

Annual Report and Accounts
2006 – 07

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State Veterinary Service Annual Report and Accounts 2006-07

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Our principal purpose

To lead the control of notifiable animal diseases on the ground, because of their economic or public health consequences.

Our objectives

We work collaboratively with the farming industry, delivery partners and policy makers to jointly deliver the Animal Health and Welfare Strategy for Great Britain, and Governments' wider objectives in animal health and welfare¹.

In 2006-07 our objectives included:

- delivering agreed public and animal health and welfare policies
- developing our capacity to serve our purpose; and
- modernising and improving the way we work.

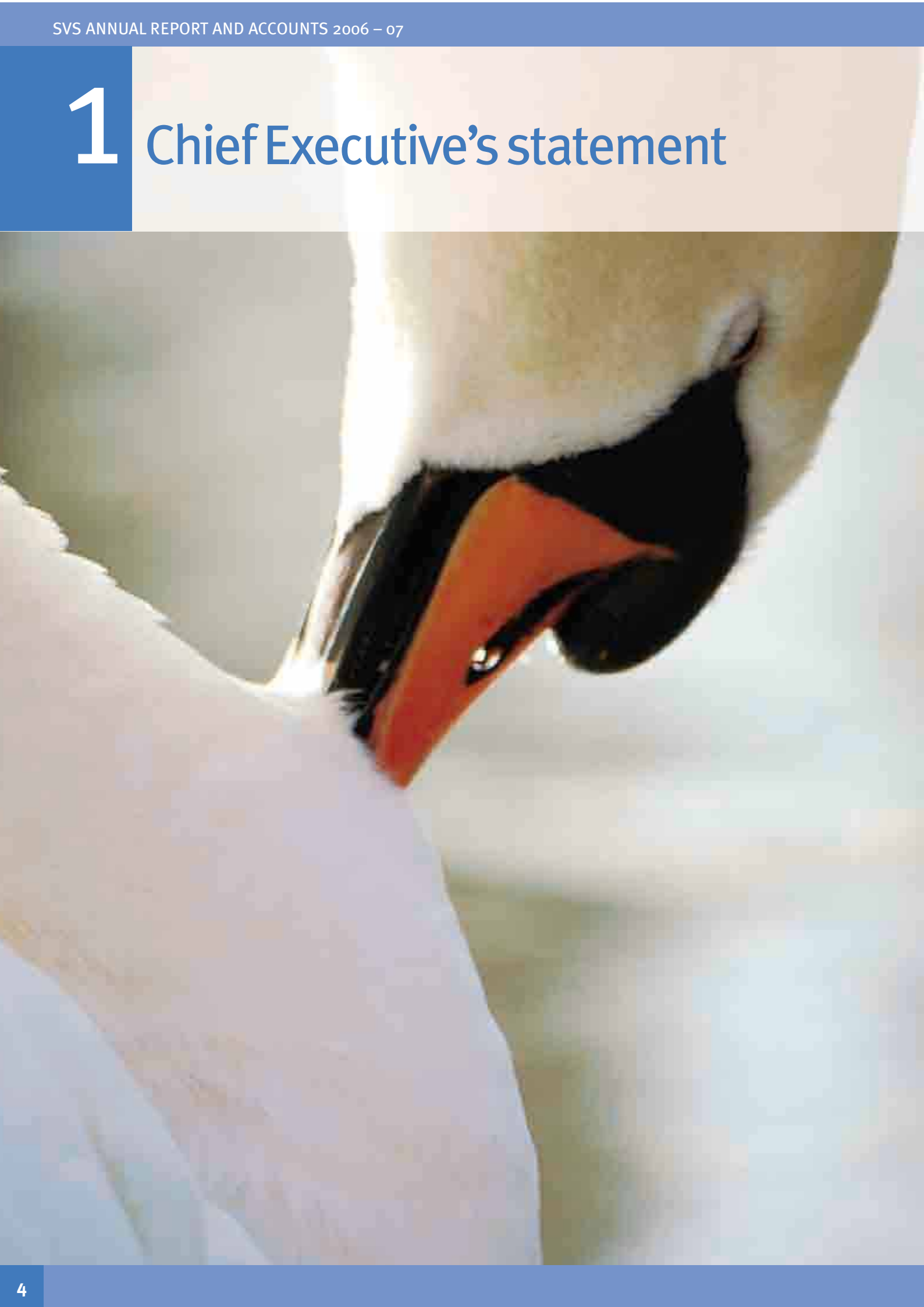
About us

We are an Executive Agency of Defra, managing the economic and public health risks arising from certain animal diseases. The SVS operates a 24/7 service in England, Scotland and Wales to implement and enforce national and European Union legislation and regulations relating to the control and eradication of notifiable animal diseases, the facilitation of international trade and animal welfare.

¹ Animal Health and Welfare policy in Scotland and Wales is devolved to the Scottish Parliament and to the Welsh Assembly respectively. England, Scotland and Wales together, form the epidemiological unit of Great Britain. Northern Ireland forms an epidemiological unit with Eire.

1

Chief Executive's statement



This is the SVS's second Annual Report. 2006-07 began with the SVS leading a large-scale multi-partner exercise on Avian Influenza. It ended with the SVS having responded to seven exotic disease outbreaks and emergencies in the year and investigating 214 potential exotic disease outbreaks.

During 2006-07 the SVS also undertook considerable activity to control endemic animal disease, made considerable progress in its Business Reform Programme, merged with the Dairy Hygiene Inspectorate and prepared for further mergers with the Egg Marketing Inspectorate and the Wildlife Licensing and Registration Service, in line with the recommendations of the Hampton Report².

Since becoming an Executive Agency of Defra on 1 April

2005 the SVS has delivered agreed public and animal health and welfare strategies and policies, while beginning to build its capacity and capability in line with the transformational aspirations of Government. I am grateful for the support received from colleagues in Defra and from Ministers that this development has been able to continue unabated in what, for Defra, has been a difficult financial year.

These developments will continue in 2007-08 and beyond as the SVS invests in modern systems to transform its fieldwork and operations. To reflect this and the wider remit the Agency now has, the SVS changed its name on 1 April 2007 to Animal Health. Animal disease risks change, as does the food and farming sector, and we need to be able to adjust and adapt our approach, review our priorities with our policy colleagues and stakeholders while maintaining our focus and responding to new demands.

Animal health activities in Great Britain are delivered through extensive delivery chains in which the SVS has a key role. In addition to developing its own capacity and capability, animal health delivery is also dependant upon the effectiveness and efficiency of these delivery chains.



The SVS has begun to work with the other parties involved to simplify and strengthen delivery and this will be an increasing area of activity in the years to come.

From what may appear on the surface to be a stable activity, the reality is that the animal health landscape is facing, and is embarking upon, an unprecedented series of changes. To ensure the very real benefits of these changes are realised – rather than the significant risks – the SVS seeks steadfastness of purpose, a realistic sequence of development and a fair tolerance from its stakeholders.

