Veterinary Medicines Directorate

Veterinary Medicines Directorate Annual Report & Accounts

2016/17

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

HC192

Veterinary Medicines Directorate

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

Annual Report and Accounts 2016/17

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Overview

Chief Executive's Statement

The Veterinary Medicines Directorate (VMD) is the UK competent authority for veterinary medicines policy and regulation. We seek to ensure maximum availability of safe and effective medicines for prevention and treatment of diseases and improved welfare in all animal species. In doing so we ensure that this is not at the expense of human health or the environment. Veterinary medicines are important to ensure a viable livestock and fish-farming industry. We deal with all applications for a marketing authorisation for veterinary medicines to specified timelines, and when necessary urgency of need. We continued to seek opportunities to reduce regulatory burden, to improve efficiency and to detect improper medicines sales and associated risk to human and animal health.

The VMD had a very successful year, delivering the Business Plan with in-year savings and reduced costs to industry and the taxpayer, while maintaining services independently assessed as excellent, decreased sickness absence, and achieved the 6th highest staff engagement index in the Civil Service. We have retained whole business ISO 9001:2015 certification, and ISO 27001:2013 for Information Security Management Systems.

For much of the year we have been assessing the impact of intended EU exit on veterinary medicines regulations, issues that need to be addressed to ensure smooth continuation of medicines availability and over-sight at the point of exit, and opportunities that arise from exit.

Negotiating the proposals for new European Regulations on Veterinary Medicinal Products remained our major policy issue this year. We have maintained consultation within Government, Devolved Administrations, relevant professions and industry in order to develop a UK position, and have participated in appropriate EU committees and fora to present that view. Related to these policy issues is the current high profile of antibiotic resistance, and in response the VMD has continued in its support of the UK 5-year Action Plan, has implemented a national reduction target for antibiotic use, and further enhanced its international leadership and influencing role. We have also been instrumental in the OIE (World Health Organisation for Animals) work to reduce antibiotic use and on proposals for surveillance of resistance in animal pathogens.

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

About the Veterinary Medicines Directorate

Aim

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

Vision

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

Operating framework

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

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

Our work covers three main areas:

Government: servicing, developing and implementing new policy/legislation on all aspects of veterinary medicines; providing support to Ministers through briefing and advice on replies to correspondence and Parliamentary Questions; and day-to-day management of the veterinary medicines Research and Development (R&D) programme on behalf of Defra. The VMD works with Ministers and officials of Defra and other government departments and agencies including the Food Standards Agency[1] (FSA), the general public, industry, consumer representative groups, the European Commission, embassies and other representatives of foreign governments.

Veterinary pharmaceutical industry: the assessment of applications to market medicines; issuing and maintenance of marketing authorisations; post-authorisation surveillance (pharmacovigilance); the licensing of manufacturers and wholesale dealers of veterinary medicines; and inspection of manufacturers, wholesale dealers and retailers of veterinary medicines. Our main customers are Marketing Authorisation holders; manufacturers and importers of veterinary medicines; manufacturers of medicated animal feedingstuffs; retailers of veterinary medicines and medicated animal feedingstuffs; the veterinary profession; other stakeholders, including farmers and keepers of animals, bees and companion animals; the European Medicines Agency[2] (EMA); Department of Health[3] (DH); FSA and consumers.

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

[1] You can find out more about the work of the FSA via www.food.gov.uk
[2] You can find out more about the EMA via www.ema.europa.eu
[3] You can find out more about the DH via www.gov.uk/dh

Responsibilities

The VMD's main responsibilities are:

- to lead on the UK government policy for the regulation of veterinary medicines and antimicrobial resistance in animals
- the assessment, issue and maintenance of all national Marketing Authorisations (MAs) for veterinary medicines in accordance with EC and UK legislation
- acting as Reference Member State (RMS), Rapporteur, Co-Rapporteur or Concerned Member State (CMS) for designated European applications for centralised, decentralised or mutual recognition authorisations
- enforcement of the Veterinary Medicines Regulations
- pharmacovigilance through the surveillance of Suspected Adverse Reactions
- surveillance for residues of veterinary medicines and illegal substances in animals and animal products
- the provision and implementation of policy advice on these matters to Ministers
- the management of the Research and Development programme linked to veterinary medicine issues
- the co-ordination of Defra's work on antimicrobial resistance

Future developments, performance and risk

The key challenges to the VMD throughout 2016/17 and its plans for meeting them have been outlined in the VMD's Business Priorities which are available on www.gov.uk.

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

- UK's exit from the European Union
- economic climate affecting the veterinary pharmaceutical industry and the volume of Authorisation applications the VMD receives
- European Commission's work to review the EU legislation on veterinary medicines, medicated feeds and residues surveillance
- implementation of the UK strategy on antimicrobial resistance and the European Commission's action plan on antimicrobial resistance
- broadening externally funded outreach work on developing medicines regulation and antimicrobial resistance control capability

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

Going concern

The Statement of Financial Position at 31 March 2017 shows Taxpayers' Equity and other reserves of £11.9m (at 31 March 2016 this was £11.7m). This reflects the revaluation gain on the VMD office premises and the net expenditure for the financial year.

The VMD received 20% of its operational funding from Defra and 80% from industry through fees and charges. Funding is also provided by Defra to support the Research and Development programme. Parliament approves this funding annually. These income streams are expected to continue to meet the future funding for our liabilities. The VMD has already received approval for Defra funding for next year. Therefore it is appropriate to adopt a going concern basis for these financial statements.

Performance Summary

The VMD recovers the full economic costs of its regulatory functions from those it regulates. It receives parliamentary funding through Defra to an agreed budget for its government work.

The VMD's operating expenditure for the financial year was £15.01m, a net increase of £0.88m against 2015/16. From 1 April 2016 administration of payments for the Research and Development programme transferred to the VMD. (Additional parliamentary funding of £1.38m was received to support these programme costs.) Other operational costs reduced by £0.5m through savings on direct contractual costs or efficiencies in administration costs.

- Veterinary Pharmaceutical and Food Industry regulation achieved 101% full cost recovery.
- The approved funding receivable via Defra for government funded activities was set at £4.545m, of which £4.274m was utilised, contributing £0.271m (0.6%) to Defra savings.

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

Income collected from the Veterinary Pharmaceutical Industry increased by 3% on 2015/16. This was mostly due to an increase in applications for marketing authorisations. Income collected from the Food Industry was 14% below 2015/16, reflecting reductions achieved in direct contractual costs for the residues surveillance programme, which could be passed through in fee reduction to the Food Industry.

We thoroughly monitor our financial performance and continue to seek efficiency measures while maintaining our standards of performance. We managed to achieve our 2016/17 targets, while reducing charges overall.

Staff costs

The VMD's staff costs represent 48% of the expenditure for the Agency. The permanent staff cost for 2016/17 was £7.37m, a decrease of 3% compared to 2015/16. The decrease reflected vacancies being carried in the financial year. A breakdown of staff numbers is shown within the Staff Report section and in Note 3 to the Accounts.

Purchase of services

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

Other operating costs

Administration of payments for the Research and Development programme transferred to the VMD from 1 April 2016 and increased the net operating costs by £1.38m. Excluding this new expenditure stream, operating costs reduced from £6.54m to £5.88m, reflecting savings achieved on direct contractual costs or efficiencies in administration costs.

Capital expenditure

The VMD's capital acquisitions in 2016/17 were £0.186m. This capital funding allowed us to invest in improving and developing systems, including the procurement of an upgraded financial system to replace a system which is now outmoded and incompatible with other modern technology used within the VMD.

The land and buildings valuation at 31 March 2017 recorded a revaluation increase of £0.14m. Depreciations and amortisation costs have remained at a similar level to the prior year.

Cash flow

Cash and cash equivalents have decreased from £4.66m at 31 March 2016 to £4.18m at 31 March 2017, a decrease of £0.48m. In year, the VMD's cash draw down was £3m. The net cash requirement under the gross control funding arrangement was £3.48m.

In paying customers, VMD aims to follow the principles of the Better Payment Practice Code in compliance with the Public Sector Payment Policy to pay 80% of undisputed invoices within five working days. We support this initiative, and during the year paid 99.7% of undisputed invoices within five working days.

