<b>Balance at 31 March 2009</b>		27,328	387	27,715
<b>Changes in taxpayers' equity for 2009-10</b>				
Net gain/(loss) on revaluation of property, plant and equipment	21	–	6,852	6,852
Transfers between reserves	21	976	(976)	–
Non-cash charges – cost of capital	8	1,174	–	1,174
Non-cash charges – notional charges	8	8,330	–	8,330
Adjustments between Animal Health and Defra	21	(16)	–	(16)
Net operating cost for the year	22	(133,983)	–	(133,983)
<b>Total recognised income and expense for 2009-10</b>		(96,191)	6,263	(89,928)
Funding from parent	22	131,561	–	131,561
<b>Balance at 31 March 2010</b>	21	35,370	6,263	41,633

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**ANALYSIS OF REVALUATION RESERVE**


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	Tangible Assets £'000	Intangible Assets £'000	Total £'000
<b>Balance at 1 April 2008</b>	37	607	644
Net gain/(loss) on revaluation of property, plant and equipment	38	-	38
Net gain/(loss) on revaluation of intangible assets	-	(275)	(275)
Transfers between reserves	(20)	-	(20)
In year movement	18	(275)	(257)
<b>Balance at 31 March 2009</b>	55	332	387
Net gain/(loss) on revaluation of property, plant and equipment	40	-	40
Net gain/(loss) on revaluation of intangible assets	-	6,812	6,812
Transfers between reserves	(28)	(948)	(976)
In year movement	12	5,864	5,876
<b>Balance at 31 March 2010</b>	67	6,196	6,263

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The notes on pages 68 to 95 form part of these accounts.

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## Notes to the accounts

### 1. BASIS OF ACCOUNTS

These accounts have been prepared on an accruals basis in accordance with the Accounts Direction issued to Animal Health by HM Treasury and in accordance with the 2009-10 *Government Financial Reporting Manual* (FReM). The accounting policies have been applied consistently and where the FReM permits a choice of accounting policy, Animal Health has followed those adopted by Defra, its parent department.

Animal Health works closely with, and through, a number of other bodies and people in seeking to achieve its objectives. These include, but are not limited to, Defra, the VLA and other Agencies of Government, the Scottish Government and Welsh Assembly Government, Official Veterinarians (OVs), local authorities, farmers and other animal keepers. Together, these form extensive delivery chains in which Animal Health plays a part. Animal Health's Statement of Accounts shows the resources received and expended in the financial year and the assets and liabilities for which Animal Health was responsible. Animal Health's Statement of Accounts does not show the full costs of achieving the policy objectives to which it contributes or the costs incurred by the separate entities in the delivery chain which will be reflected in their own Statement of Accounts.

### 2. STATEMENT OF ACCOUNTING POLICIES

These financial statements have been prepared in accordance with the 2009-10 FReM 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. Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of Animal Health for the purpose of giving a true and fair view has been selected. The particular policies adopted by Animal Health are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

#### ACCOUNTING CONVENTIONS

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

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:

#### Indexation of non-current assets

The Agency restates the non-current tangible and intangible assets using the Modified Historic Cost Adjustment each year as stated in the notes 12 and 13. Depreciation and amortisation of these assets is spread across the deemed useful economic life, which also requires the use of judgement.

#### Accrued Official Veterinarian costs

Included within the charge for OVs is an amount for tests carried out during the financial year but not paid for by the year end as test result forms had not been received.

#### INCOME RECOGNITION

Animal Health is a gross-running-cost Agency. Income received for services in excess of 5% of the total revenue budget is surrendered back to Defra, which provides the resources to finance the cost of the provision of those services. This threshold was not reached in the financial year. Income generated under service level agreements does not form part of this surrender, and is retained to fund the activity for which it is paid. Income received in lieu of private usage of equipment is also retained.

Income is credited to the Operating Cost Statement on an accruals basis.

## FUNDING RECOGNITION

Animal Health follows Defra's policy which recognises funding as being the Net Cash Requirement voted by Parliament, rather than the delegated proportion of the Department's expenditure limit. This is recognised within taxpayers' equity within the Statement of Financial Position.

## PROPERTY, PLANT AND EQUIPMENT

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

Property, plant and equipment are valued monthly at current replacement cost by using appropriate indices provided by the Office for National Statistics. Any permanent upward revaluation is credited to the Revaluation Reserve. A deficit on revaluation is debited to the Operating Cost Statement if the deficit exceeds the balance held for previous revaluations of the relevant asset in the Revaluation Reserve.

Plant and equipment assets have been stated at fair value using appropriate indices, where material, provided by the Office of National Statistics.

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

Depreciation is charged over the useful life of assets to ensure their value, less residual value, is written off over their useful life. The residual value is the carrying amount of the asset which is expected to be realised on disposal. Depreciation is charged in the month of disposal but not in the month of acquisition. Depreciation is not charged on assets under the course of construction. Each component of an asset with a value deemed material to the total fair value of the asset is capitalised and depreciated separately. Components no longer to be used are derecognised. Under the requirements of IFRS, useful lives, component values and residual values are reviewed annually.

The carrying amounts of the Agency's tangible and finite life intangible assets are reviewed at each reporting date to establish whether there are any indications of impairment. If such indications are evident, the estimated recoverable amount of the assets are compared to their carrying amount. If the carrying amount exceeds the recoverable amount, an impairment loss is immediately recognised. The recoverable amount is the greater of the fair value, less costs to sell, and the value in use. The value in use is an estimate of the future cash flow benefits expected to derive from the asset, discounted by a rate that reflects current market assessments of the time value of money and the risks specific to the asset.