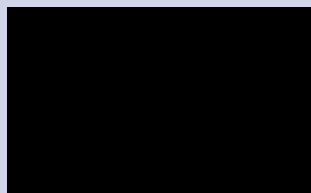
These operational risks exist alongside the continuing risk of outbreaks of exotic notifiable animal disease. Whilst the SVS has sought to strengthen its capabilities, our capacity to respond to multiple or large outbreaks of notifiable animal disease remains limited. Our Business Reform Programme and other internal developments will help us deploy our capacity more effectively, as will the wider remit, reflected in our new name. The question of



what emergency capacity Great Britain should have however, and how this should be paid for, is one which will occupy significant attention in the forthcoming Comprehensive Spending Review (CSR07) as work on sharing responsibility and costs with the farming and food industry becomes a reality.

The SVS's 2005-06 Annual Report was the class winner in the corporate brochure and annual report class in an award ceremony held by the British Association of Communicators in Business (CiB) in its central region. It now gives me great pleasure to present our second Annual Report which I hope lives up to this auspicious start. Section 2 sets out our key areas of activity and achievement in 2006-07 and Section 3 outlines the animal diseases we seek to prevent and respond to. Section 4 reports on our activity in the year and on our performance against targets. Section 5 describes our organisational development in the year and Section 6 describes our governance (and includes the remuneration report). Section 7 provides a financial review of the year and our future plans are outlined in Section 8. Section 9 provides the Statement of Accounts.

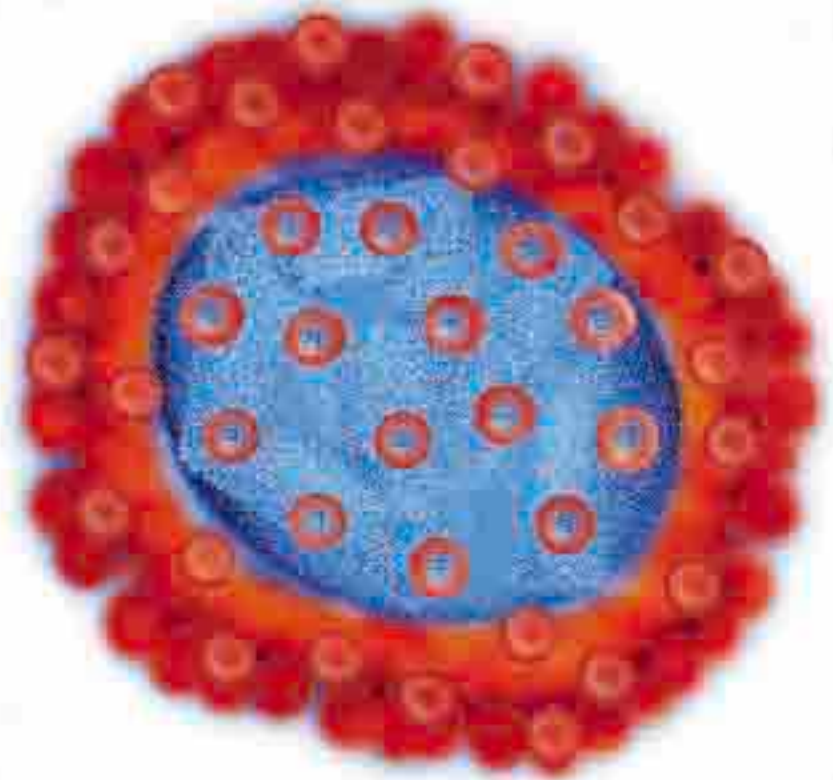
In presenting our second Annual Report I want to thank colleagues in Defra, the Scottish Executive and the Welsh Assembly Government for their continued assistance and support during the year. I also want to thank the many private veterinarians who work alongside the SVS, and our new colleagues joining as a result of the Hampton mergers. Last, but by no means least, I want to thank SVS staff and the members of staff transferring to us from the Scottish Executive, whose commitment and enthusiasm for our work is central to all that we do and all that we achieve.



Glenys Stacey
Chief Executive

28 June 2007

² *Reducing administrative burdens: effective inspection and enforcement.* Philip Hampton March 2005: www.hm-treasury.gov.uk/media/A63/EF/budo5hamptonv1.pdf



The changing global spread of disease

“As a result of globalisation and climate change we are currently facing an unprecedented worldwide impact of emerging and re-emerging animal diseases and zoonoses (animal diseases transmissible to humans). Improving the governance of animal health systems in both the public and private sector is the most effective response to this alarming situation.”

“It is now clearly established that the cost of preventing sanitary crises of animal origin by early detection of outbreaks and rapid response mechanisms included in national veterinary surveillance systems are insignificant compared to the social, economic and environmental cost of disasters resulting from epizootics, such as BSE, Foot and Mouth Disease and highly pathogenic Avian Influenza... A single country failing to control animal disease outbreaks could put the entire world at risk.”

Protecting the world from emerging diseases linked to globalisation – Editorial by Bernard Vallat, Director General, Organisation for Animal Health, 12 March 2007: www.oie.int/eng/edito/en_lastedito.htm

2

Key areas of activity and achievement



Key areas of activity

The SVS has a wide role relating to the health and welfare of farmed and other animals. Working closely with the UK's Chief Veterinary Officer and the Chief Veterinary Officers for Scotland and Wales, policy makers, the food and farming industry and others, the SVS undertakes over 900 separate activities including:

Day-to-day

Tracking and managing down the economic and public health risks associated with notifiable animal disease through:

- providing guidance and information to animal keepers on prevention and general disease control
- approving animal gatherings such as markets
- undertaking clinical tests and case work
- managing bovine Tuberculosis (bTB) in cattle
- administering the National Scrapie Plan
- facilitating the import and export of animals and animal products and proteins; and
- inspecting the welfare of animals on farm, in markets and during transport.

Protecting public health

- inspecting dairies and farms to check that the standard of hygiene is maintained in raw milk production
- checking compliance with regulations on the disposal of animal carcasses and animal by-products; and
- administering the Pet Passport Scheme (PETS) which allows pets to enter Great Britain without quarantine as long as certain rules are met.

Contingency planning for exotic disease outbreaks

- working with others, to develop, refine and test the nation's contingency plans for managing exotic disease outbreaks
- maintaining a level of preparedness
- investigating suspected cases of Notifiable Exotic Animal Disease



- managing outbreaks of exotic animal disease; and
- assessing and reporting on our response capacity.

Key achievements

Animal health and welfare

- as part of the control regime for bTB, tested 5.6 million cattle and responded to over 3,600 bTB incidents
- conducted over 6,600 farm welfare inspections, including 1,649 following welfare complaints received from members of the public
- undertook 1,406 visits to livestock markets to advise on sale days
- as part of the control regime for Scrapie, genotyped and electronically tagged over 509,000 sheep, investigated 200 reports of suspected Scrapie on-farm and extended the voluntary contracts of more than 6,500 member flocks in the National Scrapie Plan
- dealt with 195 suspected BSE cases on-farm
- facilitated the resumption of live-cattle exports, following the lifting of the EU beef export ban, and demonstrated the efficacy of the controls in place to reduce the incidence of BSE which enabled these restrictions to be lifted, to the EU Food and Veterinary Office
- undertook wild bird surveillance as part of precautions for Avian Influenza
- assumed responsibility for implementing new legislation on animal welfare during transport, including managing a new scheme to authorise transporter vehicles; and
- began work on developing our role as the Competent Authority for Great Britain on Cross Compliance in respect of the Single Payment Scheme.