Business priorities and Key Performance Indicators (KPIs)

The VMD's Business Plan provided a framework of deliverables and KPIs through which the VMD provides the best possible service to all its customers. The VMD successfully delivered against this plan.

Performance Analysis

About the performance analysis

This report outlines our performance against our priorities for the financial year from 1 April 2016 to 31 March 2017. It gives examples of how we are achieving our aims and highlights important events from the year. It follows the structure of our Business Plan for 2015/16 to 2018/19 to show how we are meeting our objectives.

The Defra Strategy

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

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

The goals are focused on four impact objectives which explain Defra's ambitious, long term aims, and the positive differences it will make to the UK by 2020. Defra has one delivery objective, which describes the high levels of service and value for money for the taxpayer which we will strive for.

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

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

Our performance

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

Business Priority 1 - Policy

Policy Lead on behalf of Defra for Veterinary Medicinal Products and antimicrobial resistance

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

Policy work over the year had a number of key strands. A key area was analysing the impact of leaving the European Union (EU) on the regulation of veterinary medicines in the UK, feeding into the work within the Defra group on the Great Repeal Bill, and engaging with key stakeholders on the future regulatory environment. Discussion of the EU Commission's proposals to reform the legislative framework on veterinary medicines and medicated feed continued in EU Council working groups under the Dutch, Slovak and Maltese presidencies.

On antimicrobial resistance (AMR), the VMD worked closely with the key stakeholders in the food chain and veterinary profession in implementing the animal health aspects of the Government's 5-year strategy and in taking forward the government's response to the recommendations of the Independent Review on AMR, notably: supporting the implementation of the pig industry's electronic medicines book to collect antibiotic usage data; supporting the cattle sector's work to develop systems to collect antibiotic use data; publication of data on antibiotic use by the poultry meat sector; publication of guidance on the handling of slurry and manure to help reduce the spread of antibiotic resistant bacteria; and publication of the fourth combined Veterinary Antimicrobial Resistance and Sales Surveillance Report. The VMD was busy on the international front on AMR, for example by supporting the Foreign and Commonwealth Office's diplomatic activity to advance global initiative, including via the UN General Assembly which adopted an historic AMR declaration and the G20 Agriculture Ministers' AMR Declaration and Action Plan; and through the UK-hosted Codex Alimentarius AMR working group staged jointly with the FSA and the DH. The VMD was active in fostering bilateral cooperation on AMR, including with Russia, Malaysia, Hong Kong, Singapore, India, Japan and Brazil.

We authorised Vet Skill Ltd as a suitable body to maintain a register for suitably qualified persons (SQPs) to prescribe and supply certain classes of veterinary medicines.

Business Priority 2 - Delivery

A) Facilitate optimal availability and safe use of veterinary medicines

Why are we doing this? We authorise veterinary medicines. Our work creates an environment that provides confidence and investment within the medicines industry and enables exports. It protects the food chain, human and animal health as well as the environment. It also ensures that unsafe medicines can be identified and appropriate corrective action taken including, where appropriate, removal from the market.

The expectations for the VMD's performance (time and quality) in terms of handling marketing authorisation applications, inspections and pharmacovigilance matters are set out in the published standards. Of 42 individual parameters, 41 met the "excellent" performance standard resulting in an overall performance against the Published Standards of 98%, so meeting the criteria defined as excellent. The independent Veterinary Products Committee (VPC) rated the quality of the VMD initial assessments for Marketing Authorisation applications as level 1, the highest level, confirming that the VMD properly identified potentially serious risks to human and animal health and the environment and that questions were comprehensive, clear and justified.

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

Why are we doing this? To detect unsafe products or activities and to take corrective action so ensuring confidence in veterinary medicines, assist competitiveness, aid consumer confidence, assist with safety and help to ensure medicines, in particular antibiotics, are used responsibly to maintain effectiveness.

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

Enforcement activity included:

- 13 Seizure Notices issued where illegal medicines were seized
- 288 internet product listings removed for illegal sale of veterinary medicinal products
- 11 Improvement Notices issued where improvements were required in accordance with the Veterinary Medicines Regulations (VMR)
- 272 letters issued regarding breaches of the VMR
- 342 cases completed from complaints and enquiries concerning borderline veterinary medicinal products
- 5 successful prosecutions in cases referred to the prosecuting authorities

C) To influence the development of new EU legislation. To influence the development of appropriate procedures and guidance within the European Medicines Regulatory Network (EMRN)

Why are we doing this? To seek, as far as possible, to ensure that EU changes do not discriminate against UK businesses and to ensure UK citizens' animals and the environment are suitably protected by influencing the position of the European Commission, the European Parliament and other EU member states. To ensure as far as possible that the regulatory framework reflects the risks involved and supports growth.

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

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

Business Priority 3 - Customers and Interest Groups

A) To ensure that the regulatory services provided by the VMD are seen as effective and efficient by those we regulate and stakeholders

Why are we doing this? To retain confidence in medicines and to inform continual business improvement. This is important as it allows us to retain a critical mass of specialists, which helps the sustainability of the operation.

An independent web based survey of the Veterinary Pharmaceutical Industry reported in July 2016. The results showed that:

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

Feedback on company meetings was one of the sources of customer information gathered in 2016/17. A total of 66 company meetings were held from which 33 returns were submitted. An overall score of four or five (top marks) was given on 31 occasions (22 scored five, 9 scored four and 2 scored three).

B) Provision of appropriate services to policy customers in Defra, other government departments and the Devolved Administrations.

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

During May 2017 we carried out a survey of colleagues in government that use the VMD’s policy services or who we work with to make and deliver policy. We hold the survey each year to complement the regular in-year assessment of the delivery of specific policy areas. Our survey covered services provided by the VMD’s Antimicrobial Resistance, Legislation, Residues and ‘EU Exit’ Teams.

We asked 10 questions about the service we provided in 2016/17 based on Defra’s formal approach to policy making with a rating system from “1 = unacceptable service: radical overhaul required” through to “5 = excellent service: no changes required”.

In the areas where those surveyed expressed a view, 67% rated the quality of the policy the VMD provided, and 40% the way in which we provided it, as “excellent (no changes required)”. We were rated as “good/acceptable” for these two parameters by 33% and 60% respectively. 10% overall had no view.

On two specific questions on how satisfied respondents were with the way the VMD set the policy agenda and how the VMD defined the policy issues, the Welsh Government (representing 10%) rated us as delivering a “flawed service: significant changes required”. We will work with them to improve in these areas, though this respondent said that overall they were “very impressed with the standard of work done by the VMD”. The other 60% rated us as either “excellent” or “good” for these questions, and 30% had no view.

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

C) Communications and data provision to customers and interest groups

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

In 2016/17 the VMD delivered a significant amount of work on its annual communications priorities and business as usual activities in line with its Communications and Engagement Strategy.

Highlights included:

- engaging with key stakeholder groups to keep them abreast of the Government's response to the independent review on antimicrobial resistance
- engagement with stakeholders on the proposals for new European legislation on veterinary medicines and medicated feed
- quarterly newsletter on enforcement issues (generating increasing numbers of subscribers) highlighting our enforcement successes and encouraging reports to us about breaches of the Veterinary Medicines Regulations
- monthly updates to vets in the Veterinary Record and Veterinary Times, and quarterly updates to the Pharmaceutical Industry through the VMD's newsletter (MAVIS)
- attendance at industry and public events to promote awareness of the work of the VMD, our online services, and items of interest to the specific stakeholder group
- working closely with veterinary and animal welfare groups and others to give important messages on the responsible use of antibiotics, including publicising the European Antibiotic Awareness Day and the World Antibiotic Awareness Week. The Veterinary Antimicrobial Resistance and Sales Surveillance report, published on 17 November, was launched at the London Vet Show with a press conference
- handling an increasing number of routine and high-profile media enquiries (such as issues on antimicrobial resistance) and using media opportunities (for example filming interviews about veterinary medicines issues of interest to pet owners for a new digital TV channel – Petslifetv.com)
- a number of publications sharing insights on adverse effects of medicines with the veterinary profession
- running effective education and outreach programmes having given six lectures to second/third year students at UK vet schools and Universities
- 17 VMD datasets made publicly available on www.data.gov.uk (part of www.gov.uk) following the VMD's 'Open Data' project

Business Priority 4 – Value For Money

Achieve cost recovery and delivery of value for money

Why are we doing this? To ensure that we can demonstrate to all our customers how we achieve best value for money (VFM). To ensure an appropriate regulatory framework is in place that supports growth whilst providing appropriate safeguards to protect the food chain, human and animal health and the environment.

