

Annual Report and Accounts

2005-06

Contents

Chief Executive's Statement	06
1. Notifiable Animal Diseases	10
2. Animal Health and Welfare Activity and Performance against Targets	12
3. Organisational Development	23
4. Governance and the Remuneration Report	28
5. Financial Review	36
6. Plans and Priorities	42
7. Statement of Accounts	44

State Veterinary Service Annual Report and Accounts 2005 - 06

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Our vision

To provide a first class contribution to the maintenance and improvement of animal health and welfare and public health. We will work in partnership with others, identify and apply innovative solutions to business needs and establish a working environment in which our staff can give of their best. Our delivery will be professional, open, responsive and flexible and will seek to understand, and be sensitive to, the needs of our stakeholders.

Our objectives

- To develop and maintain arrangements to support effective policy development in the field of public health and animal health and welfare, and to propose and agree effective delivery strategies.
- To work in partnership with others to deliver agreed public and animal health and welfare strategies and policies, taking stakeholder needs into account.
- To maintain and assure an agreed state of readiness to manage outbreaks of animal disease.
- To continue to improve effectiveness and efficiency.

Our work

Protect public health, through the prevention, identification and response to notifiable animal diseases.

Implement and enforce specific national and EU legislation and regulations relating to animal welfare, the control and eradication of animal diseases, and the facilitation of international trade.

Conduct surveillance, test and carry out other activities to prevent and control notifiable animal diseases, investigating all reported suspected cases.

Check and certify the export and import of animals, genetic material and animal by-products.

Work with partners to ensure the welfare of farmed animals, investigating welfare complaints.

Contingency plan for notifiable animal disease outbreaks and respond promptly when they occur, leading disease control activities on the ground.

Chief Executive's Statement

The State Veterinary Service (SVS) has a central role in preventing, identifying and responding to animal disease in Great Britain. We seek to protect the health and welfare of animals and minimise the impact of animal health issues on public health. We work closely with our partners and other stakeholders to build and maintain a robust, competitive and humane livestock farming sector, as free as possible from diseases that cause suffering to animals and threaten the viability of the sector, and which can have a wider public health and economic impact.

The SVS serves Great Britain in close partnership with Defra's Animal Health and Welfare Directorate General, the Scottish Executive Environment and Rural Affairs Department, the Welsh Assembly Government's Environment, Planning and Countryside Department and a wide range of other delivery bodies and local authorities, to meet the objectives set by the Departments through their strategies and Public Service Agreements.

These strategies and Public Service Agreements are embraced in the following documents:

- The Animal Health and Welfare Strategy for Great Britain (2004) which aims to:
"Deliver a new partnership in which we can make a lasting and continuous improvement in the health and welfare of kept animals while protecting society, the economy and the environment from the effect of animal diseases."
- Defra's - PSA Target 9 which aims to: *"Improve the health and welfare of kept animals, and protect society from the impact of animal diseases, through sharing the management of risk with industry."*
- The Scottish Executive's Partnership Agreement's commitments to: *"Maintaining strong, prosperous and growing communities in rural Scotland and ensuring that the rural economy continues to provide jobs and opportunities for all and securing a sustainable future for our rural industries."*
- The Welsh Assembly Government's Environment, Planning and Countryside Department's strategic policy of: *"Ensuring high levels of animal and plant health by containing, minimising the impact and, where possible, eradicating animal and plant diseases in order to sustain a viable rural community and quality environment in Wales."*

In line with Defra's delivery strategy, the Secretary of State for Environment, Food and Rural Affairs established the SVS as an Executive Agency of Defra with effect from 1 April 2005. Prior to this the SVS was part of the core department, although the origins of a government veterinary service can be traced back through several structural arrangements to the 1860s when a government veterinary service was established following an outbreak of the cattle plague, Rinderpest.

Becoming an Agency provides an opportunity for better strategic liaison at national, regional and local levels and an opportunity to develop delivery capacity and capability. Animal diseases are present and there is always a risk that new variants may appear or that disease may arrive from other countries. Being able to prevent, control, and where feasible, eradicate animal disease, and to deal with outbreaks of notifiable animal disease when they occur helps maintain standards of animal welfare, protects the food supply and the public from infections that are transmissible from livestock either directly or through the food chain and supports the wider economy and the environment from the effect of animal diseases.

In our first year as an Agency we have focused on the essential foundations of all organisations: we have defined and refined our role; we have reviewed and enhanced our structure; we have developed key relationships and have strengthened our management systems whilst continuing to implement animal health and welfare policies and respond to a number of exotic disease emergencies. We have also begun to lay the foundations to improve our service delivery by commencing a three-year Business Reform Programme.

Looking ahead we will focus on developing our capacity and capability to meet our objectives in a consistent, yet flexible and responsive way. We will focus on delivering Great Britain's Animal Health and Welfare Strategy and will work with Defra and the devolved administrations to play our part in the Government's wider initiatives to improve public services. Meeting these challenges requires clarity and consistency of focus, investment of financial and other resources, and the continual development of the 'supply chain' from our policy and our other customers to our suppliers.





It gives me great pleasure to present our first annual report. Section 1 outlines the animal diseases we seek to prevent and respond to. Section 2 reports on our activity in the year and on our performance against targets. Section 3 describes our organisational development in the year and section 4 describes our governance (and includes the remuneration report). Section 5 provides a financial review of the year and our future plans are outlined in section 6. Section 7 provides the Statement of Accounts.

In presenting our first annual report I want to thank colleagues in Defra, the Scottish Executive and the Welsh Assembly Government for their assistance and support during the year. I also want to thank private veterinarians who work alongside the SVS, and my colleagues throughout the SVS. Our people are at the centre of our business and they are our strongest asset. Their commitment and enthusiasm for our work is central to all that we do and all that we achieve.

Glenys Stacey

Chief Executive

11 October 2006

Key Achievements

In animal health and welfare, the SVS:

- Tuberculin tested 4.8 million cattle
- Dealt with over 2,000 bovine tuberculosis cases
- Genotyped and electronically tagged over 600,000 sheep
- Dealt with over 500 suspected scrapie cases
- Extended the voluntary contracts of 8,500 member flocks in the National Scrapie Plan
- Dealt with over 200 BSE cases
- Demonstrated the efficacy of controls to reduce the incidence of BSE resulting in the beef export ban being lifted
- Conducted over 6,000 farm welfare inspections and responded to over 500 welfare complaints
- Advised at over 2,000 livestock markets
- Investigated 153 reports of suspected notifiable disease including avian influenza, foot and mouth disease and rabies
- Eliminated an outbreak of Newcastle Disease
- Planned and delivered a major national exercise for avian influenza to test contingency plans
- Implemented a management assurance programme to evaluate emergency preparedness throughout the Agency
- Strengthened Animal Health Offices' emergency preparedness through the appointment of Readiness and Resilience Managers
- Implemented a new work recording system to record how time is used
- Undertook significant supplier expenditure analysis
- Introduced new financial controls and risk management processes
- Analysed existing systems and developed a strategic roadmap for the SVS's Business Reform Programme which will replace archaic IT systems and enable a revised business model to improve service delivery
- Received endorsement of progress in an independent capacity review

In developing an organisation, the SVS:

- Established local implementation plans for all business units reflecting the agreed corporate and business plans
- Restructured Animal Health Offices in England to align operations with Government Office regions
- Developed a resource-model to identify the volume, location and seasonality of SVS activity and matched these against current resources to clarify capacity
- Developed new ways of involving staff throughout the Agency
- Commenced the development of a business-focused human resources function to support business performance
- Delivered over 5,000 days of development
- Supported Defra's re-accreditation as an Investor in People

To support and develop our people, the SVS:



1. Notifiable Animal Diseases

The SVS implements and enforces English, Scottish, Welsh, Great Britain's and European Union policies that seek to:

- prevent, control and eradicate notifiable animal diseases;
- prevent notifiable animal diseases from entering the human food chain and endangering public health;
- ensure the welfare of animals; and
- sustain international trade.

A notifiable animal disease is one which poses a major threat to the livestock of the whole country and, if identified or suspected, must by law be notified to the veterinary authorities. Notifiable animal diseases that are continuously present in Great Britain are termed endemic diseases, and these include bovine tuberculosis and scrapie. Notifiable animal diseases that are not normally present in Great Britain are termed exotic diseases and these include avian influenza, classical swine fever and foot and mouth disease.

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

Should an incident or an outbreak of exotic disease occur, contingency plans and preparations enable us to respond quickly. Protection and surveillance zones will be established to identify the extent of the disease, movement restrictions will be implemented to restrict the spread of the disease and the infected animals will be isolated, treated or culled (depending on the disease) to bring the disease under control. In addition, tracings will be instigated to determine its origin, cause and spread.

The nature of infectious animal diseases cannot be predicted with precision and new diseases can appear and existing diseases mutate. It is likely that the risk of an exotic disease outbreak is increasing as a result of globalisation and climate change.

The notifiable diseases in Great Britain together with the animals affected and the year the disease last occurred are set out in Table 1. Those noted as zoonotic are animal diseases which are transmissible to people.

Table 1: Notifiable Diseases in Great Britain

Notifiable Disease	Zoonotic	Species Affected	Last Occurred
African horse sickness		Horses	Never
African swine fever		Pigs	Never
Anthrax	●	Cattle and other mammals	2006
Aujeszky's Disease		Pigs and other mammals	1989
Avian influenza	●	Poultry	2006
Bovine spongiform encephalopathy (BSE)	●	Cattle	Present
Bluetongue		Sheep and goats	Never
Brucellosis (Brucella abortus)	●	Cattle	2004
Brucellosis (Brucella melitensis)	●	Sheep and goats	1956
Classical swine fever		Pigs	2000
Contagious agalactia		Sheep and goats	Never
Contagious bovine pleuro-pneumonia		Cattle	1898
Contagious epididymitis (Brucella ovis)		Sheep and goats	Never
Contagious equine metritis		Horses	2005
Dourine		Horses	Never
Enzootic bovine leukosis		Cattle	1996
Epizootic haemorrhagic virus disease		Deer	Never
Epizootic lymphangitis		Horses	1906
Equine viral arteritis		Horses	2004
Equine viral encephalomyelitis		Horses	Never
Equine infectious anaemia		Horses	1976
Foot and mouth		Cattle, sheep, pigs and other cloven hoofed animals	2001
Glanders and farcy	●	Horses	1928
Goat pox		Goats	Never
Lumpy skin disease		Cattle	Never
Newcastle Disease		Poultry	2005
Paramyxovirus of pigeons		Pigeons	Present
Pest des petits ruminants		Sheep and goats	Never
Rabies	●	Dogs and other mammals	1970
Rift valley fever	●	Cattle, sheep and goats	Never
Rinderpest		Cattle	1877
Scrapie		Sheep and goats	Present
Sheep pox		Sheep	1866
Swine vesicular disease		Pigs	1982
Teschen disease (porcine enterovirus encephalomyelitis)		Pigs	Never
Tuberculosis (bovine TB)	●	Cattle and deer	Present
Vesicular stomatitis		Cattle, pigs and horses	Never
Warble fly		Cattle, deer and horses	1990
West Nile virus	●	Horses	Never

2. Animal Health & Welfare Activity & Performance against Targets

Work undertaken in the year identified nearly 700 separate activities carried out by the SVS relating to animal health and welfare. At the start of 2005-06 key activities were identified, which reflected the priorities of Defra and the devolved administrations, and the SVS's targets for the year were based on these.

In setting targets which sought to establish standards of performance it was recognised that these might not be able to be achieved if the SVS had to re-prioritise its efforts to respond to an exotic disease incident or outbreak. In setting targets it was therefore recognised that they were standards to strive towards rather than commitments to be achieved. It was also recognised that there was no comparative data from previous years to compare performance against and that at the start of the year the SVS did not have processes in place to enable performance to be reported. Considerable effort has therefore been put into developing processes to measure activity consistently in the year, and the resulting data has informed discussions with Defra and the devolved administrations on how targets can be better defined to provide assurance of the SVS's performance and (which is not the same thing) the effectiveness of the policies being implemented.

Table 2 summarises our performance in 2005-06 for our key operational and organisational targets. Targets are described as Met, Not Met, Partially Met (applied when the major element or elements of a target have been fulfilled), Not Measurable or Superseded. They have been audited by and agreed with Defra's Internal Audit Division. The accompanying text provides information and commentary on the targeted activity.