Managing exotic disease outbreaks

- successfully responded to seven exotic animal disease outbreaks and emergencies
 - April 2006 H5N1 Avian Influenza
 - April 2006 Anthrax
 - April 2006 H7N3 Avian Influenza
 - October 2006 Rabies
 - October 2006 Newcastle Disease
 - November 2006 Contagious Equine Metritis
 - February 2007 H5N1 Avian Influenza
- investigated 214 reports of suspected notifiable exotic animal disease including Avian Influenza, Foot and Mouth and Rabies (2005-06: 184 reports)
- enhanced preparations to deal with the threat posed by the spread of new exotic diseases such as Bluetongue; and
- extended an annual programme of reviews and exercises to test and evaluate our emergency response preparedness.

Developing the organisation

- The Dairy Hygiene Inspectorate (DHI) merged with the SVS on 1 October 2006, bringing the responsibility for inspecting the standard of hygiene in the raw milk supply, on-farm and at dairies. This also brought a new policy customer, the Food Standards Agency. In addition, the SVS prepared for merging with the Egg Marketing Inspectorate and the Wildlife Licensing and Registration Service, which occurred on 1 April 2007
- arranged for the transfer to the Scottish Executive of SVS staff with primary responsibility for veterinary policy in Scotland, and the transfer to the SVS of administrative staff employed by the Scottish Executive who worked for the SVS in Scotland
- introduced the Official Veterinarian Reform Programme to enhance the relationship with private veterinary practices who deliver services on our behalf. This will focus on the introduction of a framework agreement to define better our mutual responsibilities. The programme is beginning with a six-month pilot
- progressed implementation of the Business Reform Programme which, by investing in modern-day systems, will change the way we deliver services to farmers, exporters and other customers. Our delivery will be supported by modern information and communications technology that will increase our ability to deliver a professional and responsive service to customers; and
- introduced a business focused human resources strategy to improve business performance.





3

Notifiable animal diseases



The SVS implements and enforces English, Scottish, Welsh and

European Union policies that seek to:

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

A notifiable animal disease is one which if suspected or identified, must by law be notified to the veterinary authorities. Endemic notifiable animal diseases are those that are continuously present in Great Britain, and include bTB and Scrapie. Exotic notifiable animal diseases are those that are not normally present in Great Britain and include Avian Influenza, Classical Swine Fever and Foot and Mouth Disease.

The extent of the task the SVS undertakes is partly indicated by the size of the industry. Provisional figures compiled by the Office for National Statistics report that there were 10.3m cattle and calves, 34.7m sheep and lambs, 4.9m pigs and 173.1m poultry in Great Britain in 2006³.

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 health surveillance; inspections; testing programmes; animal movement controls; tracing contacts with diseased animals; controls on animal foodstuffs; and controls on the disposal of animals and their by-products.

Should a case of exotic animal disease be identified, contingency plans and preparations enable us to respond quickly. Measures are put in place to reduce the spread of disease and control it. These include the establishment of

protection and surveillance zones, the implementation of movement restrictions, tracing movements of animals and vehicles and the culling or isolation of infected animals. In addition, tracings and epidemiological investigations will be instigated to determine the origin, cause and likely spread of the disease.

The nature of infectious animal diseases cannot be predicted with precision and new pathogens can appear and mutate. The UK works closely with its EU partners and with other countries to reduce this risk, the nature of which is indicated by the fact that 32 countries reported 43 outbreaks of notifiable animal disease involving eleven separate diseases in March 2007 alone. It is probable that the risk of an exotic disease outbreak is increasing as a result of globalisation and climate change.

During 2006-07 the SVS investigated 214 suspected cases of exotic animal disease (2005-06: 184) and responded to seven exotic disease outbreaks and emergencies; two cases of highly-pathogenic (H5N1) Avian Influenza and one case of low-pathogenic (H7N3) Avian Influenza, Newcastle Disease, Rabies, Anthrax and Contagious Equine Metritis. The most widespread notifiable endemic animal disease in Great Britain is bTB, which takes a significant proportion of the SVS's total resources. bTB is identified and controlled through an extensive testing programme, animal movement controls, tracing the contacts of diseased animals, and culling infected and suspected animals and their dangerous contacts. Some 5.6m animals were tested in 2006-07 and 23,000 animals culled.

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.

³ The National Office of Statistics:
[//statistics.defra.gov.uk/esg/quick/agri.asp](http://statistics.defra.gov.uk/esg/quick/agri.asp)

Bluetongue

Bluetongue, a severe and highly infectious disease of sheep and some species of deer, poses an immediate and new notifiable disease risk to Great Britain. Caused by a virus transmitted by certain species of biting midge, it is one of the most economically important diseases of livestock globally.

The virus is normally found in southern Europe around the

Mediterranean but has spread north, possibly as a result of changing climatic conditions which have affected the midges' migratory movements. In the autumn of 2006 Bluetongue was found in the Netherlands, Belgium, Luxemburg, western Germany and in parts of north eastern France. 150 km restriction zones were established around each infected premise, resulting in all of Belgium, the Netherlands and

Luxembourg, and parts of western Germany and northern France being restricted. In the restriction zones, movement of ruminants was controlled, export of animals was prohibited and all animals on premises were identified and checked.

The SVS has been working with Defra, the devolved administrations and the farming industry to develop Great Britain's preparedness.



Table 1 – Notifiable Diseases

| Notifiable disease | Zoonotic | Species affected | Last occurred |
|---|-----------------|---|----------------------|
| African Horse Sickness | | Horses | Never |
| African Swine Fever | | Pigs | Never |
| Anthrax | ● | Cattle and other mammals | Present |
| Aujeszky's Disease | | Pigs and other mammals | 1989 |
| Avian Influenza | ● | Poultry | Present |
| 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 (Brucellaovis) | | Sheep and Goats | Never |
| Contagious Equine Metritis | | Horses | 2006 |
| Dourine | | Horses | Never |
| Enzootic Bovine Leukosis | | Cattle | 1996 |
| Epizootic Haemorrhagic Virus | | 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 | 2006 |
| Paramyxovirus of Pigeons | | Pigeons | Present |
| Pest des Petits Ruminants | | Sheep and Goats | Never |
| Rabies | ● | Dogs and other mammals | 2006 |
| 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 |

4

Activity and performance against targets



The majority of the SVS's work is determined by legislation which in turn is driven by policies to minimise disease risk in Great Britain and, through working collaboratively with other countries, to also minimise disease risk in the EU and globally.

The SVS works closely with, and through, a number of other bodies and people in seeking to achieve its objectives. These include but are not limited to Defra, Defra's other Agencies, the devolved administrations, local authorities, and farmers and other animal keepers. Together, these form extensive delivery chains in which the SVS plays a part.

The SVS's Statement of Accounts shows the resources received and expended in the financial year and the assets and liabilities for which the SVS was responsible. The SVS's Statement of Accounts does not show the full costs of achieving the policy objectives to which it contributes nor the costs incurred by the separate entities in the delivery chain which will be reflected in their own statements of accounts.

Targets based on key activities are set annually, reflecting the priorities of Defra and the devolved administrations.

In setting the targets for 2006-07, which sought to establish standards of performance, Defra and the devolved administrations agreed that these might not be achievable 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.

For 2006-07 the SVS benefited from the considerable work undertaken in 2005-06 to develop the processes and systems which enable activity to be reported consistently and accurately, and performance to be



measured. The resulting improvement has informed discussions with Defra and the devolved administrations on the SVS's performance and the effectiveness of the policies being implemented.