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

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

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

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

- preparing and implementing a savings plan which generated real terms savings on the previous year funding requirement from Defra
- managing contracts to reduce costs whilst maintaining its level of service, to enable reduced charges to industry.

Business Priority 5 – Capacity and Capability

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

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

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

The VMD continued to invest in the training and development of new staff. On average members of staff undertook 6.95 days of learning and development.

The VMD was recertified in October 2016 for both ISO 9001:2015 for the whole business, and ISO 27001:2013 security certification of its IT systems. Neither recertification audit found any non-conformities or any issues of significance.

Environmental Matters and Social and Community Issues

Sustainability Report for the calendar year 2016

For more information please see Defra's Annual Report and Accounts – Section headed: "Commentary on Sustainable Performance", which covers the VMD.

Defra's Built Environment Sustainability Team (BEST) provides the VMD with quarterly figures on each of the following categories. Due to availability this report is based on data from Quarter 4 of 2015/16 and Quarters 1 to 3 of 2016/17. This is the same basis as used for the figures in the 2015/16 report.

GREENHOUSE GAS EMISSIONS		**2016**	**2015**	**2014**
Non-Financial Indicators (1,000 tonnes tCO2e)	Total gross emissions	0.217	0.220	0.250
	Total net emissions	-	-	-
	Gross emissions Scope 1	0.064	-	-
	Gross emissions Scope 2	0.146	-	-
	Gross emissions Scope 3	0.007	-	-
Related Energy Consumption (million KWh)	Electricity: Non-Renewable	0.301	0.280	0.340
	Electricity: Renewable	-	-	-
	Gas	0.330	0.320	0.340
	LPG	-	-	-
	Other	-	-	-
Financial Indicators (£ million)	Expenditure on Energy	*	*	0.037
	CRC License Expenditure**		0.004	0.002
	Expenditure on accredited offsets (e.g. Government Carbon Offsetting Fund)	-	-	-
	Expenditure on official business travel	0.149	0.145	0.128
The VMD does not have these figures. From 2015/16 they form part of the overall Defra Corporate recharge costs and are not billed separately.				
***Carbon Reduction Commitment in the financial year 2014/15 of £3,929 (2013/14 of £2,427) was submitted by the Department for Environment, Food and Rural Affairs on behalf of the VMD.*				
Scope 1: Gas consumption emissions (direct) *Scope 2: Electricity consumption emissions (indirect)* *Scope 3: Travel emissions (indirect)*				

Greenhouse Gas Emissions – Performance Commentary (including measures)

Under the Greening Government Commitments the VMD has a commitment to reduce carbon emissions by 38% from the estate and business related travel from a 2009/10 baseline (of 254 tonnes tCO2) by 2019/20. For the purposes of ongoing monitoring and assessment throughout the reporting period, Defra's Built Environment Sustainable Development Team developed annual indicative milestones based on a 9.65% reduction per annum which we have not met due to the constraints of the building.

Indicative Annual Milestone: tonnes (tCO2)

2011/12 – 234.7
2012/13 – 225.0
2013/14 – 215.4
2014/15 – 205.7
2015/16 – 196.1
2016/17 – 186.4
2017/18 – 176.8
2018/19 – 167.1
2019/20 – 157.5

Greenhouse Gas Emissions – Controllable Impacts Commentary

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

Greenhouse Gas Emissions – Overview of Influenced Impacts

Greening Government Commitment: To cut domestic business travel flights by 30% by 2019/20 from a 2009/10 baseline. Organisation Level Target: Currently recorded as having a zero indicative baseline. Staff undertake nearly all domestic business travel using the train.

WASTE			2016	2015	2014
Non-Financial Indicators (tonnes)	Total Waste		12.2	8.0	21.2
	Hazardous Waste		-	-	-
	Non Hazardous Waste	Landfill	-	-	-
		Reused/recycled	-	-	-
		Composted	-	-	-
		Incinerated with energy recovery	12.2	8.0	21.2
		Incinerated without energy recovery	-	-	-
Financial Indicators (£k)	Total Disposal Cost		*	*	*
	Hazardous Waste		-	-	-
	Non Hazardous Waste	Landfill	-	-	-
		Reused/recycled	-	-	-
		Composted	-	-	-
		Incinerated with energy recovery	-	-	-
		Incinerated without energy recovery	-	-	-

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

Waste – Performance Commentary (including measures)

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

Under the Greening Government Commitments the VMD has a commitment to reduce the amount of waste generated by 25%, from a 2009/10 baseline, by 2019/20. For the purposes of on-going monitoring and assessment throughout the reporting period, Defra's BEST developed annual indicative milestones based on a 3.6% reduction per annum. Defra's BEST re-baselined for the VMD when the Facilities Management contractor started to weigh waste from the VMD separately from the remainder of the site. The targets below have been revised as a consequence.

Indicative Annual Milestone (tonnes)

2011/12 – 43.7*	2016/17 – 36.0
2012/13 – 42.1	2017/18 – 34.7
2013/14 – 40.5	2018/19 – 33.4
2014/15 – 39.0	2019/20 – 32.2
2015/16 – 37.4	

*(revised baseline based on 2011 calendar year)

The main direct impacts of waste for the VMD are in relation to paper and other office related waste. We continue to work to reduce the Agency's paper usage by moving to digital working. Paper use has reduced annually from 377 boxes in 2010 to 120 in 2016.

FINITE RESOURCE CONSUMPTION			2016	2015	2014
Non-Financial Indicators ('000 m^3)	Water Consumption (Office Estate)	Supplied	1.124	0.631	0.774
		Abstracted	-	-	-
		Per FTE	0.007	0.004	0.005
	Water Consumption (Non-Office Estate)	Supplied	-	-	-
		Abstracted	-	-	-
Financial Indicators (£k)	Water Supply Costs (Office Estate)		*	*	1
	Water Supply Costs (Non-Office Estate)		-	-	-

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

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

Under the Greening Government Commitments the VMD has a commitment to an overall reduction in water consumption by 2019/20, from a 2009/10 baseline of 1,000 m^3 and to improve site level water consumption per full-time equivalent (FTE). Based on an average of 153 FTEs our annual consumption would be 7.35m^3 per head. An investigation into the increase in water usage since 2015 is in progress.

Finite Resource: Water Consumption – Controllable Impacts Commentary

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

We encourage staff to use only the water they need.

Professor SP Borriello
Chief Executive
3 July 2017

Accountability Report

Corporate Governance Report

Directors Report

Board and Executive Directors

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

Position	Position holder
Chief Executive	SP Borriello
Director of Authorisations	M-O Hendrickx
Director of Operations	P Green

The notice period for Executive Directors is three months.

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

The board members had no company directorships or other significant interests which conflicted with their management responsibilities in the financial year 2016/17.

Protecting personal data

There were no personal data-related incidents in the VMD in 2016/17. Incidents, the disclosure of which would in itself create an unacceptable risk of harm, may be excluded in accordance with the exemptions contained in the Freedom of Information Act 2000 or may be subject to the limitations of other UK information legislation.

Statement of Accounting Officer's Responsibilities

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

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

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

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

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

Preparation and audit of the Accounts

The Accounts have been prepared under a direction issued on 19 December 2016 by HM Treasury under Section 7(2) of the Government Resources and Accounts Act 2000 and are audited by the Comptroller and Auditor General.

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

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

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

Governance Statement

This statement evaluates for the financial year 2016/17 the effectiveness of the VMD governance arrangements, risk management, and the system of internal control.

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

Governance philosophy

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

During the year we have worked with Internal Auditors to review: fees and charges, risk management, enforcement, and retail and wholesale inspections as part of the assurance and control framework. This aims to mitigate risk of fraud and error, ensure enforcement activities are appropriate and proportionate, and confirm the assurance and control framework is fit for purpose.

The whole-Agency ISO 9001:2015 and our Information Security Management System ISO 27001:2013 certification help drive service quality and improvement.

We have continued to focus on performance management both at an individual and business level. We achieved a Civil Service people survey engagement index score of 67% in 2016 which represents the 6^{th} highest score in the survey.