## INTANGIBLE ASSETS

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

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

Costs related to internally-generated assets are classified as relating to either research or development phases. The Agency's expenditure on research activities is written off to the operating cost statement as incurred, due to

the inherent uncertainty surrounding the economic benefit resulting from it. Capitalisation of development costs is contingent on fulfilment of all of the following criteria:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale
- the intention to use or sell the asset
- the ability to use or sell the asset
- the probability of future economic benefits or service potential flowing to the Agency from use or sale of the intangible asset
- the availability of technical, financial and other resources to complete the development and to use or sell the asset
- the ability to measure the expenditure attributable to the intangible asset during its development.

Amortisation commences when the developed asset is fully brought into use, and is based on a systematic allocation over the period during which the Agency is expected to benefit from the use of the intangible asset. Asset lives are typically in the range of 2-10 years. The Agency does not hold any intangible assets with an indefinite useful life.

Within the intangible asset classification are a number of assets formerly recorded in the tangible category under UK GAAP. These have been reclassified to intangibles using fair value as deemed cost at the Statement of Financial Position date. They comprise internally-developed computer software, the capital values of which include capitalisation of staff costs in excess of £50,000. These assets are amortised over their useful life and are reviewed for impairment on an annual basis.

### DEPRECIATION AND AMORTISATION

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

- |                            |              |
|----------------------------|--------------|
| ● Furniture and fittings   | 5 – 30 years |
| ● IT hardware and software | 2 – 10 years |
| ● Office equipment         | 5 – 11 years |
| ● Plant and machinery      | 5 – 15 years |
| ● Scientific equipment     | 5 – 10 years |
| ● Vehicles                 | 4 – 12 years |

A full month's depreciation is charged to the Operating Cost Statement in the month following acquisition and in the month of disposal.

### INVENTORIES

Inventory, which consists of veterinary consumables and contingency stock, is stated at the lower of cost and net realisable value. Animal Health holds a level of contingency inventory as part of its preparedness for outbreaks of exotic notifiable animal disease.

### VALUE ADDED TAX (VAT)

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

### CASH AND CASH EQUIVALENTS

Cash and cash equivalents represent funds held by the Office of HM Paymaster General plus a small amount held in a commercial bank account which is used to receive funds from commercial activities prior to transfer to

Paymaster General accounts. During the year, accounts were opened with Royal Bank of Scotland and Citibank as the Government Banking System came into operation.

### **HARD CHARGES/NOTIONAL CHARGES**

In previous financial years, Defra notionally charged Animal Health for centrally-provided services. In the 2009-10 financial year, the majority of these services provided were hard charged. The value of both hard and notional charges is determined by Defra. Further details are provided in Note 8.

### **PROGRAMME EXPENDITURE**

The Operating Cost Statement comprises programme expenditure only as defined by Defra in their Delegated Authorities letter dated 1 May 2009 addressed to the Accounting Officer of the Agency.

### **CAPITAL CHARGE**

In accordance with the FReM, a notional non-cash charge for the cost of capital employed in the period is included in the Operating Cost Statement. The charge for the year is calculated using HM Treasury's discount rate of 3.5% (2008-09 3.5%) applied to the mean value of capital employed during the period excluding cash balances with the Office of the Paymaster General.

### **EMPLOYEE BENEFITS**

#### **A. PENSIONS**

Pension arrangements are described in Note 7 to the Accounts. Pension contributions are charged to operating expenditure on an accruals basis.

Pension benefits are provided through the civil service pension arrangements, full details of which can be found in the Remuneration Report and in Note 7.

Although the Principal Civil Service Pension Scheme (PCSPS) is a defined benefit scheme, departments, agencies and other bodies covered by the scheme recognise the cost of the 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 PCSPS. In respect of defined contribution schemes, the Agency recognises the contributions payable for the year.

#### **B. HOLIDAY PAY PROVISIONS**

Under IAS 19, provision needs to be made for short-term employee benefits that are payable within 12 months of the end of the period. Accordingly, an accrual has been made for holiday pay and other benefits accruing to employees in employment at the year end.

#### **C. EARLY DEPARTURE COSTS**

The Agency is required to meet the additional costs of benefits beyond the normal PCSPS benefits in respect of employees who retire early. The Agency provides in full for this cost when the early retirement programme has been announced and is binding on the Agency. The early departure provision for additional pension costs is actually funded by Defra, although the liability sits within Animal Health's accounts.

### **FINANCIAL INSTRUMENTS**

The Agency holds a range of financial instruments, aggregated into classes based on their nature. The majority of these relate to contracts for non-financial items in line with the Agency's expected purchase and usage requirements and the Agency is therefore exposed to little credit, liquidity or market risk. Accordingly, there is no disclosure in terms of IFRS 7.

### PROVISIONS, CONTINGENT LIABILITIES AND ASSETS

In accordance with IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, Animal Health provides for its obligations arising from past events where a reliable estimate of the obligation can be made and it is probable that the obligation will be required to be settled. Where material, the future costs have been discounted using the rate of 2.2% as directed by HM Treasury.

A contingent liability is disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

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

### FINANCE LEASES

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

The determination of whether an arrangement is, or contains, a lease is based on the substance of that arrangement. This assessment is based on whether the arrangement is dependent on the use of a specific asset and conveys the right to use the asset. The Agency evaluates contractual arrangements, in accordance with the above criteria.

Both the asset value and liability to pay future rentals under a finance lease are discounted at the interest rate implicit in the lease to derive the present value. Assets obtained under a finance lease are revalued and depreciated over the shorter of the lease term or expected useful life. The Agency does not have any finance lease commitments.