Table 2 summarises our performance in 2006-07 for our key operational and organisational targets. Targets are described as Met, Not Met or Partially Met (applied when the major element or elements of a target have been fulfilled). Where targets have not been met, progress towards the target is reported. Performance against targets has been audited by and agreed with Defra's Internal Audit Division. The accompanying text provides information and commentary on the targeted activity.

Implementing Great Britain's Animal Health and Welfare Strategy

The SVS has a major role in implementing Great Britain's Animal Health and Welfare Strategy⁴. In 2006-07 the SVS supported the Strategy by ensuring that sampling for key

Table 2 – Agency Key Targets 2006-7**Target Area:****Implementing Great Britain's Animal Health and Welfare Strategy**

Target 1: To carry out (selected) surveillance and monitoring programmes to agreed standards.

MET – Sampling for two key surveys was delivered to target.

Target 2: To facilitate the development of regional action plans in England and support specific programmes in Wales and Scotland.

MET

Target Area:**Implementing specific animal health policies, including public health**

Target 3: To contribute to a reduction in the level of scrapie through the Ram Genotyping Scheme and the Compulsory Scrapie Flocks Scheme.

MET – Scrapie susceptibility is genetically-controlled. Through participation in the Ram Genotyping Scheme, the overall prevalence of the high-risk gene in ram lambs born to member flocks has continued to decline. More than 98 per cent of visits to reported on farm suspects were undertaken within two working days.

Target 4: To identify and locate all traceable animals suspected of being exposed to BSE infection and prevent them from entering the food chain within agreed response times.

MET – Five measures, including the time taken to restrict offspring and cohorts of BSE cases, were monitored under this target. All were achieved in full, with most showing improved values from equivalent measures taken in 2005-06.

Target 5: bTB – to implement the surveillance testing and control regime to agreed standards in order to quickly identify and remove infected cattle, reducing the risk of transmission to animals and humans.

PARTIALLY MET – Of the six indicators of performance monitored through the year, one was not achieved. This was to ensure that where a case of bTB is suspected at slaughter, 98 per cent of origin herds are issued with restriction notices within two working days. While the level of 83 per cent achieved over

the full year fell short of this standard, a significant improvement in monthly performance was evident as the year progressed.

Target Area:**Emergency preparedness**

Target 6: To strengthen emergency preparedness by implementing a coordinated programme of large scale contingency planning exercises involving operational partners.

MET

Target 7: To meet agreed standards of readiness and resilience as set out in the Emergency Readiness Management Assurance Scheme.

NOT MET – Seven of the 24 Animal Health Divisional Offices achieved an overall Green score in this year's ERMAS assessment. Where offices failed to achieve an overall Green assessment, it was usually because one or two elements in the assessment were not met in full, reducing the overall score to Amber. Although the target was not met, the assessments revealed a significant improvement in overall readiness on the previous year.

Target 8: To enhance poultry culling capability to agreed levels by September 2006.

PARTIALLY MET – While many developments were brought into effect to increase GB's culling capability, several key steps beyond the SVS's control were not achieved.

Target Area:**Animal welfare**

Target 9: To respond to urgent welfare complaints by visiting the premises within one day.

MET – 97 per cent of visits to urgent complaint cases were undertaken by the end of the next day (target level 90 per cent).

Target 10: To take appropriate remedial action in all known animal welfare 'C'-score cases.

NOT MET – Three actions were scrutinised under this target. Within 10 working days of the visit disclosing the breach, the Agency is (1) required to issue a letter to the owner detailing the area of non-compliance and recommended remedial action. In this

timeframe staff should also (2) establish a 'Mark Forward' date on our IT systems to schedule a follow-up visit. Most importantly (3), this follow-up visit must then be carried out, unless reliable information is received that the non-compliance has been resolved. The Agency introduced a system early in 2007 to enable central measurement of these actions across the 24 divisional offices. Unfortunately, while there is good evidence that the appropriate action is being taken, data gaps have prevented us from evidencing the full level of delivery.

Target 11: To ensure that the average time for resolution of 'D'-score welfare cases by the Agency is no more than 21 days.

MET – The average time taken to resolve 'D'-score cases arising in 2006-07 was 12.7 days.

Target Area:**Facilitating international trade**

Target 12: 95 per cent of export health certificates issued within agreed timeframes.

MET

Target 13: Necessary documentation for live cattle exports to be issued within agreed timescales.

MET

Target Area:**Business improvement**

Target 14: To benchmark customer satisfaction levels and meet key service standards.

NOT MET – Although the Agency met the service standard to answer general correspondence within 15 working days of receipt, it was unable to respond to all complaints in this timeframe (93.4 per cent achieved). While the Agency has a system for monitoring complaints and elevating them if not resolved satisfactorily at the first point of contact, no other action was taken to satisfactorily gauge customer satisfaction with services.

Target 15: To deliver the efficiency savings profiled for 2006-07.

PARTIALLY MET – The SVS achieved efficiency savings of £2.71m against its target of £2.77m (2 per cent below target). It is more than on course to meet the efficiency savings profiled for the full CSRo4 period.

animal health surveillance programmes was completed in full and by engaging with policymakers, industry and other stakeholders to progress regional action plans.

In England, the SVS prepared profiles for each of the eight Government Office (GO) regions (excluding London) as a base upon which each region's action plan could then be developed. These profiles incorporated livestock density information, bTB surveillance data, a report on current regional health and welfare issues and future risks, and a directory of key regional stakeholders. These plans will be further developed in 2007-08, with input from each GO and key regional stakeholders.

In Wales, the SVS was represented at meetings of the Animal Health and Welfare Strategy Steering Committee, whose main purpose is to advise the Minister for Environment, Planning and Countryside on taking forward the strategy in Wales. Through this group the SVS actively contributed to the development of the 2007-08 Action Plan, which included an exercise for Swine Vesicular Disease and new procedures for the handling and disposal of animal by-products. The SVS also met commitments for the provision of genotyping, administrative, marketing and advisory services for the Welsh Ewe Genotyping Scheme II.

In Scotland, the SVS continued to support the Scottish Animal Health and Welfare Advisory Group, through the chairmanship of the CVO Scotland. Particular SVS contributions to the work of the group included advising on priority diseases, giving a presentation on our surveillance activities and providing information concerning welfare investigations.

Implementing specific animal health and policies, including public health

Bovine TB: bTB predominantly occurs in the south west of England and in Wales, reflecting the distribution of cattle, although cases 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.

As an additional measure to control the spread of bTB, SVS has worked with Defra and the Welsh Assembly Government during the year to implement pre-movement testing of herds in England and Wales. Pre and post movement testing in Scotland was introduced in September 2005.

A critical step in controlling the spread of bTB between herds, is the rapid placement of movement restrictions on herds containing suspect cases. The SVS also traces and

tests herds which have obtained stock from reactor herds, or which have supplied stock to those 'at risk' herds.

The Comer Report⁵ into bTB testing procedures, published in August 2006, generally provided welcome assurance about the efficacy of the current tuberculin test and the overall effectiveness of the national testing programme. The report did find evidence however of the degree to which individuals depart from specified testing procedures. Following the report's publication the SVS has reviewed training procedures and is tightening up the management of both its own staff and private veterinarians contracted to carry out bTB testing.