Governance arrangements

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

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

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

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

The overall governance structure and associated assurance as well as advice and challenge are enriched by an independent advisory committee and regular discussions between the CEO and the Chief Veterinary Officer (CVO) (who is invited to attend the ARAC and MB) and Deputy Veterinary Officer. We are also party to an external benchmarking process for our medicines functions, and hold external certification to ISO 27001:2013 for our Information Security Management functions. Our quality assurance is further strengthened by the whole organisation ISO 9001:2015 certification, which covers all our operational processes. In 2016/17 both of these ISO standards were successfully recertified with no non-conformities found.

Committee structure

VMD Management Board (MB)

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

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

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

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

Audit and Risk Assurance Committee

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

Highlights of Board and Committee reports

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

- Business Plan and budget
- monthly financial and quarterly performance reporting
- strategic risk management
- new corporate policies, the assessment of potential changes and opportunities affecting the VMD, and the methods of communication with stakeholders
- audit reports

The emphasis of consideration of these core items between the two Committees differ, with risk implications and mitigations, audit programmes and audit findings being of key consideration for the ARAC; and response, implementation and strategy being of key consideration for the MB. Reports and updates received in 2016/17 were:

- Annual Budget and a 3-year Audit Plan
- Draft Annual Report and Accounts
- Draft Governance Statement
- Risk Register
- National Audit Office Management Letter
- Head of Internal Audit Reports
- Internal Audit Strategy and Work Plan
- Reports and recommendations from internal audits and progress on implementation of recommendations

Executive Management Board (EMB)

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

- consider and respond to current business issues
- control the VMD's financial position on a monthly basis
- consider detailed assessment of all staff issues (such as training, sickness, performance) on a monthly basis
- agree on the handling of key operational issues on a monthly basis
- consider potential new/emerging risks
- review strategic risks to the Agency on a monthly basis
- allocate human and financial resources in alignment with the strategic direction and Business Plan
- on a monthly basis review and update the Risk Register

Effectiveness of the Boards' and Committees' performance

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

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

The MB and ARAC assess their effectiveness at each meeting. A more formal assessment, as recommended by the Cabinet Office, of MB and ARAC performance was carried out through questionnaires issued at the March 2017 meeting, completed by Committee members and regular attendees where they had attended two or more meetings in the year. Against a bank of eighteen questions for ARAC 95% of responses were positive, 5% neutral and 0% negative based on four responses. For MB 94% of responses were positive, 6% neutral and 0% negative based on four responses.

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

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

Compliance with the Corporate Governance Code

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

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

The EMB had been effective in the discharge of its responsibilities as evidenced by the full delivery of the 2016/17 Business Plan and the results of the 2016 annual staff survey. The outcomes of the EMB are reported to staff through the weekly Chief Executive's Newsletter and where appropriate Office Notices. To increase involvement and increase challenge from outside the Executive Team, individual Heads of Team are invited on a rolling basis to attend and contribute to the meeting.

Conflicts of interest

The VMD has in place a detailed conflicts of interest policy register for all VMD staff, and procedures that follow the requirements of the Corporate Governance Code to handle conflicts of interest for all Board members. Board members are required on appointment to complete a form listing interests which could emerge as a conflict of interest. There is a standing agenda item at the start of every Board meeting on declarations of interest. Board papers related to the declared conflict are withheld from Board members who have declared a specific conflict of interest. Board members with a specific conflict of interest leave the meeting during discussion of that item. A conflict of interest register is maintained for Board members. During 2016/17 no Board members' conflicts of interest were identified.

Managing our risks

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

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

The Strategic Risk Register is regularly reviewed by the EMB, MB and ARAC. The risks are updated as necessary.

The strategic risks identified in 2016/17 were:

- reduction in Defra funding
- reduced confidence in veterinary medicines
- reduced confidence in food safety
- reduced confidence in the VMD
- risk of litigation
- staffing levels/skill mix/motivation
- imposed changes to estate and/or imposed changes to other support services
- overspend on funds/failure to deliver statutory responsibilities
- inadequate disaster recovery procedures
- risk of fraud
- international process/regulation changes that adversely impact UK interests including exit from the EU
- inadequate IT services
- inability of partner organisations to deliver on behalf of the VMD

During the year all of the risks that arose on the VMD's strategic risk register were managed appropriately. In year, no key 'red risks' for the Agency were identified.

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

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

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

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

Effectiveness of risk management

Internal audit assurance

The Internal Audit Service:

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

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

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

Governance and control issues

Whistleblowing

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

Our people use the Whistleblowing Policy if they need to raise a concern about:

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

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

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

Business critical models and quality assurance

An appropriate quality assurance framework is in place to assess business models relevant to the Agency. We obtain, through MB and its sub-committee ARAC, assurance that the associated risks are properly managed. There are no business models which currently fall within the definition ‘business critical models’ as set out by HM Treasury.

Quality Management System

The Quality Management System was introduced across all teams in the VMD in 2010. The Quality Management System ensures processes and procedures are documented. A series of audits are performed each year, using VMD staff drawn from across the Agency and trained in auditing. The audits, whilst initially team based, are now largely process based and provide assurance that the documented processes and procedures are followed with opportunities for improvements being identified and recorded. The VMD has external certification of its systems to ISO 9001:2015.

Business continuity plans

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

Information management and data security

Data security remains critical and is assured by the VMD’s maintenance of the Cabinet Office Security Standards and certification to ISO 27001:2013. All staff are made explicitly aware of their responsibilities regarding information we hold. In year, there was a 100% successful completion of the Responsible for Information online training.

There were no data security lapses that were deemed to be significant or critical during 2016/17.

Significant issues

Good progress continued against our plans in 2016/17. The significant issues that were managed through the year and in to the future are:

- the ability to attract or retain experienced professional staff for certain skills is difficult, particularly in buoyant veterinary medicines and IT sectors where demand for scarce experience and talent is high. This is despite high staff engagement scores
- delivery pressures due to extended recruitment timings also need careful management, with flexible mechanisms being required to balance delivery needs and to respond to dynamic customer requirements
- access to capital and the increasing cost of contracts and estates investment
- decreasing resilience of others to deliver commissioned services
- successfully reducing illegal sales of veterinary medicines through online platforms
- consideration of EU exit and its impact on the VMD
- the UN declaration on antimicrobial resistance

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

S. P. Borriello

Professor SP Borriello
Chief Executive
3 July 2017

Remuneration and Staff Report

Remuneration policy

The remuneration of the Senior Civil Service (SCS) is set by the Prime Minister following independent advice from the Senior Salaries Review Body (SSRB). The Cabinet Office advises departments in March or April each year of the Government's response to the SSRB recommendations and produces guidance for departments and network bodies to follow.

Defra develops the SCS Reward Strategy within the Cabinet Office Framework, ensuring that the overall pay awards for the SCS are within the cost ceiling allowed.

Members of the SCS, excluding the Permanent Secretary, are eligible to be considered for individual levels of bonus as non-pensionable, non-consolidated variable pay (NCVP), based on their performance. NCVP is paid in the financial year after that in which it was earned. NCVP values, informed by each individual's appraisal grade, were paid within Cabinet Office guidelines.

Service contracts

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

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

Further information about the work of the Civil Service Commissioners can be found on the Civil Service Commission website www.civilservicecommission.org.uk. All senior officials on the Defra Board are on permanent Civil Service contracts.

Remuneration - salary, benefits-in-kind and pensions (audited)

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

Single total figure of remuneration										
Officials	**Salary (£000)**		**Bonus payments (£000)**		**Benefits-in-kind (to nearest £100)**		**Pension benefits (to nearest £1000)[1]**		**Total (£000)**	
	2016-17	2015-16	2016-17	2015-16	2016-17	2015-16	2016-17	2015-16	2016-17	2015-16
SP Borriello Chief Executive	115-120	115-120	10-15	-	-	-	46,000	46,000	175-180	165-170
M-O Hendrickx Director of Authorisations	90-95	80-85[2]	-	-	-	-	35,000	32,000	125-130	110-115
P Green Director of Operations	70-75	70-75	-	10-15	-	-	14,000	22,000	85-90	100-105

[1] The value of pension benefits accrued during the year is calculated as (the real increase in pension multiplied by 20) plus (the real increase in any lump sum) less (the contributions made by the individual). The real increases exclude increases due to inflation or any increase or decreases due to a transfer of pension rights.
[2] Figures quoted are for the period 5 May 2015 to 31 March 2016. The full year equivalent banding is £85,000 to £90,000.