### OPERATING LEASES

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

### SERVICE CONCESSION ARRANGEMENTS

The Agency's IT outsourcing arrangement with IBM falls within the scope of IFRIC 12 and is disclosed within the accounts as a service concession arrangement. A lease liability has been included to reflect the fair value payments to IBM to lease IT infrastructure assets throughout the duration of the eight-year contract. A matching asset has been raised to reflect the benefit that the Agency will derive from having access to IBM's IT infrastructure assets. This asset is recorded under plant, property and equipment as a right of use asset.

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### 3. OPERATING SEGMENTS

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IFRS 8 is to be applied for annual periods beginning on or after 1 January 2009. Animal Health has chosen to apply the standard from 1 April 2008. With effect from 1 April 2009, its Target Operational Model (TOM) project was implemented which changed its organisational and reporting structure. England changed from 15 divisions to eight regions, which aligned with regional Government offices. Wales comprised four regions while Scotland had six regions. For each country there is a Country Director reporting directly to the Animal Health Board.

Animal Health provides similar services throughout Great Britain working to support the delivery of animal health and welfare and conservation policy and the reporting criteria are therefore geographically orientated rather than being based on any other criteria. The three regional areas are centrally supported by Operations and Corporate Support. Finally, there are reports for capital project work undertaken (e.g. BRP and TOM), outbreak costs and the transfer of notional costs into Animal Health.

The reporting analysis is based on: England, Wales, Scotland, Central Operations – Delivery, Central Operations – Support, Corporate Support, Projects, Outbreaks and finally Incidents and Transfers. The management information that will be provided to the Board of Directors is based upon the regional structure we have introduced in order for the Board to evaluate performance and to allocate resources.

In terms of IFRS 8, the operating segments of the Agency are England, Wales and Scotland. The other areas on which management information is provided cannot be deemed to be operating segments as they incur only expenses and earn minimal revenue that is incidental to their activities.

**INCOME**

Animal Health is a gross-running-cost Agency and any income is generated from service level agreements that are entered into with our major customers. Our top customer is the Welsh Assembly Government. Other important customers include: Food Standards Agency, Defra, Veterinary Medicines Directorate, Veterinary Laboratories Agency, Natural England and Rural Payments Agency. Income can be allocated as follows:

**INCOME**

	2010 £'000s	2009 £'000s
England	2,943	2,463
Wales	2,918	1,200
Scotland	148	156
	6,009	3,819
Other	-	38
<b>As per Financial Accounts</b>	6,009	3,857

Revenue in England includes £1,572k (2008-09 £1,648k) invoiced to the Food Standards Agency for work done on dairy hygiene inspections. Income of £405k (2008-09 £65k) has been raised through the licensing of animal movements under CITES legislation.

Revenue from Wales includes £1,608k (2008-09 £803k) invoiced to the Welsh Assembly Government for work done on the TB Health Check Wales programme.

Net expenditure can be allocated as follows:

<b>NET EXPENDITURE</b>			
	2010		2009
	£'000s		Restated £'000s
England	51,152		50,029
Wales	11,176		10,821
Scotland	7,302		7,569
Central Operations delivery	3,891		4,883
<b>Delivering services</b>	<b>73,521</b>		<b>73,302</b>
Central Operations services	5,919	3,437	
Corporate Support	3,348	3,176	
Finance, Estates and Procurement	2,565	11,370	
HR and Learning and Development	2,456	2,166	
IMT	5,140	2,140	
Shared Services	36,978	16,854	
<b>Supporting delivery</b>	<b>56,406</b>		<b>39,143</b>
BRP	17,797	22,971	
Projects total	6,059	1,534	
<b>Improving the business</b>	<b>23,856</b>		<b>24,505</b>
<b>TOTALS</b>	<b>153,783</b>		<b>136,950</b>
<b>Less:</b>			
Capital expenditure	14,688	19,473	
Modified historic cost adjustment	8	528	
Lease payment under IFRIC 12	1,791	1,543	
Excess hard charges	3,300	(605)	20,939
	<b>133,996</b>		<b>116,011</b>
<b>Add:</b>			
Adjustment to cost of capital	174		(82)
Staff leave accrual	(40)		1,144
Adjustment to veterinary consumables	(165)		-
Depreciation adjustment	(32)		-
Bonus provision re-instated	-		419
IT costs	-		125
Other minor variances	50		(30)
<b>Net expenditure per Financial Accounts</b>	<b>133,983</b>		<b>117,587</b>

**GROSS ASSETS**

An allocation of gross assets is not provided to the chief operating decision maker on a regular basis and accordingly no analysis is provided here.

**INTEREST**

The Agency had no interest revenue or expense.

**LIABILITIES**

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

**DEPRECIATION AND AMORTISATION**

Depreciation and amortisation of non-current assets is shown under non-cash costs segment and totalled £10,130k (2008-09 £7,006k) in the period, net of the modified historic cost adjustment.

**4. FIRST TIME ADOPTION OF IFRS**

	General Fund £'000	Revaluation Reserve £'000	Total £'000
Taxpayers' equity at 31 March 2008 under UK GAAP	11,937	644	12,581
Adjustments for:			
IAS 19 – Staff leave accrual	(1,778)	–	(1,778)
Taxpayers' equity at 1 April 2008 under IFRS	10,159	644	10,803
			£'000
Net restated operating costs for 2007-08 under UK GAAP			121,180
Adjustments for:			
IAS 19 – Staff leave accrual			1,778
Net operating costs for 2007-08 under IFRS			122,958

In accordance with IFRS 3 *Business Combinations* and FReM 4.2.15, the results for 2007-08 have been restated following the merger of the Great Britain poultry register. In addition, the restated 2007-08 figures also reflect the transfer to Animal Health on 1 April 2008 of responsibility for managing the transmissible spongiform encephalopathy and zoonotics programme.