Operational Targets

Target 1: Agree working arrangements or agreements with the Government Offices for the Regions, HM Revenue and Customs and the RSPCA.

Partially Met. Discussions have taken place with Government Offices for the Regions, a draft Memorandum of Understanding with the RSPCA reached an advanced stage and meetings were arranged with HM Revenue and Customs.

Target 2: Scrapie - prepare to implement the Compulsory Breeding Programme, and transfer existing members of the Ram Genotyping Scheme to it.

Met. First element. **Superseded.** Second element. Political discussions in Brussels have led to a delay in the introduction of the Compulsory Ram Genotyping Scheme. In the interim the contracts of over 8,500 members of the voluntary Ram Genotyping Scheme were extended.

Target 3: The target for BSE was subdivided into five enabling targets or indicators:

Target 3.1: 98% of BSE report cases to be visited no later than the next day.
Met.

Target 3.2 & 3.3: The last born offspring of BSE report cases and active surveillance cases to be identified on the system within two working days.

Not Met. From January to March 2006, 86% of offspring of report cases and 79% of offspring of active surveillance cases were identified within this timeframe. This measure is based upon the time taken to identify offspring on the SVS database but details may not be entered onto the system in time. The risk is mitigated by restriction notices being served.

Target 3.4 & 3.5: 95% of cohorts (of BSE report and active surveillance cases) identified, traced and restricted within five working days.

Not Met. Unable to evaluate accurately as key restriction dates not consistently recorded. Actual level of restriction likely to be much higher than suggested by computer records.

Target 4: The target for bovine TB was subdivided into six enabling targets or indicators:

Target 4.1 & 4.2: Movement restrictions issued on all bTB high risk animals and herds within two working days of the bTB test result (reactor cases) or notification date (slaughterhouse cases).

Partially Met. Reactor cases - 97% attainment. Slaughterhouse cases - 78% attainment from January – March 2006 (data not available for the full year).

Target 4.3: At least 95% of bTB at risk herds identified and tested within the agreed timescales.

Partially Met. The measured attainment over the year was 71% but the measure fails to recognise partial herd tests carried out within the agreed timescales and significantly underestimates actual SVS delivery.

Target 4.5: Restriction notices issued to any 'at risk' herds with overdue TB tests.

Met.

Target 4.6: 90% of routine TB surveillance tests completed within the defined testing window.

Partially Met. The measured attainment over the year was 71% but the delivery of testing is only partly within the SVS's control as most tests are arranged by farmers and undertaken by private veterinarians working for the SVS as Local Veterinary Inspectors.

Target 5: To agree a definition of emergency readiness and to work towards reducing the extent of variation between the SVS's Animal Health Divisional Offices by an agreed target, as measured by a Management Assurance Programme.

Partially Met. The management assurance programme to baseline emergency readiness was completed soon after the year-end identifying areas for improvement.

Target 6: To determine and publish an annual plan for emergency exercises led by the SVS and prepare for an avian influenza exercise in 2006.

Met.

Target 7: Establish a baseline for the time taken to resolve cases where farmed welfare law has been breached but no unnecessary pain or suffering is evident and agree a performance target for 2006-07.

Met.

Target 8: Respond to welfare complaints by intervening within one day.

Not Met. 94% of visits were made on time. Geographically remote sites cannot always be visited within one day.

Target 9: For welfare cases where unnecessary pain or distress is evident, to ensure that the average time for resolution is no more than 21 days and that priority is given to more rapid resolution of serious cases.

Not Met. In the year ending March 2006 the average time to resolve these cases was 27 days, poor data entry contributing to this measured shortfall. The rate of resolution improved during the year.

Target 10: At least 95% of export health certificates to be issued within the agreed timeframe.

Met.

Target 11: 95% of consignments of live animals entering Great Britain from other EU Member States (as selected by the TRACES Risk Messaging System) checked at destination within three days from the date of import.

Not Met. Delivery is largely outside the SVS's control with delays in notifying the SVS of arrival dates preventing the target's achievement. Once notified, SVS intervention is rapid.

Business Improvement Targets

Target 12: Develop a measure of customer satisfaction and establish baseline levels.

Partially Met. A customer service standards booklet had been drafted by the year-end for publication in early 2006-07.

Target 13: Measure the organisation using Defra's Balanced Scorecard and establish baseline levels for future improvement.

Partially Met. It was decided at the start of the year that prior to implementing a Balanced Scorecard approach, the SVS needed to define base measures and establish its performance management systems.

Target 14: Agree the CSR04 Gershon efficiency savings profile and prepare for their implementation.

Met. The profile was agreed and the SVS achieved the efficiencies profiled for 2005-06.



Target 1: Implementing Great Britain's Animal Health and Welfare Strategy

As a key delivery agent of animal health and welfare policies, the SVS has a major role in implementing Great Britain's Animal Health and Welfare Strategy. In 2005-06 we have been actively engaged with policy makers, industry and other key stakeholders to implement a joined up approach to delivery.

We have sought to develop working arrangements or agreements with Government Offices for the Regions, with HM Revenue and Customs and with the Royal Society for the Prevention of Cruelty to Animals (RSPCA). Lead Divisional Veterinary Managers, appointed as part of the SVS's reorganisation in England to align operations with Government Office Regions, have engaged with Government Offices to discuss arrangements for implementing the strategy within each region. Agreement on a Memorandum of Understanding between the SVS and the RSPCA reached an advanced stage and progress has also been made in discussions with HM Revenue and Customs.

Target 2: Scrapie

Defra's Public Service Agreement target (PSA9) seeks to reduce the prevalence of scrapie infection in the sheep flock to 0.2% by 2010 by increasing the level of resistance to transmissible spongiform encephalopathies (TSEs) in the sheep flock through the National Scrapie Plan for Great Britain. The National Scrapie Plan, delivered by the SVS, is a voluntary scheme to increase resistance to scrapie in flocks by genotyping rams to enable the susceptibility of individual sheep to scrapie to be determined. In Wales, the Welsh Assembly Government has extended the scheme to include ewes as well through the Welsh Ewe Genotyping Scheme (WEGS). More than 12,000 farmers are scheme members and 625,531 sheep were genotype tested in 2005-06. The tests inform breeding programmes to increase the genetic resistance of member flocks and control the disease. Separately over 500 cases of suspected scrapie were investigated and 307 scrapie cases were confirmed.

Target 3: BSE (Bovine Spongiform Encephalopathy)

BSE - a neurological disease affecting cattle - was identified as a new disease in 1986. Over the following years the number of identified cases increased and reached a peak in 1992 when 36,680 cases were confirmed. Since then, a series of control measures has reduced the number of cases. In 2005-06, 301 suspected cases were investigated and 170 cases were confirmed.

This reduction, together with the on-going control measures, resulted in March 2006 in the European Commission lifting the worldwide ban it imposed in 1996 on the export of beef, cattle and bovine products from Great Britain.

The SVS met the supporting target in 2005-06 to 'respond promptly to all notifications of suspect cases by visiting 98% no later than the next day' but performance in identifying offspring of suspect cases and in restricting cohorts to agreed timeframes - activities that we only began to measure in 2005-06 on a consistent basis - has been more variable. We anticipate that improved data entry practices will enhance future performance.



Putting British beef back on the menu

The lifting of the beef export ban in March 2006, an event hailed by the industry as 'the most significant positive news for a decade', followed a highly successful audit mission to Great Britain by the EU's Food and Veterinary Office (FVO).

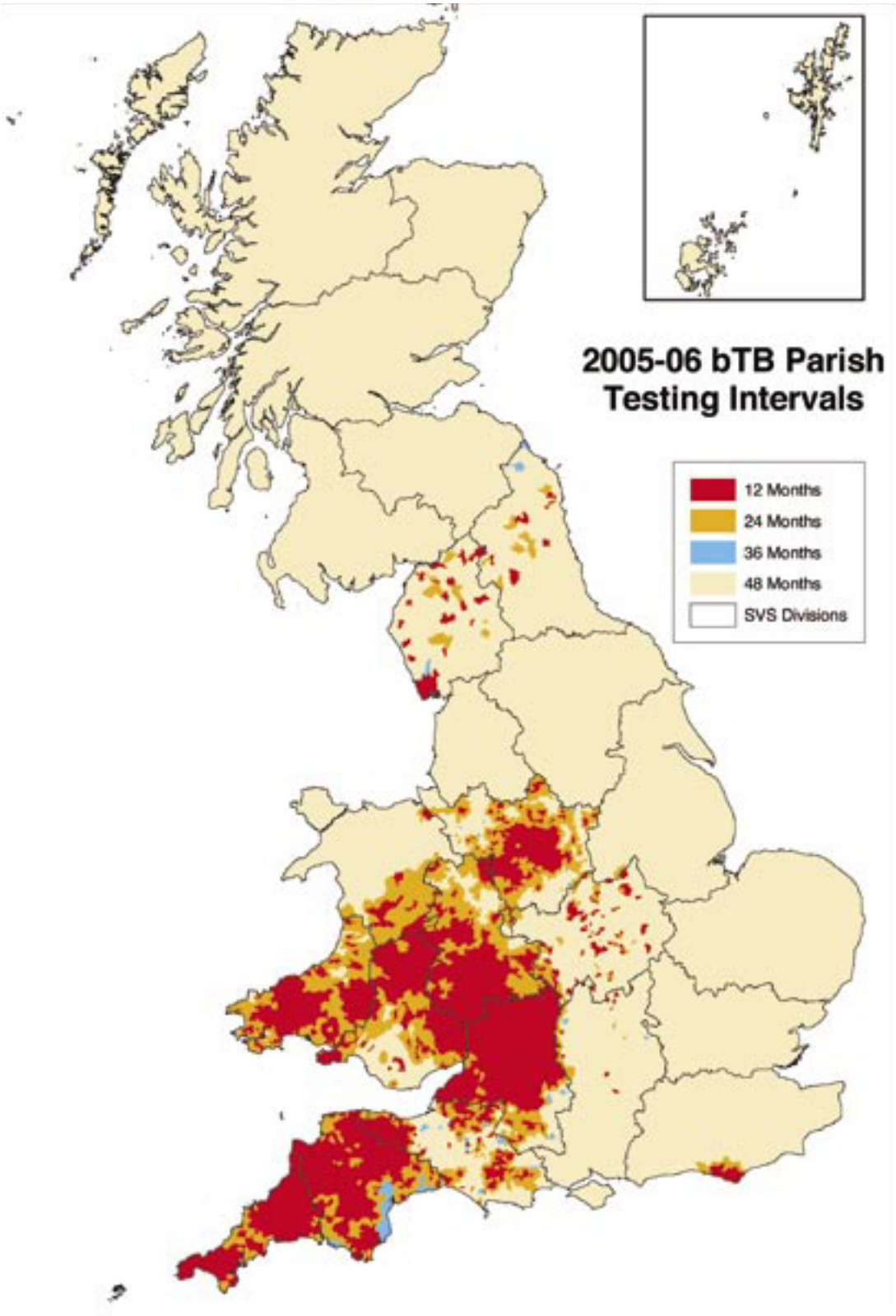
The FVO mission reported to the EU Standing Committee on the Food Chain and Animal Health (SCoCAH) which decided that the export ban on beef, cattle and bovine products introduced in 1996 as a result of BSE should be lifted.

The decision marked the end of many months of hard work. Anthony Greenleaves, the Divisional

Veterinary Manager in Bury St Edmunds Animal Health Divisional Office, who organised the SVS's preparation for the FVO mission, said: "The big difference about this FVO mission was the impact we knew a successful outcome would have on Great Britain's chances of having the ban lifted."

Together with colleagues from Defra, the devolved administrations and other delivery agents, the SVS team involved in the FVO mission was given the top accolade at the Defra Team Awards in October 2005 for its outstanding contribution to the successful lifting of the export ban.

Figure 1: bTB distribution in 2005-06



Target 4: Bovine Tuberculosis (bTB)

The SVS's 2005-06 multi-component bTB performance target reflects its role in delivering Defra's and the devolved administrations' bTB strategy.

bTB predominantly occurs in the south west of England and in Wales reflecting the distribution of cattle, although incidences are to be found throughout Great Britain. Figure 1 shows the distribution of the disease measured by the frequency of herd testing for each of the SVS's Animal Health Divisional Offices.

