



ANNUAL REPORT AND ACCOUNTS
2007 – 08



OUR PRINCIPAL PURPOSE

We seek to minimise the risk and impact of notifiable animal diseases for the protection of the economy and public health throughout Great Britain.

OUR OBJECTIVES

We work collaboratively with livestock keepers, delivery partners, the Scottish and Welsh Governments and the Department for Environment, Food and Rural Affairs (Defra) to deliver jointly Great Britain's Animal Health and Welfare Strategy. In addition during 2007-08 we have sought to:

- ◆ develop our capacity to deliver our purpose;
- ◆ continue to reform the way we work; and
- ◆ increase our responsiveness to customer needs.

ABOUT US

Animal Health is an Executive Agency of Defra. We work throughout the United Kingdom for Defra, the Scottish Government, the Welsh Assembly Government and the Food Standards Agency¹.

¹ England, Scotland and Wales form the epidemiological unit of Great Britain and Animal Health works with Defra, the Scottish Government and the Welsh Assembly, to whom animal health and welfare policy is devolved, to deliver their respective policies. Animal Health also has responsibility for wildlife licensing and registration in Northern Ireland. Northern Ireland forms an epidemiological unit with Eire and determines other policies accordingly.



Annual Report and Accounts 2007-08

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TABLE OF CONTENTS

1	Chief Executive's statement	5
2	Managing exotic disease	8
3	Endemic disease and other work	18
4	Organisational change	23
5	Performance against targets	28
6	Governance and the remuneration report	37
7	Financial review	42
8	Plans and priorities	48
9	Statement of Accounts	51

Where footnotes are used, please refer to the end of the relevant section for a full reference.





1 CHIEF EXECUTIVE'S STATEMENT



In 1 April 2007, the State Veterinary Service, Egg Marketing Inspectorate, and Wildlife Licensing and Registration Service merged to form Animal Health following the recommendations of the Hampton Review². The Dairy Hygiene Inspectorate had previously merged with the State Veterinary Service as part of this change on 1 October 2006.

Our work, costing around £2 per head of Great Britain's population in 2007-08³, is wide-ranging. It includes: preparing for and managing outbreaks of notifiable animal disease; protecting public health through activities such as inspecting dairies, egg production and the disposal of products of animal origin not fit for human consumption; and regulating trade in endangered species of animals and plants.

The risks posed by notifiable animal disease continue to evolve with globalisation and climate change altering their geographical spread. May 2007 saw an outbreak of avian influenza and by March 2008 we had investigated 841 suspected exotic notifiable disease cases and had taken action in the 129 that were diagnosed. 414 of the suspected cases related to bluetongue, a disease which first appeared in Great Britain in the year. There was also a second outbreak of avian influenza, an incident of avian influenza in wild swans, a case of contagious equine metritis and the widely reported outbreak of foot and mouth disease.

I am immensely proud of the sheer hard work, responsiveness and commitment shown by Animal Health's staff during these outbreaks and the contribution they made to eradicate disease and regain Great Britain's international, disease-free status for avian influenza and foot and mouth disease with the economic and other benefits this brings. That said, it remains evident that Animal Health's capacity to respond to a widespread or prolonged outbreak is limited and the question of what emergency capacity Great Britain should have, and how this should be paid for, is one which will continue to occupy significant attention as work on sharing responsibility and costs with the farming and food industry develops.



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Professor
Steve Edwards

While the avian influenza and foot and mouth disease outbreaks were the most noticeable events in 2007-08, these outbreaks took place against a background of continuing effort to contain the effects of bovine tuberculosis and responding to other endemic diseases and welfare cases.

New work was also generated by new policies. As part of the change in the way EU payments may be made to livestock keepers, we have assumed responsibility for undertaking checks on the welfare of livestock to substantiate claims made. Work has also been transferred from Defra and the Scottish Government to Animal Health and we have begun a substantial programme to reform the systems and processes to identify, locate and trace livestock in partnership with livestock keepers and industry.

In addition to responding to these external developments, the Agency has continued to develop a number of change programmes. We have implemented a new operations structure to support fieldwork, we have piloted new ways of working with private veterinarians who work as Official Veterinarians, and we have developed the first operational module (which will be implemented during 2008-09) of our IT-driven Business Reform Programme.

For a new organisation, 2007-08 was immensely challenging and it is to everyone's credit that so much has been achieved. We have not achieved this alone however; animal health and welfare activities

in Great Britain are delivered through extensive delivery chains in which Animal Health has a key role and in which we need to work closely with others. In presenting this Annual Report, I wish to acknowledge and thank colleagues in Defra, the Scottish Government and in the Welsh Assembly Government for their assistance and support during the year. I also wish to thank Official Veterinarians and our many other operational partners across the public sector and in the livestock industry.

Finally, I must acknowledge the work of my predecessor, Glenys Stacey, who was Chief Executive during most of the year and who has been Chief Executive of Animal Health's key constituent body, the State Veterinary Service, since it became an executive agency of Defra in 2005. Glenys, assisted by the dedication, professionalism and enthusiasm of the Agency's staff, has provided Animal Health with a sound foundation on which to build. I took up my post as interim Chief Executive in March 2008 to assist the Agency until a long-term successor can be appointed and I know that I shall pass on an agency committed to serve both the needs of our customers in the immediate term and, by developing the Agency's capacity and capability, also able to meet those needs in the future.

Professor Steve Edwards, Chief Executive
22 May 2008

2 *Reducing administrative burdens: effective inspection and enforcement*. Philip Hampton March 2005: www.hm-treasury.gov.uk/budget/budget_05/other_documents/bud_bud05_hampton.cfm

3 Dividing Animal Health's 2007-08 Net Operating Costs by the Office of National Statistics' estimate of Great Britain's mid-2006 population (which is the latest available): www.statistics.gov.uk/cci/nugget.asp?id=6





The positive impact of animal health policies on poverty reduction and public health is in itself ample justification for financing and maintaining surveillance networks and rapid response teams to deal with any recognised animal health threat.

Bernard Vallat – Director General World Organisation for Animal Health



2 MANAGING EXOTIC DISEASE

A changing threat



Animal Health implements and enforces English, Scottish, Welsh and European Union policies in Great Britain that seek to:

- ◆ prevent, control and where feasible, eradicate, notifiable animal diseases;



- ◆ prevent notifiable animal diseases from entering the human food chain and endangering public health, the economy and rural communities;
- ◆ prevent notifiable diseases from damaging the economy and rural communities;
- ◆ promote the welfare of farmed animals; and
- ◆ control the international movement of animals and animal products.

A notifiable animal disease is one which, if suspected or identified, must by law be notified to the veterinary authorities. Diseases can be either endemic, meaning that they are continually present, such as tuberculosis in cattle, or exotic, meaning that they are not normally found in Great Britain, such as avian influenza or foot and mouth

disease. (Some diseases are also zoonotic; that is they can be transmitted naturally between vertebrate animals and humans).

The exotic diseases which are notifiable in Great Britain are set out in Table 1 together with the animals affected, whether the disease is zoonotic and the year in which the disease last occurred (the table excludes outbreaks that may have occurred after 22 May 2008, the date on which the Statement of Accounts was signed). In addition to the diseases listed, Animal Health also needs to be alert to possible new diseases; reports were received in the year of possible new diseases in China and in North America, which are being investigated by their respective authorities.

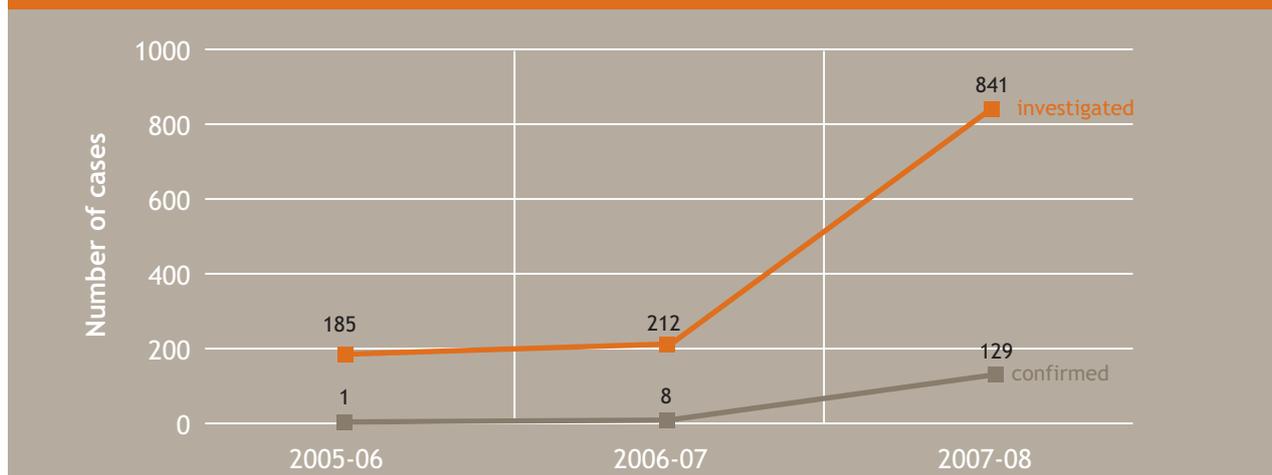
Table 1 Exotic notifiable animal diseases in Great Britain

Notifiable disease	Zoonotic	Species affected	Last occurred
African horse sickness		Horses	Never
African swine fever		Pigs	Never
Aujeszky's disease		Pigs and other mammals	1989
Avian influenza	◆	Poultry and other birds	2008
Bluetongue		Cattle, sheep and goats	2008
Brucellosis (<i>Brucella abortus</i>)	◆	Cattle	2004
Brucellosis (<i>Brucella melitensis</i>)	◆	Sheep and goats	1956
Classical swine fever		Pigs	2000
Contagious agalactia		Sheep and goats	Never
Contagious bovine pleuro-pneumonia		Cattle	1898
Contagious epididymitis (<i>Brucella ovis</i>)		Sheep and goats	Never
Contagious equine metritis		Horses	2008
Dourine		Horses	Never
Enzootic bovine leukosis		Cattle	1996
Epizootic haemorrhagic virus disease		Deer	Never
Epizootic lymphangitis		Horses	1906
Equine viral arteritis		Horses	2004
Equine viral encephalomyelitis	◆	Horses	Never
Equine infectious anaemia		Horses	1976
Foot and mouth disease		Cattle, sheep, pigs and other cloven-hoofed animals	2007
Glanders and farcy	◆	Horses	1928
Goat pox		Goats	Never
Lumpy skin disease		Cattle	Never
Newcastle disease		Poultry and other birds	2006
Peste des petits ruminants		Sheep and goats	Never
Rabies	◆	Dogs, bats and other mammals	2006
Rift Valley fever	◆	Cattle, sheep and goats	Never
Rinderpest		Cattle	1877
Sheep pox		Sheep	1866
Swine vesicular disease		Pigs	1982
Teschen disease (Porcine enterovirus encephalomyelitis)		Pigs	Never
Vesicular stomatitis		Cattle, pigs and horses	Never
Warble fly		Cattle, deer and horses	1990
West Nile fever	◆	Horses	Never

Measures to prevent and detect notifiable animal diseases cover all aspects of animal husbandry and related activities. They include: promoting and ensuring standards of biosecurity; surveillance; inspections; testing programmes; animal movement controls; tracing contacts of diseased animals; controls on animal foodstuffs; and controls on the disposal of animals and their by-products.

The nature of infectious animal diseases cannot be predicted with precision and new pathogens can appear and mutate. Should a case of exotic animal disease be identified, contingency plans and preparations enable us to respond quickly. Working in partnership with the Chief Veterinary Officers and policy colleagues in Defra, the Scottish Government and the Welsh Assembly Government, Official

Chart 1 Exotic disease cases



Veterinarians, the livestock industry, local authorities, the police and other operational partners, measures are put in place to reduce the spread of disease and control it. These include the establishment of protection and surveillance zones, the implementation of movement restrictions, tracing movements of animals and vehicles and the culling, vaccination or isolation of infected animals. In addition, tracings and epidemiological investigations are instigated to determine the origin, cause and likely spread of the disease and prevent their recurrence.

The impact of exotic notifiable diseases on the food and farming industry and upon the rural economy in general can be dramatic as can be the cost to the public purse. The 1967-68 foot and mouth disease outbreak, for example, cost the public purse around £370m in 2001 prices and the 2001 outbreak cost around £3bn. In contrast, the nature of the 2007 outbreak and the co-ordinated and swift response to it cost Defra and Animal Health around £47m with Animal Health's additional costs being around £12m⁴.

The positive impact of animal health policies on poverty reduction and public health is in itself ample justification for financing and maintaining surveillance networks and rapid response teams to deal with any recognised animal health threat

Bernard Vallat – Director General World Organisation for Animal Health⁵.

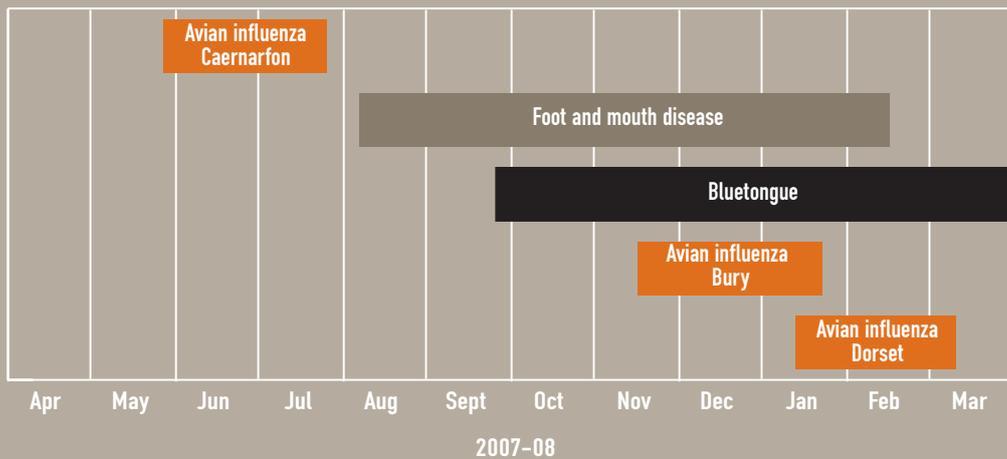
The extent of the task faced by Animal Health is partly indicated by the number of animals involved. Defra's annual agricultural survey published in June 2007 showed there were 8.4m cattle and calves,

32m sheep and lambs, 4.6m pigs and 150m poultry in Great Britain⁶.

Globalisation and climate change, together with changing farming practice, combine to increase the challenge faced in keeping Great Britain free of exotic notifiable animal disease. Globally, 182 outbreaks were reported to the World Organisation for Animal Health in 2007 and 36 outbreaks have been reported between January and March 2008⁷. In Great Britain, the number of investigations into suspected exotic notifiable disease cases and the number of cases confirmed have increased in each of the past three years. Chart 1 above shows this increase and the 841 reports of suspected exotic disease investigated and the 129 cases confirmed in 2007-08, of which three were declared to be outbreaks⁸.

414 cases in 2007-08 involved bluetongue, a disease which, until it appeared in north western Europe two years ago, affected southern Europe and north Africa. The disease, carried by certain species of biting midge, arrived in Great Britain in September 2007 when the wind direction blew midges across the North Sea. As infection is midge-to-animal rather than animal-to-animal, bluetongue is not readily susceptible to all of the normal disease control and eradication measures. In line with the response strategy and control measures agreed with the livestock industry, individual animals have been tested and considerable work has been undertaken tracing animals subject to movement restrictions from the Protection Zones (which has increased as they have been extended). In addition, epidemiological work has been undertaken when cases have been confirmed and regular information has been communicated to farmers, the livestock industry, private veterinarians and members of the public.