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

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

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

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

No employer contributions were made to partnership pension accounts during 2016/17 or 2015/16 in respect of the VMD's Directors.

Civil service pensions

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

These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under **classic**, **premium**, **classic plus**, **nuvos** and **alpha** are increased annually in line with Pensions Increase legislation. Existing members of the PCSPS who were within 10 years of their normal pension age on 1 April 2012, remained in the PCSPS after 1 April 2015. Those who were between 10 years and 13 years and 5 months from their normal pension age on 1 April 2012 will switch into **alpha** sometime between 1 June 2015 and 1 February 2022. All members who switch to **alpha** have their PCSPS benefits 'banked', with those with earlier benefits in one of the final salary sections of the PCSPS having those benefits based on their final salary when they leave **alpha**. (The pension figures quoted for officials show pension earned in PCSPS or **alpha** – as appropriate. Where the official has benefits in both the PCSPS and **alpha** the figure quoted is the combined value of their benefits in the two schemes.) Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder pension with an employer contribution (**partnership** pension account).

Employee contributions are salary related and range between 3% and 8.05% of pensionable earnings for members of **classic** (and members of **alpha** who were members of **classic** immediately before joining **alpha**) and between 4.6% and 8.05% for members of **premium**, **classic plus**, **nuvos** and all other members of **alpha**. Benefits in **classic** accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years initial pension is payable on retirement. For **premium**, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike **classic**, there is no automatic lump sum. **Classic plus** is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per **classic** and benefits for service from October 2002 worked out as in **premium**. In **nuvos** a member builds up a pension based on their pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with Pensions Increase legislation. Benefits in **alpha** build up in a similar way to **nuvos**, except that the accrual rate is 2.32%. In all cases members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

The **partnership** pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 8% and 14.75% (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of providers. The employee does not have to contribute but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.5% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of **classic**, **premium** and **classic plus**, 65 for members of **nuvos**, and the higher of 65 or State Pension Age for members of **alpha**. (The pension figures quoted for officials show pension earned in PCSPS or alpha – as appropriate. Where the official has benefits in both the PCSPS and alpha the figure quoted is the combined value of their benefits in the two schemes but note that part of that pension may be payable from different ages.)

Further details about the Civil Service pension arrangements can be found at the website www.civilservicepensionscheme.org.uk.

Cash equivalent transfer values

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

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

Real increase in CETV (audited)

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

	Accrued pension at pension age as at 31/3/17 and related lump sum £000	**Real increase in pension and related sum at pension age £000**	**CETV at 31/3/17 £000**	**CETV at 31/3/16 £000**	**Real increase in CETV £000**
SP Borriello Chief Executive	20-25 plus lump sum 0	2.5-5.0 plus lump sum 0	432	373	39
M-O Hendrickx Director of Authorisations	0-5 plus lump sum 0	0-2.5 plus lump sum 0	49	23	19
P Green Director of Operations	20-25 plus lump sum 60-65	0-2.5 plus lump sum 2.5-5.0	406	375	11

Pay multiples (audited)

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

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

Total remuneration	**Highest paid Director £000**	**Median of other staff £**	**Pay multiple (ratio)**
2016/17	130 - 135	30,770	4.3
2015/16	115 - 120	31,655	3.8

In 2016/17, no employees received remuneration in excess of the highest paid Director (2015/16: nil). Remuneration ranged from £15,753 to £133,000 (2015/16, £17,495 to £119,776).

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

A non-consolidated performance bonus was paid in 2016/17 to the highest paid Director (2015/16: nil), which is the primary reason for the increase in the pay multiple ratio. Exclusive of this amount the 2016/17 ratio would be 3.9 compared to 3.8 in the prior year.

External Management Board members (audited)

Membership details of the Management Board are detailed in the Governance Statement. The Non-executive Members also form the ARAC. The following salaries and benefits-in-kind were paid to the external members:

2016/17	**D Corner** £000	**J Drown** £000	**A Coulson** £000
Salary (as defined above)	0-5	0-5	0-5
Benefits-in-kind	0-5	0-5	0-5
Total	**0-5**	**0-5**	**0-5**

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

Staff Report

Staff numbers

At 31 March 2017 we employed 155 permanent staff (149.2 FTE) and 11 temporary staff (9.5 FTE) supplied by local employment agencies. The average number of full-time equivalent permanent and temporary staff during the year and an analysis of staff-in-post (headcount) as at 31 March 2017 by gender are shown below.

The VMD complies with equal opportunities legislation and departmental policy in relation to disabled employees. The VMD applies Defra's policies on equal opportunities and health and safety at work.

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

	2016/17			**2015/16**
	Permanently employed staff	**Temporary staff**	**Total**	**Total**
Scientific	53	4	57	56
Administrative	93	3	96	99
	146	**7**	**153**	**155**

The number of staff-in-post (headcount) by gender as at 31 March 2017 was as follows:

	2016/17			**2015/16**		
	Male	**Female**	**Total**	**Male**	**Female**	**Total**
Directors	2	1	3	2	1	3
Other staff - Scientific	24	39	63	23	34	57
Other staff - Administrative	38	62	100	36	60	96
	64	**102**	**166**	**61**	**95**	**156**

Early departure costs

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

	2016/17	2015/16
Exit package cost band	**Number**	**Number**
Up to £10,000	-	-
£10,001 - £25,000	-	-
£25,001 - £50,000	-	-
£50,001 - £100,000	-	1
Total number of exit packages in cost band	**-**	**1**

There were no compulsory exits in 2016/17 (2015/16: nil).
There were no senior manager exits in 2016/17 (2015/16: nil).

Staff costs

Staff costs consist of the following:	2016/17			2015/16
	Permanently employed staff £000	**Temporary staff £000**	**Total £000**	**Total £000**
Wages and salaries	5,591	384	5,975	5,918
Social security costs	604	-	604	488
Other pension costs	1,175	-	1,175	1,183
Sub-total as reported in Statement of Comprehensive Net Expenditure	**7,370**	**384**	**7,754**	**7,589**
Less recoveries in respect of outward secondments	(80)	-	(80)	(19)
	7,290	**384**	**7,674**	**7,570**

Senior managers' remuneration

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

Pensions

The Principal Civil Service Pension Scheme (PCSPS) and the Civil Servant and Other Pension Scheme (CSOPS), also known as "alpha", are unfunded multi-employer defined benefit scheme but the VMD is unable to identify its share of the underlying assets and liabilities. The Scheme Actuary valued the scheme as at 31 March 2012. You can find details in the resource accounts of the Cabinet Office: Civil Superannuation, www.civilservicepensionscheme.org.uk.

For 2016/17, employers' contributions of £1,155,819 were payable to the PCSPS (2015/16 £1,165,748) at one of four rates in the range 20.0% to 24.5% of pensionable earnings, based on salary bands. The Scheme Actuary reviews employer contributions usually every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2016/17 to be paid when the member retires and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions of £17,228 (2015/16: £11,933) were paid to one or more of the panel of three appointed stakeholder pension providers. Employers' contributions are age-related and range from 8% to 14.75% of pensionable earnings. Employers also match employee contributions up to 3% of pensionable earnings.

In addition, employer contributions of £668, 0.5% of pensionable pay were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service or ill-health retirement of these employees.

Contributions due to the partnership pension providers at the balance sheet date were £1,699. Contributions prepaid at that date were nil.

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

Sickness absence data

The total full-time equivalent days lost through staff sickness absence in the year was 562 compared to 639 in 2015/16. The average working days lost per employee during the year was 3.8 compared to 4.3 in 2015/16. Short term sickness absences of 10 days or less continued to fall from 2.0 days per FTE in 2015/16 to 1.7 days per FTE in 2016/17.

Tax arrangements of public sector appointees

As part of HM Treasury's review of tax arrangements of public sector appointees, departments and their arms-length bodies are required to publish information in relation to the number of off payroll engagements lasting more than six months and costing over £220 per day that were in place on 31 January 2012 or entered into subsequently. The VMD have nil engagements to report as at 31 March 2017.