## 5. DISCLOSURE OF IFRSs IN ISSUE NOT YET EFFECTIVE

Animal Health 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 the following new IFRSs are relevant to Animal Health but will have no significant impact on the Agency’s financial statements.

### AMENDMENTS TO IFRSs

- IAS 24 *Related Party Disclosures*

### AMENDMENTS TO IFRSs RESULTING FROM ANNUAL IMPROVEMENTS TO IFRSs (MAY 2008 AND APRIL 2009)

- IAS 7 *Cash Flow Statements*
- IAS 17 *Leases*

## 6. MAJOR FREM CHANGES FOR 2010-11

The Agency has reviewed the major FREM changes for 2010-11 and determined the following will have no significant impact on the Agency’s financial statements:

- Chapter 8 Impairments

The Agency has identified the following accounting change as significant:

- Chapter 11 Income and Expenditure. The removal of cost of capital charging from the accounts. From 1 April 2010, notional costs should not be recorded for cost of capital. Cost of capital charging will be excluded from the Agency’s accounts. The initial application will have an impact of £1,174k on the Agency’s financial statements.

## 7. STAFF NUMBERS AND RELATED COSTS

	2009-10	2008-09 Restated
	£'000	£'000
Salaries	49,091	46,300
Employer’s National Insurance contributions	3,684	3,633
Employer’s Pension contributions	8,707	8,806
	<hr/>	<hr/>
	61,482	58,739
Contractor costs	9,948	3,555
Staff leave accrual	(40)	1,144
Temporary Veterinary Inspector costs	5	25
	<hr/>	<hr/>
	71,395	63,463

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

In addition to the costs shown above, contractor costs of £4.3m (2008-09 £4.5m) have been capitalised. These are included within the additions to IT software and Assets in the course of construction shown in Note 13 – Intangible assets.

Under IAS 19, an accrual has been established for staff leave payable in the next 12 months.

## PENSION CONTRIBUTIONS

Pension benefits are provided through the Principal Civil Service Pension Schemes (PCSPS). Members of staff who were members of the PCSPS before 1 October 2002 may be in one of three statutory defined benefit schemes (Classic, Premium or Classic Plus). Staff who joined the civil service between 1 October 2002 (and staff who joined Animal Health after 1 April 2005) and 29 July 2007 could choose between membership of the Premium scheme or a defined contribution money purchase partnership pension. Staff who joined the civil service on or after 30 July 2007 may choose between membership of the Nuvos scheme or a defined contribution money purchase partnership pension.

Employer and employee PCSPS contributions are paid to the Treasury and PCSPS benefits, which are increased annually in line with changes in the Retail Price Index, are paid by monies voted by Parliament each year. The PCSPS schemes are therefore unfunded defined benefit schemes and, as a result of them covering many employers, Animal Health is unable to identify its share of the schemes' underlying assets and liabilities. The schemes are subject to a full valuation every four years. The last full valuation took place on 31 March 2007, further details of which can be found in the Cabinet Office's Civil Superannuation Resource Accounts: ([www.civilservice-pensions.gov.uk](http://www.civilservice-pensions.gov.uk)). Copies can also be obtained from the Stationery Office.

For 2009-10, employer contributions of £8,576k were payable to the PCSPS (2008-09 £8,657k restated) at one of four rates in the range 16.75% to 24.35% (2008-09 17.1% to 25.5%) of pensionable pay based on salary bands. The contribution rates reflect past experience of the scheme and the effect of benefits as they are accrued, not when the costs are actually incurred.

Employee contributions are set at the rate of 1.5% of pensionable earnings for the Classic scheme and 3.5% for the Premium, Classic Plus and Nuvos schemes. Benefits in the Classic scheme accrue at the rate of 1/80 of final pensionable salary for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. For the Premium scheme, benefits accrue at the rate of 1/60 of final pensionable salary for each year of service, the difference in the accrual rate replacing the lump sum. Premium scheme members may commute pension to provide a lump sum up to the Classic scheme accrual rate of 1/80. Classic Plus is essentially a variation on the Premium scheme, with benefits in respect of service before 1 October 2002 calculated broadly as the Classic scheme and benefits after 1 October 2002 calculated broadly as the Premium scheme. The Nuvos scheme provides a pension of 2.3% of pensionable earnings each year and members may commute pension to provide a lump sum.

Instead of joining the PCSPS, employees who joined Animal Health on or after 1 April 2005 could opt to join a partnership pension account, or a stakeholder pension, with an employer contribution. Employer contributions for 2009-10 of £131k (2008-09 £149k restated) were paid to one or more of a panel of four appointed stakeholder pension providers. Employer contributions are age-related and range from 3% to 12.5% of pensionable pay. No employer contributions (2008-09 £nil) were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death-in-service and ill-health retirement of these employees. There is no limit to employee contributions for these schemes.