Chart 2 Disease timeline



The above chart shows the timeline for the start of each outbreak through to the lifting of restrictions. Bluetongue activities continue into the following financial year.

Different diseases – different challenges

FOOT AND MOUTH DISEASE

Each disease differs in its nature and in the response required. The first confirmed case of foot and mouth disease in six years was diagnosed in August 2007. To contain its spread, the virulent nature of foot and mouth disease demands a response that is both rapid and thorough. This includes the slaughter of affected animals and those with which they have come into contact, the safe disposal of their infected carcasses, the cleansing and disinfecting of infected premises, the tracing of animal and human movements on to and from the infected farms and other property, an epidemiological investigation to identify the source of infection, and surveillance to identify possible disease spread.

Speed matters. A report to an Animal Health Divisional Office of a suspected case of foot and mouth disease is a very serious matter, and Animal Health vets are well versed in the detail of their response. Anderson Review 2007⁹.

AVIAN INFLUENZA

Outbreaks of avian influenza in poultry occurred in May and November 2007 and cases in wild birds were diagnosed in January 2008. In May 2007, poultry in North Wales, which had been bought from a market in Lancashire, was found to have the H7N2

strain of avian influenza (one of several possible strains). Over 220 identified contacts in the market were traced to track the source of the infection and the extent to which the disease might have spread. In November 2007, poultry on the Norfolk/Suffolk border being reared for the Christmas market was found to have the H5N1 strain of avian influenza. Avian influenza has both an economic and potentially a public health impact with the industry having an estimated turnover of £1.6bn in 2006¹⁰ and the H5N1 strain having a high mortality when passed (with difficulty) to humans.

The immediate news interest in disease outbreaks can be short-lived but the work to enable the resumption of farming activity and, through widespread surveillance and testing, to demonstrate that the disease has been eradicated can continue for a considerable period of time. Following extensive surveillance in the area affected by foot and mouth disease, the World Organisation for Animal Health reinstated Great Britain’s foot and mouth disease free status in February 2008. In 2006, the last full year for which information is available, exports were valued at £823m¹¹. Without disease free status, these exports of meat and animal products would be restricted or banned.

FINDING FOOT AND MOUTH DISEASE

Emma Paul, Veterinary Officer,
Reigate Animal Health Divisional Office

I was on call on Thursday 2 August 2007 and received a pager message about 7.00pm that a farmer was worried about her cattle. I arrived at the farm near Guildford at about 8.15pm just as it was starting to get dark.

The herd of 38 beef animals did not look sick. They were standing up and looked to be grazing but were in fact just mouthing the grass. Although they were hungry they were unable to eat because their mouths were so sore.

I suspected foot and mouth disease, and in accordance with procedures, spoke to the Defra duty vet. As speed was important it was agreed that I would re-examine the animals at first light. I met a colleague, Frances Owen, at 5am at the Reigate Animal Health Office and was back at the farm by 6am.

I opened the mouth of the first animal and found a 3cm round lesion, bleeding gums and bad halitosis. The second was worse. As clinical signs of different diseases are often similar, we took blood and tissue samples and dispatched them to a veterinary laboratory for analysis to confirm diagnosis.

While we awaited the results, two colleagues joined us and a one-kilometre control zone was set up around the property as a precaution. Laboratory tests confirmed it was foot and mouth disease and by early evening the National Exotic Disease Contingency Plan had been implemented.

The Reigate Animal Health office transformed itself into a Local Disease Control Centre, and by Saturday staff from across the country had

started to arrive to bolster our local team. We also called upon Official Veterinarians from local veterinary practices who can support us in such a situation.

By Sunday, all 38 animals on the farm had been culled and I spent most of the day helping the epidemiology team in the National Disease Control Centre identify the source of the virus and how it may have been transmitted.

Before the outbreak was over, sites owned by seven other farmers were found to be infected. Seven months later, these sites were still under restrictions and the outbreak had affected farmers across the whole country. Foot and mouth disease is highly infectious and that means it is important we react quickly and effectively to control it when suspected.



DISEASE DETECTIVES

Kate Sharpe, Divisional Veterinary Manager
Leeds Animal Health Divisional Office

Epidemiological advice was crucial in the foot and mouth disease and avian influenza outbreaks.

Divisional Veterinary Manager Kate Sharpe headed the Animal Health epidemiology team during the year. Kate says that like scene-of-crime investigators, epidemiologists begin by gathering and piecing together relevant information.

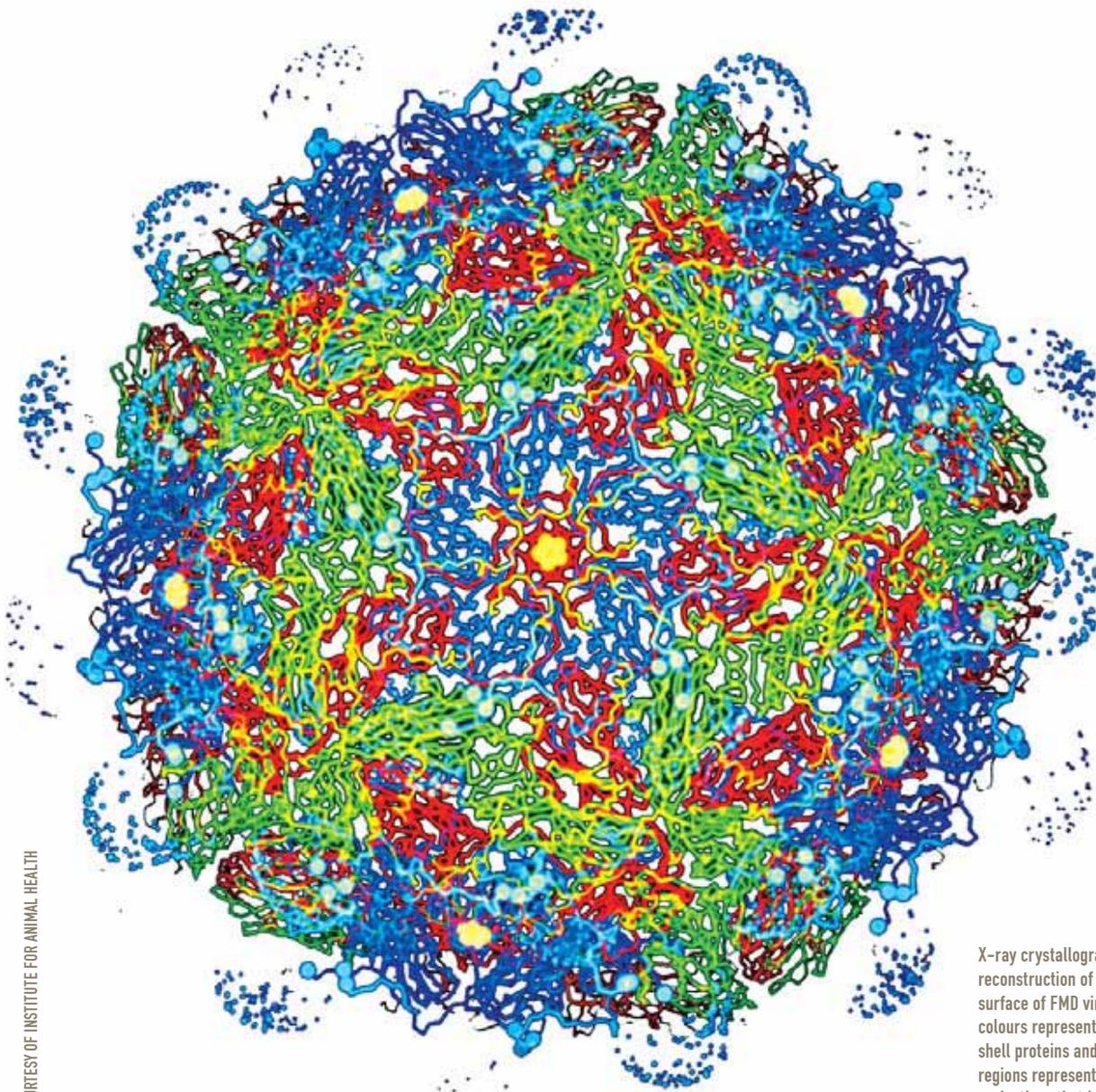
To help estimate when the infection might first

have been introduced and to where it might have spread, Animal Health staff gathered information in the field for the epidemiology team. This included a full clinical history of the animals concerned and movements that may have brought disease on to or carried it off a farm.

During the foot and mouth disease outbreak, the epidemiology team also worked with other experts such as members of the Health and

Safety Executive and Spratt Review teams investigating the IAH Laboratory at Pirbright and during the avian influenza outbreaks with ornithologists.

By seeking and reviewing such evidence, the team was able to show how and when infection spread to the first infected farm and then to and between the other seven infected premises. This informed and helped prioritise the control measures taken.



X-ray crystallographic reconstruction of the external surface of FMD virus. Different colours represent different shell proteins and the 'whispy' regions represent the flexible projections that bind to cell attachment sites and are a major target for antibodies.



Contingency Planning

Emergency preparedness is taken seriously by Animal Health and is fully understood to be a core function. Anderson Review 2007¹².

Working with Defra and other delivery partners, Animal Health develops, refines and tests contingency plans for managing exotic disease outbreaks. Lessons learnt from disease outbreaks and test exercises are sought and implemented as part of a process of continual improvement.

Although the intended national exercise for classical swine fever in 2007 was deferred as a result of actual disease outbreaks, the extension of an externally-assessed emergency readiness management assurance scheme to cover corporate functions (e.g. HR, Finance and Communications) as well as Animal Health Divisional Offices was implemented as planned. The results indicated a year-on-year improvement in the level of preparedness.

Communications were much better handled in 2007 (than 2001).

Anderson Review 2007¹³.

As part of its programme of continual improvement, Animal Health implemented **inStant**, a fax, text and voicemail messaging and email service in the year to communicate rapidly with livestock keepers, Official Veterinarians and members of the public. Over one million messages were sent during the avian influenza and foot and mouth disease outbreaks and in response to bluetongue, to provide updates on the diseases and information on the restrictions in force.

We recommend that the Business Reform Programme and the associated Livestock Partnership Programme be prioritised and appropriately funded by Defra and Animal Health.

Anderson Review 2007¹⁴.

While recognising what has been done well, the Agency is not complacent about what can be done better. Through the Business Reform Programme, Animal Health is strengthening its business systems and processes to provide better data and strengthen its ability to respond to future outbreaks as well as to support its non-outbreak activities.

⁴ Foot and Mouth Disease 2007 – A Review and Lessons Learned. Chaired by Dr Iain Anderson.

www.defra.gov.uk/news/latest/2008/animal-0311.htm

⁵ Access to regional and global markets for all: a new priority for the OIE

www.oie.int/eng/edito/en_lastedito.htm

⁶ http://statistics.defra.gov.uk/esg/statnot/june_uk.pdf and <http://www.dardni.gov.uk/index/dard-statistics.htm>

The numbers shown are those for the United Kingdom less those for Northern Ireland.

⁷ http://www.oie.int/wahid-prod/public.php?page=country_reports&year

⁸ For a confirmed case to be considered an outbreak, a disease must be circulating between animals.

⁹ Foot and Mouth Disease 2007 – A Review and Lessons Learned. Chaired by Dr Iain Anderson.

www.defra.gov.uk/news/latest/2008/animal-0311.htm

¹⁰ National Farmers Union <http://www.nfuonline.com/x25126.xml>

¹¹ <http://statistics.defra.gov.uk/esg/publications/auk/2007/09%20AUK%202007%20Chapter%208.pdf>

¹² Foot and Mouth Disease 2007 – A Review and Lessons Learned. Chaired by Dr Iain Anderson.

www.defra.gov.uk/news/latest/2008/animal-0311.htm

¹³ *ibid*

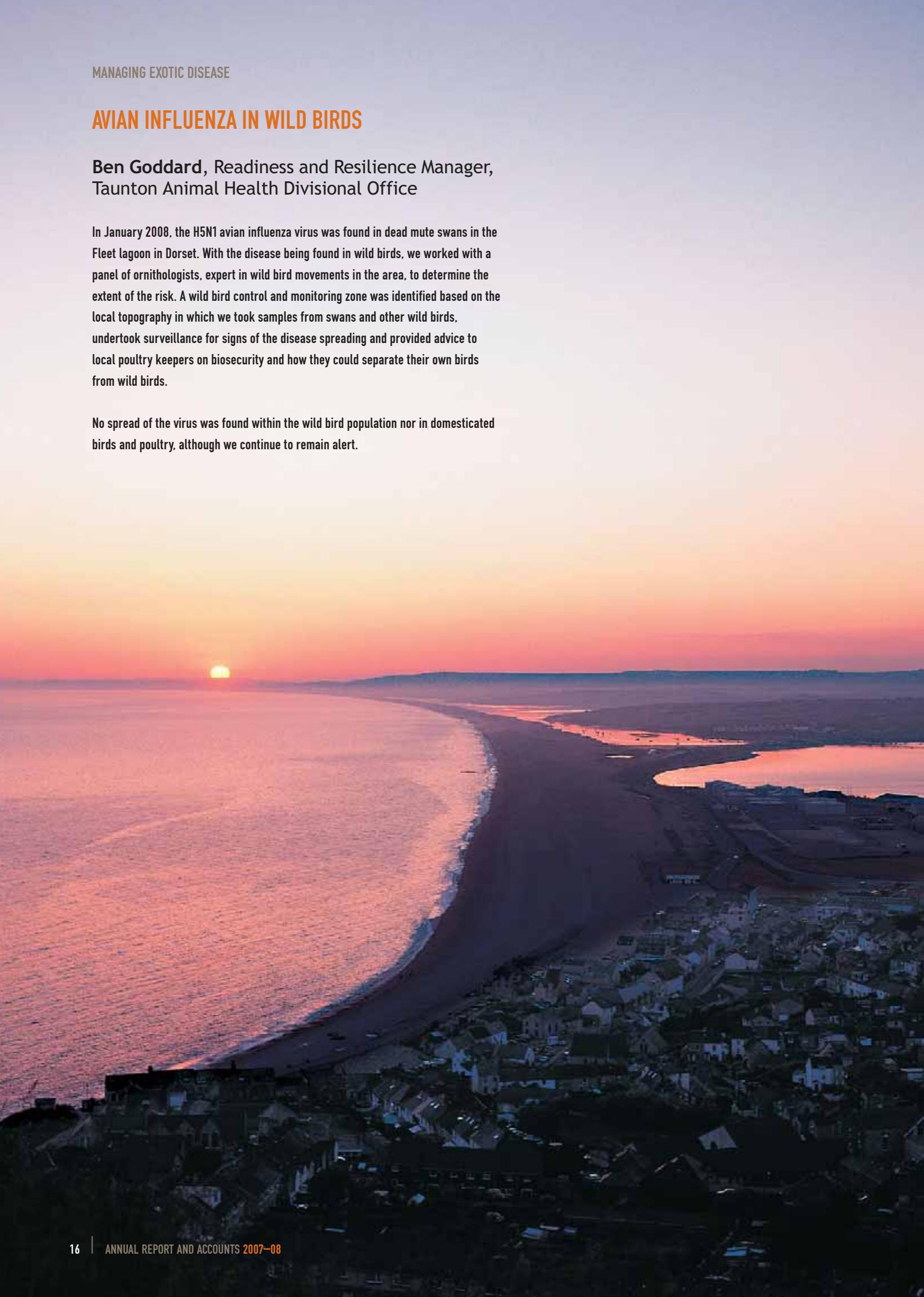
¹⁴ *ibid*

AVIAN INFLUENZA IN WILD BIRDS

Ben Goddard, Readiness and Resilience Manager,
Taunton Animal Health Divisional Office

In January 2008, the H5N1 avian influenza virus was found in dead mute swans in the Fleet lagoon in Dorset. With the disease being found in wild birds, we worked with a panel of ornithologists, expert in wild bird movements in the area, to determine the extent of the risk. A wild bird control and monitoring zone was identified based on the local topography in which we took samples from swans and other wild birds, undertook surveillance for signs of the disease spreading and provided advice to local poultry keepers on biosecurity and how they could separate their own birds from wild birds.