The SVS seeks to identify and control bTB through an extensive testing programme, animal movement controls, tracing contacts of diseased animals, and culling infected and suspected animals, and their dangerous contacts. Some 4.8m animals were tested in 2005-06 and 30,063 animals were culled, compared with 4.6m animals tested and 23,064 animals culled in 2004-05.

To restrict the increase and spread of bTB between 2004-05 and 2005-06, the SVS worked with Defra and the devolved administrations to implement the introduction of pre-movement testing in England and Wales, and pre- and post-movement testing in Scotland. In addition, in the last quarter of 2005-06, the SVS worked with Defra to implement new compensation arrangements based on tabular rather than individual valuations for cattle slaughtered in England after reacting positively to the bTB test. Compensation is paid by Defra in England and by the devolved administrations in Scotland and Wales.

In seeking to measure the extent to which the SVS was meeting the components of its bTB performance target, it became readily apparent that its existing reporting systems did not provide the necessary information and that the metrics themselves did not in all cases relate to the risk the associated target sought to measure. An example of this is the target to test at least 95% of 'high risk' herds within agreed timeframes (by completing short-interval tests no more than 90 days and no less than 60 days after the disclosing test or previous short-interval test).

As the metric for this target measures the interval between complete herd tests and is 'blind' to any part-herd testing recorded within the





agreed timeframe, measured performance was short of the target by some 20-25 per cent through the year. Despite considerable work being undertaken to develop new processes and ensure they are consistently applied, technical difficulties resulting from the limitations of existing IT systems has made measuring performance difficult. This is compounded by a dependence on farmers who are responsible for arranging a date for their test. As 'high risk' herds are automatically placed under movement restrictions if testing is not achieved within the required timeframe however, the risks this target seeks to measure are controlled in another way.

Targets 5 and 6: Emergency Readiness

Ensuring that outbreaks of exotic animal diseases are dealt with quickly and effectively minimises their impact on animal and public health, the livestock industry, the food supply and the wider economy.

In 2005-06 the SVS developed a Management Assurance Scheme for Animal Health Divisional Offices to assess their readiness for an outbreak of exotic animal disease. Against a model of the resources needed in a disease outbreak covering a range of criteria, we have clarified existing capacity and capability and have identified where this can be improved. These criteria include accommodation and facilities, trained and equipped staff, plans and instructions, and arrangements to call up additional veterinary and technical support. Though not all assessment visits had been arranged by the year-end, the exercise was completed early in 2006-07 and will inform a clearer discussion with Defra and the devolved administrations on the level of readiness required and the resources required to provide this readiness.

During the year, the SVS recruited Readiness and Resilience Managers for Animal Health Divisional Offices to work on closing gaps in emergency readiness and to act as local coordinators for contingency planning, liaising with operational partners, especially in the Government Offices for the Regions. We have also appointed a first cadre of contingency Local Veterinary Inspectors from private practice who will provide support to our local offices in an outbreak, have reviewed our existing contracts for, amongst other items,

hauliers, poultry-catchers and cleansing and disinfection contractors, and have sought to ensure we have enough contingency contractors to meet projected needs.

We have worked with Defra, the devolved administrations and other parties to review, develop and test our generic contingency plan. In England, this is laid before Parliament annually. In 2005-06 the contingency plan was implemented in an outbreak of Newcastle Disease and was also tested in a nationwide exercise based on a scenario involving an outbreak of avian influenza.

Avian Influenza

The widely reported H5N1 strain of avian influenza is one of the most pathogenic avian influenza strains. Low pathogenic strains however, for example H7N3, pose a lesser, but still serious risk to the poultry industry.

The SVS plays a key role in licensing avian quarantine premises and inspecting the health of consignments. In October 2005 a consignment of quarantined birds, imported from Taiwan were identified with the H5N1 virus. While the quarantine arrangements clearly worked, the incident prompted a review of quarantine arrangements to see if improvements could be made and actions arising from the review are now being implemented.

In response to the increased risk of global dispersion of avian influenza, we also substantially increased our avian surveillance work in the Autumn of 2005 and worked with industry representatives and government to prepare for an incident or outbreak.

We planned a real-time simulation of an avian influenza outbreak to check our contingency plans and those of our operational partners. The programme included three preparatory tabletop exercises in January and February 2006 which explored strategic, tactical and operational issues in the period from suspicion of disease to its confirmation, and a live exercise after the year-end in April 2006 (which in the event was overtaken by the discovery of a dead swan infected with H5N1 in Scotland).





Newcastle Disease

Newcastle Disease is a highly contagious disease caused by a para-myxo virus affecting fowl, turkeys, geese, ducks, pheasants, guinea fowl and other wild and captive birds.

In July 2005 Newcastle Disease was found in a pheasant flock in Surrey. The diseased pheasants were quickly culled, the infected premises were disinfected, poultry and other birds were checked in a 3km protection zone and a 10km surveillance zone and other pheasants the birds had been in contact with in Great Britain and France were traced and tested to help prevent the disease's spread. Following a waiting period the premises were disinfected again, restrictions were lifted and the premises concerned was able to restock.

International co-operation in preventing exotic disease

Guarding against and responding to outbreaks of exotic disease involves close international co-operation.

Although Defra leads on this in Great Britain, SVS can assist with field experience.

Following an outbreak of H5N1 avian influenza in Turkey, the SVS Director of Operations Rob Paul was seconded as part of a UN Food and Agricultural Organisation Mission, to observe the country's response to the disease.

Rob travelled extensively throughout Turkey to observe the enormous efforts the Turkish veterinary and public health authorities made to control the disease, including the culling of nearly a million birds, which, along with

other methods, was successful in bringing 26 recorded outbreaks under control. The mission identified a number of areas where, if recommended improvements were made, the effectiveness of the response to any future outbreak could be strengthened.

David Harris and Will Creswell of SVS's Contingency Planning Directorate visited New Zealand in April 2005 as part of an international team of animal disease contingency planning experts. The team, drawn from Great Britain, Ireland, Australia, Canada and the USA were asked to observe the New Zealand government's foot and mouth disease contingency planning exercise and provide feedback on its strategic and tactical aspects and operational response. In return the New Zealand authorities sent an observer to Great Britain's avian influenza exercise in 2006.

Targets 7, 8 and 9: Animal Welfare

The SVS contributes to establishing and maintaining animal welfare standards by checking animals on farms, during transport, at market and at slaughter (except at licensed abattoirs that are served by official veterinarians working for the Meat Hygiene Service).

Where welfare problems arise, there are a number of enforcement actions available from giving advice, issuing warning letters, serving statutory notices or referral for prosecution.

Where prosecution is appropriate, the SVS may provide the relevant local authority in England, Scotland and Wales, who have the responsibility to prosecute, with witness statements and may act as expert witnesses. SVS provided 142 statements in support of welfare prosecutions during 2005-06.

The SVS undertook 6,116 farm welfare inspections in 2005-06 compared with 5,775 in 2004-5 and investigated 562 welfare complaints received from members of the public.

Livestock markets provide a useful opportunity to undertake surveillance for animal welfare (as well as for disease). Market sales are risk assessed and prioritised according to the vulnerability of the livestock being sold, with priority going to sales of young or aged animals, or dairy cows. During 2005-06, SVS conducted 2,308 visits to markets covering 25% of market sale days.

Welfare during transport may be monitored at markets, on farms as animals are loaded

(usually prior to export), at roadside checks or at ports and airports where animals transit. The SVS also reviews route plans for export journeys to ensure the welfare of animals during transport is protected. In 2005-06 the SVS reviewed 423 route plans and supervised the loadings of 42 export consignments of sheep and pigs on farms and 24 consignments of livestock through ports and airports.

Animals may be slaughtered at licensed abattoirs, at hatcheries, and at seasonal unlicensed poultry premises (predominantly for the Christmas trade). In addition, illegal slaughter of animals for sale for human consumption is occasionally detected and when identified, we support the Food Standards Agency and local authorities to address this. In 2005-06 the SVS undertook 183 visits to monitor the welfare of animals slaughtered outside licensed abattoirs. In addition the SVS assesses applicants for slaughter licences for slaughter outside licensed abattoirs (for which assessment is undertaken by the Meat Hygiene Service). The SVS received 168 applications for slaughter licences in 2005-06, 114 of which were granted.

Staff assisted in welfare campaigns during the year on a number of topics involving dairy and beef cattle, sheep, hens and pigs. They also spoke on the SVS's role in farmed animal welfare at Rural Payment Agency regional meetings and met with various other stakeholders on 48 occasions.



Targets 10 and 11: International Trade

Exports of animals, genetic material and animal products is essential for the viability of the livestock industry. The SVS issues Export Health Certificates and undertakes surveillance and inspections to ensure that exported animals will be looked after during their journey.

SVS staff work in border inspection posts in ports and airports throughout Great Britain checking the health, welfare and accompanying health certifications of animals, and animal by-products, transported from outside or within the European Union. The SVS also administers the pet passport scheme (PETS) which allows cats, dogs, ferrets, domestic rabbits and rodents to enter Great Britain without the need for quarantine if they are imported from qualifying countries and comply with certain conditions. We undertake surveillance and both targeted and random inspections at the place of import, and for horses and farm animals at their destination, using the European Union's TRACES system.

3. Organisational Development

The SVS's field-work operates from 24 Animal Health Divisional Offices (AHDOs), 23 associated outstations and ten border inspection posts located throughout Great Britain. The corporate headquarters is in Worcester, the Contingency Planning Directorate is co-located with Defra colleagues in London and there is also a headquarters presence co-located with the Scottish Executive in Edinburgh.


At 31 March 2006 the SVS employed 1,311 full time equivalent staff, 264 of whom were veterinary officers and 232 of whom were technical staff. The majority of our other staff provide administrative support. In addition to our own veterinary officers, we appoint veterinarians in private practice as Local Veterinary Inspectors who carry out a significant amount of veterinary work on our behalf.

Each AHDO is led by a Divisional Veterinary Manager (DVM). In England AHDOs are grouped to align with Government Office Regions under the leadership of a Lead DVM to enable them to work closely with public sector delivery partners within each region. AHDOs in Scotland and Wales similarly work closely with the Scottish Executive and with the Welsh Assembly Government respectively.

AHDOs differ in the number of staff employed from 20 in Inverness at the year-end to 98 in Exeter, the number driven by the animal population and endemic disease pattern in each division. Each division, however, can carry out the full range of SVS work and in an exotic disease outbreak they can all set up and run local disease control centres to manage the front-line response.

On becoming an Agency the SVS changed from being a regionally-administered organisation to a centrally managed one to align the organisation more closely to its main delivery partners and strengthen its management and accountability. The revised structure provided for greater functional accountability, with Directors being appointed for Business Change (IT), Contingency Planning, Finance, Human Resources, Operations and Professional Services. The revised structure has enabled the SVS to develop its planning for the uncertainties associated with the nature of animal disease, and its capacity to implement changes to field operations quickly.





The SVS needs to be unusually responsive and flexible to enable it to scale up operations immediately an outbreak of exotic animal disease occurs. Involving Lead and Divisional Veterinary Managers and other staff in regular meetings of an organisation-wide Operations Forum under the remit of the organisation's Operations Director has strengthened this capacity while also bringing a focus to performance delivery.

The SVS has introduced consistent delivery planning across all business units, and through regular meetings with our senior field managers, has brought a new and co-ordinated focus to the planning and control of performance. New rigour has been applied to data collection, measurement and evaluation and for the first time the available performance information can be relied upon to drive operational delivery and agree challenging but achievable targets. We have developed our operational planning capacity and increasingly we are able to quantify and cost delivery options to inform our policy customers in deciding how best to deploy our limited resource.