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**AVERAGE NUMBER OF FULL TIME EQUIVALENT STAFF**


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	2009-10 FTE	2008-09 FTE
Veterinary staff	284	287
Technical staff	241	270
Administrative and managerial staff	1,071	1,008
	<hr/> 1,596	<hr/> 1,565

	2009-10 FTE	2008-09 FTE
Permanent	1,500	1,488
Fixed-term contracts	36	37
Casual and temporary	60	40
	<hr/> 1,596	<hr/> 1,565

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

## 8. PROGRAMME COSTS

	2009-10	2008-09
	£'000	Restated £'000
<b>Official Veterinarian costs</b>		
Official Veterinarian costs	21,802	20,953
<b>Operating costs</b>		
Office services	3,776	3,979
Travel and subsistence	3,772	2,978
IT costs	3,736	2,249
Training	1,646	1,799
Veterinary consumables	958	656
Accommodation and utilities	441	3,385
Recruitment	345	388
Loss on disposal of fixed assets	194	3
Disease eradication Costs	(112)	95
	14,756	15,532
<b>Hard charges</b>		
IT services	9,425	7,674
Accounting and HR services	2,720	2,700
Procurement and contract services	146	78
Internal audit	107	99
Legal services	7	7
Estates management and accommodation services	-	2,608
	12,405	13,166
<b>Notional charges</b>		
Estates management and accommodation services	8,105	232
Defra investigation services	120	273
External audit	105	98
	8,330	603
<b>Non-cash costs</b>		
Depreciation and amortisation	10,122	6,478
Current replacement cost adjustment	8	528
Cost of capital	1,174	721
	11,304	7,727
	46,795	37,028

Official Veterinarians are qualified veterinarians in private practice who undertake work on behalf of Animal Health. The charge against operating costs for the year ended 31 March 2010 is based on activity undertaken by Official Veterinarians and paid for during the year together with:

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

Disease outbreak costs from previous years had been provided for conservatively at 31 March 2009 and as a result a credit balance arose when all relevant invoices were processed in the period.

With effect from 1 April 2009, the responsibility for the upkeep and maintenance of the estate occupied by Animal Health offices was outsourced as part of a department-wide facilities management contract across the Defra family. Costs associated with estates management and accommodation are now notionally charged to Animal Health.

Within the Operating Cost Statement, the full cost of occupation is reflected in relation to buildings that are either owned or leased by Defra or specialised properties held on the Agency's Statement of Financial Position. The costs are proportionate to occupation and include rates, utilities, management overheads, facilities management and associated capital charges. For Defra leasehold properties, this also includes rental costs. There are no rental costs for Defra freehold properties.

The estimated value of non-specialised freehold property owned by Defra but occupied by Animal Health is £7,514k (2008-09 £9,891k).

With effect from 1 April 2009, a facilities management contract for the entire Defra estate was awarded to Interserve and this has been recharged from Defra to Animal Health by way of a notional charge in 2009-10. Accordingly, accommodation and utility costs are not easily compared as they were part operating costs, part hard charges and part notional charges in 2008-09.

Within "Estates management and accommodation services", £2,028k (2008-09 £2,290k) relate to facilities management costs associated with the proportion of occupation of buildings that are either owned or leased by Defra or specialised properties held on the Agency's Statement of Financial Position. The commitments are consistent with arrangements containing a lease as defined by IFRIC 4.

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

Notional charges include accommodation charges provided to Animal Health by the Veterinary Laboratories Agency and the services of Defra Investigation Service. The external audit fee includes the National Audit Office's audit fee of £90k for the audit of the 2009-10 financial statements (2008-09 £85k), and an audit fee of £15k for the audit of Animal Health's IFRS Trigger Point 3 submission to HM Treasury (2008-09 £13k for the audit of the Trigger Point 1 submission to HM Treasury). No remuneration was paid to the auditors for non-audit work.

## 9. INTEREST PAYABLE AND SIMILAR CHARGES

Animal Health incurred no charges for interest or similar charges during 2009-10 (2008-09 £Nil).

## 10. COST OF CAPITAL

	2009-10	2008-09 Restated
	£'000	£'000
Capital employed at 1 April	26,127	15,073
Capital employed at 31 March	40,946	26,127
Mean capital employed	33,537	20,600
Cost of capital per the accounts	1,174	721

In accordance with the FReM, a notional charge for the cost of capital employed in the financial year is included in the Operating Cost Statement. The charge for the period ended 31 March 2010 is calculated using HM Treasury's discount rate of 3.5% (2008-09 3.5%) applied to the mean value of capital employed during the period. The value of capital employed excludes non-interest bearing cash balances held with the Office of the Paymaster General.

## 11. INCOME

	2009-10	2008-09
	£'000	£'000
Income Received		
Defra	795	567
Other Defra sponsored bodies	423	427
Welsh Assembly Government	2,585	816
Food Standards Agency	1,659	1,736
Other	547	311
	6,009	3,857

Only income in excess of 5% of the revenue budget is surrendered to Defra. Income generated under service level agreements did not form part of the prior year surrender, and was retained to fund the activity for which it was paid; previously all other income was surrendered. Income received includes the following activity where the full cost exceeds £1m. The information below is provided for fees and charges purposes, not for the purposes of IFRS 8.

	Income	2009-10 Full Cost	Surplus	Income	2008-09 Full Cost	Surplus
	£'000	£'000	£'000	£'000	£'000	£'000
Dairy Hygiene inspections	1,572	1,383	189	1,648	1,491	157
Health Check Wales	1,608	1,608	-	803	803	-

## 12. PROPERTY, PLANT AND EQUIPMENT

2009-10	Scientific equipment £'000	Office equipment and furniture £'000	Plant and motor vehicles £'000	IT assets £'000	Total £'000
<b>Cost or valuation</b>					
1 April 2009	531	3,768	420	6,034	10,753
Additions	6	15	-	-	21
IBM asset movement	-	-	-	8,741	8,741
Transfers	9	(10)	1	-	-
Disposals	-	(109)	(22)	-	(131)
Revaluation	14	38	8	24	84
31 March 2010	560	3,702	407	14,799	19,468
<b>Depreciation</b>					
1 April 2009	(218)	(1,412)	(344)	(1,611)	(3,585)
Charged	(55)	(582)	(24)	(32)	(693)
IBM IFRIC 12 depreciation	-	-	-	(1,801)	(1,801)
Disposals	-	61	22	-	83
Revaluation	(5)	(17)	(6)	(10)	(38)
31 March 2010	(278)	(1,950)	(352)	(3,454)	(6,034)
<b>Net book value</b>					
31 March 2010	282	1,752	55	11,345	13,434
31 March 2009	313	2,356	76	4,423	7,168

The net book value for plant and motor vehicles includes £48k for motor vehicles and £7k for plant and machinery (2008-09 £68k and £8k respectively).