No spread of the virus was found within the wild bird population nor in domesticated birds and poultry, although we continue to remain alert.



IMPROVING COMMUNICATION DURING NOTIFIABLE DISEASE OUTBREAKS

Adrian Rogers,
External Communication Manager

Good communication is essential for effective disease control. When disease is confirmed, we need to tell livestock keepers, the veterinary profession, local residents and other stakeholders as quickly as possible.

During 2007-08, Animal Health has striven hard to improve communications, using new ways to reach people quickly. In addition to traditional channels such as the media and, in some cases hand-delivered information, we have sought to embrace newer technologies.

During 2007-08 we enhanced our **inStant** messaging system enabling large numbers of people and organisations to be contacted simultaneously by email, fax, SMS and voicemail.

We also introduced **Disease Alerts**, a free news alert service for those who register their contact details. Once registered, subscribers receive alerts on up to five notifiable animal diseases – foot and mouth disease, bluetongue, avian influenza, Newcastle disease and classical swine fever. Subscribers can choose to receive alerts via voicemail on a landline or mobile telephone, or via text, fax or email. (To subscribe go to www.defra.gov.uk/animalhealth or telephone 0844 884 9888 and follow the press button instructions).

For people who do not register, we introduced a recorded information line enabling callers to listen to animal disease related news published on the Defra or devolved administrations' websites. (Telephone 0844 844 4600).



3 ENDEMIC DISEASE AND OTHER WORK



Endemic diseases are those that are normally present in Great Britain. Table 2 shows the notifiable diseases that are endemic, together with the animals affected and whether the disease is zoonotic.

Table 2 Endemic notifiable animal diseases

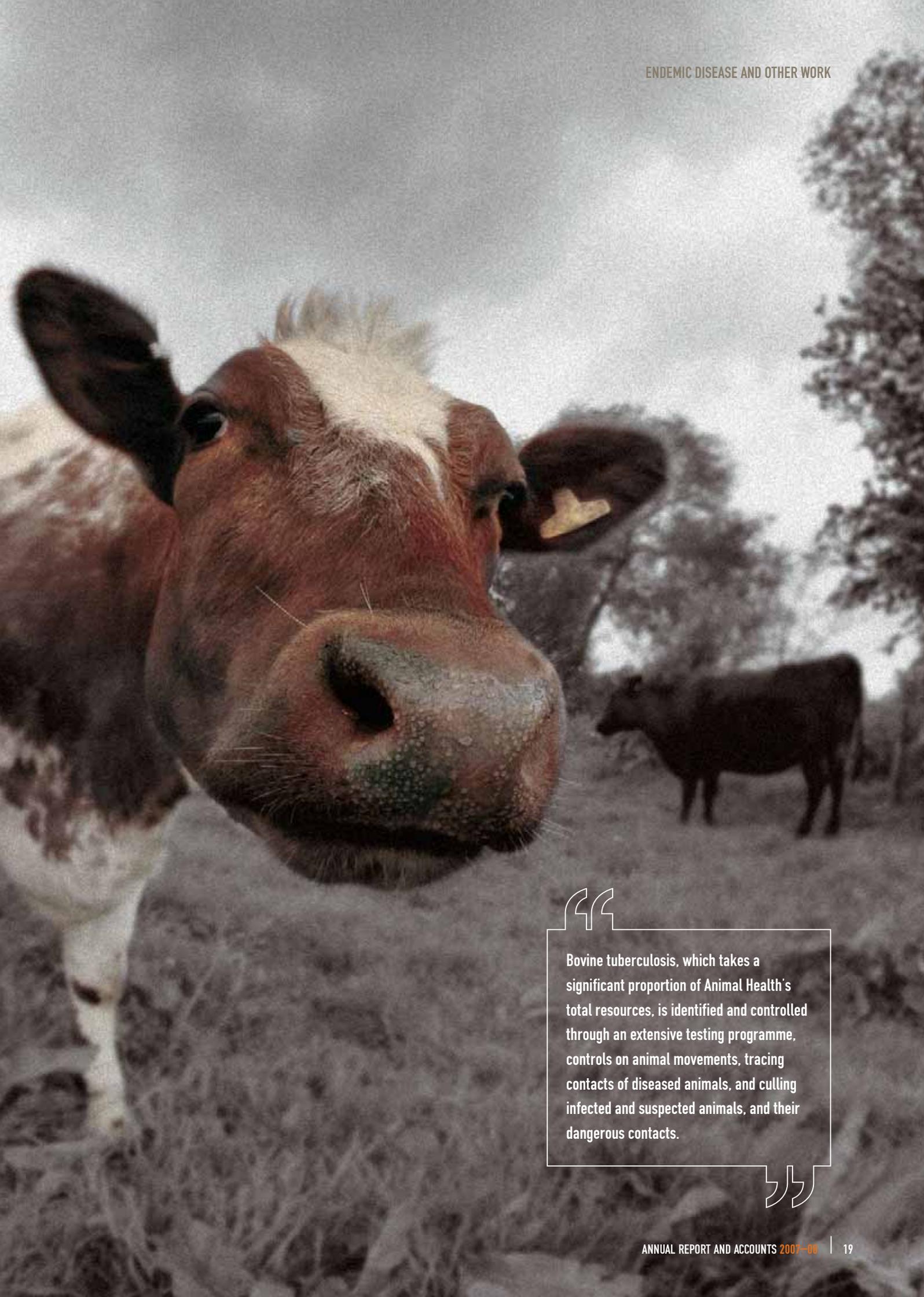
Notifiable disease	Zoonotic	Species affected
Anthrax	◆	Cattle and other mammals
Bovine spongiform encephalopathy (BSE)	◆	Cattle
Bovine tuberculosis	◆	Cattle and deer
Paramyxovirus of pigeons		Pigeons
Scrapie		Sheep and goats

Against the challenging background of the exotic disease outbreaks in the year, Animal Health has continued to deliver its other activities, although work has had to be reduced, rescheduled or deferred until 2008-09 to free capacity to deal with the outbreaks. One activity which continued to receive priority however was bovine tuberculosis given its impact on animals, on livestock keepers who are affected by the disease and on livestock keepers who seek to remain disease free.

Bovine tuberculosis, which takes a significant proportion of Animal Health's total resources, is identified and controlled through an extensive testing programme, controls on animal movements, tracing contacts of diseased animals, and culling infected and suspected animals, and their dangerous contacts. In total, some 5.9m animals were tested in 2007-08 and almost 30,000 were culled (2006-07 5.6m and 23,000 respectively). During the year, Animal Health began to use the recently-developed gamma-interferon test as an alternative, in certain circumstances, to the traditional skin test. As of March 2008, 90.8% of herds were unaffected by bovine tuberculosis but 9.2% were affected and were subject to restrictions.

Work also continued against the threat posed by transmissible spongiform encephalopathies – BSE in cattle and scrapie in sheep and goats. From a peak of over 36,000 cases in 1992, the number of cases





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Bovine tuberculosis, which takes a significant proportion of Animal Health's total resources, is identified and controlled through an extensive testing programme, controls on animal movements, tracing contacts of diseased animals, and culling infected and suspected animals, and their dangerous contacts.

”

has progressively reduced as a consequence of the control measures adopted. In 2007-08, Animal Health investigated 107 suspected cases of BSE and confirmed six (a further 42 were confirmed through stock which died on farms and at slaughterhouses).

In addition, Animal Health continued to implement the Compulsory Scrapie Flocks Scheme which seeks to eliminate the disease in flocks when confirmed, and the voluntary Ram Genotyping Scheme which seeks, through selective breeding, to eliminate the gene which increases susceptibility to the disease. Membership of this voluntary scheme has grown to over 12,000 flocks and during 2007-08 approximately 100,000 ram lambs were genotyped. The results of these genotyping tests, regular surveillance on farms and in abattoirs and the reducing number of confirmed cases found indicate that the incidence of scrapie is declining.

The management of the quarantine system, pet passports and post-import checks help to protect against disease being imported. Checks made on animal foodstuffs, veterinary medicines and on the safe disposal of animal by-products support public health, and inspections carried out by Egg Marketing and Dairy Hygiene on behalf of the Food Standards Agency help ensure food safety.

Egg Marketing Inspectors enforce EU Egg Marketing Regulations and EU Hatching Eggs and Chick Regulations in England and Wales at all marketing stages prior to retail. At 31 March 2008, there were over 5,600 registered egg marketing businesses in England and Wales and during 2007-08 over 8,300 inspections were completed.

Dairy Hygiene Inspectors register dairy farms, inspect milking premises, equipment and milk-producing animals to protect public health in England and Wales. During 2007-08, Dairy Hygiene Inspectors completed over 11,900 inspections of the

12,329 registered milk producers in England and Wales of which 12,160 had dairy cows and the remainder, sheep, goats and buffalo.

Animal Health contributes to establishing and maintaining animal welfare standards by checking animals on farms, during transport, at market and at slaughter (except at licensed abattoirs that are served by Official Veterinarians working for the Meat Hygiene Service). Where welfare problems arise, there are a range of enforcement actions available, including giving advice, issuing warning letters, serving statutory notices or referral for prosecution. Where prosecution is appropriate, the Agency may provide the relevant local authority with witness statements. In England and Wales, local authorities have the responsibility to prosecute and the Agency may act as expert witnesses. In Scotland, the Procurator Fiscal has the responsibility to prosecute.

New work in 2007-08, driven by recent EU regulations, included checks on the welfare of livestock to substantiate claims which may be made by livestock keepers under the Single Farm Payment Scheme. Animal Health prioritised its welfare work in the year to support this new work and continued to give this welfare work priority during the exotic disease outbreaks. Around 1,100 such checks were made in a total of around 14,000 welfare inspections.

Animal Health's Wildlife Licensing and Registration Service (WLRS) delivers the United Kingdom's responsibilities under the Convention on International Trade in Endangered Species and in conjunction with partners in enforcement agencies, plays an important role in controlling illegal trade. Over 22,000 licences to transport endangered species to, from or through the United Kingdom were issued in the year and just under 30,000 certificates were issued for their commercial use in the EU. WLRS also registered over 10,000 birds protected under the Wildlife and Countryside Act.







The new structure is already increasing the consistency of delivery throughout Great Britain as well as the Agency's operational capability and capacity, and is enabling a greater focus to be placed on stakeholders' needs.



4 ORGANISATIONAL CHANGE



The State Veterinary Service, Egg Marketing Inspectorate, and Wildlife Licensing and Registration Service merged to form Animal Health as an executive agency of Defra on 1 April 2007. The Dairy Hygiene Service had previously merged with the State Veterinary Service on 1 October 2006. The name Animal Health was chosen to encompass the Agency's diverse role which stretches from animal welfare inspections, surveillance for and control of disease, the inspection and licensing of premises, to the protection of endangered species.

In recommending these (and other) mergers, the Hampton Review¹⁵ sought to reduce the burden of inspection and enforcement by encouraging services to be delivered in a more co-ordinated way. While this objective is clearly commendable, the report's recommendations were based on principle rather than upon specific business cases. As Animal Health's extensive and varied work is based on a similarly extensive and varied legislative base, opportunities to lessen burdens in the short-term are limited. Despite this, synergies can be seen in the future and Animal Health is seeking to build on internally apparent benefits, (such as the potential ability to deploy Egg Marketing Inspectors to help respond to exotic animal disease emergencies), and work to implement these changes has progressed.

As traditional farming practices change, the landscape the Agency operates in is becoming increasingly fragmented. Increasingly, the traditional farm is giving way to farming units operating from multiple sites over wider geographic areas alongside a growth in keeping livestock on a small scale or as a hobby. These changes increase the diversity of livestock keepers, the associated delivery complexity and the risk of notifiable animal disease.



REFORMING THE WAY WE WORK

Richard Jones,
Acting Chief
Egg Marketing Inspector

To improve the way we work, Animal Health Egg Marketing Inspectors are trialling the use of digital pens to capture data. Replacing the need to re-enter data written in notebooks during visits, the digital pens use optical character recognition to enable information to be uploaded directly into computers. It is hoped that the pens will reduce the time currently needed for administration and allow more for inspections.

Working in partnership

Much of Animal Health's work is performed in partnership with others, and building and maintaining effective relationships with operating partners and other stakeholders is essential. Animal Health works closely with the Chief Veterinary Officers in Defra, the Scottish Government and the Welsh Assembly Government, with the Food Standards Agency and with other delivery agencies including for example, the Rural Payments Agency and Veterinary Laboratories Agency. Animal Health also works closely with Local Authorities who have the responsibility in England and Wales to enforce animal health and welfare legislation through the courts where necessary, and with Official Veterinarians who carry out work on our behalf.

As well as seeking improvements itself, Animal Health is participating in its partners' initiatives to improve service: in England, Animal Health is participating in Defra's *Whole Farm Approach* initiative and in Scotland, in the Scottish Government's *Scottish Environmental and Rural Services Project (SEARs)*, both of which, in accordance with the Hampton Report's aspirations, seek to ease access to services and deliver more joined-up working by the delivery bodies involved.

In addition to working in partnership with other public bodies, Animal Health is also working with the food and farming industry to develop a new system and associated processes to identify, locate and trace livestock. This work, which began in 2007-08, will take several years to implement but the benefits of working in partnership are already visible.

Developing operational capability

Operational delivery was strengthened in the year with the implementation of a new operational management structure headed by a Chief Operating Officer and supported by field management, veterinary and planning and performance roles. The new structure is already increasing the consistency of delivery throughout Great Britain as well as the Agency's operational capability and capacity, and is enabling a greater focus to be placed on stakeholders' needs.

The majority of Animal Health's work involves surveillance to seek out notifiable animal disease. Activities are driven by risk-based policies agreed in conjunction with Defra, the Scottish Government, the Welsh Assembly Government and the Food Standards Agency. Following a review of the risk relating to brucellosis, the related surveillance activity was significantly reduced in 2007-08 enabling resources to be recycled to other activities.

With work progressing in governments on sharing the responsibilities and costs of animal disease activities with livestock keepers and the wider livestock industry, Animal Health has begun work to articulate its approach to surveillance, inspection and enforcement, so that livestock keepers and those supplying them are clearer about the Agency's work and how it carries out its activities.

Business reform

The Business Reform Programme is an IT-driven change programme which, by replacing IT systems



REFORMING THE WAY WE WORK

The Official
Veterinarian Reform Programme

Lindsey Halford,
Official Veterinarian Relationship Manager

During 2007-08, Animal Health worked closely with eleven veterinary practices in the West Midlands Government Office Region to identify issues and options for improved partnership working.