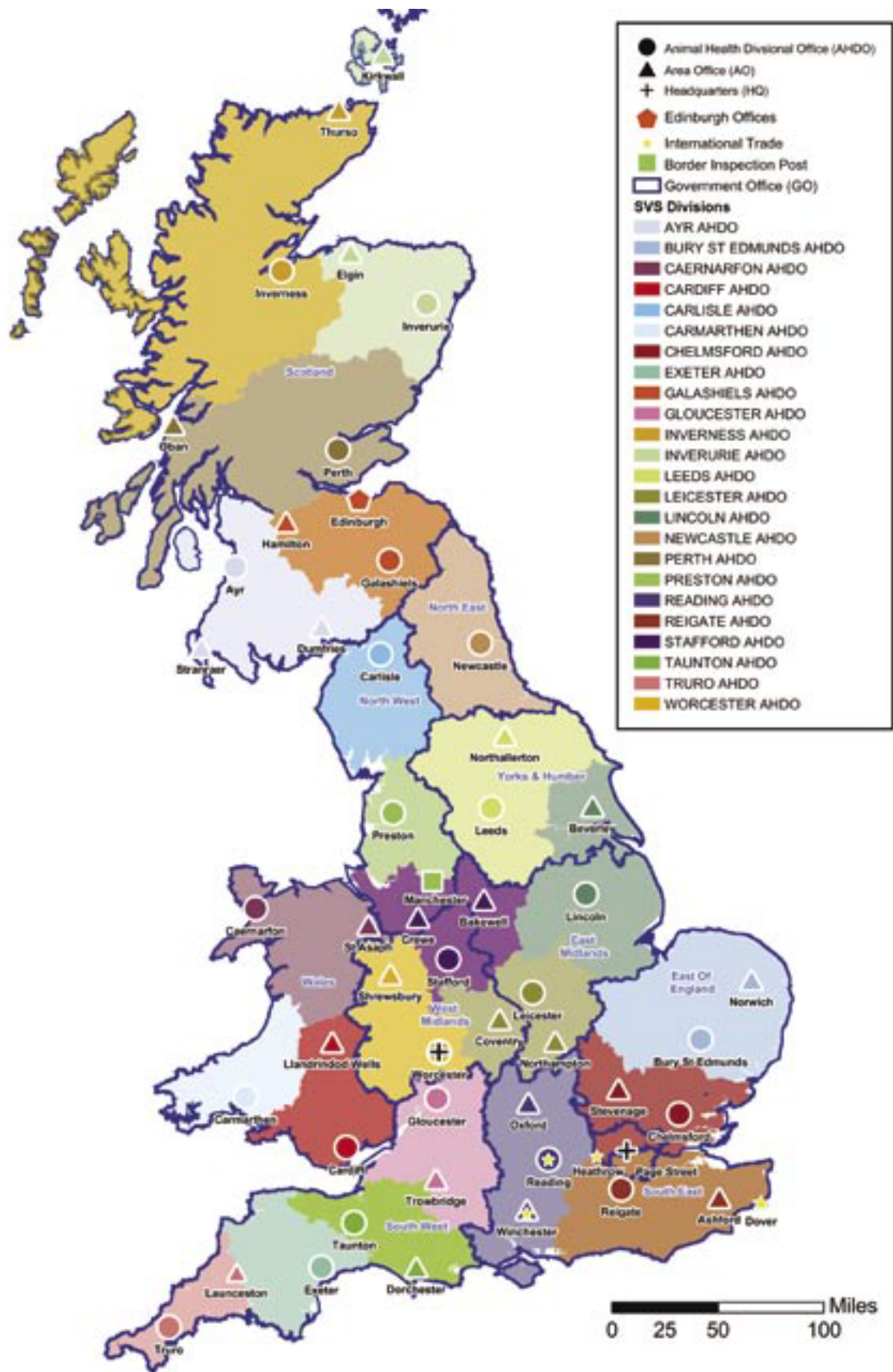
In addition to enabling us to develop more consistent delivery across AHDOs, the focus on performance delivery has also increased our ability to support and inform animal health and welfare policy development and evaluation. A Delivery Review Board has been established, chaired by the Animal Health and Welfare Directorate of Defra with members from the Scottish Executive and the Welsh Assembly Government, to establish strong two-way communication between policy and delivery. The Board reviews SVS activity, considers the

policy outcomes sought and enables changes to policy to be jointly considered.

The SVS's capacity for performance improvement however is limited by dated Information Technology (IT) and predominantly paper-based administrative systems that generate individualistic rather than consistent ways of working. The inherent operational risks and clear inefficiencies of such arrangements are increasingly untenable and the Business Reform Programme, on which we commenced work during the year, will deliver replacement IT and the ability to redesign how services are delivered. Changing the existing systems environment is not simple however: the SVS has many interrelated systems, some are shared with or owned by other bodies and the infrastructure supporting them is fragmented. The comprehensive and affordable roadmap for the development of new IT systems over the next three years which was prepared in the year, will result in new and consistent ways of working, with IT becoming an essential aid in the field.

Much of the SVS's field-work is undertaken by veterinary practitioners in private practice who are appointed by the SVS to be Local Veterinary Inspectors. During the year meetings were held with their relevant representative bodies and other stakeholders to explore the development of modern-day delivery arrangements to best manage these activities. New arrangements will be piloted in 2006-07 which will also cover the outcome of a controlled pilot of lay bTB testing in four Animal Health Divisional Offices undertaken in the year.

Figure 2: Location of Animal Health Divisional Offices





Our People

As the SVS is geographically dispersed, and many members of staff are predominantly field-based, robust structures for internal communications are particularly important. A series of business-focused meetings have been held in the year to enable members of staff from different AHDOs to meet, share knowledge and contribute to the SVS's development. In addition a strong programme of internal communications has been developed, which includes team briefings, a redesigned intranet site, an internal staff magazine and a mass messaging system enabling instant text or voice messages to be sent to SVS registered mobile phones in the event of a heightened disease situation.

The SVS is committed to keeping members of staff informed of performance, development and progress and has encouraged staff involvement through meetings, working groups and project teams, and through consultation and liaison with the recognised trades unions.

As a new Agency, the SVS has relied on existing Defra Human Resource policies and agreements. The appointment of the SVS's Human Resource Director in January 2006 however, has enabled the SVS to begin to review and develop its Human Resource policies to ensure they support its business and create an environment in which staff can give of their best and contribute to SVS's and to their own success.


A new business-focused learning and development strategy was developed in the year, supported by a range of learning and delivery approaches. Work also commenced on developing a national scheme of veterinary officer and technical staff development led by the Professional Services Director, and the first steps were taken to develop a 'Network of Expertise' to promote knowledge sharing. The SVS was successfully reviewed as part of Defra's Investor in People re-accreditation.

The SVS is committed to providing and maintaining a healthy and safe working environment. Health and Safety guidance and training is provided for members of staff who might be exposed to infection from animal disease.

The SVS is also committed to equality of opportunity for all employees and potential employees. During 2005-06 the SVS worked with Defra's Human Resources team to monitor compliance of its employment duty in accordance with the Code of Practice on the Duty to Promote Race Equality published by the Commission for Racial Equality.

The SVS follows Defra's policies on disability and gives full and fair consideration to applications for employment from people with disabilities, having regard to the nature of the employment. It similarly seeks to enable members of staff who may become disabled to continue their employment. At the year-end 98 members of staff had a notified disability.





4. Governance and the Remuneration Report

In line with Defra's delivery strategy, the Secretary of State for Environment, Food and Rural Affairs established the SVS as an Executive Agency with effect from 1 April 2005, the detailed arrangements being set out in a Framework Document. The Agency is financed by Defra and the Secretary of State for Defra is answerable to Parliament for the SVS.


The SVS provides agreed public health and animal health and welfare services for Defra in England, for the Scottish Executive in Scotland and the Welsh Assembly Government in Wales, in accordance with relevant legislation and European Union Directives and Regulations.

Ownership Board

The SVS's work is overseen by an Ownership Board which consists of senior officials from Defra, the Scottish Executive and the Welsh Assembly Government and two non-executive directors. It meets quarterly. The SVS's Chief Executive attends but is directly accountable to Ministers and to Defra's Permanent Secretary.

The Ownership Board advises the Secretary of State and Ministers in the Devolved Administrations on policy and operational matters relating to the SVS and monitors the performance, efficiency and financial and managerial regularity of the Agency.

The Ownership Board recommends to Ministers the strategic direction the Agency should follow within the context of wider departmental and wider governmental objectives. The Board met regularly during 2005-06 to agree strategic direction, to monitor activity and progress, and to provide support and assistance.



Corporate Management Team

The SVS's management board is the Corporate Management Team. Its principal responsibilities are to formulate the strategic direction of the business, to set this out in Corporate and Business plans and to control and monitor performance and delivery in accordance with the plans agreed with its policy customers. It comprises the Chief Executive and the Directors for Business Change, Contingency Planning, Finance, Human Resources, Operations, Operations (Scotland), Professional Services, and Strategic Planning. During the year the Corporate Management Team met regularly to review and decide upon strategy and policy and to monitor, evaluate and drive performance.



Directors

The Directors who served during the year were:

- | | |
|---|---|
| • Chief Executive | Glenys Stacey |
| • Business Change Director | Ann Nolan |
| • Contingency Planning Director | Ann Waters |
| • Finance Director | David Robson |
| • Human Resources Director | Richard Bowen
- appointed 2 January 2006 |
| • Operations Director | Rob Paul |
| • Operations Director (Scotland) | Derick McIntosh |
| • Professional Services Director and
Chief Veterinary Officer Scotland | Charles Milne |
| • Strategic Planning Director | Tony Edwards |
| • Non-Executive Director | Philip Riley |

No member of the Corporate Management Team holds company directorships or has other significant interests which may conflict with their management responsibilities.



Risk Management

Risk management and review processes were implemented during 2005-06 which support the Chief Executive's assurance statement for the Statement on Internal Control. During the year, the Corporate Management Team established a sub-committee to embed risk management in the Agency and to ensure risks are explicitly considered. It also established an Audit and Risk Committee that monitors audit activity and the SVS's processes for assessing and managing risk. The Audit and Risk Committee is chaired by Philip Riley, a non-executive director, who is also a member of the SVS Ownership Board.

Internal and External Audit

During the year ended 31 March 2006, the SVS appointed Defra's Internal Audit Division to provide internal audit services. The Agency Framework Document, reflecting the Government Resources and Accounts Act 2000, lays down that external audit is to be provided by the National Audit Office.

Representatives from Defra's Internal Audit Division and the National Audit Office regularly attend the Audit and Risk Committee.





Remuneration Report

Remuneration Policy

The SVS's Corporate Management Team's remuneration and performance conditions are determined according to normal Civil Service procedures and are subject to the recommendations of the Senior Salaries Review Body.

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

- the need to recruit, retain and motivate suitably able and qualified people to exercise their different responsibilities;
- regional/local variations in labour markets and their effects on the recruitment and retention of staff;
- government policies for improving the public services including the requirement on departments to meet the output targets for the delivery of departmental services;
- the funds available to departments as set out in the Government's departmental expenditure limits; and
- the Government's inflation target.

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

Service Contracts

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

With the exception of Glenys Stacey and Richard Bowen, the SVS Corporate Management Team hold appointments which are open-ended until they reach the normal retirement age of 60. The employment of the Chief Executive and of the other SVS Corporate Management Team members may be terminated in accordance with normal Civil Service procedures. Early termination, other than for misconduct, would result in compensation being payable as set out in the Civil Service Compensation Scheme.

Glenys Stacey was appointed to the role of Chief Executive on a three year fixed term contract commencing 10 October 2004.

Richard Bowen was appointed to the role of HR Director on a three year fixed term contract commencing 2 January 2006.

Both appointments are extendable to five years or may be made permanent.

Although the Chief Executive and members of the Corporate Management Team were appointed to the SVS upon its creation on 1 April 2005 and their costs are included in the Statement of Accounts, they are formally employed by Defra, SVS's parent Department.