The net book value for office equipment and furniture includes £424k for office equipment and £1,328k for furniture and fittings (2008-09 £552k and £1,804k respectively).

2008-09	Scientific equipment £'000	Office equipment and furniture £'000	Plant and motor vehicles £'000	IT assets £'000	Total Restated £'000
<b>Cost or valuation</b>					
1 April 2008	491	2,471	404	5,573	8,939
Additions	38	1,326	6	-	1,370
IBM asset movement	-	-	-	466	466
Disposals	(2)	(89)	(10)	-	(101)
Revaluation	4	60	20	(5)	79
31 March 2009	531	3,768	420	6,034	10,753
<b>Depreciation</b>					
1 April 2008	(168)	(1,127)	(308)	(41)	(1,644)
Charged	(51)	(341)	(31)	(1,571)	(1,994)
Disposals	2	87	9	-	98
Revaluation	(1)	(31)	(14)	1	(45)
31 March 2009	(218)	(1,412)	(344)	(1,611)	(3,585)
<b>Net Book Value</b>					
31 March 2009	313	2,356	76	4,423	7,168
31 March 2008	323	1,344	96	5,532	7,295

Included within IT assets above are service concession assets held under a right of use arrangement with IBM as follows:

	2009-10 £'000	2008-09 Restated £'000
Balance at 1 April	4,324	5,399
Extension to the service concession arrangement	8,347	-
Adjustment to the service concession arrangement	394	466
Depreciation	(1,801)	(1,541)
Balance at 31 March	11,264	4,324

### 13. INTANGIBLE ASSETS

2009-10	Software licences £'000	IT software £'000	Assets in the course of construction £'000	Total £'000
<b>Cost or valuation</b>				
1 April 2009	58	50,653	19,044	69,755
Additions	-	7	14,660	14,667
Transfers	-	15,304	(15,304)	-
Disposals	-	-	(235)	(235)
Revaluation	-	7,811	-	7,811
31 March 2010	58	73,775	18,165	91,998
<b>Amortisation</b>				
1 April 2009	(14)	(26,252)	-	(26,266)
Charged	(3)	(7,625)	-	(7,628)
Revaluation	-	(1,013)	-	(1,013)
31 March 2010	(17)	(34,890)	-	(34,907)
<b>Net book value</b>				
31 March 2010	41	38,885	18,165	57,091
31 March 2009	44	24,401	19,044	43,489

Assets in the course of construction relate to IT systems in development for the BRP. When brought into use their value is re-assessed and any adjustment will be reflected in the Statement of Accounts for the year concerned.

Intangible assets other than software licences and assets in the course of construction are revalued each month using indices approved by the Office for National Statistics.

2008-09	Software licences £'000	IT software £'000	Assets in the course of construction £'000	Total £'000
<b>Cost or valuation</b>				
1 April 2008	58	32,919	19,596	52,573
Additions	-	-	18,103	18,103
Transfers	-	18,652	(18,652)	-
Disposals	-	-	(3)	(3)
Revaluation	-	(918)	-	(918)
31 March 2009	58	50,653	19,044	69,755
<b>Amortisation</b>				
1 April 2008	(11)	(21,889)	-	(21,900)
Charged for the year	(3)	(4,482)	-	(4,485)
Revaluation	-	119	-	119
31 March 2009	(14)	(26,252)	-	(26,266)
<b>Net book value</b>				
31 March 2009	44	24,401	19,044	43,489
31 March 2008	47	11,030	19,596	30,673

#### 14. FINANCIAL INSTRUMENTS

As the cash requirements of the Animal Health are met through the estimate process, financial instruments play a more limited role in creating and managing risk than would apply to a non-public sector body. The majority of financial instruments relate to contracts to buy non-financial items in line with the Agency's expected purchase and usage requirements and the Agency is therefore exposed to little credit, liquidity or market risk. Accordingly, no disclosure is deemed necessary.

#### 15. INVENTORIES

	2010 £'000	2009 £'000	2008 £'000
Veterinary consumables	329	356	338
Less provision	(114)	(118)	(155)
	215	238	183

## 16. TRADE RECEIVABLES AND OTHER CURRENT ASSETS

	2010 £'000	2009 £'000	2008 £'000
<b>Amounts falling due within one year:</b>			
Trade receivables	175	396	4,555
Other receivables	23	144	688
<b>Trade and other receivables</b>	<b>198</b>	<b>540</b>	<b>5,243</b>
<b>Other current assets</b>			
Deposits and advances	4	-	21
VAT	2,549	1,783	1,760
Prepayments and accrued income	1,736	1,838	733
	<b>4,289</b>	<b>3,621</b>	<b>2,514</b>
<b>Amounts falling due after more than one year:</b>			
Deposits and advances	25	29	28
<b>Other current assets</b>	<b>4,314</b>	<b>3,650</b>	<b>2,542</b>
<b>As at 31 March</b>	<b>4,512</b>	<b>4,190</b>	<b>7,785</b>

Debtors include £615k due from other central government bodies (2008-09 £3,267k, 2007-08 £7,447k) and £nil due from public corporations and trading funds (2008-09 £7k, 2007-08 £3k).