The pilot phase of the programme identified a need to improve training for, and communications with, Official Veterinarians. An updated training programme is being developed and communications have been enhanced with a dedicated webpage on Animal Health's website, the introduction of a text and messaging service (*inStant*), and the launch of the *Official Veterinarian* newsletter.

In addition, the work informed the development of a new framework agreement between Animal Health and veterinary practices together with a service standards agreement based on the Royal College of Veterinary Surgeons Practice Standards Scheme. These are currently being considered by the British Veterinary Association to inform the future working relationship between Animal Health and private veterinary practices.

(some of which are over 20 years old) will allow new ways of working based on common processes. This in turn will enable Animal Health to be more customer-focused and will improve both effectiveness and efficiency.

The Business Reform Programme is being implemented in a series of modules due to the number of inter-related systems in both Animal Health and operating partners and the need to maintain operations while introducing the change. During 2007-08, the proposed solution was tested, the first module was developed and following the completion of testing, will be rolled out to offices in mid-2008. This first module will provide a Customer Registration and Management System which will enable activities to be focused on livestock keepers rather than on animals as necessitated by existing systems. It will also begin to provide offices with much greater flexibility in the way work is arranged and will be followed by further modules over the next few years covering specific areas of the Agency's work.

Quality assurance

Government's considerations of sharing the responsibilities and costs of animal disease activities with livestock keepers and the wider livestock industry, and a need to be able to demonstrate compliance with legislation and regulations to the Food and Veterinary Office of the EU, resulted in Animal Health beginning work in 2007-08 to develop formal quality assurance processes, focusing initially on bovine tuberculosis and on investigations of suspected notifiable animal diseases.



This work is also reflected in a joint programme with the British Veterinary Association to update working arrangements with private veterinary practices who carry out the majority of Animal Health's routine testing and inspection work.

Environmental developments

Animal Health's environmental impacts are generated largely by its accommodation and by its travel undertaken when carrying out its work. This in turn is driven by the policies Animal Health delivers for Defra, the Scottish Government, the Welsh Assembly Government and the Food Standards Agency, the level of activity required in the year and the degree to which Animal Health out-sources work to private veterinary practices. The disease outbreaks in 2007-08 necessitated a considerable increase in travel compared to 2006-07, though Animal Health has continued to seek to reduce its environmental impact through addressing the 3Rs of reducing, re-using and recycling where it can.

Five offices have been accredited to the Environmental Management Standard, ISO 14001, during the year and office refurbishments completed in the year provided opportunities to address and improve environmental credentials. Other offices have worked hard to reduce waste.

Other environmental initiatives undertaken in

2007-08 include the installation of additional video-conferencing and conference phone equipment to reduce travel between offices, and the trialling of better boiler and electrical controls to reduce energy consumption (and therefore CO₂ emissions), which will be installed in a number of sites if successful.

Our people

In 2007-08, Animal Health employed an average of 287 full time equivalent (FTE) veterinary surgeons and 283 other FTE staff who undertake technical and field-based activities. A further 1,033 FTE staff were employed in management or administrative functions, either directly supporting operational activity or corporate office functions such as emergency and operational planning, communications, HR, finance and IT support.

170 members of staff transferred to Animal Health on 1 April 2007, 72 from the Scottish Government, 36 from the Egg Marketing Inspectorate, 30 from the Wildlife Licensing and Registration Service and 32 from Defra. Attention has been given during the year to integrate these new members of staff into the Agency.

With 24 Animal Health Divisional Offices and 45 other premises from the Orkneys to Cornwall, internal communication with and between members of staff is vital to ensure the development of and



continuing commitment to a common purpose. Team briefings, business forums, internal newsletters and intranet, as well as involvement in meetings, project teams and working groups, all help to keep members of staff informed of performance, development and progress, as does consultation and liaison with the recognised trades unions.

The willingness and commitment of staff was repeatedly demonstrated during the disease outbreaks by members of staff both assisting with the emergency in the local and national disease control centres and in their home offices. Over 200 staff were mobilised to the local and national disease control centres set up to combat foot and mouth disease during its first few days and 446 staff spent time there during the outbreak, as did 185 staff during one of the avian influenza outbreaks. Members of staff who remained in or who were rotated back to their home offices communicated with local livestock keepers and industry, responded to cases of suspected notifiable disease, supported tracing work and continued to carry on as much day-to-day work as possible to deliver Animal Health's other commitments.

Animal Health is committed to providing and maintaining a healthy and safe working environment. Health and Safety guidance, training and Personal Protective Equipment (PPE) is provided

for members of staff who might be exposed to infection from animal disease.

Animal Health is also committed to equality of opportunity for employees and potential employees. Animal Health follows Defra's policies on disability and 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 2008 6.4% (2006-07 6.5%) of staff members had a notified disability.

Animal Health is guided by Defra's human resource policies and agreements which have provided a useful framework for the Agency as it began to develop. The Agency requires policies which reflect its specific business needs however and during the year policies were developed on standards of conduct, improving performance, discipline, grievance, attendance, and reward and recognition. In addition, a resourcing strategy to help the Agency recruit the right people with the right skills for the business has been developed, and development programmes, including management, veterinary and technical skills and a *Future Leaders Scheme*, to identify and develop members of staff showing a potential to fulfil senior leadership positions, have been introduced.

15 Reducing administrative burdens: effective inspection and enforcement. Philip Hampton March 2005: www.hm-treasury.gov.uk/budget/budget_05/other_documents/bud_bud05_hampton.cfm



5 PERFORMANCE AGAINST TARGETS

T

he majority of Animal Health's 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.



“ In setting targets for Animal Health for 2007–08, Defra agreed that these might not be able to be achieved if the Agency had to re-prioritise its efforts to respond to an exotic disease incident or outbreak. ”

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, Defra’s other Agencies and Non-Departmental Public Bodies, the Scottish Government and the Welsh Assembly Government, Official Veterinarians, local authorities, farmers and other animal keepers. Together, these form extensive delivery chains in which Animal Health plays a key 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 animal health delivery chain which will be reflected in their own statements of account.

In setting targets for Animal Health for 2007–08, Defra agreed that these might not be able to be

achieved if the Agency had to re-prioritise its efforts to respond to an exotic disease incident or outbreak. To recognise this, the targets set included activities to develop the Agency, and qualitative standards of operational performance to strive towards rather than commitments to volumes of work to be achieved. In the light of the numerous disease outbreaks in Great Britain in 2007-08, this has proved prescient. Although the Agency needed to reprioritise much of its intended activity to enable it to respond to the disease outbreaks, the Agency did meet most of its qualitative targets in full or in part. In addition, Animal Health continued to develop the processes and systems which enable activity to be reported consistently and accurately and performance to be measured and this continuing improvement has informed discussions with Defra and the devolved administrations on Animal Health's performance and the effectiveness of the policies being implemented.

Table 3 summarises Animal Health's performance in 2007-08 for its key strategic and operational targets. Two targets were superseded by events during the year and were not assessed. The other 23 are described as *met*, *not met* or *met in part* (applied when the major element or elements of a target have been fulfilled). Performance against targets has been audited by and agreed with Defra's Internal Audit Division.



CROSS-COMPLIANCE INSPECTIONS

Sue Potter,
Veterinary Officer,
Truro Animal Health Divisional Office

Farmers receiving Single Farm Payments agree to comply with Statutory Management Requirements and Good Agricultural and Environmental Conditions. For farmers who keep livestock these requirements include the identification of livestock to ensure traceability, the responsible use of veterinary medicines and animal welfare.

During 2007-08 Animal Health started to carry out inspections covering the Statutory Management Requirements on behalf of the Rural Payments Agency, which selects the farms to be visited. Additional inspections may be made if cross-compliance breaches are found during other farm visits.

Each visit and the associated paperwork takes on average a day to complete. Although Animal Health only began this work this year, cross-compliance visits appear to be having the desired effect of improving welfare standards and they have an important part to play in delivering improved animal health and welfare.

THE NEED FOR SPEED Protecting the (not so) Common Eel

John Hounslow,
Head of the Wildlife Licensing
and Registration Service

Animal Health's Wildlife Licensing and Registration Service is the United Kingdom's Management Authority under the Convention on International Trade in Endangered Species. It is responsible for licensing the import and export of endangered species into, out of and through, and commercial activity within, the United Kingdom.

In 2007-08, the common eel became an endangered species. Although the trade in eels in the United Kingdom is small, Animal Health needed to engage with the businesses involved to inform them of the implications. As the trade is built on speed, with eels surviving for only a few days when harvested from rivers, Animal Health also needed to re-engineer some of its business processes to avoid the risk that the implementation of the new regulation (rather than the regulation itself) would adversely affect the trade being regulated.

THE BUSINESS REFORM PROGRAMME

Ann Nolan,
Transformation Director

The first module of the Business Reform Programme was developed during 2007-08 and will be implemented in 2008-09. It will provide:

- ◆ better quality and more accessible records of livestock keepers;
- ◆ more complete, up-to-date and widely-accessible histories of contacts with them; and
- ◆ improved database reliability and resilience.

This is vitally important for our work. The better the information we have on the location of livestock keepers and their animals the better we are able to plan our work and respond quickly and effectively to disease outbreaks, and in doing so protect the economy and public health.

Alongside the development of this first module, transition plans are being developed with each Animal Health Divisional Office, including training and support, to ensure successful implementation.

Table 3 2007-08 Key targets**STRATEGIC****Target area: leadership and our ability to manage change****TARGET 1**

To implement a new operations management structure and keep management capacity under review.
Met. A new structure was implemented during the year.

TARGET 2

To implement succession planning and talent management schemes.
Met in part. Design and development work was undertaken but progress was delayed as a result of the disease outbreaks and is being carried forward to 2008-09.

TARGET 3

To develop and state values and behaviours fit for the future.
Met in part. Design and development work was undertaken but progress was delayed as a result of the disease outbreaks and is being carried forward to 2008-09.

Target area: professional skills and veterinary capacity**TARGET 4**

To implement plans for professional and technical training in specific skill areas.
Met in part. Design and development work was undertaken but progress was delayed as a result of the disease outbreaks and is being carried forward to 2008-09.

TARGET 5

To implement the veterinary and technical development pathway.
Met. While the disease outbreaks delayed activity, design and development work was undertaken and planned actions are being carried forward to 2008-09.

TARGET 6

To implement phase one of the Official Veterinarian Reform Programme, begin pilots in April 2007 and (subject to meeting success criteria) extend pilots in year.
Met in part. Phase one was completed but the extension of pilots was delayed as a result of the disease outbreaks.

Target area: transforming delivery capacity**TARGET 7**

Complete solution confirmation and design stages of the Business Reform Programme.
Met in part. The solution confirmation phase was completed but a decision to bring forward the module to support disease outbreaks has extended the design timescale.

TARGET 8

Complete the design, development, planning and implementation stages of the Contact Management module and the planning and pre-implementation preparatory stages of the bovine tuberculosis and brucella module of the programme.

Table 3 2007-08 Key targets (continued)

Met in part. The Contact Management module was developed in the year and will be implemented in the summer of 2008-09. The bovine tuberculosis and brucella module will now be developed after the module to support disease outbreaks, although as this will also contain a tracings component, it will support bovine tuberculosis work.

Target area: maintaining and improving readiness and resilience

TARGET 9

Conduct a rigorous assessment of current response capability, including immediate mobilisation capability, identify current gaps in field readiness and develop and implement an action plan for improvement.

Met in part. During outbreaks, gaps are addressed when found. Following outbreaks, reviews are undertaken of what has gone well and what could have gone better and action plans are developed accordingly. A more fundamental review of capability built on this learning was begun in the year but had to be postponed on the outbreak of foot and mouth disease. The target is being carried forward to 2008-09.

Target area: developing an Operations Strategy

TARGET 10

Develop the organisation's Operations Strategy by establishing guidance and investigations programmes, documenting the enforcement hierarchy and reviewing enforcement policy and its efficacy.

Not met. Progress was delayed as a result of the disease outbreaks and is being carried forward to 2008-09.

Target area: working with others

TARGET 11

Agree and implement collaborative working with the Rural Payments Agency.

Met. Substantial and meaningful collaborative working arrangements established.

TARGET 12

Collaborate with others to develop the e-portal Whole Farm Approach.

Not assessable. Defra deferred work on this programme in the year.

TARGET 13

To engage actively in the development of policy with policy customers.

Met. The new operations management structure has increased Animal Health's capacity and capability to engage in policy development.

Target area: quality assurance

TARGET 14

Develop and implement quality assurance arrangements for report casework and bovine tuberculosis testing.

Met in part. Progress was made regarding quality assurance arrangements for bovine tuberculosis but was delayed regarding report casework as a result of the disease outbreaks. This is being carried forward to 2008-09.

Table 3 2007-08 Key targets (continued)**TARGET 15**

Pilot the development of private practice quality assurance schemes in the Official Veterinarians Reform Programme.

Met. Service delivery standards based on the RCVS Tier 1 Practice Standards have been agreed with the British Veterinary Association.

Target area: implementing the animal health and welfare strategy for Great Britain

TARGET 16

We will review and refresh working relationships with local authorities.

Met in part. Animal Health and local authority representatives worked together to update the existing framework agreement in the year and although progress was made, work was not completed as a result of the disease outbreaks. It is envisaged that an updated agreement could be agreed with local authorities in 2008-09.

OPERATIONAL

Target area: bovine tuberculosis

TARGET 17

To ensure that at least 97% of blood samples submitted in the year for gamma-interferon tests are of a satisfactory condition.

Met. 98.2% of samples were satisfactorily submitted.

TARGET 18

Ensure that blood samples are collected for no less than 95% of herds or animals for which application of the gamma-interferon test is compulsory.

Met in part. For the year as a whole, blood samples were collected from 85.7% of herds, (though this percentage had increased by the year-end), and from 97.2% of animals which had given inconclusive readings to the traditional skin test.

TARGET 19

Ensure that 65% of 'at risk' bovine tuberculosis herds are traced and tested within nine weeks of confirmation of the original test result.

Met. This target relates to the disease's possible spread. Despite a 15% increase in tracing volumes in the year, 80.4% of 'at risk' herds were traced and tested within nine weeks of confirmation of the original test result.

TARGET 20

Issue movement restrictions on 98% of 'high-risk' herds within two working days of confirming an incidence of bovine tuberculosis.

Met in part. Movement restrictions were issued on 98.1% of herds within two working days when reactors were found by testing. When suspected infected animals were found at slaughterhouses however, movement restrictions for the year as a whole were issued within two working days on 94.2% of herds. Working with colleagues in the Meat Hygiene Service, the Agency reviewed and revised the processes involved and in the last three months of the year these cases also met the target.

Table 3 2007-08 Key targets (continued)**Target area: exotic disease outbreaks – readiness and resilience****TARGET 21**

Enhance emergency preparedness by planning and delivering a large-scale exercise on classical swine fever by the end of March 2008 involving Animal Health, Defra, the devolved administrations, industry and operational partners. Plan, prepare and deliver a programme of local exotic disease exercises in Animal Health Divisional Offices, involving operational partners.

Not assessed. Both the large-scale exercise and the programme of local exercises were cancelled with ministerial agreement on the actual outbreaks of notifiable disease.

TARGET 22

Undertake an assessment of the readiness and resilience of the organisation's corporate centre through the application of the emergency readiness management assurance scheme.

Met. Having initially focused on the readiness and resilience of Animal Health Divisional Offices, the corporate centre's readiness and resilience was assessed given the part it plays in supporting the Agency's emergency response. The results indicated a year-on-year improvement in the level of preparation.