New off-payroll engagements, or those that reached six months in duration, between 1 April 2016 and 31 March 2017, for more than £220 per day and that last for longer than six months.

Number of new engagements, or those that reached six months in duration, between 1 April 2016 and 31 March 2017	2
Number of the above which include contractual clauses giving the department the right to request assurance in relation to income tax and National Insurance obligations	2
Number for whom assurance has been requested	2
Of which:	
Number for whom assurance has been received	2
Number for whom assurance has not been received	0
Number that have been terminated as a result of assurance not being received	0

Off-payroll engagements of Board members and/or senior officials with significant financial responsibility between 1 April 2016 and 31 March 2017

Number of off-payroll engagements of board members and/or senior officials with significant financial responsibility, during the financial year [1]	Total number of individuals both on payroll and off-payroll that have been deemed 'Board members and/or senior officials with significant financial responsibility', during the financial year.
Nil	6

[1] Senior officials with significant financial responsibility are defined as the Chief Executive, Directors and Non-executive Directors.

Consultancy and temporary staff expenditure

	2016/17	**2015/16**
	£000	**£000**
Consultancy expenditure	53	116
Temporary staff expenditure	384	268
Total	**437**	**384**

Expenditure on temporary staff increased as a consequence of progress on recruitment into vacancies. Consultants are engaged when it is better value for money to do so on specific programme work and when specialised skills are required.

Employee involvement

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

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

Health and safety

Due to mainly low risk activities and the size of the organisation the VMD continues to use the policies and advice services from Defra's Safety, Health & Wellbeing team. Only one minor work-related incident was reported by employees during 2016/17.

Professor SP Borriello
Chief Executive
3 July 2017

Parliamentary accountability and audit report (Audited)

Fees and Charges

An analysis of the Agency's income and associated costs are shown below. Charges for provision of services are set to recover full costs in accordance with HM Treasury's Fees and Charges Guide. This analysis is not for International Financial Reporting Standards (IFRS) 8 (Segmental Reporting) purposes.

	2016/17			
Activities undertaken for the:	**Defra Funding Utilised £000**	**Non Defra Income £000**	**Full Cost £000**	**Surplus £000**
Veterinary Pharmaceutical Industry	-	7,582	7,456	126
Food Industry	35	3,494	3,529	-
Government	2,859	*71	2,930	-
Research and Development programme	1,380	-	1,380	-
Total	**4,274**	**11,147**	**15,295**	**126**

* Income for work undertaken for government comprises of contributions from devolved administrations and an EU grant paid in the financial year to support the AMR programme.

The Agency's Business Plan includes one key financial performance target: to achieve 100% +/- 2% cost recovery for the VMD as a whole. In assessing performance against this target, a notional cost of capital charge is recorded in addition to the costs included in the Statement of Comprehensive Net Expenditure. For 2016/17, an overall cost recovery of 101% was achieved, a surplus of £0.126m, measured against the total cost of VMD activities £15.295m.

As of 1 April 2016 Defra changed the way that it reported the funding of the VMD, with the aim of improving accountability and transparency of the funding. Under this gross control funding arrangement the VMD is reporting a net operating expenditure of £3.86m for 2016/17, of which £4.27m is deemed to be non-chargeable and is funded via Defra, net of industry income £0.126m and the notional cost of capital £0.284m .

Reconciliation of Fees and Charges analysis to Net Operating Expenditure

	2016/17			
	Defra Funding Utilised	**Non Defra Income**	**Operating Expenditure**	**Net Operating Expenditure**
	£000	**£000**	**£000**	**£000**
Surplus as per fees and charges analysis	**4,274**	**11,147**	**15,295**	**126**
Less: Parliamentary funding*	4,274	-	-	4,274
Less: Cost of Capital	-	-	284	284
Net Operating Expenditure per Statement of Comprehensive Net Expenditure	**-**	**11,147**	**15,011**	**3,864**

* The approved parliamentary funding receivable via Defra for government activities was set at £4.545m, of which £4.274m was utilised, contributing £0.271m (0.6%) to Defra savings.

	2015/16		
	Income £000	**Full Cost £000**	**Surplus £000**
Veterinary Pharmaceutical Industry	7,367	7,308	59
Food Industry	4,095	4,084	11
Government	3,040	2,981	59
Total	**14,502**	**14,373**	**129**
Less: Cost of Capital	-	244	244
Net Operating Income	**14,502**	**14,129**	**373**

The 2015/16 results above are shown under the net control basis and have not been restated. Cost recovery for 2015/16 was 101%.

Losses and Special Payments

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

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

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

Contingent Liabilities

There were no contingent liabilities as at 31 March 2017 (31 March 2016: nil).

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

I certify that I have audited the financial statements of the Veterinary Medicines Directorate for the year ended 31 March 2017 under the Government Resources and Accounts Act 2000. The financial statements comprise: the Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration and Staff Report and the Parliamentary Accountability and Audit report that is described in those reports as having been audited.

Respective responsibilities of the Accounting Officer and auditor

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

Scope of the audit of the financial statements

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

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

Opinion on regularity

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

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the Veterinary Medicines Directorate's affairs as at 31 March 2017 and of the net operating expenditure for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

Opinion on other matters

In my opinion:

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

Matters on which I report by exception

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

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

Report

I have no observations to make on these financial statements.

Sir Amyas C E Morse

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

7 July 2017

Financial Statements

Statement of Comprehensive Net Expenditure

	Note	2016/17	Restated 2015/16
		£000	£000
Income from provision of services	*2*	11,147	11,470
Total operating income		**11,147**	**11,470**
Staff costs	*3*	(7,754)	(7,589)
Purchase of services	*4*	(5,146)	(4,220)
Non-cash costs	*4*	(1,026)	(1,113)
Other operating expenditure	*4*	(1,085)	(1,207)
Total operating expenditure		**(15,011)**	**(14,129)**
Net operating expenditure		**(3,864)**	**(2,659)**
Other comprehensive expenditure:			
Items that will not be reclassified to net operating costs:			
Net gain on revaluation of property, plant and equipment		374	675
Comprehensive net expenditure for the year ended 31 March 2017		**(3,490)**	**(1,984)**

All income and expenditure is derived from continuing operations.

All of the above income and expenditure is classified as "Programme" (See Note 1.15).

The notes on pages 43 to 53 form part of these accounts.
The restated amounts relating to the change in accounting policy are shown in Note 15.

Statement of Financial Position

As at 31 March 2017

	Note	31 March 2017		31 March 2016	
		£000	**£000**	**£000**	**£000**
Non-current assets:					
Property, plant and equipment	*5*	6,030		5,854	
Intangible assets	*6*	104		60	
Total non-current assets			**6,134**		**5,914**
Current assets:					
Trade and other receivables	*7*	4,024		3,520	
Cash and cash equivalents	*8*	4,184		4,659	
Total current assets			**8,208**		**8,179**
Total assets			**14,342**		**14,093**
Current liabilities:					
Trade and other payables	*9*	(2,446)		(2,393)	
Total current liabilities			**(2,446)**		**(2,393)**
Total assets less liabilities			**11,896**		**11,700**
Taxpayers' equity and other reserves:					
General Fund			7,348		7,526
Revaluation Reserve			4,548		4,174
Total equity			**11,896**		**11,700**

The notes on pages 43 to 53 form part of these accounts.

Professor SP Borriello
Chief Executive and Agency Accounting Officer
3 July 2017

Statement of Cash Flows

For the year ended 31 March 2017

	Note	2016/17	Restated 2015/16
		£000	**£000**
Cash flows from operating activities:			
Net operating expenditure		**(3,864)**	**(2,659)**
Adjustments for non-cash transactions arising in the year	*4*	1,026	1,103
Increase in trade and other receivables	*7*	(504)	(130)
Increase/(decrease) in trade and other payables*	*9*	53	(279)
Net cash outflow from operating activities		**(3,289)**	**(1,965)**
Cash flows from investing activities:			
Purchase of property, plant and equipment	*5*	(106)	-
Purchase of intangible assets	*6*	(80)	-
Net cash outflow from investing activities		**(186)**	**-**
Cash flows from financing activities:			
Supply current year		3,000	3,032
Repayment of operational funding		-	(1,000)
Net financing:		**3,000**	**2,032**
Net (decrease)/increase in cash and cash equivalents		**(475)**	**67**
Cash at the beginning of the year	*8*	**4,659**	**4,592**
Cash at the end of the year	*8*	**4,184**	**4,659**

* The movement on payables excludes movements in payables relating to items not passing through the Statement of Comprehensive Expenditure such as Agency balances with the Consolidated Fund.