## 17. CASH AND CASH EQUIVALENTS

	2010 £'000	2009 £'000	2008 £'000
Office of HM Paymaster General accounts	673	1,574	-
Commercial bank account	14	14	14
	<b>687</b>	<b>1,588</b>	<b>14</b>

During the year, under requirements from HM Treasury, Animal Health started to use the Government Banking System (GBS) a new shared service provider to the public sector. GBS is part of HM Revenue & Customs and has procured banking services from the Royal Bank of Scotland Group and Citibank. As funds held in these accounts will be transferred to the Exchequer on a daily basis, these accounts will not be classified as commercial bank accounts.

## 18. TRADE PAYABLES AND OTHER CURRENT LIABILITIES

	2010 £'000	2009 £'000	2008 £'000
<b>Trade and other payables</b>			
Bank overdraft	–	–	(4,283)
Trade payables	(1,359)	(2,712)	(1,894)
Other payables	(4,308)	(40)	(457)
	(5,667)	(2,752)	(6,634)
<b>Other liabilities</b>			
Accruals and deferred income	(18,954)	(23,479)	(23,568)
Other taxation and social security	(110)	(91)	(63)
	(19,064)	(23,570)	(23,631)
<b>As at 31 March</b>	(24,731)	(26,322)	(30,265)

Creditors due within one year include £6,679k due to other central government bodies (2008-09 £6,488k, 2007-08 £4,630k), £4k due to public corporations and trading funds (2008-09 £6k, 2007-08 £4k), and £12k due to local authorities (2008-09 £6k, 2007-08 £33k).

Included within other payables is the future current liability of £1,730k to pay for the right of use assets to IBM (2008-09 £1,293k).

## 19. LEASE OBLIGATIONS DUE IN MORE THAN ONE YEAR

	2010 £'000	2009 £'000	2008 £'000
Balance at 1 April	2,564	3,857	–
Further obligations	8,741	–	3,857
Reclassified as current liability	(1,730)	(1,293)	–
<b>As at 31 March</b>	<b>9,575</b>	<b>2,564</b>	<b>3,857</b>

Lease obligations arise from the adoption of IFRIC 12 in respect of IBM right of use assets and IBM, who provides the valuation of the asset, has also provided Defra with a lease charge applicable to the whole contract including core Defra, its agencies and NDPBs. This has been allocated to Animal Health on the basis of the headcount within the organisation as a percentage of the total.

## 20. PROVISION FOR LIABILITIES AND CHARGES

	Asbestos £'000	Dilapidations £'000	Early departure £'000	HMRC tax liability £'000	Total £'000
At 1 April 2008	245	769	11	-	1,025
Provided	-	-	-	100	100
Released	(113)	(769)	-	-	(882)
Transfer to current liabilities	(60)	-	(11)	(100)	(171)
At 31 March 2009	72	-	-	-	72
Provided	-	279	-	13	292
Transfer to current liabilities	(72)	(279)	-	(13)	(364)
At 31 March 2010	-	-	-	-	-

The opening asbestos provision of £245k was created to remove asbestos identified in a number of properties occupied by Animal Health. Work has been completed on some of these properties during the period and work on others was in progress at the year-end. All future work is expected to be completed in the next financial year.

Following advice that Animal Health will be responsible for future dilapidations on specialist building areas, a comprehensive review of our future plans for our occupied properties revealed that a provision of £279k needed to be made in respect of properties that the Agency would be vacating in 2010-11.

There has been no movement in the early retirement provision in the year.

We have provided for a potential tax liability to HMRC in respect of staff members who have been on secondment for longer than two years whereby PAYE and National Insurance contributions will become payable on expenses paid. This is currently being negotiated with HMRC.

All of the above provisions are expected to be crystallised within the next 12 months and have therefore been transferred to current liabilities.

**21. RESERVES**

## GENERAL FUND

	2010 £'000	2009 £'000	2008 £'000
At 1 April	27,328	10,159	(9,287)
Net operating costs for the year	(133,983)	(117,587)	(122,958)
Net cash requirement received from Defra	131,561	133,297	123,229
Notional charges	8,330	603	9,458
Cost of capital charge	1,174	721	49
Transfer from revaluation reserve	976	20	13
Transfer of functions	–	65	9,583
Adjustments in year between Animal Health and Defra	(16)	50	72
At 31 March	35,370	27,328	10,159

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

## REVALUATION RESERVE

	2010 £'000	2009 £'000	2008 £'000
At 1 April	387	644	8
Arising on indexation during the year (net)	6,852	38	42
Write off devaluation against reserve	–	(275)	–
Transfer of GB poultry register	–	–	607
Transfer to general fund	(976)	(20)	(13)
At 31 March	6,263	387	644

## 22. NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	2009-10	2008-09
	£'000	Restated £'000
<b>Cash flows from operating activities</b>		
Net operating costs	(133,983)	(117,587)
Adjustments for non-cash transactions	19,634	7,548
Loss on disposal of non-current assets	194	3
(Increase)/decrease in trade and other receivables	(322)	3,595
Decrease/(increase) in inventories	23	(55)
Increase in trade payables	1,111	2,120
Increase in long-term lease obligations	7,011	2,564
Non-cash movements in provisions	-	782
Net operating costs excluding notional and non-cash costs	(106,332)	(101,030)
IFRIC 12 IBM asset movement	(8,741)	(5,866)
Adjustments in year between Animal Health and Defra	(14)	115
<b>Net cash outflow from operating activities</b>	<b>(115,087)</b>	<b>(106,781)</b>

	2009-10	2008-09
	£'000	Restated £'000
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment	(21)	(1,370)
Purchase of intangible assets	(14,667)	(18,103)
Decrease in capital creditors	(2,796)	(1,189)
Proceeds from the disposal of non current assets	89	3
<b>Net cash outflow from investing activities</b>	<b>(17,395)</b>	<b>(20,659)</b>

	2009-10	2008-09
	£'000	Restated £'000
<b>Cash flows from financing activities</b>		
Net cash requirement received from Defra	131,561	133,297
<b>Net financing</b>	<b>131,561</b>	<b>133,297</b>

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### 23. CAPITAL COMMITMENTS

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There were no material capital commitments at 31 March 2010 (2008-09 £nil).