Emoluments and pension entitlements

The emoluments and pension entitlements of the Corporate Management Team members in 2005-06 were as follows:

	Emoluments Banding	Real increase in pension and lump sum at age 60	Total accrued pension benefits at age 60 at 31 March 06 £'000	CETV at 31 March 2005 £'000	CETV at 31 March 2006 £'000	Real increase in CETV £'000
	£'000	£'000	£'000	£'000	£'000	£'000
Glenys Stacey Chief Executive	115-120	0-2.5	2.5-5.0	11	44	26
Richard Bowen HR Director	15-20 (70-75 full year equivalent)	0-2.5	2.5-5.0	50	58	4
Tony Edwards Strategic Planning Director	75-80	0-2.5	35.0-37.5	416	668	22
Derick McIntosh HOS Scotland	65-70	0-2.5 Plus 2.5-5.0 lump sum	22.5-25.0 Plus 72.5-75.0 lump sum	396	573	23
Charles Milne Professional Services Director and CVO Scotland	75-80	0-2.5 Plus 2.5-5.0 lump sum	17.5-20.0 Plus 52.5-55.0 lump sum	196	277	21
Ann Nolan Business Change Director	55-60	2.5-5.0 Plus 7.5-10.0 lump sum	20.0-22.5 Plus 65.0-67.5 lump sum	258	380	47
Rob Paul Operations Director	65-70	0-2.5	22.5-25.0	219	329	24
David Robson Finance Director	75-80	12.5-15.0	12.5-15.0	184	252	245
Ann Waters Contingency Planning Director	70-75	0-2.5 Plus 0-2.5 lump sum	20-22.5 Plus 47.5-50.0 lump sum	323	483	27

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

Under arrangements made by Defra, Richard Bowen received £59,500 in benefits-in-kind for relocation, consisting of £21,200 for removal and associated costs and £37,300 for stamp duty and other taxes related to these costs. He also received an advance on salary of £12,500 from Defra, repayable from January 2010, over eight years. The benefit from this loan for 2005-06 has been valued at £200. Tony Edwards has received the use of a car provided under Defra's Private Use Scheme valued at £1,000.

Loans are made to staff to cover season ticket advances and relocation. As at 31 March 2006 there were outstanding loans to Corporate Management Team members to the value of £861.

The Cash Equivalent Transfer Value (CETV) shown in the table is the actuarially assessed capitalised value of pension benefits accrued by scheme members. This is calculated in accordance with the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

The pension information for each member of the Corporate Management Team shows the benefits each member has accrued as a consequence of their total membership in the PCSPS. This includes the value of benefits from other PCSPS employments, benefits transferred into the PCSPS from other pension schemes and additional pension benefit purchased by members at their own expense, as well as the benefit accrued from service in the SVS itself. The £245k shown in the column 'Increase in CETV' for David Robson, reflects a transfer into the PCSPS of pension benefits accrued in previous employments together with the increase accrued for the year 2005-06.

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

In addition to the members of the Corporate Management Team, Philip Riley who chairs the Audit and Risk Committee as a non-executive Director, received remuneration of £18,042, inclusive of tax and expenses.



Glenys Stacey
Chief Executive
11 October 2006



5. Financial Review

The financial focus in 2005-06 has been to ensure continued financial integrity while beginning to develop the enhanced systems and procedures the SVS requires as an Agency.

The Finance function relocated from London to the new Corporate Office in Worcester and a new and strengthened Finance Team was recruited. With transactional accounting services continuing to be provided by Defra, attention has focused on stewardship and on developing systems and processes to provide financial information to inform business planning and operational decisions.

Our key cost drivers are activity volumes and changes in policy. The collection of dead birds and their testing at a cost of £1.0m, introduced as part of European Union wide surveillance and preparation for avian influenza, is an example of a policy change introduced in the year in response to developments in animal disease.

Pending implementation of the Business Reform Programme, incremental improvements in effectiveness, efficiency and economy have been and are being sought, although current systems offer limited scope for efficiencies. The reorganisation of the SVS Animal Health Offices in England, from three regions to areas grouped to align with Government Office Regions did however enable over £1.0m to be reallocated in the year to support increases in activity volumes and changes in policy.

System and process improvements have also been sought in the financial arrangements required to support activity in the event of an outbreak of notifiable animal disease and in enabling a claim to reimburse costs to be made to the European Union where possible. The improvements made in the year greatly assisted the response to the H5N1 avian influenza incident and the H7N3 avian influenza outbreak in April 2006 and developing emergency finance procedures further will continue to be a key area of activity in 2006-07.

Results for the Period

The SVS's Statement of Accounts reports results for the year 1 April 2005 to 31 March 2006. It is prepared on an accruals basis in accordance with Section 7(2) of the Government Resources and Accounts Act 2000, the Accounts Direction issued to SVS by the Secretary of State for Defra with the consent of the Treasury and the Financial Reporting Manual (FreM) published by HM Treasury.

The Statement of Accounts for the year ending 31 March 2006 are set out in section 7. SVS follows Defra's accounting policies wherever appropriate to simplify the preparation of Defra's Consolidated Account.

In accordance with FRS3, Reporting Financial Performance, the 2005-06 Statement of Accounts includes comparative figures for 2004-05, when the cost centres which formed the new SVS Agency were part of Defra. The comparative figures are based on figures provided by Defra for those cost centres. They have been reviewed by the SVS and have been audited by the National Audit Office in their audit of the 2005-06 accounts.

SVS's costs are predominantly labour costs with employment costs constituting £49.8m or 52% of 2005-06 expenditure and Local Veterinary Inspectors £23.5m or 24% of expenditure. Other direct costs constituted £12.7m or 13% of 2005-06 expenditure, while notional charges and non-cash charges of £9.2m and £1.6m respectively constituted the remaining 11%. This cost profile means that the SVS's costs - like all service businesses - are likely to rise at a faster rate than increases in the RPI, and that the scope for containing or reducing costs quickly is limited. In turn this means that, subject to finding efficiencies through IT and other investments, either funding will need to increase in line with the cost of undertaking the volume of work the SVS is called upon to do, or the volume of work must be reduced to what is affordable.

Because the SVS was established as a gross running cost Agency, any income generated during the year is returned to Defra who, in return, provide resources to fund the costs of undertaking this work. In 2005-06 £2.6m was received and returned to Defra (2004-05 £1.5m) and equivalent resources were received to finance this work.





No research or development was undertaken and no charitable donations were made in the year ending 31 March 2006.

SVS's expenditure in 2005-06 was £8.3m more than in 2004-05, but £2m less than the resources allocated for the year. The increase was primarily the result of an increase in work volumes (particularly relating to bTB), preparations in respect of possible avian influenza outbreaks, and initial expenditure on the Business Reform Programme. The underspend against available resources was primarily the result of Business Reform Programme expenditure being incurred later than initially projected.

Although expenditure has been managed within allocated resources, the accounting policy for how funding is recognised for statutory accounts purposes followed by Defra (and by other central government departments) results in the Statement of Total Recognised Gains and Losses showing a loss of £21.6m for the year and the Balance Sheet showing net current liabilities of £9.6m. This results from an accounting policy that accounts for expenditure on an accruals basis but accounts for funding on a cash basis in accordance with the Net Cash Requirement voted by Parliament. The effect of this policy is that although commitments were entered into during the year in line with available resources, the difference between available resources and the cash required in the year is not treated as an asset to finance creditors or provisions at the year-end resulting in the loss noted above. As cash is not to be held in advance of need, cash to fund the creditors and provisions in SVS's Balance Sheet at 31 March 2006 will be drawn through Defra during 2006-07 when they become due for payment. Given this accounting policy, it is considered appropriate to prepare the Statement of Accounts on a going concern basis.

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

	£'000	Number
Total invoices paid in period	6,079	9,216
Total invoices paid within target	5,736	8,566
Percentage of invoices paid within target	94.4%	92.9%

No interest was paid in respect of the Late Payment of Commercial Debts (Interest) Act 1998.

SVS's Balance Sheet contains few assets. Fixed Assets - amounting to £5,113 per full time employee in 2005-06 (2004-05 £4,919) - consist primarily of IT systems for managing animal disease. The remainder of the IT infrastructure and IT hardware are provided by Defra through IBM with whom Defra have entered into a strategic partnership. Similarly with the exception of one small building and Scotland - where the Scottish Executive provides SVS with accommodation and administrative staff - all accommodation used by SVS is either owned by Defra or is leased through Defra.

The changes in Fixed Assets during the year ending 31 March 2006 comprised mostly additions to IT systems.

In preparing the Statement of Accounts for the year ending 31 March 2006, the principal judgements required have centred upon determining the appropriate opening balances with Defra, determining the appropriateness of Defra's accounting policies for SVS, assessing the levels of accruals for work done but not invoiced, assessing the notional charges made by Defra for services provided and assessing the provisions created at the year-end.



Expenditure by country and by activity

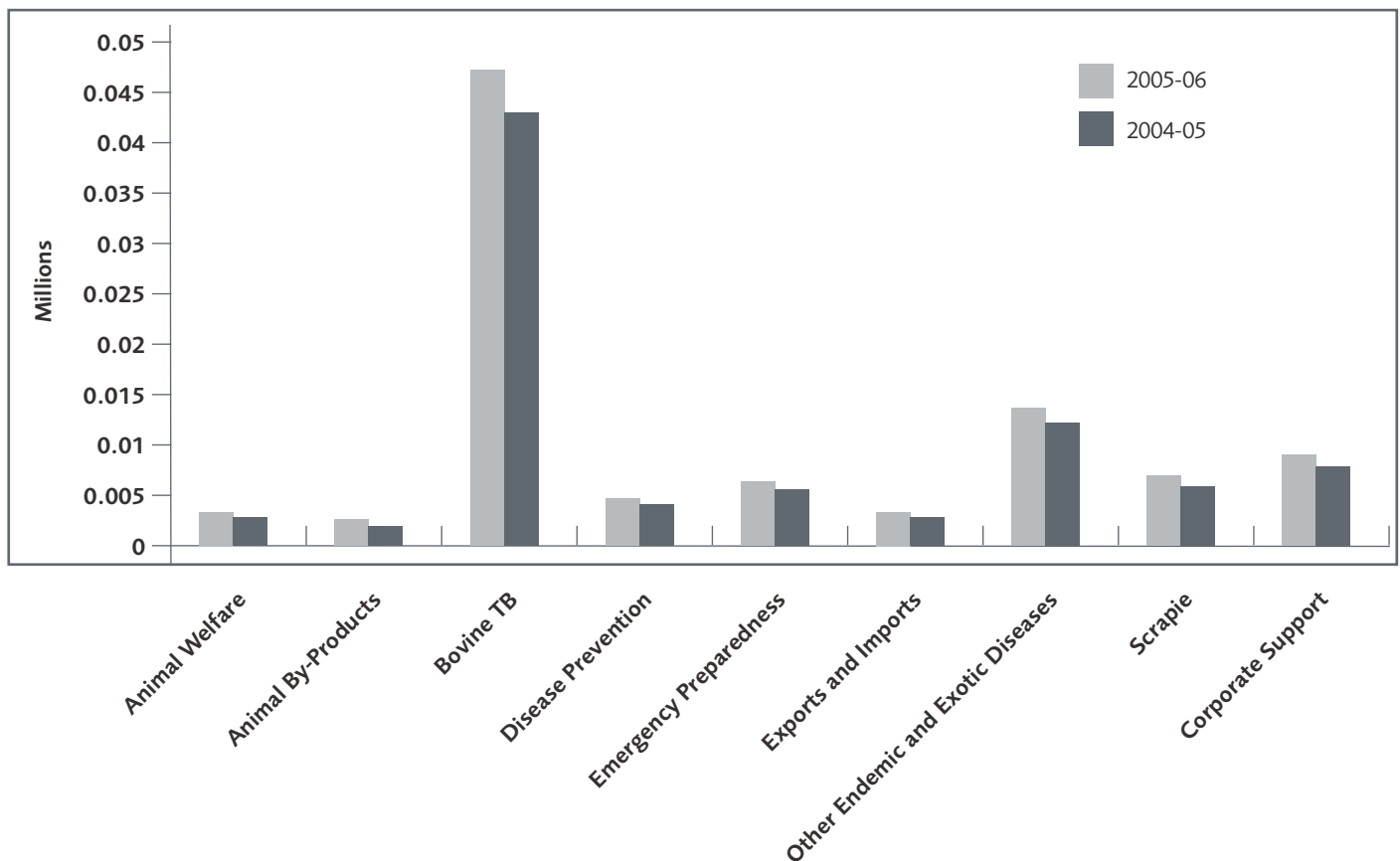
The Statement of Accounts reports the results for the financial year in accordance with the Treasury's Financial Reporting Manual and its disclosure requirements. Table 3 shows how much of the reported expenditure was spent in England, Scotland and Wales and in cost centres that cover the whole of Great Britain.