The notes on pages 43 to 53 form part of these accounts.
The restated amounts relating to the change in accounting policy are shown in Note 15.

Statement of Changes in Taxpayers' Equity

For the year ended 31 March 2017

			Restated	
	Note	**General Fund £000**	**Revaluation Reserve £000**	**Total Reserves £000**
Balance at 1 April 2015		**7,371**	**3,499**	**10,870**
Changes in taxpayers' equity for 2015/16:				
Parliamentary funding		3,032	-	3,032
Comprehensive net expenditure for the year		(2,659)	-	(2,659)
Non-Cash adjustments:				
Defra Investigation Services	*4*	227	-	227
Defra corporate recharges	*4*	519		519
Auditors' remuneration	*4*	36	-	36
Movements in Reserves				
Repayment of operational funding		(1,000)	-	(1,000)
Net gain on revaluation of property, plant and equipment		-	675	675
Total recognised income and expense for 2015/16		**155**	**675**	**830**
Balance at 31 March 2016		**7,526**	**4,174**	**11,700**
Changes in taxpayers' equity for 2016/17:				
Parliamentary funding		3,000	-	3,000
Net operating expenditure for the year		(3,864)	-	(3,864)
Non-Cash adjustments:				
Defra Investigation Services	*4*	102	-	102
Defra corporate recharges	*4*	548	-	548
Auditors' remuneration	*4*	36	-	36
Movements in Reserves:				
Net gain on revaluation of property, plant and equipment		-	374	374
Total recognised income and expense for 2016/17		**(178)**	**374**	**196**
Balance at 31 March 2017		**7,348**	**4,548**	**11,896**

The notes on pages 43 to 53 form part of these accounts.
The restated amounts relating to the change in accounting policy are shown in Note 15.

Notes to the Accounts

1. Statement of accounting policies

The financial statements have been prepared in accordance with the 2016/17 Government Financial Reporting Manual (FReM) and the Accounts Direction issued by HM Treasury.

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

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

1.1 Change of Accounting Policy

As of 1 April 2016 the way we are funded by Core Defra changed with the aim of improving accountability and transparency of the funding. Instead of the funding being recorded as Income within the Income Statement and inflating the income figure, it is now treated via our Equity under Parliamentary funding. The Statement of Changes in Taxpayers' Equity now clearly states the funding element and brings us into line with other Government Departments regarding the treatment of funding. This was agreed by HM Treasury and therefore the 2015/16 Statement of Comprehensive Net Expenditure (SoCNE), Cash Flow & Statement of Changes in Taxpayers' equity (SoCTE) have been restated to provide a meaningful comparison. The amounts restated are set out in Note 15.

1.2 Judgements and key sources of estimation uncertainty

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

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

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

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

1.3 Accounting convention

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

1.4 Property, plant and equipment and intangible assets

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

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

Intangible non-current assets comprise software licences.

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

1.5 Depreciation and amortisation

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

Asset lives are normally within the following ranges:

Freehold land	Not depreciated
Freehold buildings	40 years (residual life)
Furniture, fittings and office equipment	15 years
IT hardware	5 years
IT software	5-10 years
Software licences	5-10 years

1.6 Impairment reviews

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

1.7 Operating income

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

1.8 Revenue recognition

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

1.9 Defra service recharges

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

1.10 Value Added Tax (VAT)

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

1.11 Financial instruments

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

1.12 Research and development

The VMD is responsible for the management of Defra's Veterinary Medicines Research and Development programme. The programme costs are included in the 2016/17 financial results. Prior to this date the programme costs were borne by Defra and not by the VMD. Therefore only the costs of administering the programme were recognised in the VMD accounts for the prior year.

1.13 Pensions

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

Although the Principal Civil Service Pension Scheme (PCSPS) and the CSOPS, known as alpha, are unfunded defined benefit schemes, in accordance with explicit requirements in the *FReM*, the VMD account for the schemes as if they were defined contribution plans. Costs of the elements are recognised on a systematic and rational basis over the period during which it benefits from employees' services by payment to the schemes of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the schemes. The PCSPS and alpha pension schemes undergo a reassessment of the contribution rates by the Government Actuary at four-yearly intervals. In respect of defined contribution schemes, the VMD recognises the contributions payable for the year.

1.14 Leases

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

1.15 Administration and programme expenditure

All of the VMD's income and expenditure is classified as "Programme". The classification of income or expenditure as administration or programme follows the definition of programme costs as set out in HM Treasury's Consolidation and Budgeting Guidance 2016/17.

1.16 General Fund

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

1.17 Revaluation Reserve

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

1.18 Impending application of newly issued standards not yet effective

IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors, requires disclosures in respect of new IFRSs, amendments and interpretations that are, or will be applicable after the reporting period. There are a number of IFRSs, amendments and interpretations that have been issued by the International Accounting Standards Board that are effective for future reporting periods. Those with relevance to the Agency are outlined below. The Agency has not adopted any new IFRS standards early.

IFRS 15 – Revenue from Contracts with Customers. This is effective from 1 January 2018. This standard replaces all existing IFRS guidance on revenue recognition.

IFRS 16 – Leases. This standard is effective from 1 January 2019. It will supersede all existing IFRS standards on leases. It is likely to result in a uniform accounting treatment for all leases, with the distinction between operating and finance leases removed.

The Agency will apply the standards upon formal adoption in the FReM. It is not anticipated that material adjustments to the financial statements will be required following the introduction of these standards.

2. Operating income

	2016/17	Restated 2015/16
	Total	Total
	£000	£000
Income from the provision of services to:		
Veterinary Pharmaceutical Industry	7,582	7,347
Food Industry	3,494	4,057
Government*	71	66
	11,147	**11,470**

* Income for work undertaken for Government comprises of contributions from devolved administrations and an EU grant paid in the financial year to support the AMR programme.

3. Staff costs

Staff costs consist of the following:	2016/17			2015/16
	Permanently employed staff	Temporary staff	Total	Total
	£000	£000	£000	£000
Wages and salaries	5,591	384	5,975	5,918
Social security costs	604	-	604	488
Other pension costs	1,175	-	1,175	1,183
Sub-total as reported in Statement of Comprehensive Net Expenditure	**7,370**	**384**	**7,754**	**7,589**
Less recoveries in respect of outward secondments	(80)	-	(80)	(19)
	7,290	**384**	**7,674**	**7,570**

Included in the permanently-employed staff costs is an accrual for untaken annual leave of £249,000, (2015/16: £226,000). This comprises of £196,000 (2015/16: £178,000) wages and salaries, £14,000 (2015/16: £13,000) social security costs and £39,000 (2015/16: £35,000) other pension costs.

4. Other operating expenditure

	Note	2016/17 £000	2015/16 £000
(i) Purchase of services			
Statutory Residues Surveillance		3,139	3,639
Research and Development Programme		1,380	-
Antimicrobial Resistance Programme and Surveillance		608	544
Other services provided by industry		19	37
		5,146	**4,220**
(ii) Non-cash items			
Depreciation of property, plant and equipment	*5*	300	271
Amortisation of intangible assets	*6*	36	50
Losses on disposal of non-current assets	*5&6*	4	-
Defra service recharges:			
Estates maintenance		360	364
Human resources		133	100
Defra Investigation Services		102	227
Legal services		55	55
Auditors' remuneration		36	36
		1,026	**1,103**
(iii) Other operational expenditure			
IT systems maintenance		377	319
Travel and subsistence		169	189
Training		87	68
Communications		84	78
Office related goods and services		60	32
Professional programme and technical services		53	116
Operating leases		39	34
Internal Audit		38	43
Stationery and publications		31	39
Independent expert committees		22	34
Movement on provision for bad debts		19	99
Other costs		106	166
		1,085	**1,217**
Total operating expenditure		**7,257**	**6,540**