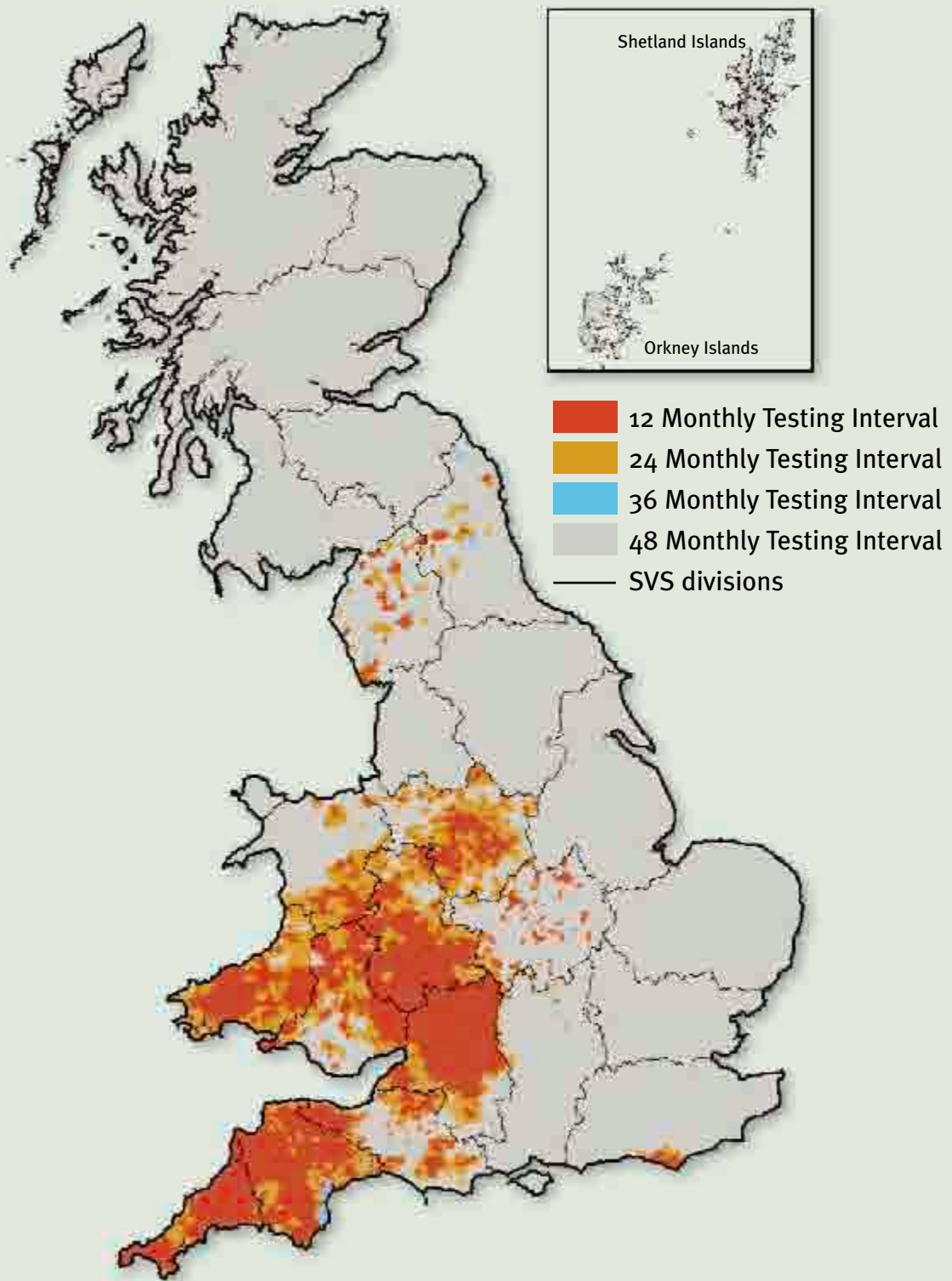
The majority of farmers and other animal keepers fully support the controls put in place to limit the spread of bTB as this reduces the risk to their own herds. During the past year however, the SVS has noted an increase in the number of farmers and other animal keepers who are averse to complying with the controls.

The existing comparative skin test for bTB, like most diagnostic tests, does not provide absolute certainty of the bTB status of every animal tested and for this reason, Defra has created an advisory group to examine the introduction of alternative bTB diagnostic methods. The gamma-interferon test is one test that can be used in parallel to the established skin test. Following the completion of trials, the SVS began to roll it out in October 2006 and by 31 March 2007 some 13,000 samples had been collected.

Scrapie: One of Defra's Public Service Agreement targets seeks to reduce the prevalence of Scrapie in the sheep flock to 0.2 per cent by 2010 by increasing the level of resistance to Transmissible Spongiform Encephalopathies (TSE). The SVS aims to achieve this through the operation of two schemes which are part of the National Scrapie Plan (NSP) – the Ram Genotyping Scheme (RGS) and the Compulsory Scrapie Flocks Scheme (CSFS). The RGS is a voluntary testing scheme which enables owners of pure-bred flocks to determine and improve the genetic resistance of their breeding rams through selective breeding. More than 12,000 farmers are now using breeding to improve the genetic resistance of their flocks, and in 2006-07 the SVS continued to meet its target to extend the progressive annual reduction of the gene most strongly linked to Scrapie, resulting in a 60 per cent reduction since 2002.

The National Scrapie Plan has demonstrated the benefit of genuine partnership working with industry stakeholders. The scheme has also contributed to increasing awareness amongst sheep breeders of the possibilities for the

Figure 1 – Bovine TB distribution as shown by parish testing intervals



identification of genetic markers to control disease and selection for commercially important traits.

BSE: BSE 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, the number of cases has been progressively reduced through a series of control measures.

In 2006-07 the SVS investigated 195 suspected cases of which ten were subsequently confirmed positive and 75 additional cases were confirmed through surveys of fallen stock and slaughtered animals.

In May 2006 the EU ban imposed in 1996 on the export of beef cattle and bovine products was lifted. In November 2006 the EU's Food and Veterinary Organisation (FVO) revisited Great Britain to seek assurance that all BSE controls were functioning as expected following the lifting of the export ban and concluded that they were.

Keeping beef on the menu – the value of beef exports

In May 2006 the lifting of the EU ban on British beef exports marked the end of many months of preparation and hard work. A further EU FVO BSE Mission to the UK was stipulated at the time of the lifting of the ban, and this successfully took place in November 2006.

The EU inspectors visited feed mills, farms and slaughterhouses across Great Britain, the SVS demonstrating its work on BSE surveillance and control.

The value of beef exports is considerable. In 1995, the last year before the ban, the value of beef and live cattle exports was £720m. In the first partial year in which the ban has been lifted, 60,000 tonnes of beef were exported worth £100 million – double the Meat and Livestock Commission's original estimate.

The work of the Dairy Hygiene Inspectorate

Following the merger of SVS with the DHI in October 2006, the SVS assumed new responsibilities and a new policy customer. The DHI acts on behalf of the Food Standards Agency (FSA) in administering and enforcing parts of the EU and national food hygiene regulations designed to protect public health in England and Wales from the risk of contamination of the nation's raw milk supply. This

involves the registration of dairy farms, inspection of milking premises, equipment and milk-producing animals, and enforcing standards. Compliance with regulations is achieved by providing advice and guidance, through the issue of Hygiene Improvement Notices or if necessary, by prosecution. The DHI also supervises a milk sampling programme of Raw Drinking Milk.