TARGET 23

Develop and implement plans for professional and technical training to support those tasks critical to operational readiness and resilience.

Met. Training for disease outbreaks was provided both by specific programmes and by on-the-job training during outbreaks.

Target area: animal health and welfare strategy for Great Britain**TARGET 24**

Building on the 2006-07 objectives, strengthen engagement with the Government Office regions and key regional stakeholders in England to facilitate the development of preliminary regional action plans to implement the animal health and welfare strategy for Great Britain.

Met. Regional profiles to deliver the Animal Health and Welfare Strategy were completed with each Government Office region.

Target area: finance and efficiency**TARGET 25**

Continue to work with policy colleagues to implement the cumulative £4.2m Gershon efficiency savings agreed with Defra for the 2004 Comprehensive Spending Review period.

Met. Quantifiable efficiencies of £7.9m were achieved.



6 GOVERNANCE AND THE REMUNERATION REPORT

The State Veterinary Service, Egg Marketing Inspectorate and Wildlife Licensing and Registration Service merged to form Animal Health as an executive agency of Defra on 1 April 2007. The Dairy Hygiene Inspectorate had previously merged with the State Veterinary Service on 1 October 2006. The Agency is financed primarily by Defra, and the Secretary of State for Defra is answerable for Animal Health to Parliament.

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.

Strategic Advisory Board

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

The Strategic Advisory Board advises the Secretary of State and Ministers in the devolved administrations 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 2007-08 to agree strategic direction, monitor activity and progress and to provide support and assistance.

During 2007-08 Animal Health's governance structure has been strengthened... this has enabled the Agency's directors to give more focus to strategic issues, direction and change, while the subsidiary boards focus on more day-to-day matters, escalating issues and risks to the Executive Board as appropriate.

MEMBERS OF THE EXECUTIVE BOARD AT 31 MARCH 2008

Interim Chief Executive – from 10 March 2008	Steve Edwards
Finance Director	David Robson
Human Resources Director	Richard Bowen
Chief Operating Officer – from 24 September 2007	Catherine Brown
Transformation Director	Ann Nolan
Director of Veterinary and Technical Services	Rob Paul
Non-Executive Director – from 2 July 2007	Tony Foster

MEMBERS OF THE CORPORATE MANAGEMENT TEAM OR EXECUTIVE BOARD FOR PART OF 2007-08

Chief Executive – until 31 March 2008	Glenys Stacey
Contingency Planning Director – until September 2007	Ann Waters
Operations Director (Scotland) – retired 28 November 2007	Derick McIntosh
Strategic Planning Director – until September 2007	Tony Edwards

AUDIT AND RISK COMMITTEE

Committee Chairman – Non-Executive Director	Philip Riley
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Executive Board

During 2007-08 Animal Health's governance structure has been strengthened: the Corporate Management Team has been replaced by an Executive Board supported by subsidiary boards for Operations, Finance and People Matters. This has enabled the Agency's directors to give more focus to strategic issues, direction and change, while the subsidiary boards focus on more day-to-day matters, escalating issues and risks to the Executive Board as appropriate.

The Executive 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 Executive Board met regularly to review and decide upon strategy and policy and to monitor, evaluate and drive performance.

Charles Milne, a member of the Corporate Management Team in 2006-07, transferred to the Scottish Government from Animal Health as Chief Veterinary Officer (Scotland) on 1 April 2007. The directors who served on the Corporate Management Team and Executive Board during 2007-08 are shown above.

No member of the Executive Board holds company directorships, nor has other significant interests,

that may conflict with their management responsibilities in Animal Health.

Risk management

Risk management continued to be developed during 2007-08 to assist decision-making and manage activities. The Risk Committee has been disbanded as the creation of subsidiary boards for Operations, Finance and People Matters has enabled risk to be more closely embedded into day-to-day activity, and the Agency's computerised risk management system has been further developed during the year to assist the reporting and review of risks. Corporate risks are considered by the Executive Board each time it meets and the Audit and Risk Committee has continued to oversee the Agency's risk management activity.

Internal and external audit

For the year ended 31 March 2008, 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.

Representatives from Internal Audit have attended Executive Board meetings and both Internal and External Audit regularly attend the Audit and Risk Committee's meetings.



REMUNERATION REPORT

Remuneration policy

Defra's Senior Civil Service Pay Committee, chaired by the Permanent Secretary, determines the remuneration and performance conditions of Animal Health's Executive 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

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 Richard Bowen, the Executive Board members at 31 March 2008 hold open-ended appointments until they reach normal retirement age. The employment of the Chief Executive and of the other Animal Health Executive 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.

Glenys Stacey, who left the Agency on 31 March 2008, had a three-year fixed-term contract as Chief Executive which was due to expire on 10 October 2010. Steve Edwards, who was appointed as interim Chief Executive on 10 March 2008, pending the appointment of a permanent replacement, has been seconded to Animal Health from the Veterinary Laboratories Agency. He has a permanent civil service appointment.

Richard Bowen was appointed to the role of HR Director on a three-year, fixed-term contract commencing on 2 January 2006. The contract is extendable to five years or may be made permanent.

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

Although the costs for the Chief Executive and members of the Executive 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 £9,403 Additional Housing Cost Allowance in 2007-08 which is included in his emoluments reported above (2006-07 £9,121). 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 2007-08 has been valued at £200.

The disclosures for Tony Edwards and Ann Waters cover the period of their membership of the Corporate Management Team, prior to it becoming the Executive Board in September 2007. The comparative emoluments cover the whole of 2006-07. Tony Edwards has received the benefit of the use of a car provided under Defra's Private Use Scheme valued at £1,000.

Loans may be made to staff to cover season ticket advances and relocation. As at 31 March 2008, there were no outstanding loans to Executive Board members (2006-07 £779).

EMOLUMENTS AND PENSION ENTITLEMENTS (AUDITED)

The emoluments and pension entitlements of the Corporate Management Team and Executive Board members in 2007-08 were as follows (2006-07 in italics)

	Emoluments banding	Real increase in pension and lump sum at age 60	Total accrued pension benefits at age 60	CETV at 31 March 2007	CETV at 31 March 2008	Real increase in CETV
	£000	£000	£000	£000	£000	£000
Directors on the Executive Board at 31 March 2008						
Steve Edwards, Interim CEO from 10 March 2008	5-10 (95-100 full-year equivalent) (previous year nil)	0-2.5 plus 0-2.5 lump sum	30.0-32.5 plus 92.5-95 lump sum	797	800	1
Richard Bowen, HR Director	95-100 (85-90)	0-2.5	5.0-7.5	76	107	17
Catherine Brown, Chief Operating Officer From 24 September 2007	40-45 (85-90 full-year equivalent) (previous year nil)	0-2.5	0-2.5	Nil	12	12
Ann Nolan, Transformation Director	80-85 (65-70)	2.5-5.0 plus 7.5-10.0 lump sum	25.0-27.5 plus 80.0-82.5 lump sum	409	523	50
Rob Paul, Director of Veterinary and Technical Services	80-85 (70-75)	0-2.5	27.5-30.0	357	436	17
David Robson, Finance Director	90-95 (90-95)	0-2.5	15.0-17.5	280	326	3
Tony Foster, Non Executive Director From 2 July 2007	10-15 (15-20 full year equivalent) (previous year nil)	N/A	N/A	N/A	N/A	N/A
Directors for part of 2007-08						
Glenys Stacey, Chief Executive Until 31 March 2008	135-140 (125-130)	0-2.5	5.0-7.5	76	117	29
Tony Edwards, Strategic Planning Director CMT member only	30-35 (80-85)	0-2.5	37.5-40.0	704	814	17
Derick McIntosh, Operations Director Scotland Retired 2 November 2007	50-55 (70-75)	0-2.5 plus 0-2.5 lump sum	25.0-27.5 plus 80.0-82.5 lump sum	609	635	14
Charles Milne, Professional Services Director and CVO Scotland Transferred to the Scottish Government on 1 April 2007	N/A (75-80)	N/A	N/A	N/A	N/A	N/A
Ann Waters, Contingency Planning Director CMT member only. Retired 31 March 2008	30-35 (75-80)	0-2.5	25.0-27.5 plus 50.0-52.5 lump sum	528	627	24
Audit and Risk Committee						
Philip Riley, Non Executive Director	20-25 (25-30)	N/A	N/A	N/A	N/A	N/A

The Cash Equivalent Transfer Value (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 Executive 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 5 in the Statement of Accounts.

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



Professor Steve Edwards, Chief Executive
22 May 2008



A long financial tail remains once a disease has been eradicated that can last for several years as claims are made to the EU on behalf of Defra to reimburse certain of the costs incurred.



7 FINANCIAL REVIEW

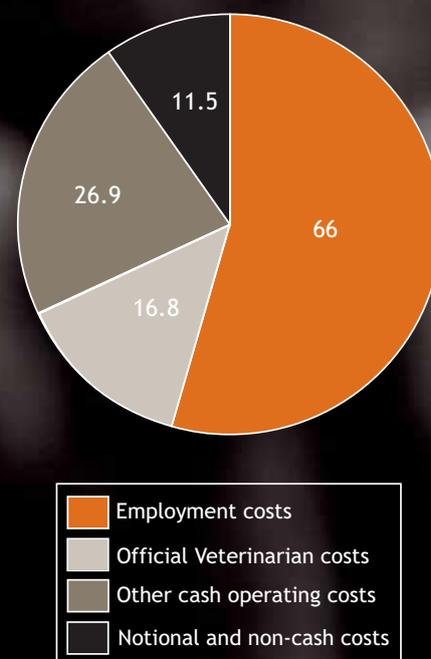
d

uring 2007-08, Animal Health continued to develop its financial systems and procedures to ensure business performance is managed and reported uniformly throughout the Agency to meet the Executive Board's and stakeholders' needs.

Animal Health's costs are predominantly people related with employment costs constituting £66m or 55% of 2007-08 expenditure and Official Veterinarian costs constituting £16.8m or 14% of expenditure. Other operating costs of £38.4m include cash expenditure of £26.9m or 22% of

expenditure for all other operating costs, including development work on the Business Reform and Livestock Programmes, and notional charges from Defra and non-cash charges of £9.5m and £2m respectively which constituted the remaining 9%.

Chart 3 Costs for 2007-08 £m



Animal Health's key cost drivers are activity volumes, and changes in policy and legislation. 2007-08 continued to see an increase in testing for bovine tuberculosis although the increase of 300,000 tests (5.4%) was less than in the previous two years, partly due to movement restrictions on herds during the foot and mouth disease outbreak and partly because of tests being deferred over the two Easters occurring in 2007-08. Similarly, the arrival of bluetongue in September 2007 resulted in new costs of £2.5m, including additional cash costs of £0.3m. Conversely, the change in brucellosis policy introduced at the beginning of 2007-08 following an updated risk assessment, ended the national testing programme with a reduction of expenditure of £2.1m.

Pending implementation of the Agency's Business Reform Programme, incremental improvements in effectiveness, efficiency and economy have been and are being sought, although current systems limit

the scope for efficiencies. Actions initiated in previous years, combined with those delivered during 2007-08 however have achieved quantifiable efficiencies of £7.9m over the 2004-08 Comprehensive Spending Review period, compared with the Agency's target of £4.2m. Given the increase in work pressures in the same period these efficiencies have been recycled to enable more to be achieved for the same, rather than the same being achieved for less.

Work continued in the year to strengthen further the financial management of notifiable disease outbreaks. A long financial tail remains once a disease has been eradicated that can last for several years as claims are made to the EU on behalf of Defra to reimburse certain of the costs incurred. During 2007-08, Defra received re-imbursment for costs incurred during the outbreak of Newcastle disease in 2005.

RESULTS FOR THE PERIOD

Animal Health's Statement of Accounts reports results for the year 1 April 2007 to 31 March 2008. 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 to Animal Health by the Secretary of State for Defra with the consent of the Treasury and the Financial Reporting Manual (FRM) published by HM Treasury.

The Statement of Accounts for the year ended 31 March 2008 are set out in Section 9. Animal Health follows Defra's accounting policies, where not inappropriate to Animal Health's own activities, to simplify the preparation of Defra's Consolidated Account.

The initial cash budget of £108.2m, allocated to the Agency by Defra for 2007-08 and included in the 2007-08 Business Plan, was increased during the year by £8.3m as additional work (including gamma interferon testing, welfare in transport, rabies and other responsibilities) was transferred to the Agency. The difference between this and the net cash requirement of £123.2m shown in Note 18 of the Statement of Accounts is largely the result of an additional cash requirement resulting from the disease outbreaks.

£7.9m of this initial cash budget of £108.2m was for capital expenditure. It was increased during the year by £2.1m as the expenditure profile in the Business Reform Programme became clearer.

In accordance with FRS6, Acquisitions and Mergers, the 2007-08 Statement of Accounts restate the

comparative figures for 2006-07 to include comparatives for members of staff and administrative costs transferred from the Scottish Government, for members of staff and associated costs transferred from Defra involved with the livestock programme, and for the mergers with the Egg Marketing Inspectorate and the Wildlife Licensing and Registration Service.

Animal Health's net operating costs in 2007-08 were £6.5m more than in 2006-07 (restated), the increase being primarily the result of the additional costs involved in responding to the disease outbreaks and expenditure on the Business Reform Programme, less reductions resulting from the ending of the national brucellosis testing programme and the recovery of VAT on Official Veterinarian costs.

An £8.5m reduction in Official Veterinarian costs reflects the ending of the national testing programme for brucellosis, the recovery of VAT previously paid on work undertaken by Official Veterinarians and an overall lower accrual for work undertaken but not invoiced at the year-end. The reduction does not reflect any decrease in activity on bovine tuberculosis or in other work Official Veterinarians undertake, although the disease outbreaks did defer and postpone some testing.

No research or development was undertaken and no charitable donations were made in the year ending 31 March 2008.

Although expenditure has been managed within agreed resources, the accounting policy for how funding is recognised for statutory accounts

purposes followed by Defra (and by other central government departments) results in the Balance Sheet showing net current liabilities of £18.9m (2006-07 £18.9m).

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 the 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 the year-end and therefore a 'deficit' 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 Balance Sheet at 31 March 2008 will be provided by Defra during 2008-09 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.

In paying creditors, Animal Health aims to follow the principles of the Better Payment Practice Code in compliance with Public Sector Payment Policy. The Agency aims to pay suppliers in accordance with its standard payment terms (within 30 days of invoice date) or with suppliers' standard terms, (if specific terms have not been negotiated), provided that the relevant invoice is properly presented and is not subject to dispute.

	£'000	Number
Total invoices paid in period	43,104	10,244
Total invoices paid within target	36,307	9,751
Percentage of invoices paid within target	84.2%	95.2%

No interest was paid in respect of the Late Payment of Commercial Debts (Interest) Act 1998 (2006-07 £nil).

In 2006-07, Animal Health's Balance Sheet showed fixed assets of £6,964 per full-time equivalent member of staff. During 2007-08, investment of £16.8m in the Business Reform Programme has begun to change this and at 31 March 2008 assets per full-time equivalent member of staff were £15,429.

Animal Health's IT infrastructure and IT hardware are provided by Defra through IBM, with whom Defra has entered into a strategic partnership. Similarly, with the exception of one small building, and in Scotland where the Scottish Government provides Animal Health with accommodation, all accommodation used by Animal Health is either owned by Defra or is leased through Defra.

In preparing the Statement of Accounts for the year ended 31 March 2008, the principal judgements required have centred upon assessing the levels of accruals for work done but not invoiced, assessing the reasonableness of the notional charges made by Defra for services provided and assessing the provisions at the year-end.