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

5. Property, plant and equipment

	Land £000	Buildings £000	Information Technology £000	Furniture & Fittings £000	Total £000
Cost or Valuation:					
At 1 April 2016	291	5,415	836	281	6,823
Additions	-	-	106	-	106
Disposals	-	-	(202)	(19)	(221)
Revaluation	-	135	38	-	173
At 31 March 2017	**291**	**5,550**	**778**	**262**	**6,881**
Depreciation:					
At 1 April 2016	-	-	(714)	(255)	(969)
Charged in year	-	(233)	(63)	(4)	(300)
Disposals	-	-	202	15	217
Revaluation	-	233	(32)	-	201
At 31 March 2017	**-**	**-**	**(607)**	**(244)**	**(851)**
Carrying Value					
At 31 March 2017	**291**	**5,550**	**171**	**18**	**6,030**

	Land £000	Buildings £000	Information Technology £000	Furniture & Fittings £000	Total £000
Cost or Valuation:					
At 1 April 2015	291	4,944	1,004	282	6,521
Additions	-	-	-	-	-
Disposals	-	-	(181)	(3)	(184)
Revaluation	-	471	13	2	486
At 31 March 2016	**291**	**5,415**	**836**	**281**	**6,823**
Depreciation:					
At 1 April 2015	-	-	(818)	(253)	(1,071)
Charged in year	-	(202)	(66)	(3)	(271)
Disposals	-	-	181	3	184
Revaluation	-	202	(11)	(2)	189
At 31 March 2016	**-**	**-**	**(714)**	**(255)**	**(969)**
Carrying Value					
At 31 March 2016	**291**	**5,415**	**122**	**26**	**5,854**
At 31 March 2015	291	4,944	186	29	5,450

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

The Land and Buildings were valued at 31 March 2017 by an independent valuer (Montagu Evans) in accordance with guidance issued by the Royal Institution of Chartered Surveyors. Buildings were valued at Depreciated Replacement Cost applying to specialist buildings in accordance with IAS 16, defined as "the current cost of replacing an asset with its modern equivalent asset less deductions for physical deterioration and all relevant forms of obsolescence and optimisation".

6. Intangible assets

	Software Licences
	£000
Cost or valuation:	
At 1 April 2016	927
Additions	80
Disposals	(329)
At 31 March 2017	678
Amortisation:	
At 1 April 2016	(867)
Charged in year	(36)
Disposals	329
At 31 March 2017	(574)
Carrying Value	
At 31 March 2017	**104**
Cost or valuation:	
At 1 April 2015	931
Additions	-
Disposals	(4)
At 31 March 2016	927
Amortisation:	
At 1 April 2015	(821)
Charged in year	(50)
Disposals	4
At 31 March 2016	(867)
Carrying Value	
At 31 March 2016	**60**
At 31 March 2015	110

7. Trade receivables and other current assets

Amounts falling due within one year:	31 March 2017	31 March 2016
	£000	£000
Trade receivables	2,705	2,156
Balances with other central government bodies	5	1
Other receivables	14	13
VAT recoverable	170	160
Prepayments	166	163
Accrued Income	964	1,027
Total trade receivables and other current assets	**4,024**	**3,520**

Trade receivables are shown net of a provision of £56,000 (2015/16: £56,000) for bad and doubtful debts. The provision is calculated according to the age and status of the debt and recent sector-specific debt-recovery information.

8. Cash and cash equivalents

	2016/17	2015/16
	£000	£000
Balance at 1 April	4,659	4,592
Net change in cash and cash equivalents	(475)	67
Balance at 31 March	**4,184**	**4,659**

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

9. Trade payables and other current liabilities

	31 March 2017	31 March 2016
	£000	£000
Amounts falling due within one year:		
Trade payables	239	7
Balances with other central government bodies	404	417
Balances with public corporations and trading funds	-	1
Other taxation and social security	156	157
Accruals	513	596
Deferred Income	1,134	1,215
Total trade payables and other current liabilities	**2,446**	**2,393**

At the year end the VMD had no payables falling due after more than one year (2015/16: £nil).

10. Capital commitments

There were no contracted commitments at 31 March 2017 (2015/16: £nil).

11. Commitments under operating leases

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

Obligations under operating leases comprise:

	2016/17	2015/16
	£000	**£000**
Contract hire cars		
Not later than one year	29	30
Later than one year not later than five years	11	40
Total	40	70

12. Other financial commitments

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

	2016/17	2015/16
	£000	**£000**
Not later than 1 year	168	152
Later than 1 year but not later than 5 years	672	609
Later than 5 years but not later than 10 years	337	457
Total	**1,177**	**1,218**

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

The BCPs (Business Case Proformas) included are those which have been committed to and which are either in progress (partial commitment recognised) or yet to commence and for which there is a commitment (PO) in place. This includes commitment for bodies within and outside of the Defra Network as the contract is in Defra's name, should respective parties default the assumption is that Defra would retain the liability. In 2015/16 the Revenue Project Budgets were centralised therefore any outstanding commitment is not wholly Defra's.

13. Related party transactions

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

The VMD has transacted with various other central government bodies. Most of these transactions have been with the Medicines and Healthcare products Regulatory Agency (MHRA), FSA and The Scottish Government.

None of the board members, key managerial staff or other related parties has undertaken any material transactions with the VMD during the year other than salaries and reimbursement for travel and subsistence in the normal course of business.

14. Financial instruments

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

15. Change of Accounting Policy – Restatement of the Accounts

Statement of Comprehensive Net Expenditure	**£000**
Income from the provision of services - under Net control	14,502
Adjustment for: Defra funding	(3,032)
Income from the provision of services - under Gross control	**11,470**

Statement of Cash Flows	**£000**
Cash flow from operating activities - under Net control	373
Adjustment for: Defra funding	(3,032)
Cash flow from operating activities - under Gross control	**(2,659)**

Statement of Changes in Taxpayers' equity	**£000**
Net operating income for the year - under Net control	373
Adjustment for: Defra funding	(3,032)
Comprehensive net expenditure for the year - under Gross control	**(2,659)**

16. Events after the reporting period

The VMD's financial statements are laid before the House of Parliament by the Secretary of State for Defra. In accordance with the requirements of IAS 10, events after the reporting period are considered up to the date on which the accounts are authorised for issue. This is interpreted as the date of the Certificate and Report of the Comptroller and Auditor General.

Up to the date of issue, there have been no other events since 31 March 2017 that would have a significant impact on the Annual Report and Accounts or would be likely to have a significant impact on the future performance of the VMD.

Glossary

AMR	Antimicrobial Resistance
APHA	Animal and Plant Health Agency
ARAC	Audit and Risk Assurance Committee
BEST	(Defra's) Built Environment Sustainability Team
CEO	Chief Executive Officer
COO	Chief Operating Officer
CVO	Chief Veterinary Officer
CETV	Cash Equivalent Transfer Value
CMS	Concerned Member State
CSOPS	Civil Servant and Other Pension Scheme
CVMP	Committee for Medicinal Products for Veterinary Use
Defra	Department for Environment, Food & Rural Affairs
DG SANTE	Directorate General for Health and Consumers – European Commission
DH	Department of Health
EC	European Commission
EMA	European Medicines Agency
EMB	Executive Management Board
EMRN	European Medicines Regulatory Network
EU	European Union
FM	Facilities Management
FReM	Financial Reporting Manual
FSA	Food Standards Agency
FTE	Full Time Equivalent
GSI	Government Secure Intranet
IAS	International Accounting Standards
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
IIA-UK	Institute of Internal Auditors-UK
IiP	Investors in People
IT	Information Technology
KPI	Key Performance Indicators
MA	Marketing Authorisation
MAFF	Ministry of Agriculture, Fisheries and Food
MB	Management Board
MHRA	Medicines and Healthcare products Regulatory Agency
NCVP	Non-Consolidated Variable Pay
NED	Non-Executive Director
OIE	World Health Organisation for Animals
PCSPS	Principal Civil Service Pension Scheme
PFI	Public Finance Initiative
R&D	Research and Development
RMS	Reference Member State
SCS	Senior Civil Service
SoCNE	Statement of Comprehensive Net Expenditure
SoCTE	Statement of Changes in Taxpayers' equity
SSRB	Senior Salaries Review Body
SQPs	Suitably Qualified Persons
UN	United Nations
VAT	Value Added Tax
VFM	Value For Money
VMD	Veterinary Medicines Directorate
VMR	Veterinary Medicines Regulations
VPC	Veterinary Products Committee

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