At 31 March 2007, there were 13,019 registered milk producers in England and Wales, of which 12,858 had dairy cows and the remainder sheep, goats and buffalo. In 2006-07, DHI completed over 14,000 inspections, meeting the inspection target level for Wales and 99.2 per cent of the target for England.

DHI operates through four divisions: Southern, Central, Northern and Wales, each managed by a Senior Dairy Hygiene Inspector. Over the year the inspectorate issued some 2,300 enforcement actions and has assisted the FSA in finalising the procedures and documents for a new enforcement regime. The DHI has also conducted a variety of liaison meetings through the year with industry representatives (including producers, buyers and Farm Assurance organisations) and other stakeholders, and has also actively contributed to Defra's Whole Farm Approach programme.

Emergency preparedness

The SVS seeks to ensure that outbreaks of exotic animal diseases are dealt with quickly and effectively to reduce their impact on animal and public health, the livestock industry, the food supply and the wider economy.

Working with Defra, the devolved administrations, other agencies and the farming industry, the SVS develops, refines and tests contingency plans for managing exotic disease outbreaks. Lessons learnt from disease outbreaks and exercises are sought and implemented as part of a process of continual improvement.

In 2006-07, targets were set for completing an agreed series of national and local exercises to test plans and instructions for developing Animal Health Divisional Office readiness and for developing our poultry culling capability as part of the preparative activity, should there be an outbreak of Avian Influenza.

A programme of co-ordinated animal disease exercises for Animal Health Divisional Offices has been developed for each year to 2011. In 2006-07, the plan's first year, eight exercises were scheduled to test plans and operational instructions for Avian Influenza, Rabies, Foot and Mouth Disease, and Classical Swine Fever. Seven

were completed and one was deferred until 2007-08 as the offices involved had responded to an actual outbreak of Newcastle Disease.

The exercises provided excellent opportunities to engage with operational partners, and continued development of working relationships will increase the effectiveness of a co-ordinated approach to real outbreaks.

Animal welfare

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 including giving advice, issuing warning letters, serving statutory notices or referral for prosecution. Where prosecution is appropriate the Agency may provide the relevant Local Authority in England, Scotland or Wales (who have the responsibility to prosecute), with witness statements and may act as expert witnesses.

The SVS undertook some 6,645 farm welfare inspections in 2006-07, compared with 6,116 in 2005-06 and provided 170 witness statements (2005-06: 142). 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 2006-07, SVS completed 1,406 inspections at markets in progress, covering 25 per cent of market sale days.

Divisional staff and staff at ports monitored exports of live animals and took action where necessary, to protect animal welfare either at loading, during or after the journey. In 2006-07 SVS supervised the loadings of 181 export consignments of livestock, checked over 800 separate consignments at port and issued more than 3,000 authorised journey logs. In 2006-07 the SVS also implemented new EU 'Welfare during Transport' regulations, establishing a dedicated team to answer questions from the public on transporter related matters, process applications for transporter authorisations and approve new journey logs.

Alongside these specifically targeted activities, and within a very short deadline, a new inspection regime for cross compliance related to the Single Payment Scheme was implemented. This included a programme of training courses for inspectors and the necessary modifications to reporting systems. Since this new EU legislation came into force on 1 January 2007, 116 visits have taken place for cross compliance and approximately 1,500 are anticipated in 2007-08.

Eradicating an outbreak of Avian Influenza

SVS's response to an outbreak of highly pathogenic H5N1 Avian Influenza was tested in February 2007, when the disease was confirmed on a turkey farm in Suffolk.

Following the death of more than 1,000 turkeys, SVS staff were called to investigate a suspected avian notifiable disease on the night of Thursday 1 February. Within 48 hours, the Veterinary Laboratories Agency had confirmed that samples taken from these turkeys contained the virulent H5N1 strain of Avian Influenza.

In line with Defra's Contingency Plan for Exotic Animal Diseases, SVS staff put into effect the requirements set out in legislation to prevent the spread of the disease. The infected premises

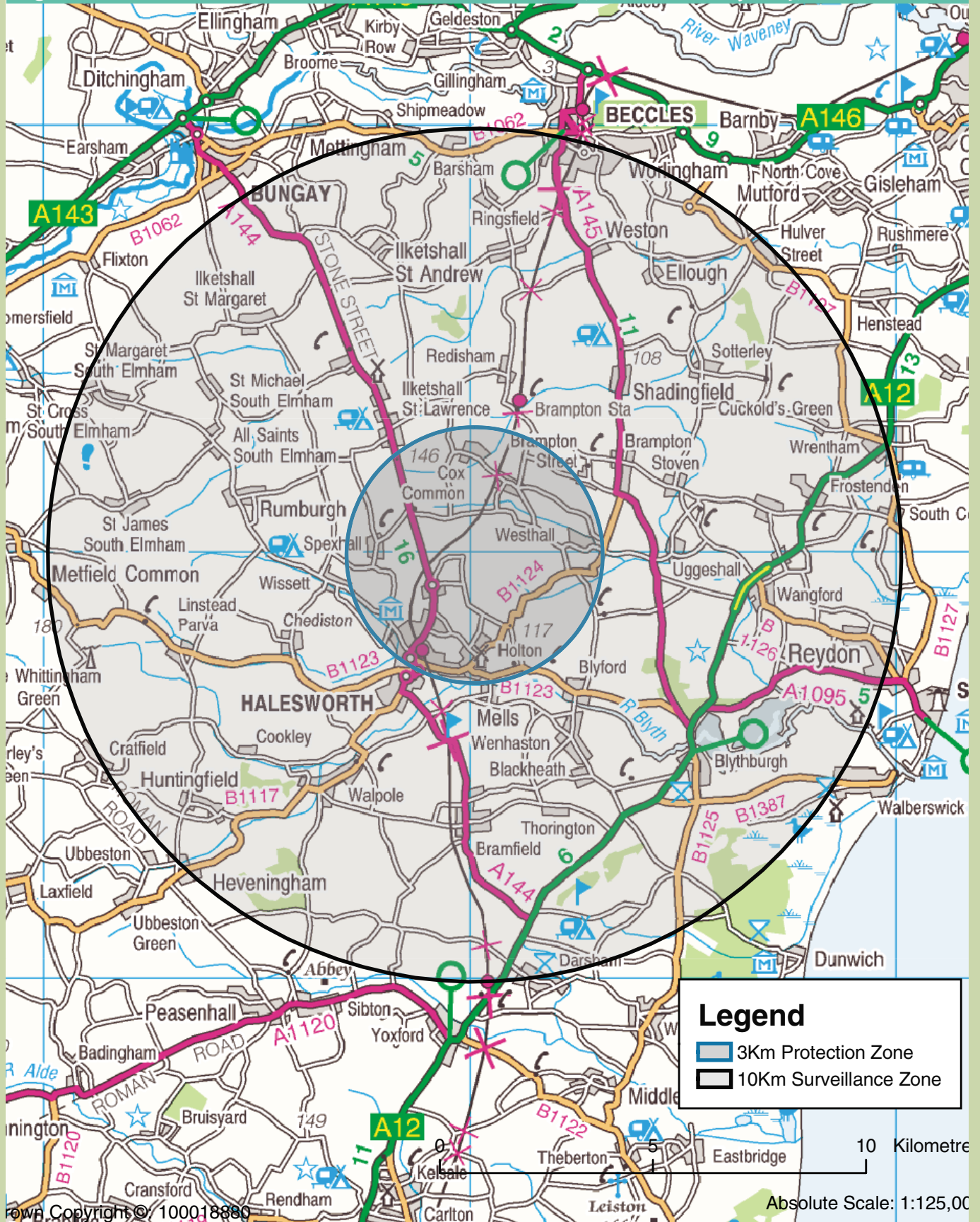
were kept under restriction and the SVS supervised the humane slaughter of 159,000 birds by the evening of Monday 5 February.