Table 4 2007-08 Expenditure by country

	2007-08 £m	2006-07 Restated £m
Animal Health Divisional Offices		
England	47.9	54.4
Scotland	7.9	9.6
Wales	9.5	9.6
	65.3	73.6
Great Britain wide cost centres		
Contingency Planning	2.8	2.9
Additional Outbreak Costs	14.6	2.1
International Trade	1.6	1.7
National Scrapie Unit	1.6	1.9
Business Development	10.7	10.4
Workforce Strategy and Development	3.1	2.0
Corporate Office	7.4	5.7
	41.8	26.7
Allocated costs		
Notional charges	9.5	9.5
Non-cash charges	2.0	2.3
	11.5	11.8
Net operating costs	118.6	112.1

Expenditure by country and by activity

The Statement of Accounts reports the results for the financial year in the structured manner required by UK GAAP, HM Treasury’s Financial Reporting Manual and their respective disclosure requirements. The Statement of Accounts does not show where resources were spent, or on what activity.

Table 4 shows how much of the reported expenditure 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, the costs which cover the whole of Great Britain cannot be easily or readily allocated between jurisdictions without first making and agreeing to a number of necessary assumptions.

The reduction in costs attributable to Animal Health Divisional Offices in the year reflects the cessation of the large-scale brucellosis testing programme,

Chart 4 Expenditure for key areas of activity

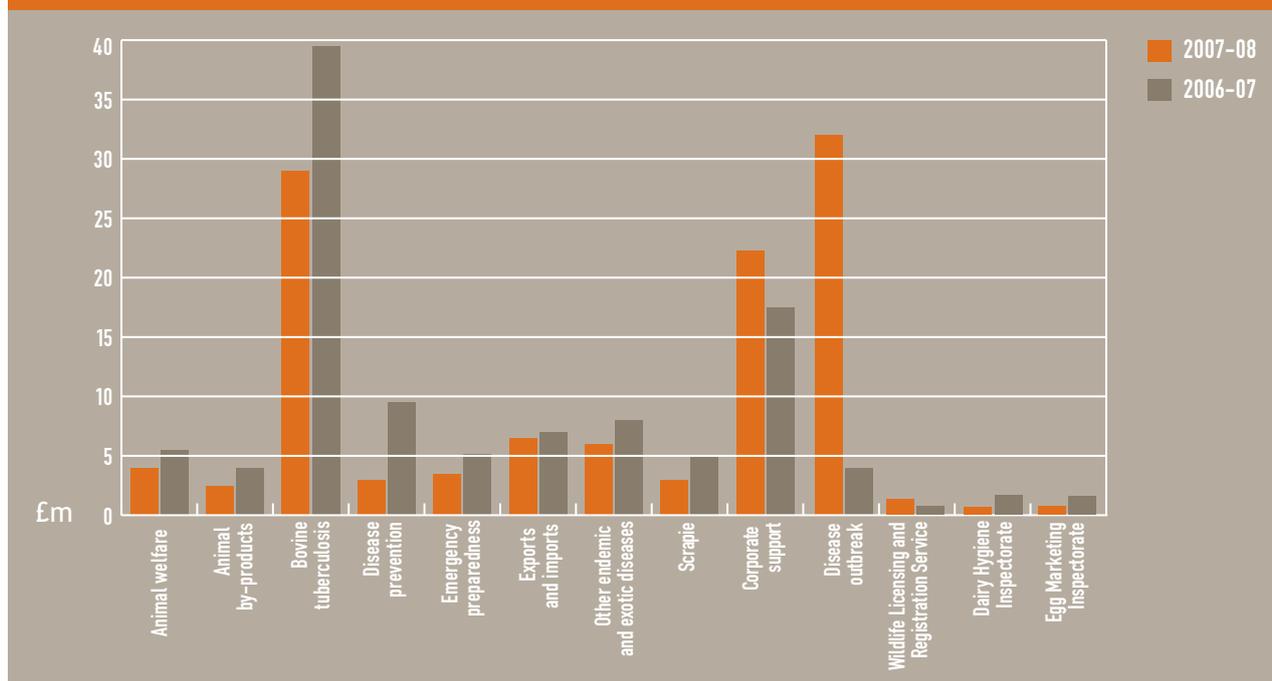
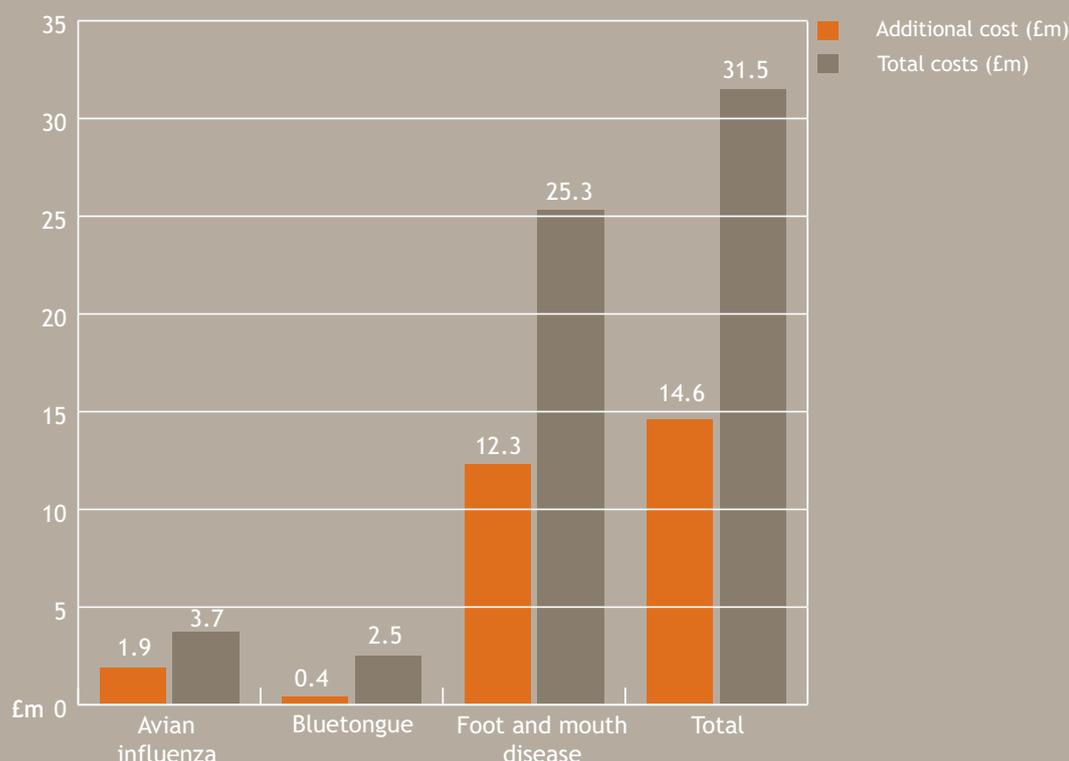


Chart 5 2007-08 Disease outbreaks costs



the recovery of VAT on expenditure paid to Official Veterinarians, the reduction in volumes of normal work during the disease outbreaks and the recording of costs incurred during the disease outbreaks under the specific outbreak cost codes.

The increase in Corporate Office costs reflects the restructuring of the Agency's operational management structure and increases in the charges received from Defra for accommodation.

The year-on-year changes as a result of the disease outbreaks in 2007-08 illustrate the reactive nature of much of the Agency's work and the limited ability to predict, let alone manage, demand.

The disease outbreaks resulted in additional costs of £14.6m being incurred and resources assessed at £16.9m being re-allocated from other work that would otherwise have been undertaken (i.e. in addition to salary and other costs that were already being incurred, the outbreaks resulted in additional overtime, travel, accommodation, veterinary supplies and other costs). Together, the total cost to Animal Health of responding to the disease outbreaks in the year was £31.5m. As noted in

Section 5, many activities were deferred or reduced in scale and/or scope in the year following agreement with the Agency's policy customers to enable the reprioritisation of effort this total cost represents.

Chart 5 shows these costs for the three key diseases in the year: avian influenza, bluetongue and foot and mouth disease.

Compensation to livestock owners – whose animals and other goods may be seized to eradicate a virus, prevent its spread and minimise the total impact and cost of an outbreak – is assessed by the Agency in accordance with EU regulations and national legislation but is paid by Defra. This is because Defra, as the United Kingdom's competent authority, has the responsibility to inform the EU when an outbreak is declared and to request support from the EU to reimburse the costs incurred in accordance with EU regulations. In 2007-08, Defra paid £1.7m in compensation during the disease outbreaks (2006-07 £1.1m) and Animal Health is assisting Defra reclaim the allowable proportion of this and other costs from the EU.

8 PLANS AND PRIORITIES

animal Health supports Defra's 'Licence to Operate', and in the period covered by the 2007 Comprehensive Spending Review, contributes to six of Defra's Departmental Strategic Outcomes and 14 of its 34 Intermediate Outcomes, including the directly applicable Intermediate Outcome 19, 'Public Health and the Economy Protected from Animal Disease'. Animal Health also supports the animal health and welfare policies of the Scottish Government and Welsh Assembly Government and those of the Food Standards Agency.

To achieve this, Animal Health's strategic objectives in the three years to 31 March 2011 set out in its 2008-11 Corporate Plan and in more detail for 2008-09 in its Business Plan cover:

- ◆ developing capacity and capability;
- ◆ becoming more consistent, effective and efficient, ensuring value for money;
- ◆ establishing and maintaining a balanced, customer-focused approach so that both we and our customers know what service to expect;
- ◆ developing Animal Health as the lead in our core business area to ensure an effective and joined-up approach; and
- ◆ working with partner organisations, the industry and individuals to shape a complete, simple and coherent package of measures.

Singly, these objectives are challenging: together they are tough, particularly if at any moment focus and resource need to be re-directed to a disease outbreak. If achieved though, Animal Health will have developed significantly since (as the SVS) it first became an Agency.

In seeking to achieve these objectives, Animal Health needs to be alert to changing farming practice and the implications this has for disease prevention and control activity, changes in veterinary practices which currently work with livestock, the development of the responsibility and cost-sharing agenda with livestock keepers and the livestock industry, and developments in animal health and welfare policy in England, Scotland and Wales.

In addition to these external factors, Animal Health also needs to address changes within the Defra network. In 2007-08, a number of functions were transferred from Defra to Animal Health and transfers will continue in 2008-09. Indeed, the first transfer in 2008-09 took place on 1 April when the GB Poultry Register, set up to record poultry holdings, was transferred to the Agency. Alongside this, Animal Health will continue to develop and implement its Business Reform Programme and will reorganise the delivery of some transactional activities, currently undertaken in each office, into two locations.

It is possible that a number of factors, which cannot be accurately forecast, could significantly affect the Agency's ability to achieve these objectives and the resources required to achieve them. Not the least of these would be a large outbreak of an exotic notifiable disease.

Other key risks to achieving these objectives include potential changes resulting from the responsibility and cost-sharing programme and changes in the animal health and welfare delivery landscape.

Animal Health's main cost drivers for 2008-09 and future years remain those of previous years, namely

Preventing, controlling, and where feasible, eradicating notifiable animal disease... protects the food supply and the public... and supports the livestock industry, wider economy and the environment...

changes in work volumes and new or changed policies, the need to develop Animal Health's capability and capacity, and pressures arising from legislation and other related requirements not specifically related to animal health and welfare.

For 2008-09, the initial cash resource allocated to Animal Health for current expenditure is £114m and a further £14m is allocated for capital expenditure. This will be increased during the year as a result of a move from soft to hard charging for services provided to Animal Health by Defra, and as work and

responsibility is transferred to the Agency. Preventing, controlling, and where feasible, eradicating notifiable animal disease, and dealing with outbreaks of exotic disease when they occur, helps maintain standards of animal welfare, protects the food supply and the public from infections that are transmissible from livestock, either directly or through the food chain, and supports the livestock industry, wider economy and the environment from the effect of animal disease. Animal Health is committed to strive to meet the challenges this involves.



9 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 income and expenditure, recognised gains and losses and cash flows for the financial year.

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

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

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 Executive Board are aware, there is no relevant audit information that has not been brought to the NAO's attention.



Professor Steve Edwards, Chief Executive
22 May 2008

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 the objectives and goals of Animal Health, whilst safeguarding the public funds and assets for which I am personally responsible, in accordance with the responsibilities assigned to me in *Managing Public Money*.

This Statement on Internal Control describes the systems in place from 1 April 2007 to 31 March 2008. I was appointed interim Chief Executive and Accounting Officer of Animal Health on 10 March 2008 and for the period before I was appointed have taken assurance from an interim Statement on Internal Control signed by my predecessor.

The purpose of the system of internal control

Animal Health's system of internal control is designed to manage rather than eliminate risk, and 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 these risks being realised and their impact should they be realised; and
- ◆ manage these risks effectively, efficiently and economically.

Capacity to handle risk

The Agency exists to mitigate the risk to the economy and public health of notifiable animal disease and risk management continued to be developed during 2007-08 to assist decision-making and manage activities. The Risk Committee has been disbanded as the creation of subsidiary boards for Operations, Finance and People Matters has enabled risk to be more closely embedded into day-to-day activity. Consistent risk management processes using a computerised risk register form the basis for reporting to each of the Management Boards. Each Management Board reviews risks and the management of those risks relevant to their function, escalating matters where appropriate to the Executive Board. In addition to reviewing escalated risks, the Executive Board also addresses corporate risks each time it meets and reports and escalates these to the Agency's Strategic Advisory Board as required.

Animal Health's 2007-08 corporate risks included business change, changes in the animal health and welfare delivery landscape, funding, delivery of strategic IT, dependencies on partners to enable the Agency to deliver its objectives and goals, and the Agency's limited capacity – rather than its capability – to respond to outbreaks of animal disease. In addition to considering these risks individually, the Executive Board also reviews their potential cumulative impact. Their potential impact, together with in some instances their likelihood of occurring, are increased as a result of Animal Health's geographic dispersion, and until the strategic IT solution is implemented, its heavy dependence on paper-based administrative systems.

The Audit and Risk Committee has continued to review the adequacy of the Agency's risk management processes.

The risk and control framework

The system of internal control has continued to develop during this financial year in line with Animal Health's development and in accordance with HM Treasury Guidance. This has included activity in the following key elements:

GOVERNANCE, STRATEGY AND PLANNING

Animal Health's vision, mission and strategic objectives for 2007-08, as set out in its Corporate and Business Plans, are reported on within the Annual Report. During 2007-08 the corporate and operational planning process has been further strengthened following developments in governance structure and processes.

The Corporate Management Team has become an Executive Board supported by Management Boards for Operations, Finance Matters and People Matters, which escalate issues and risks to the Executive Board as required. The Executive Board focuses on decision-making, strategic planning and corporate risk management. As part of this enhancement, the Agency's Audit and Risk Committee has also reviewed its operations to reflect these developments.

Animal Health's capability has also been enhanced by the appointment of a Chief Operating Officer to lead operational delivery. The number of senior professional, technical and field management posts has been increased to assist the consistency of delivery and strengthen the Agency's capacity and capability to manage change.

PERFORMANCE MANAGEMENT

Measures to assess performance against agreed targets have continued to be developed in 2007-08, as have the processes to collect information on a consistent basis for these measures. The information collected is reviewed monthly by the Operations Board, the Executive Board and Defra. These reviews drive operational activity and inform discussions with stakeholders regarding the effectiveness of existing policies. During the multiple animal disease outbreaks in 2007-08, this information informed discussions with stakeholders regarding the impact of the outbreaks on the agreed targets and the prioritisation of work.