Table 3: Expenditure by country

	2005-06 £m	2004-05 £m
Animal Health Divisional Offices		
England	47.3	45.4
Scotland	7.4	8.0
Wales	8.7	8.1
	63.4	61.5
Great Britain wide cost centres		
Contingency Planning	2.9	1.9
International Trade	2.0	1.6
National Scrapie Unit	2.0	2.4
Business Development	3.5	3.1
Workforce Strategy and Development	1.6	0.7
Corporate Office	10.6	6.3
	22.6	16.0
Allocated Costs		
Notional Charges	9.2	8.9
Non-Cash Charges	1.6	2.1
	10.8	11.0
Net Operating Costs	96.8	88.5

Figure 3: Expenditure by activity

This expenditure was incurred implementing policies to prevent and control the spread of animal disease. The following chart profiles expenditure for key areas of activity for 2005-06 and for 2004-05.



The operational activities showing the largest year on year percentage increases are Animal By-Products, Emergency Preparedness, and Exports and Imports with increases of 16% or £0.5m, 15% or £0.6m and 19% or £1.1m respectively. The other area showing a large year on year increase is Corporate Support with an increase of 17% or £2.3m. In part this is the result of the additional costs incurred in being an Agency – the trade-off being that these costs are exceeded by improvements in effectiveness and efficiency resulting from the close focus now being able to be given to operations – and in part by costs incurred in the SVS's Business Reform Programme.

6.Plans and Priorities

For the future, we will follow through our strategies to achieve our vision and objectives and develop the SVS's capacity and capability. Figure 4 shows our two key activity strands and the elements of each.

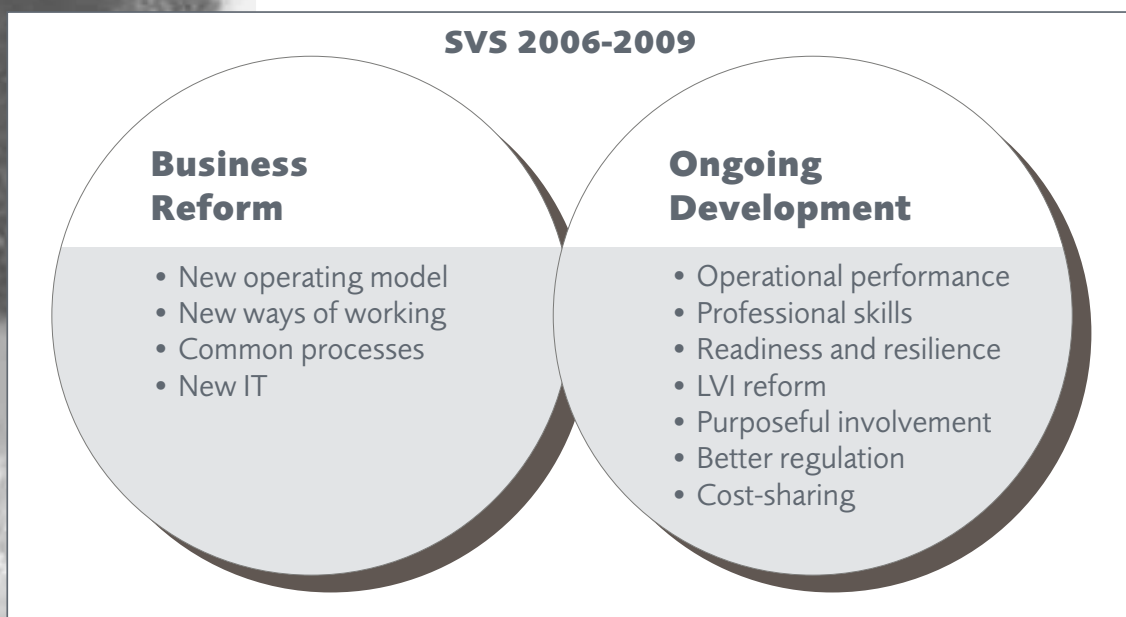


Figure 4: SVS Development 2006-09

Through our Business Reform Programme we will develop new ways of working, based upon common processes and modern technology, which will change the way we will deliver our services in 2008-09 and beyond.

In our ongoing development, we will give priority to the reform of our working arrangements with Local Veterinary Inspectors to support animal health and welfare and reduce risk. We will also give priority to developing with Defra, the devolved administrations and others, cost sharing arrangements that will best deliver the intended animal health and welfare outcomes alongside a new approach to regulation and enforcement which provides effective, targeted, efficient and risk-based interventions which make a difference – in effect, better regulation.

We are a growing organisation. We are working with the Dairy Hygiene Service (who will join us in October 2006) and planning with our colleagues for additional mergers, to take effect in April 2007.

This is an exciting prospect which will strengthen our capacity and widen our remit, and enable us to play an increased role both in day-to-day delivery and in taking forward the strategic initiatives of our policy customers.

Performance Pressures

Like others in the public sector, we face increasing demands for our services. In 2006-07 we will be implementing new animal disease and welfare policies and managing predicted increases in workload, while continuing to develop our capacity and capability. Building on experiences in 2005-06, our plans assume sporadic minor incursions of exotic disease, and in response to the increased priority now afforded by Defra to readiness and resilience for exotic disease and avian influenza in particular, we are increasing our readiness and resilience to manage exotic disease outbreaks.

Our 2006-07 business plan is centred around developing the organisation and continuously improving our performance. In order to increase our capacity and capability we will drive our Business Reform Programme at the fastest possible pace, while also working with policy colleagues to develop cost-sharing and better regulation.

Preventing, controlling, and where feasible, eradicating animal disease, and dealing with outbreaks of exotic disease when they occur helps maintain standards of animal welfare, protects the food supply and the public from infections that are transmissible from livestock either directly or through the food chain and supports the wider economy and the environment from the effect of animal disease. Taken together these support the Government's wider economic, social and health objectives and play their part in meeting the key challenges identified by the Government which need to be faced over the next few years.

The SVS can and is keen to play its full part in meeting these challenges which it will do with clarity and consistency of focus, investment of financial and other resources, and the continual development of the 'supply chain' from our policy and other customers through to our suppliers.



7. Statement of Accounts

Statement of Chief Executive's Responsibilities

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

The statement of accounts are to be prepared on an accruals basis and must give a true and fair view of the Agency's state of affairs at the year end and of its income and expenditure, total recognised gains and losses and cash flows for the financial year.

In preparing the statement of accounts the Agency is required to comply with the Financial Reporting Manual prepared by the Treasury, 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 Financial Reporting Manual have been followed, and disclose and explain any material departures in the financial statements;
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Agency will continue in operation.

HM Treasury has designated the Chief Executive of the State Veterinary Service (SVS) as the Accounting Officer for the Agency. The relevant responsibilities as Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for the keeping of proper records and for safeguarding SVS's assets, are set out in the Accounting Officers' Memorandum, issued by HM Treasury and published in Government Accounting.

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



Glenys Stacey

Chief Executive

11 October 2006

Statement on Internal Control

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the objectives and goals of the State Veterinary Service (SVS), whilst safeguarding the public funds and assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting.

Internal control

SVS's system of internal control is designed to manage rather than eliminate risk, and it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to:

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

When the SVS was part of core-Defra prior to 1 April 2005, its system of internal control was Defra's. During the Agency's first year in 2005-06, Defra's system has continued to underpin SVS's, and it has been developed in line with SVS's development and in accordance with Treasury Guidance. It has also continued to be developed up to the date of approval of the Annual Report and Accounts. This development has included the following activity:

Strategy and planning

SVS's vision, mission and strategic objectives for 2005-06 were set out in its Corporate and Business Plans, and activity in the year is reported in the Annual Report. SVS's vision, mission and strategic objectives were developed and agreed with Defra and the devolved administrations, and take into account their strategies, and available resources.





Work has been undertaken during 2005-06, in conjunction with Defra and the devolved administrations, to translate these objectives into measurable targets, to establish mechanisms to prioritise objectives and targets should an outbreak of animal disease or other events (for example, insufficient resources) require it, and to plan for their delivery. Processes to plan the implementation of policy in conjunction with Defra and the devolved administrations will continue to be developed in 2006-07.

Governance structures and processes

The Governance structures established when the SVS became an Agency on 1 April 2005 have been enhanced during the year through the development of a Service Level Agreement with Defra, the establishment of a Delivery Review Board with Defra and the devolved administrations to prioritise objectives and targets in the light of changing demands, and the development of the SVS's internal governance and management arrangements.

Performance management

A key development in 2005-06 has been the development of measures to assess performance against agreed targets, the development of processes to collect information for these measures on a consistent basis, and the review of the information collected to drive operational activity.

Risk management

The identification and management of risk has been aligned with the SVS's operational activities to ensure risk management is embedded in practice. Risks have been reviewed by managers and the Corporate Management Team, and action to mitigate risk has been taken as appropriate (for example, developing closer working relationships with third parties on whom the SVS relies). The developments in risk management have been reviewed by the SVS's Audit and Risk Committee and risks and their management have been reported to the SVS's Ownership Board during 2005-06.

The SVS's 2005-06 corporate risks include business change, changes in the Animal Health and Welfare delivery landscape, delivery of strategic IT, dependencies on partners to enable the SVS to deliver its objectives and goals, and its capacity to respond to an

outbreak of animal disease. The potential impact of all of these risks, together with in some instances their likelihood of occurring, are increased as a result of the SVS's geographic dispersion, and until the strategic IT solution is implemented, its heavy dependence on paper-based administrative systems.

Project and programme management

The SVS embarked on one project in 2005-06 within the scope of the Office of Government Commerce's (OGC's) Project and Programme Management controls. Initial work on this project, the replacement of major IT systems – which if not replaced will inhibit the SVS's effectiveness and efficiency, and pose a major risk of organisational failure – began in 2005-06 and will continue until 2008-09.

Management of change

Establishing the SVS as an Agency on 1 April 2005 both initiated and facilitated change, and the Annual Report reflects developments during the year. While no one set of rules exists for ensuring change successfully achieves the intended objectives, experience highlights a number of factors which assist successful change – as well as a number of factors which inhibit change – and attention has been given to these during the year. These factors include: having a clear strategy; managing risk; consultation, communication and leadership; involving capable staff; planning; reviewing progress and revising as required. Attention to these factors will continue to be vital in 2006-07.





Accounting Officer's review

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

- the framework established for the SVS's accountability with Defra and the devolved administrations;
- quarterly reporting to the SVS Ownership Board which oversees the SVS on behalf of the Secretary of State for the Environment, Food and Rural Affairs, Defra's Accounting Officer and the devolved administrations, and by regular meetings with Defra and the devolved administrations;
- meetings of the Corporate Management Team to review the SVS's strategic direction and risks, and its performance against the Agency's objectives and goals;
- the work SVS managers and staff who have responsibility for developing, supporting and operating within the internal control framework. During 2005-06 work was undertaken to develop SVS's inherited systems to meet the demands placed on them by SVS's developing business needs and by Agency status and this work will continue in 2006-07 and beyond;
- Risk Management arrangements, together with stewardship reporting, under which key risks that could affect achievement of the SVS's objectives and goals are actively managed;
- the creation of an Audit and Risk Committee which monitors the system of internal control;
- the results of the work of the External Auditors;
- reports by Internal Audit, prepared in accordance with Government Internal Audit Standards, which include their independent opinion on the adequacy and effectiveness of the SVS's internal controls together with recommendations for improvement where necessary. Internal Audit have provided limited assurance on the adequacy and effectiveness of the SVS's internal controls for 2005-06 reflecting the limitations of the inherited systems and the increased demands and accountabilities placed on them as a result of developing business needs and Agency status.

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

I have been advised on the result of my review of the effectiveness of the system of internal control for 2005-06 by the Corporate Management Team and by the Audit and Risk Committee, and I am able to report that there were no material weaknesses in the system of internal control which affected the achievement of the SVS's objective or goals during the year. During 2006-07 SVS will continue to develop its system of internal control – including its corporate governance and risk management arrangements – to ensure continuous improvement, to respond to evolving best practice and to respond to changes in its business environment.