The site was then cleansed and disinfected. Restrictions were imposed in a three kilometre protection zone and a ten kilometre surveillance zone around the infected premises in which strict movement restrictions applied. A wider restricted zone encompassing parts of Suffolk and Norfolk was also declared within which the movement of poultry and eggs was subject to licence. Owners of poultry and captive birds were required to keep them isolated from wild birds and bird gatherings in Great Britain in markets, fairs and shows were banned. Within the control zones the SVS

licensed movements to ensure the industry continued operating where it posed no disease threat, undertook the required surveillance for disease, traced direct contacts with the infected premises and, working with Defra's epidemiologists, began an investigation into the origin of the outbreak.

SVS staff and other workers exposed to the diseased birds were provided with anti-viral drugs and seasonal human flu vaccine by the Health Protection Agency. This, and the requirement that those in close proximity to the affected premises wore full personal protective equipment including face-masks, provided protection from the Avian Influenza virus. There were no reported cases of human infection.

Figure 2 – Avian Influenza Protection and Surveillance Zones (Suffolk, February 2007)



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Absolute Scale: 1:125,000

Facilitating international trade

Exports of animals, genetic material and animal products are 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.

Export of live animals or animal products must be supported by export health certificates issued by the SVS. Provided that applications from potential exporters or their agents are complete and are received with sufficient notice (at least ten days prior to the export date for animals, or seven days for products), the Agency undertakes to process and despatch certificates at least one day ahead of the date of export.

In 2006-07, SVS dealt with over 49,500 requests for certificates to export animals or products, and for those applications received with the required amount of notice, issued 98.9 per cent of certificates within the required timeframe, exceeding the 95 per cent target.

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. In May 2006 the SVS took responsibility from Defra for International Animal Health Service Delivery for licensing and approvals relating to artificial insemination and embryo transfer.

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. In 2006-07 over 84,000 PETS compliance checks at the point of entry were

undertaken. The SVS also undertakes 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.

In the year changes have also been made to the way SVS operates avian quarantine procedures following the Dimmock report⁶ on bird importation and quarantine procedures. As part of Governments' response to the report, the SVS will conduct closer veterinary supervision and audit of quarantine premises and will establish a dedicated database of quarantine premises.

Business improvement

The SVS did not conduct a full-scale customer survey in the year, nor did it organise focus groups from which it could, potentially, gauge customer opinion on our level of service. Consequently, our performance indicator for gauging customer satisfaction was not met. We did however develop our system for monitoring and responding to customer complaints, which is now centrally managed, and these are regularly reviewed for matters which could improve service.

While no full-scale survey of SVS customers was conducted in the year, the National Scrapie Plan Administration Centre analysed results from a postal survey conducted at the close of 2005-06, to gauge satisfaction from a random sample of 500 Ram Genotyping Scheme members. 100 per cent of respondents expressed satisfaction with the notice given for their genotyping visits, and all agreed that their animals had been handled competently. 99 per cent thought that NSP Helpline calls had been handled in a courteous and professional manner, and 87 per cent of respondents rated overall service to be very good or excellent.

Implementing new EU welfare during transport regulations

'No animal shall be transported unless it is fit for the intended journey, and all animals shall be transported in conditions guaranteed not to cause them injury or unnecessary suffering'

(Council Regulation (EC) No 1/2005 on the protection of animals during transport and related operations and amending Directives).

During 2006-07 the SVS assumed responsibility for implementing this new regulation to protect animals during transportation.

The new regulation, which came into effect on 5 January 2007, requires individuals and businesses that intend to transport animals over

65km in connection with a business or commercial gain, to apply for a Transporter Authorisation.

A new Welfare in Transport (WIT) team was established to process applications, and a dedicated WIT Helpline (0845-603-8395) was set up and operated by staff transferred from

other work, to deal with questions on transport related matters.

Between November 2006 and March 2007 the WIT team processed nearly 18,000 Transporter Authorisations applications, and between January and March approved some 700 new journey logs.



Enforcing the law

Enforcing animal health and welfare regulations involves a wide range of activities from inspecting markets and farm premises to monitoring compliance with regulations. Non-compliances may result in a range of actions, from advice and guidance being offered for lesser cases to criminal prosecutions for the most serious. The SVS however does not currently have a lead enforcement role and generally refers enforcement to others, mostly Local Authorities.

Dairy hygiene is an exception to this as the DHI, which merged with the SVS on the 1 October 2006, has powers and responsibility to undertake, in association with the FSA, all enforcement action connected with the relevant parts of the Food Hygiene Regulations 2006. During 2006-07 the SVS has been working with Defra and other organisations to look at how Government can best implement the recommendations from the Eves' Review* of the Animal Health and Welfare Delivery Landscape.

The review, published in 2006, reported on the complexity and fragmentation of the animal health and welfare delivery landscape and recommended that the SVS play the core role in strengthening delivery of animal health and welfare regulatory enforcement.

The SVS has begun work to develop and deliver a programme for strengthened enforcement of the current regime with the 171 Local Authorities in England and Wales. While we strengthen the current regime, we will also undertake a fundamental review with Local Authorities of the division of responsibilities between the SVS and Local Authorities to identify the best long-term option for delivery, taking into account both the success achieved from reinforcing current arrangements and the potential impact on the regulatory landscape of emerging policies on responsibility and cost sharing and better regulation.

**Review of the Animal Health and Welfare Delivery Landscape – report by David Eves (June 2006):*
www.defra.gov.uk/animalh/ahws/deliver/ahw_review_report280606.pdf

- 4 *The Animal Health and Welfare Strategy for Great Britain:*
www.defra.gov.uk/animal/ahws/default.htm
- 5 *Review of TB testing procedures: Report for Defra and the Welsh Assembly Government* report number: 22115204-02 Final Report, 12 June 2006
- 6 *Report of the Independent Review of Animal Quarantine* Professor Nigel Dimmock et al (December 2005)
www.defra.gov.uk/animalh/diseases/control/avianquarantine/independentreview/report.pdf

5

Organisational development



Organisational structure

The SVS's field-work operates from 24 Animal Health Divisional Offices (AHDOs), associated outstations, Border Inspection Posts and DHI teams located throughout Great Britain.

The corporate headquarters is in Worcester, the Contingency Planning Directorate is co-located with Defra colleagues in London and until 1 April 2007 there was also a headquarters presence co-located with the Scottish Executive in Edinburgh.