The processes to collect information continue to be highly labour intensive and this limits the flexibility and responsiveness of current operational management information and the use that can be made of it to drive performance. These processes will remain labour intensive until new IT systems are implemented, revised working processes are developed and members of staff become proficient in their use.

Despite the difficulties caused by the inadequacies of current management information, considerable effort has been made to establish an increasingly consistent level of service across Animal Health and this in turn is enabling increasing attention to be paid to quality assurance. Considerable further attention will be paid to this in 2008-09 and in future years.

DATA RISK MANAGEMENT

Animal Health reported no protected personal data related incidents to the Information Commissioner's Office in 2007-08 and there were no other protected personal data related incidents. Nor have there been between the State Veterinary Service's formation as an agency on 1 April 2005 and 31 March 2007.

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.

PROJECT AND PROGRAMME MANAGEMENT

Animal Health's Business Reform Programme, which will increase the Agency's effectiveness in managing operational delivery while delivering an improvement in productivity through a new IT-enabled operating model, is mission critical and comes within the scope of the Office of Government Commerce's (OGC's) Project and Programme Management controls. During 2007-08, the Business Reform Programme successfully passed through the OGC's Gateway 3 review.

MANAGEMENT OF CHANGE

Animal Health has continued to change and develop during 2007-08 and respond to changes in its environment. While no one set of rules exists for ensuring change successfully achieves the intended objectives, experience highlights a number of factors which assist successful change – as well as a number of factors which inhibit change – and attention has continued to be given to these during the year. These factors include: having a clear strategy; managing risk; consultation; communication and leadership; involving capable staff; planning; reviewing progress and revising as required. Attention to these factors will continue to be vital in 2008-09.

Review of effectiveness

As Accounting Officer, I also have responsibility for reviewing the effectiveness of the system of internal control. My review of its effectiveness is informed by:

- ◆ the framework established for Animal Health's accountability with Defra and the devolved administrations;
- ◆ 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 and the devolved administrations, and by regular meetings with Defra and the devolved administrations;
- ◆ meetings of the Executive Board and Management Boards 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 Divisional Office and other business unit reports on risk and compliance with the internal control framework;
- ◆ the work of the Audit and Risk Committee which monitors the system of internal control;
- ◆ the results of the work of the External Auditors; and
- ◆ 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 has provided a number of reports in the year which has provided opinions on assurance regarding the adequacy of the controls considered.

Both internal and external audits provide a service to Animal Health by assisting with the continual improvement of processes and controls. Actions are agreed in response to recommendations made, and these are followed up to ensure they are implemented.

Having been advised by the Executive Board, by the Audit and Risk Committee and by an interim Statement of Internal Control signed by my predecessor Glenys Stacey, covering the period before I took up my post, I am able to report that there were no material weaknesses in the system of internal control which affected the achievement of Animal Health's objective or goals during the year.

During 2008-09, Animal Health will continue to develop its system of internal control – including its corporate governance and risk management arrangements – to ensure continual improvement, to respond to evolving best practice and to respond to changes in its business environment.



Professor Steve Edwards, Chief Executive
22 May 2008

THE CERTIFICATE AND REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSE OF COMMONS

I certify that I have audited the financial statements of Animal Health for the year ended 31 March 2008 under the Government Resources and Accounts Act 2000. These comprise the operating cost statement and statement of recognised gains and losses, the Balance Sheet, the cash flow statement and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having being audited.

Respective responsibilities of the Agency, the Chief Executive and auditor

The Agency and Chief Executive, as Accounting Officer, are responsible for preparing the Annual Report, which includes the Remuneration Report, and the financial statements in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Accounting Officer's Responsibilities.

My responsibility is to audit the financial statements and the part of the Remuneration Report to be audited in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000. I report to you whether, in my opinion, the information given in Sections 1, 4, 5, 6 and 7 of the Annual Report, is consistent with the financial statements. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

In addition, I report to you if the Agency has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by HM Treasury regarding remuneration and other transactions is not disclosed.

I review whether the Statement on Internal Control reflects the Agency's compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this statement covers all risks and controls, or to form an opinion on the effectiveness of the Agency's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises Sections 2, 3 and 8 of the Annual Report. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Agency and Chief Executive in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Agency's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error, and that in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion, I also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

Opinions

In my opinion:

- ◆ the financial statements give a true and fair view, in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by HM Treasury, of the state of the Agency's affairs as at 31 March 2008, and of the net operating cost, recognised gains and losses and cash flows for the year then ended;
- ◆ the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000; and
- ◆ information in Sections 1, 4, 5, 6 and 7 within the Annual Report, is consistent with the financial statements.

Opinion on regularity

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

Report

I have no observations to make on these financial statements.

T J Burr

Comptroller and Auditor General
National Audit Office
151 Buckingham Palace Road
Victoria
London SW1W 9SS

4 June 2008

OPERATING COST STATEMENT

For the year ended 31 March 2008

	Note	2007-08 £'000	2006-07 Restated £'000
Employment Costs	5	66,005	61,736
Official Veterinarian Costs	6	16,774	25,274
Other Operating Costs	7	38,364	28,606
		<u>121,143</u>	<u>115,616</u>
Income			
Cost Recoveries	4	3,537	4,376
Less Surrendered to Defra	4	(992)	(854)
		<u>2,545</u>	<u>3,522</u>
Net Operating Costs	20	<u>118,598</u>	<u>112,094</u>

In accordance with FRS6, *Acquisitions and Mergers*, the results for 2006-07 have been restated following the mergers referred to in Note 25.

All income and expenditure is derived from continuing operations.

The notes on pages 61 to 76 form part of these accounts.

BALANCE SHEET

As at 31 March 2008

	Note	31 March 2008		31 March 2007 Restated	
		£'000	£'000	£'000	£'000
Fixed Assets					
Tangible Assets	10		24,733		9,938
Intangible Assets	11		47		50
			<u>24,780</u>		<u>9,988</u>
Current Assets					
Stock	13	183		152	
Debtors	14	7,785		1,726	
Cash at Bank	15	<u>14</u>		<u>2,991</u>	
			7,982		4,869
Creditors due within one year	16		<u>(26,861)</u>		<u>(23,782)</u>
Net Current Liabilities			<u>(18,879)</u>		<u>(18,913)</u>
Total Assets less Current Liabilities			5,901		(8,925)
Provisions for Liabilities and Charges	17		<u>(1,107)</u>		<u>(353)</u>
			<u>4,794</u>		<u>(9,278)</u>
Taxpayers Equity					
General Fund	18		4,756		(9,287)
Revaluation Reserve	19		38		9
			<u>4,794</u>		<u>(9,278)</u>

In accordance with FRS6, *Acquisitions and Mergers*, the Balance Sheet for 2006-07 has been restated following the mergers referred to in Note 25.

The notes on pages 61 to 76 form part of these accounts.



Professor Steve Edwards, Chief Executive
22 May 2008

STATEMENT OF ACCOUNTS

CASHFLOW STATEMENT

For the year ended 31 March 2008

	Note	2007-08 £'000	2006-07 £'000
Net Cash Outflow from Operating Activities	20	(116,221)	(91,053)
Capital Expenditure	20	(14,268)	(2,465)
		(130,489)	(93,518)
Net Cash requirement received from Defra		123,229	96,375
(Decrease)/Increase in Cash		(7,260)	2,857

STATEMENT OF RECOGNISED GAINS AND LOSSES

For the year ended 31 March 2008

	Note	2007-08 £'000	2006-07 £'000
Net Gain on Revaluation of Tangible Fixed Assets	19	42	8

The notes on pages 61 to 76 form part of these accounts.



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 *2007-08 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, Defra's other Agencies, the devolved administrations, Official Veterinarians, 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 statements of account.

2 BASIS OF ACCOUNTING POLICIES

Accounting conventions

These accounts have been prepared under the historical cost convention modified to account for the revaluation of fixed assets at their value to the business by reference to current costs.

Income recognition

Animal Health is a gross running cost Agency. Income received for services is surrendered to Defra which provides resources to finance the cost of those services. 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.

Tangible fixed assets

Assets are capitalised as tangible fixed 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.

Tangible fixed assets are valued at current replacement cost by using appropriate indices provided by the Office for National Statistics. Any 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.

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.

Intangible fixed assets

Intangible fixed assets comprise software licences and are capitalised where the licence period is for more than one year and the cost is greater than £500. Intangible fixed assets are valued at historic cost. Software licences are amortised over the term of the licence or their useful economic life, if shorter.

Depreciation and amortisation

Animal Health has adopted Defra's accounting policy on depreciation and amortisation. All fixed 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 – 12 years
Office equipment	5 – 11 years
Plant and machinery	5 – 15 years
Scientific equipment	5 – 15 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.

Stock

Stock, 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 stock 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.

Notional charges

Defra notionally charges Animal Health for centrally-provided services. The value of these charges is determined by Defra.

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% applied to the mean value of capital employed during the period (2006-07 3.5%).

Pensions

Pension arrangements are described in Note 5 to the Accounts. Pension contributions are charged to Operating Expenditure on an accruals basis.

Early departure costs

The funding for these is provided by Defra, and Animal Health is required to reflect in its own accounts the provision and future liabilities in respect of employees who have been granted early retirement.

Provisions

In accordance with FRS12, *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.

Contingent assets and liabilities

Material contingent assets and liabilities are disclosed in accordance with FRS12, *Provisions, Contingent Liabilities and Contingent Assets*.

Operating leases

Payments made under operating leases are charged to expenditure on an accruals basis.

Merger accounting

In accordance with FRS6, *Acquisitions and Mergers*, the results for 2006-07 have been restated following the mergers of the State Veterinary Service, Egg Marketing Inspectorate and Wildlife Licensing and Registration Service on 1 April 2007. In addition, the restated 2006-07 figures also reflect the transfer to Animal Health on 1 April 2007 of responsibility for the livestock programme and the transfer of administrative staff previously employed, and other administration costs previously met, by the Scottish Government (see Note 25).

3 GOING CONCERN

The Balance Sheet at 31 March 2008 shows Taxpayers Equity of £4,794k (2006-07 (£9,278k) restated) and Net Current Liabilities of £18,879k (2006-07 £18,913k restated). These net current liabilities arise from the accounting policy followed by central government departments which 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 the 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 the year-end resulting in the Balance Sheet showing net liabilities.

In common with other Government Departments and Agencies, these liabilities will be settled by future Grants of Supply and the application of future funding, both to be approved annually by Parliament, through Defra. Approval for amounts required for 2008-09 has already been given and there is no reason to believe that future approvals will not be forthcoming. Accordingly, it is considered appropriate to prepare the financial statements on a going concern basis.

4 INCOME

	2007-08 £'000	2006-07 Restated £'000
Income Received		
Defra	533	657
Defra Network	354	464
Scottish Government	—	89
Welsh Assembly Government	347	1,093
Food Standards Agency	1,766	1,728
Other	537	345
	<u>3,537</u>	<u>4,376</u>
Less Income surrendered to Defra	(992)	(854)
	<u>2,545</u>	<u>3,522</u>

Income received includes the following area of work activity where the full cost exceeds £1m. The information below is provided for fees and charges purposes, not for the purposes of Statement of Standard Accounting Practice 25.

	2007-08			2006-07 Restated		
	Income £'000	Full Cost £'000	Surplus £'000	Income £'000	Full Cost £'000	(Deficit) £'000
Dairy Hygiene Inspections	1,646	1,585	61	1,662	1,733	(71)
	<u>1,646</u>	<u>1,585</u>	<u>61</u>	<u>1,662</u>	<u>1,733</u>	<u>(71)</u>

The income for Dairy Hygiene Inspections was received from the Food Standards Agency under a Service Level Agreement for the inspection of dairies and untreated milk samples. The surplus achieved during 2007-08 has offset the deficit suffered during 2006-07.

5 EMPLOYMENT COSTS

Employment costs comprise:

	2007-08	2006-07 Restated
	£'000	£'000
Salaries	49,448	45,455
Employer's National Insurance Contributions	3,889	3,597
Employer's Pension Contributions	8,905	8,443
	62,242	57,495
Less: Recoveries for Seconded Staff	(71)	(24)
	62,171	57,471
Contractor Costs	3,708	3,333
Temporary Veterinary Inspector Costs	126	932
	66,005	61,736

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

In addition to the costs shown above, Contractor Costs of £2.2m (2006-07 £1.1m) have been capitalised. These are included within the additions to IT Equipment and Assets in the Course of Construction shown in Note 10.

Average Number of Full Time Equivalent Staff

	2007-08	2006-07 Restated
	FTE	FTE
Veterinary Staff	287	268
Technical Staff	283	288
Administrative and Managerial Staff	1,033	1,041
	1,603	1,597

	2007-08	2006-07 Restated
	FTE	FTE
Permanent	1,480	1,483
Fixed Term Contracts	86	50
Casual and Temporary	37	64
	1,603	1,597

The remuneration and emoluments of the Executive Board, and its predecessor the Corporate Management Team, are set out in the Remuneration Report on page 40.

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). Copies can also be obtained from The Stationery Office.

For 2007-08, employer contributions of £8,744k were payable to the PCSPS (2006-07 £8,196k) at one of four rates in the range 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 1/80th 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 1/60th 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 1/80th. 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 2007-08 of £161k (2006-07 £247k) 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 (2006-07 £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.

6 OFFICIAL VETERINARIAN COSTS

	2007-08 £'000	2006-07 Restated £'000
Official Veterinarian costs in year	16,774	25,346
Adjusted for non-cash items		
Reversal of over-provision of RPI increase applicable to previous years	—	(72)
	16,774	25,274

Official Veterinarians, (previously Local Veterinary Inspectors), are qualified veterinarians in private practice who undertake work on behalf of Animal Health. The charge against the Operating Costs for the year ended 31 March 2008 is based on activity undertaken by Official Veterinarians and paid for during the financial year together with:

- ◆ tests carried out in the year but not paid for at the year-end for which test forms had been received; and
- ◆ accrued payments for tests carried out in the year not paid for at the year-end for which test forms had not been received.

The total charge for Official Veterinarians has decreased in 2007-08 following a change in the policy relating to brucellosis testing following an updated assessment of the risk involved, recovery of VAT charged on work undertaken, a lower accrual for work undertaken but not invoiced at the year-end and the deferral or postponement of work as a result of the disease outbreaks.



7 OTHER OPERATING COSTS

	2007-08	2006-07
	£'000	Restated £'000
Hard Charges		
Travel and Subsistence	6,213	3,661
IT Costs	5,496	4,462
Accommodation and Utilities	4,873	3,842
Disease Eradication Costs	4,614	423
Office Services	3,459	2,467
Training	997	923
Veterinary Consumables	776	853
Recruitment	301	185
Loss/ (Profit) on Disposal of Fixed Assets	137	(2)
	<u>26,866</u>	<u>16,814</u>
Notional Charges		
IT Services	7,086	6,879
Estates Management and Accommodation Services	1,098	1,098
Accounting Services	491	476
Human Resources Services	405	393
Defra Investigation Services	144	323
Procurement and Contract Services	143	139
External Audit	85	90
Legal Services	6	61
	<u>9,458</u>	<u>9,459</u>
Non-Cash Costs		
Depreciation and Amortisation	2,011	2,032
Current Replacement Cost Adjustment	160	682
Cost of Capital	(131)	(381)
	<u>2,040</u>	<u>2,333</u>
	<u>38,364</u>	<u>28,606</u>

Notional charges include the National Audit Office's audit fee and services provided to Animal Health by Defra. From 2008-09, Defra's services will be hard-charged to Animal Health, with Defra providing the relevant funding.