Glenys Stacey

Chief Executive

11 October 2006



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 State Veterinary Service for the year ended 31 March 2006 under the Government Resources and Accounts Act 2000. These comprise the Operating Cost Statement and Statement of Recognised Gains and Losses, the Balance Sheet, the Cashflow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Agency, the Chief Executive and auditor

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

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

I report to you my opinion as to whether the financial statements give a true and fair view and whether the part of the Financial Statements and the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the

Government Resources and Accounts Act 2000. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report to you if, in my opinion, the Annual Report is not consistent with the financial statements, if the Agency has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by relevant authorities regarding remuneration and other transactions is not disclosed.

I review whether the statement on pages 45 to 49 reflects the Agency's compliance with HM Treasury's guidance on the Statement on Internal Control, and I report if it does not. I am not required to consider whether the Accounting Officer's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Agency's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises; the Chief Executive's Statement, Notifiable Animal Diseases, Animal Health and Welfare Activity and Performance against Targets, Organisational Development, Governance and the unaudited part of the Remuneration Report, the Financial Review, and Plans and Priorities. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinion

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

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

Opinions

In my opinion:

- the financial statements give a true and fair view, in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by HM Treasury, of the state of the Agency's affairs as at 31 March 2006 and of the net operating costs, recognised gains and losses and cashflows for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000; and
- in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I have no observations to make on these financial statements.



John Bourn

Comptroller and Auditor General
National Audit Office,
157-197 Buckingham Palace Road,
Victoria, London SW1W 9SP
17 October 2006

Operating cost statement

For the year-ended 31 March 2006

	Note	2005-06 £'000	2004-05 £'000
Employment Costs	5	49,826	42,469
Local Veterinary Inspector Costs	6	23,519	25,085
Other Operating Costs	7	23,446	20,989
Total Operating Expenditure		96,791	88,543
Income Cost Recoveries	4	(2,632)	(1,499)
Less surrendered to Defra	4	2,632	1,499
Net Operating Costs		96,791	88,543

All income and expenditure is derived from continuing operations
The notes on pages 55 to 74 form part of these accounts

Balance sheet
As at 31 March 2006

	Note	31 March 2006		31 March 2005	
		£'000	£'000	£'000	£'000
Fixed Assets					
Tangible Assets	9		6,652		6,226
Intangible Assets	10		53		55
			<u>6,705</u>		<u>6,281</u>
Current Assets					
Stock	12	370		462	
Debtors and Prepayments	13	2,156		515	
Cash at bank and in hand	14	134		-	
			<u>2,660</u>		<u>977</u>
Creditors due within one year	15		(18,127)		(4,013)
Net Current (Liabilities)			<u>(15,467)</u>		<u>(3,036)</u>
Total Assets less Current Liabilities			(8,762)		3,245
Provisions for Liabilities and Charges	16		(875)		(1,750)
			<u>(9,637)</u>		<u>1,495</u>
Taxpayers Equity					
General Fund	17		(9,643)		1,480
Revaluation Reserve	18		6		15
			<u>(9,637)</u>		<u>1,495</u>

The notes on pages 55 to 74 form part of these accounts



Glenys Stacey
Chief Executive
11 October 2006

Cashflow statement

For the year-ended 31 March 2006

	Note	2005-06 £'000	2004-05 £'000
Net Cash (Outflow) from Operating Activities	19	(72,966)	(73,434)
Capital Expenditure and Financial Investment	19	(2,054)	(2,808)
		(75,020)	(76,242)
Net Cash requirement received from Defra		75,154	76,367
Increase/(Decrease) in Cash	19	134	(125)

Statement of recognised gains and losses

For the year-ended 31 March 2006

	Note	2005-06 £'000	2004-05 £'000
Net Operating Expenditure		(96,791)	(88,543)
Net Cash Requirement From Defra		75,154	76,367
Net Deficit for the Year		(21,637)	(12,176)
Net Loss on Revaluation of Tangible Fixed Assets		(7)	-
Total Recognised (Losses)		(21,644)	(12,176)

The notes on pages 55 to 74 form part of these accounts

Notes to the accounts

1. Basis of accounts

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

2. Accounting policies

Accounting conventions

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

Income recognition

The SVS was established as a gross running cost Agency. Income received for services are surrendered to Defra which provides resources to finance the cost of those services.

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

Funding recognition

The SVS follows Defra's policy which recognises funding as the Net Cash Requirement voted by Parliament.

Tangible Fixed Assets

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

Tangible Fixed Assets are valued at current replacement cost by using the Price Index Numbers for Current Cost Accounting published by the Office for National Statistics. Any upward revaluation is credited to the Revaluation Reserve. A deficit on revaluation is debited to the Income and Expenditure Account if the deficit exceeds the balance held for previous revaluations in the Revaluation Reserve.





Intangible Fixed Assets

Intangible Fixed Assets comprise software licences and are capitalised where the license period is for more than one year and the cost is greater than £500. Intangible Fixed Assets are valued at historical cost, or revalued to market value, where this is readily ascertainable. Software licences are amortised over the term of the licence or their useful economic life, if shorter.

Depreciation and Amortisation

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

Furniture and Fittings	1 - 30 years
IT Hardware and Software	2 - 12 years
Office Equipment	6 - 22 years
Plant and Machinery	5 - 15 years
Scientific Equipment	5 - 15 years
Vehicles	4 - 12 years

A full month's depreciation is charged to the Income and Expenditure account in the month following acquisition and in the month of disposal.

Stock

Stock, which consists of veterinary consumables and contingency stocks, is stated at the lower of cost and net realisable value.

The SVS holds a level of contingency stock as part of its preparedness for outbreaks of animal disease.

Value Added Tax

The SVS is covered by Defra's VAT registration. Input VAT is generally not recoverable and output VAT generally does not apply. Costs are shown inclusive of VAT where applicable.

Notional charges

Defra notionally charges the SVS for centrally provided services. The value of these charges is determined by Defra.

Capital charge

In accordance with the FReM, a notional non-cash charge for the cost of capital employed in the period is included in the Operating Cost Statement. The charge for the year is calculated using HM Treasury's discount rate of 3.5 % applied to the mean value of capital employed during the period (2004-05 3.5 per cent).

Pensions

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

Early departure costs

The SVS follows Defra's policy on accounting for early departures. Whilst the funding is provided by Defra, the SVS is required to reflect the provision and future liabilities in respect of employees who retire early, in its own accounts.



**Provisions**

In accordance with FRS 12, Provisions, Contingent Liabilities and Contingent Assets, the SVS provides for its obligations arising from past events where a reliable estimate of the obligation can be made and it is probable that the obligation will be required to be settled.

Contingent assets and liabilities

Material contingent assets and liabilities are disclosed in accordance with FRS 12, Provisions, Contingent Liabilities and Contingent Assets.

Operating leases

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

Comparative figures

The SVS was established as an Executive Agency of Defra on 1 April 2005. In accordance with FRS 3, Reporting Financial Performance, the SVS is required to provide comparative figures for the financial year 2004-05 when it was part Defra. The comparative figures for 2004-05 are based on figures provided by Defra for the year-ending 31 March 2005 as described in Note 26.

3. Going concern

The Balance Sheet at 31 March 2006 shows negative Taxpayers Equity of £9,637k. This reflects liabilities incurred in 2005-06 which will be settled in future years by drawings through Defra from the UK Consolidated Fund. Such drawings are from Grants of Supply, approved annually by Parliament to meet Defra's Net Cash Requirement, of which SVS is a part. Under the Government Resources and Accounts Act 2000, no money may be drawn from the Fund other than required for the service of the specified year, or retained in excess of that need.

In common with other Government Agencies, the financing of the SVS's liabilities is to be met by future Grants of Supply and the application of future income, both to be approved annually by Parliament, through Defra. Such approval for amounts required for 2006-07 has already been given and there is no reason to believe that future approvals will not be forthcoming. Accordingly it is considered appropriate to adopt a going concern basis for the preparation of these financial statements.



4. Income

	2005-06 £'000	2004-05 £'000
Income Received		
Defra	708	-
Defra Agencies	387	290
Scottish Executive	45	-
Welsh Assembly Government	1,190	987
Other	302	222
	<u>2,632</u>	<u>1,499</u>
Less Income surrendered to Defra	(2,632)	(1,499)
	<u>-</u>	<u>-</u>

The income received from the Welsh Assembly Government was for work undertaken on the Welsh Ewe Genotyping Scheme. This was carried out at the same time as work to deliver Defra's GB wide Ram Genotyping Scheme which seeks to reduce the prevalence of Scrapie in accordance with Defra's PSA 9 target. Income has been received to cover the additional costs incurred.

In addition to the above, the SVS received funding in 2005-06 from Defra's 'Developing Defra' initiative, a departmental wide programme of investment to support change. The funding financed the following projects:

	2005-06 £'000
Transfer of work from Defra's Animal Health and Welfare Directorate General to the SVS	256
TB Lay Testing Pilot	188
Resource model investment	341
Initial work to develop Integrated Management Information Systems	833
Centralisation of cattle tracing work	443
Stores system	62
Network of expertise and interface development	87
Standard document control and production system	97
Project management and resource costs	83
	<u>2,390</u>

With the exception of £172k which has been capitalised, the above funding has been credited to the following expenditure reported in the Operating Cost Statement.

	2005-06 £'000
Employment Costs	1,774
Other Operating Costs	444
Capitalised Costs	172
Total	2,390

5. Employment costs

Employment costs comprise:

	2005-06 £'000	2004-05 £'000
Salaries	37,143	34,102
Employer's National Insurance Contributions	2,985	2,638
Employer's Pension Contributions	6,598	4,504
	46,726	41,244
Less: Recoveries for Seconded Staff	-	(25)
	46,726	41,219
Contractor Costs	1,804	562
Temporary Veterinary Inspector Costs	1,296	688
	49,826	42,469

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

Average number of full time equivalent staff

	2005-06	2004-05
Veterinary Staff	264	263
Technical Staff	232	229
Administrative and Managerial Staff	815	785
	1,311	1,277

	2005-06	2004-05
Permanent	1,224	1,200
Fixed Term Contracts	2	1
Casual and Temporary	85	76
	1,311	1,277



In addition to staff employed by the SVS, the Scottish Executive employs 69 full time equivalent administrative staff to support the SVS in Scotland (2004-05 69).

The comparative data for 2004-05 has been derived from information at April 2005, due to a lack of robustness in the prior year's information.

The remuneration and emoluments of the Corporate Management Team are set out in the Remuneration Report on pages 32 to 35.

Pension Contributions

Pension benefits are provided through the Principal Civil Service Pension Scheme (PCSPS). The SVS members of staff who were members of the PCSPS before 1 October 2002 may be in one of three statutory based 'final salary' defined benefit schemes (Classic, Premium or Classic Plus). Staff who joined the civil service after 1 October 2002 (and staff who joined the SVS after 1 April 2005) may choose between membership of the Premium scheme or a defined contribution money purchase partnership pension.

Employer and employee PCSPS contributions are paid to the Treasury and PCSPS benefits, which are increased annually in line with changes in the Retail Price Index, are paid by monies voted by Parliament each year. The PCSPS is therefore an unfunded defined benefit scheme and, as a result of it covering many employers the SVS is unable to identify its share of the Scheme's underlying assets and liabilities. The Scheme is subject to a full valuation every four years and the last full valuation took place on 31 March 2003, details of which can be found in the Cabinet Office's Civil Superannuation Resource Accounts: (www.civilservice-pensions.gov.uk). Copies can also be obtained from the Stationery Office.

For 2005-06, employer contributions of £6,364,524 were payable to the PCSPS (2004-05 £4,324,145) at one of the four rates in the range 16.5 per cent to 24.6 per cent of pensionable pay based on salary bands (2004-05 12 per cent to 18.5 per cent). The contribution rates reflect past experience of the scheme and effect of benefits as they are accrued, not when the costs are actually incurred.

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

Instead of joining the PCSPS, employees who joined SVS on or after 1 April 2005 could opt to join a partnership pension account, or a stakeholder pension, with an employer contribution. Employer contributions for 2005-06 of £234,790 (2004-05 £180,173) were paid to one or more of a panel of four appointed stakeholder pension providers. Employer contributions are age-related and range from 3 per cent to 12.5 per cent of pensionable pay. No employer contributions (2004-05 £nil) were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death-in-service and ill-health retirement of these employees.