Although the Agency was not committed to making any capital spend at the end of the financial year, capital spend will be incurred during the forthcoming twelve months. Most of this will be incurred on the BRP, and costs will be capitalised thereafter in accordance with the agreed policy. At 31 March 2010, Animal Health was committed to time and materials BRP-related spend of £1.4m during 2010-11. Once this spend has been incurred, and the relevant modules evaluated, the level of capitalisation will be determined.

Through the agreement in place covering accommodation occupied by Animal Health, the Agency has a capital commitment in 2010-11 of £274k, which will be charged in the same way as 2009-10 as a virtual charge.

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### 24. COMMITMENTS UNDER OPERATING LEASES

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Within the operating leases commitment, disclosure of the costs relate to the proportion of the occupation of Defra leasehold properties. These arrangements between Animal Health and Defra reflect a future commitment to reimburse Defra for the underlying rentals paid to landlords for the provision of leasehold accommodation.

	2010 £'000	2009 £'000
Operating lease payments due in:		
Not later than one year	1,787	1,722
Later than one year and not later than five years	5,653	5,827
Later than five years	5,943	6,691
	13,383	14,240

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Of the above, £133k (2008-09 £135k) related to land and £13,250k related to buildings (2008-09 £14,105k).

## 25. OBLIGATIONS UNDER SERVICE CONCESSION ARRANGEMENTS

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

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

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

Any changes to the contract are negotiated and introduced via an approved contract change note (CCN). As the contract was subject to approval only on 1st February 2010, there have been no subsequent amendments to the contract during the remainder of the 2009-10 financial year.

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

	2009-10 £'000	2008-09 £'000
Rentals due within 1 year	1,697	1,760
Rentals due within 2 to 5 years	6,788	2,564
Rentals due thereafter	4,732	-
	<u>13,217</u>	<u>4,324</u>

## 26. OTHER FINANCIAL COMMITMENTS

Within "other financial commitments" the Agency has £1,707k relating to facilities management costs associated with the proportion of occupation of buildings that are either owned or leased by Defra or specialised properties held on the Agency's Statement of Financial Position.

Animal Health is committed to meet the remainder of the payments to IBM that relate to the service element of the contract referred to in Note 25. Amounts payable are as follows:

	2009-10 £'000	2008-09 £'000
Not later than 1 year	-	-
Later than 1 year and not later than 5 years	-	12,345
Later than 5 years	20,806	-
	<u>20,806</u>	<u>12,345</u>

## 27. CONTINGENT LIABILITIES

There were no material contingent liabilities at 31 March 2010 (2008-09 £nil).

## 28. LOSSES AND SPECIAL PAYMENTS

	2009-10	2008-09
Cases	8	15
Cost £'000	26	78

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## 29. RELATED PARTY TRANSACTIONS

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Animal Health is an Executive Agency of Defra and is sponsored by it. During the period ended 31 March 2010, Defra funded Animal Health and provided a number of corporate services to Animal Health. In addition, Animal Health had a number of operational transactions with the Department's other Executive Agencies, (the Food and Environmental Research Agency, the Rural Payments Agency, the Veterinary Laboratories Agency and the Veterinary Medicines Directorate), and with other Government bodies, notably the Scottish Government, the Welsh Assembly Government, the Food Standards Agency and the Meat Hygiene Service.

£181k was paid in the year on an arms-length basis to Honddu (formerly McAllister & Davies) for veterinary services (2008-09 £119k). These transactions are disclosed as a partner in the practice is married to an Animal Health member of staff.

During the year, an undisclosed conflict of interest was identified with a member of senior management. The conflict concerned the recruitment of contractors from Hayden Consulting Limited through Pentir Talent Solutions, where a close personal relationship existed between the member of Animal Health senior management and Hayden Consulting Limited. The total amount paid in the year to Pentir Talent Solutions was £1,777k of which the related party transaction is only part.

None of Animal Health's Board members, other key managerial staff or other related parties undertook any material transactions with Animal Health during the period.

The Agency keeps a fully-updated register of interests.

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## 30. EVENTS AFTER THE REPORTING PERIOD

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Animal Health's financial statements are laid before the Houses of Parliament by the Secretary of State for Defra. IAS 10, *Events After the Reporting Period*, requires Animal Health to disclose the date on which the accounts are authorised for issue. The authorised date for issue is the 21 July 2010.

On 29 June 2010, as one of the first outcomes of a review of Defra delivery bodies, the Secretary of State announced that Animal Health should merge with another Defra Executive Agency, the Veterinary Laboratories Agency during 2010-11, with the exact timing still to be decided upon. Further announcements are expected as part of the spending review in October 2010. The merger will see the existing functions of the two bodies continue in the new merged entity and therefore the preparation of the financial statements on a going concern basis remains appropriate.



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ANIMAL HEALTH IS AN EXECUTIVE AGENCY OF THE DEPARTMENT FOR ENVIRONMENT,  
FOOD AND RURAL AFFAIRS AND ALSO WORKS ON BEHALF OF THE SCOTTISH GOVERNMENT,  
WELSH ASSEMBLY GOVERNMENT AND THE FOOD STANDARDS AGENCY.

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