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

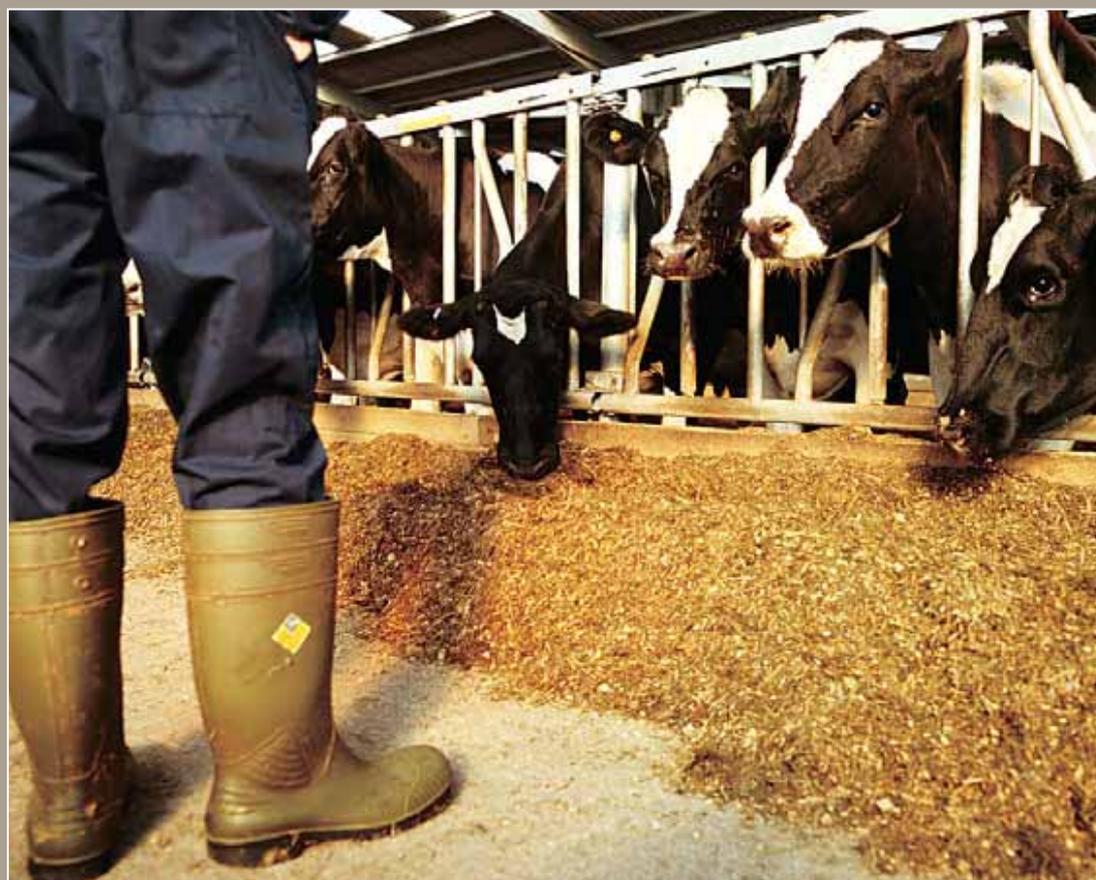
8 OUTBREAK COSTS

This note shows Animal Health's incremental costs of responding to the 2007-08 outbreaks and the headings in the accounts under which these incremental costs are recorded, together with the specific disease eradication costs shown in Note 7. Animal Health's total cost of responding to the 2007-08 outbreaks are shown in Section 7 of the Annual Report and include the incremental costs and other costs which were already being incurred.

	Note	2007-08 £'000	2006-07 Restated £'000
Employment Costs		4,233	564
Travel and Subsistence		3,400	312
IT Costs		1,470	641
Office Services		510	54
Veterinary Consumables		230	109
Accommodation and Utilities		109	35
Official Veterinarian Costs		51	—
Training		14	8
Recruitment		9	2
Outbreak Costs Reported Elsewhere in the Accounts		10,026	1,725
Disease Eradication Costs	7	4,614	423
Total Incremental Outbreak Costs		14,640	2,148

9 INTEREST PAYABLE AND SIMILAR CHARGES

Animal Health incurred no charges for interest or similar charges during 2007-08 (2006-07 £nil).



10 TANGIBLE FIXED ASSETS

	IT Equipment	Assets in the Course of Construction	Scientific Equipment	Office Equipment and Furniture	Plant and Motor Vehicles	Total Restated
	£'000	£'000	£'000	£'000	£'000	£'000
Cost or valuation						
1 April 2007	23,905	3,400	381	2,343	401	30,430
Additions	—	16,756	110	129	33	17,028
Transfers	444	(444)	—	10	23	33
Disposals	—	(116)	(7)	(72)	(52)	(247)
Revaluation	(270)	—	7	61	(1)	(203)
31 March 2008	24,079	19,596	491	2,471	404	47,041
Depreciation						
1 April 2007	(19,219)	—	(130)	(815)	(328)	(20,492)
Charged	(1,592)	—	(43)	(340)	(33)	(2,008)
Disposals	—	—	7	48	52	107
Revaluation	106	—	(2)	(20)	1	85
31 March 2008	(20,705)	—	(168)	(1,127)	(308)	(22,308)
Net Book Value						
31 March 2008	3,374	19,596	323	1,344	96	24,733
31 March 2007	4,686	3,400	251	1,528	73	9,938

In accordance with FRS6, *Acquisitions and Mergers*, the figures for 2006-07 have been restated following the mergers referred to in Note 25.

The Net Book Value for Plant and Motor Vehicles includes £93k for Motor Vehicles and £3k for Plant and Machinery (2006-07 £69k and £4k respectively).

The Net Book Value for Office Equipment and Furniture includes £535k for Office Equipment and £809k for Furniture and Fittings (2006-07 £635k and £893k respectively).

Assets in the Course of Construction relate to IT systems in development for the Business Reform Programme. When brought into use, their value will be re-assessed and any adjustment will be reflected in the Statement of Accounts for the year concerned.

11 INTANGIBLE FIXED ASSETS

	Software Licences £'000
Cost or valuation	
1 April 2007 and 31 March 2008	58
Amortisation	
1 April 2007	8
Charged for the year	3
31 March 2008	11
Net Book Value	
31 March 2008	47
31 March 2007	50

12 COST OF CAPITAL

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 year ended 31 March 2008 is calculated using HM Treasury's discount rate of 3.5% (2006-07 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.

	2007-08	2006-07 Restated
	£'000	£'000
Capital Employed at 1 April	(12,269)	(9,496)
Capital Employed at 31 March	4,780	(12,269)
Mean Capital Employed	(3,745)	(10,883)
Cost of Capital per the Accounts	(131)	(381)

13 STOCK

	2008	2007
	£'000	£'000
Veterinary Consumables	338	404
Less Provision	(155)	(252)
	183	152

14 DEBTORS

	2008	2007 Restated
	£'000	£'000
Amounts falling due within one year		
Trade Debtors	150	279
Defra and Defra Network Debtors	5,385	598
Other Debtors	78	79
Prepayments and Accrued Income	384	426
VAT	1,760	308
	7,757	1,690
Amounts falling due after one year		
Other Debtors	28	36
	7,785	1,726

Debtors include £7,447k due from other central government bodies (2006-07 £1,181k), £3k due from other public bodies (2006-07 £nil) and £nil from local authorities (2006-07 £5k).

15 CASH AT BANK

	2008 £'000	2007 £'000
Office of Paymaster General Accounts	—	2,988
Commercial Bank Account	14	3
	14	2,991

At 31 March 2008 the Agency's balance with the Office of HM Paymaster General was overdrawn as shown in note 16. This arose as a result of cash not being received by Animal Health when due. The cash was actually received early in April 2008 and the overdrawn balance cleared.

16 CREDITORS DUE WITHIN ONE YEAR

	Note	2008 £'000	2007 Restated £'000
Bank Overdraft	15	4,283	—
Trade Creditors		1,239	1,094
Defra and Defra Network Creditors		4,561	8,095
Tax and Social Security		62	161
Other Creditors		457	425
Capital Creditors and Accruals		8,151	5,394
Accruals		8,108	8,613
		26,861	23,782

Creditors due within one year include £4,630k due to other central government bodies (2006-07 £7,788k), £4k due to other public bodies (2006-07 £38k), and £33k due to local authorities (2006-07 £Nil).

The Capital Creditors and Accruals figure of £8,151k (2006-07 £5,394k) includes £3,086 (2006-07 £2,364k) for capital improvements to buildings occupied by Animal Health but owned by Defra. Animal Health retains the liability for these capital creditors but has invoiced Defra for this work. The debtor for this amount as at 31 March 2008 is included in the Defra and Defra Network Debtors figure in Note 14, and Defra will capitalise this amount in its Statement of Accounts. The invoice raised to Defra in 2006-07 had been paid to Animal Health by 31 March 2007.

17 PROVISIONS FOR LIABILITIES AND CHARGES

	Dilapidations £'000	Asbestos £'000	Early Departure £'000	Total £'000
At 1 April 2007	—	287	66	353
Utilised	—	(152)	(28)	(180)
Provided	769	165	—	934
At 31 March 2008	769	300	38	1,107

The opening asbestos provision of £287k was created to remove asbestos identified during 2006-07 in a number of properties occupied by Animal Health. Work has been completed on some of these properties during the year and work on others was in

progress at the year-end. During the year, further properties were identified requiring attention.

Leases on a number of properties occupied by Animal Health are due to expire in 2008-09 and 2009-10 and under the terms of occupation costs will be incurred when they are vacated. The dilapidations provision has been provided to recognise these costs.

Although Defra funds the Early Departure Provision for the additional pension costs for employees who were granted early retirement in 2005-06, full costs must be reflected in Animal Health's Accounts. The in-year movement reflects the payments made by Defra on behalf of Animal Health in 2007-08. There were no early departures within Animal Health in 2006-07 or 2007-08.

18 GENERAL FUND

Movements in the year consist of amounts generated from operational activities, the costs of group reconstruction and notional and non-cash charges. The reserve is not distributable.

	2008 £'000	2007 Restated £'000
At 1 April	(9,287)	(9,368)
Net Operating Costs for the Year	(118,598)	(112,094)
Net Cash Requirement Received from Defra	123,229	96,375
Notional Charges	9,458	9,459
Cost of Capital Charge	(131)	(381)
Transfer from Revaluation Reserve	13	5
General Fund transfers of the merged functions prior to their transfer to Animal Health	—	5,495
Adjustments in year between Animal Health and Defra	72	1,222
At 31 March	4,756	(9,287)

19 REVALUATION RESERVE

	2008 £'000	2007 £'000
At 1 April	9	6
Arising on Indexation during the year (net)	42	8
Transfer to General Fund	(13)	(5)
At 31 March	38	9

20 NET CASH OUTFLOW FROM OPERATING ACTIVITIES**Reconciliation of Operating costs to Net Cash Outflow from Operating Activities**

	2007-08 £'000	2006-07 Restated £'000
Net Operating Costs	(118,598)	(112,094)
Notional Charges	9,458	9,459
Non-Cash Costs	2,040	2,333
Non-Cash Movements in Provisions	934	55
Net Operating Costs excluding Notional and Non-Cash Costs	(106,166)	(100,247)
Loss/(Profit) on disposal of Fixed Assets	137	(2)
(Increase)/Decrease in Stocks	(31)	218
(Increase)/Decrease in Debtors	(6,059)	718
(Decrease)/Increase in non-Capital Creditors and Provisions	(3,206)	1,443
Non-Cash Movements in Provisions	(934)	(55)
	(116,259)	(97,925)
Non-Cash Transactions		
General Fund transfers of the merged functions prior to their transfer to Animal Health	—	5,495
Adjustments in year between Animal Health and Defra	38	1,377
Net Cash Outflow from Operating Activities	(116,221)	(91,053)

Capital Expenditure and Financial Investment

	2007-08 £'000	2006-07 £'000
Tangible Fixed Asset Additions	(17,028)	(6,144)
Increase in Capital Creditors	2,757	3,677
Proceeds from the disposal of Fixed Assets	3	2
	(14,268)	(2,465)

Change in Cash Balance

	2007-08 £'000	2006-07 £'000
At 1 April	2,991	134
(Decrease)/Increase in Cash	(7,260)	2,857
At 31 March	(4,269)	2,991

21 CAPITAL COMMITMENTS

	2007-08 £'000	2006-07 £'000
Capital Commitments	—	5,266

22 COMMITMENTS UNDER OPERATING LEASES

	2007-08	2006-07 Restated
	£'000	£'000
Operating Leases which expire:		
Within one year	285	98
Between one and five years	172	696
After five years	2,244	1,515
	<u>2,701</u>	<u>2,309</u>

All operating leases relate to property. Operating lease rentals for property charged to the Operating Cost Statement in 2007-08 amounted to £3,085k (2006-07 restated £2,988k).

23 CONTINGENT LIABILITIES

There were no material contingent liabilities at 31 March 2008 (2006-07 nil).

24 LOSSES AND SPECIAL PAYMENTS

	2007-08	2006-07
Cases	11	15
Cost £'000	12	44

25 COMPARATIVES

In accordance with FRS6, *Acquisitions and Mergers*, the results for 2006-07 have been restated following the mergers of the State Veterinary Service, Egg Marketing Inspectorate and Wildlife Licensing and Registration Service on 1 April 2007. In addition, the restated 2006-07 figures also reflect the transfer to Animal Health on 1 April 2007 of responsibility for developing the livestock programme and the transfer of administrative staff previously employed, and other administration costs previously met, by the Scottish Government.

	£'000
Operating Cost Statement:	
Net Operating Costs for the Year Ended 31 March 2007, as previously stated	106,452
Transfer of Egg Marketing Inspectorate	1,713
Transfer of Wildlife Licensing and Registration Service	1,083
Administration costs previously paid by the Scottish Government	1,389
Transfer of livestock programme	1,457
Restated Net Operating Costs for the Year Ended 31 March 2007	<u>112,094</u>

	£'000
Balance Sheet:	
General Fund Balance as at 31 March 2007, as previously stated	(9,269)
Transfer of Egg Marketing Inspectorate	(20)
Transfer of Wildlife Licensing and Registration Service	2
Restated General Fund Balance as at 31 March 2007	<u>(9,287)</u>

26 RELATED PARTY TRANSACTIONS

Defra is a related party of Animal Health. During the year ended 31 March 2008, 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 Central Science Laboratory, 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.

None of Animal Health's Executive Board, members of its predecessor the Corporate Management Team, key managerial staff or other related parties undertook any material transactions with Animal Health during the year.

£161k and £72k were paid in the year on an arms-length basis to Lambert, Leonard and May, and to McAllister & Davies respectively for veterinary services. These transactions are disclosed as a partner in each of these veterinary practices is married to an Animal Health member of staff.

27 FINANCIAL INSTRUMENTS

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

28 POST BALANCE SHEET EVENTS

For 2008-09, services provided to Animal Health by Defra will be hard charged rather than being reflected in notional charges. In addition, there will be further transfers of functions from Defra to the Agency.

Animal Health's financial statements are laid before the Houses of Parliament by the Secretary of State for Defra. FRS21, *Events After the Balance Sheet Date*, requires Animal Health to disclose the date on which the accounts are authorised for issue. The authorised date for issue is 4 June 2008.



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