6. Local Veterinary Inspector costs

	Note	2005-06 £'000	2004-05 £'000
Local Veterinary Inspector charges in year		23,153	23,945
Adjusted for non-cash items:			
New provision for expected RPI increase on work done in financial year	16	516	1,140
Reversal of over-provision of RPI increase applicable to previous years	16	(150)	-
		<u>23,519</u>	<u>25,085</u>

Local Veterinary Inspectors

Local Veterinary Inspectors are qualified veterinarians in private practice who undertake work on behalf of the SVS. The charge against the Operating Costs for the year ending 31 March 2006 is based on activity undertaken by Local Veterinary Inspectors and paid for during the financial year together with:

- tests carried out in the year but not paid for at the year-end for which test forms had been received;
- accrued payments for tests carried out in the year not paid for at the year-end for which test forms had not been received; and
- a provision for a retrospective fee increase for work undertaken during the year based on the increase in the RPI in the year, together with the reversal of the prior year's provision.

7. Other operating costs

	2005-06 £'000	2004-05 £'000
Hard Charges		
Accommodation and Utilities	3,678	3,185
Travel and Subsistence	2,913	2,681
Office Services	2,728	1,631
IT Costs	1,703	1,335
Veterinary Consumables	563	598
Training	499	471
Recruitment	346	14
Early Retirement Costs	193	-
Internal Audit	20	-
Loss on Disposal of Fixed Assets	8	21
	12,651	9,936
Notional Charges		
IT Services	7,020	6,859
Estates Management and Accommodation Services	1,066	1,042
Accounting Services	462	452
Human Resources Services	382	322
Audit - External	90	88
Procurement and Contract Services	83	81
Legal Services	49	48
Audit - Internal	-	19
	9,152	8,911
Non-Cash Costs		
Depreciation	1,847	2,041
Current Replacement Cost Adjustment	(59)	-
Cost of Capital	(145)	101
	1,643	2,142
	23,446	20,989

No remuneration was paid to auditors in respect of non-audit work. Notional charges cover the National Audit Office's audit charge, and services provided to the SVS by Defra.

8. Interest payable and similar charges

The SVS incurred no charges for interest or similar charges during 2005-06 (2004-05 Nil).

9. Tangible fixed assets

	IT Equipment £'000	Assets in the Course of Construction £'000	Scientific Equipment £'000	Furniture and Fittings £'000	Office Equipment £'000	Plant and Motor Vehicles £'000	Total £'000
Cost or Valuation							
1 April 2005	5,069	2,478	229	18	818	301	8,913
Additions	52	1,830	147	31	163	3	2,226
Transfers	2,743	(2,743)	-	-	-	-	-
Disposals	(4)	-	-	-	(5)	(12)	(21)
Revaluation	(280)	-	2	-	(18)	4	(292)
31 March 2006	7,580	1,565	378	49	958	296	10,826
Depreciation							
1 April 2005	1,936	-	66	6	525	154	2,687
Charged	1,690	-	22	6	86	41	1,845
Disposals	(4)	-	-	-	(3)	(6)	(13)
Revaluation	(338)	-	1	-	(11)	3	(345)
31 March 2006	3,284	-	89	12	597	192	4,174
Net Book Value							
31 March 2006	4,296	1,565	289	37	361	104	6,652
31 March 2005	3,133	2,478	163	12	293	147	6,226

The Net Book Value for Plant and Motor Vehicles includes £101k for Motor Vehicles and £2k for Plant and Machinery (2004-05 £137k and £10k respectively).

10. Intangible fixed assets

	Software Licences £'000
Cost or Valuation	
1 April 2005	58
31 March 2006	58
Amortisation	
1 April 2005	3
Charged	2
31 March 2006	5
Net Book Value	
31 March 2006	53
31 March 2005	55

11. Cost of capital

In accordance with the FReM, a notional charge for the cost of capital employed in the financial year is included in the Operating Cost Statement. The charge for the year ending 31 March 2006 is calculated using the Treasury's discount rate of 3.5 % (2004-05 3.5 %) applied to the mean value of capital employed during the period. The value of capital employed excludes non-interest bearing cash balances held with the Office of the Paymaster General.

	2005-06 £'000	2004-05 £'000
Capital Employed at 1 April	1,495	4,282
Capital Employed at 31 March	(9,761)	1,495
Mean Capital Employed	(4,133)	2,889
Cost of Capital per the Accounts	(145)	101

The Capital Employed figure as at 1 April 2004 has been estimated from the figures provided by Defra for the year ending 31 March 2005, as adjusted for the changes identified in Note 26.





12. Stock

	2005-06 £'000	2004-05 £'000
Veterinary Consumables	688	674
Less provision for Contingency Stock	(318)	(212)
	<u>370</u>	<u>462</u>

13. Debtors and prepayments

	2005-06 £'000	2004-05 £'000
Amounts falling due within one year		
Trade Debtors	121	161
Defra and Defra Agency Debtors	1,312	84
Other Debtors	172	114
Prepayments and Accrued Income	502	115
VAT	18	-
	<u>2,125</u>	<u>474</u>
Amounts falling due after one year		
Other Debtors	31	41
	<u>2,156</u>	<u>515</u>

Trade Debtors include £59,071, and Prepayments and Accrued Income includes £89,425, due from the Welsh Assembly Government. Prepayments and Accrued Income also includes £1,920 due from the Scottish Executive.

14. Cash at bank and in hand

	2005-06 £'000	2004-05 £'000
Office of HM Paymaster General Accounts	124	-
Commercial Bank Accounts	10	-
	<u>134</u>	<u>-</u>

15. Creditors due within one year

	2005-06 £'000	2004-05 £'000
Bank	-	125
Trade Creditors	783	188
Defra and Defra Agency Creditors	7,905	-
Tax and Social Security	123	-
Other Creditors	71	-
Accruals	9,245	3,700
	<u>18,127</u>	<u>4,013</u>

Accruals includes £2k in respect of the Welsh Assembly Government.

16. Provisions for liabilities and charges

	LVI £'000	Asbestos £'000	Early Departure £'000	Total £'000
At 1 April 2005	1,750	-	-	1,750
Utilised	(1,594)	-	-	(1,594)
Released	(150)	-	-	(150)
Provided	516	160	193	869
At 31 March 2006	<u>522</u>	<u>160</u>	<u>193</u>	<u>875</u>

The LVI provision at 1 April 2005 of £1,750k relates to an increase in rates payable to Local Veterinary Inspectors for work carried out in the two years 2003-04 and 2004-05. The increase in rates was agreed prior to 31 March 2005 but paid during 2005-06. The charge for 2005-06 is reflected in the Operating Cost Statement. The closing provision provides for a retrospective fee increase for work undertaken in 2005-06 and also includes £6k remaining to be paid relating to prior years.

The asbestos provision of £160k provided in the year relates to the projected cost of removing asbestos from the leased property in Taunton in which the SVS's Animal Health Office is situated which was identified during 2005-06. This work is expected to be completed during 2006-07.

The Early Departure Provision of £193k during the year relates to the additional costs of benefits beyond the normal pension benefits in respect of employees who retire early by paying the required amounts annually to the pension scheme over the period between early departure and normal retirement date. Whilst Defra have agreed to fund this provision, and its subsequent release, full costs must be reflected in the SVS's Accounts.

17. General fund

The balance at 1 April 2005 represents the net assets transferred to the SVS by Defra when the Agency was established. Movements in the year ending 31 March 2006 consist of surpluses generated from operational activities and notional and non-cash charges. The reserve is not distributable.

	2005-06 £'000	2004-05 £'000
At 1 April	1,480	4,267
Net Operating Expenditure for the year	(96,791)	(88,543)
Net Cash Requirement received from Defra	75,154	76,367
Developing Defra project cost capitalised	172	-
Notional Charges	9,152	8,911
Cost of Capital Charge	(145)	101
Notional Cash Balance at 31 March 2005	125	(125)
Additional costs incurred by Defra but transferred to SVS as part of SVS's set up costs	908	-
Estimated costs of the Rabies function prior to its transfer to SVS from Defra on 1 October 2005	299	502
Rounding difference on opening balances provided by Defra	1	-
Transfer from Revaluation Reserve	2	-
At 31 March	(9,643)	1,480

18. Revaluation reserve

	2005-06 £'000	2004-05 £'000
At 1 April	15	15
Indexation	7	-
Depreciation on Indexation	(14)	-
Transfer to General Fund	(2)	-
At 31 March	6	15

19. Net cash inflow from operating activities

Reconciliation of Operating Costs to Net Cash Outflow from Operating Activities	2005-06 £'000	2004-05 £'000
Net Operating Costs	(96,791)	(88,543)
Notional Charges	9,152	8,911
Non-Cash Costs	1,643	2,142
Non-Cash movements in Provisions	719	1,140
Net Operating Costs excluding Notional and Non-Cash Costs	(85,277)	(76,350)
Loss on disposal of Fixed Assets	8	21
Decrease in Stock	92	-
(Increase)/Decrease in Debtors	(1,641)	2
Increase in Creditors and Provisions	13,364	3,656
Less Non-Cash Provision movement in Creditors	(719)	(1,140)
	(74,173)	(73,811)
Non-Cash transactions		
Estimated costs of the Rabies function prior to its transfer to SVS	299	502
Additional costs incurred by Defra but transferred to SVS as part of its set up costs.	908	(125)
Net Cash (Outflow) from Operating Activities	(72,966)	(73,434)

Capital Expenditure and Financial Investment	2005-06 £'000	2004-05 £'000
Tangible Fixed Asset Additions	(2,226)	(2,766)
Intangible Fixed Asset Additions	-	(42)
Developing Defra project funding	172	-
	(2,054)	(2,808)

Change in Cash Balance	2005-06 £'000	2004-05 £'000
At 1 April	(125)	-
Notional Increase/(Decrease) in Cash	125	(125)
Actual Increase/(Decrease) in Cash	134	-
At 31 March	134	(125)



20. Capital commitments

	2005-06 £'000	2004-05 £'000
Capital commitments at 31 March 2006	253	-

21. Commitments under operating leases

Operating leases which expire	2005-06 £'000	2004-05 £'000
Within one year	49	94
Between one and five years	301	384
After five years	893	819
	<u>1,243</u>	<u>1,297</u>

Operating lease rentals for property charged to the Operating Cost Statement in 2005-06 amounted to £1,318k (2004-05 £1,259k).

22. Contingent liabilities

There were no material contingent liabilities at 31 March 2006 (2004-05 Nil).

23. Losses and special payments

	2005-06	2004-05
Cases	7	5
Cost £'000	3	23

24. Related party transactions

Defra is a related party of the SVS. During the year-ending 31 March 2006 Defra funded the SVS and provided a number of corporate services to it. In addition, the SVS had a number of operational transactions with the Department's other Executive Agencies, (the Central Science Laboratory, the Rural Payments Agency, the Veterinary Laboratories Agency and the Veterinary Medicines Directorate), and with other Government bodies, notably the Scottish Executive, the Welsh Assembly Government, and the Meat Hygiene Service.

None of the SVS Corporate Management Team members, key managerial staff or other related parties undertook any material transactions with SVS during the year.

25. Financial instruments

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



26. Comparatives

The SVS was established as an Executive Agency of Defra on 1 April 2005. In accordance with FRS3, *Reporting Financial Performance*, the SVS is required to provide comparative information for the year ended 31 March 2005. The comparative figures for 2004-05 are based on figures provided by Defra:

Operating Cost Statement	2004-05 £'000
Net Operating Costs in Defra for the Year to 31 March 2005	(76,367)
Rabies work transferred from Defra to SVS on 1 October 2005	(502)
Notional Charges	(8,911)
Cost of Capital Charge	(101)
Income surrendered to Defra	(1,499)
Post audit restatement of Local Veterinary Inspector Costs	(1,163)
Adjusted Net Operating Costs for the Year to 31 March 2005	(88,543)

Balance Sheet	2004-05 £'000
General Fund Balance in Defra as at 31 March 2005	(2,328)
Revaluation Reserve Adjustment	30
Fixed Asset Adjustment	(8)
Stock Adjustment	(462)
Cash Adjustment – Notional Bank Balance	125
Post audit restatement Local Veterinary Inspector Costs	1,163
Adjusted General Fund Balance as at 31 March 2005	(1,480)

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