AHDOs are 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 21.9 full-time equivalents (FTEs) in Inverness to 85.6 FTEs in Exeter, the number being 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 response on the ground.

Following the recommendations of the Hampton Report, the DHI merged with the SVS on 1 October 2006, combining with existing offices in Taunton and Leeds and adding a new office in Aberystwyth.

Reforming our ways of working

During the year the SVS has introduced consistent delivery planning across all business units, bringing a new and co-ordinated focus to the planning and control of performance. New rigour continues to be applied to data collection, measurement and evaluation, and for the first time current and historic 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 their, and our, limited resource.

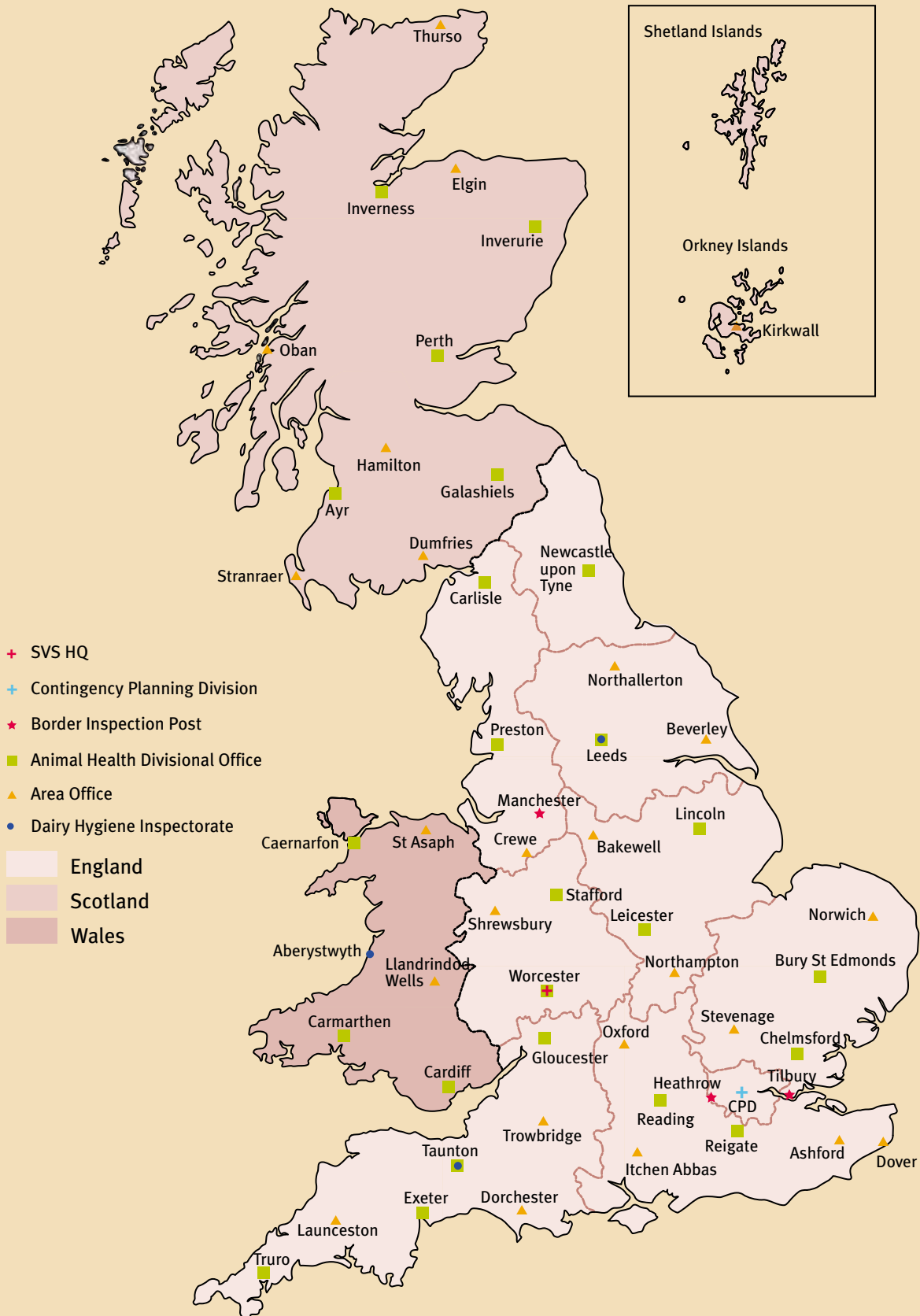
In addition to enabling us to develop more consistent delivery across AHDOs, we have also increased our ability to support and inform animal health and welfare policy development and evaluation. The Delivery Review Board, chaired by the Animal Health and Welfare Directorate of Defra (now Food and Farming Group) and including members from the Scottish Executive and the Welsh Assembly Government, provides strong two-way communication between policy and delivery. The Board reviews SVS operational 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 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 (BRP), on which significant work was undertaken during the year to clarify problems and define solutions, will change the organisational structure, processes and supporting systems used to deliver our services.

The BRP is a major change programme, the full benefits of which will be delivered over several years. 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 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 as Local Veterinary Inspectors. During 2006-07 the Official Veterinarian Reform Programme was launched to

Figure 3 – Animal Health Offices and Government Office Regions





develop future arrangements for working in partnership with colleagues in private practice. New arrangements will be piloted in 2007-08 and the outcome of a controlled pilot examining lay bTB testing in four Animal Health Divisional Offices will also be considered.

The Business Reform Programme

Over the next two to three years, the Business Reform Programme will change the way we deliver services to farmers, exporters and other customers.

Our main business will continue to be the provision of field-based professional services that support disease control and animal welfare through compliance with National and European legislation. As now, these services will be provided by a combination of our own staff and sub-contracted professionals, particularly local veterinary practices working on our behalf.

In the future, we will be supported by modern information and communications technology that will increase our ability to deliver a professional and responsive service to our customers. Customers will also be supported by more accessible and better defined advisory services.

Environmental activity

The SVS participates in Defra's environmental activities

and has implemented a number of small measures during the year. Bottled water coolers in offices have been replaced by those drawing water from the mains supply. The amount of material sent for recycling has been increased. Fewer hard copies of documents, including this Annual Report and Accounts, have been printed, with greater accessibility through electronic channels being encouraged, and increased use of video conferencing has enabled travel budgets to be contained during a time of increasing fuel and rail costs.

Our people

SVS employs 268 FTE veterinary surgeons, as well as other animal health and disease control specialists and Dairy Hygiene Inspectors.

On becoming an Executive Agency in April 2005 the SVS retained Defra's HR policies and agreements. In 2006-07 the SVS began to consider its own HR requirements to meet its evolving needs and enable members of staff to give of their best and contribute to the SVS's and to their own success.

The SVS has enhanced its HR policy development and planning capability. HR Business Partners have been appointed to support our Animal Health Divisional Offices, our other business units and individual line managers implement good HR practices and manage the

implications and consequences of the seemingly ever-increasing volume and complexity of employment legislation.

Workforce planning, recruitment and training have been considered to ensure the SVS can sustain levels of emergency preparedness. A Network of Expertise has been developed to ensure that knowledge and best practice are widely shared, and a Learning and Development Strategy and a Leadership Development Pathway have also been developed.

During 2006-07 work was undertaken to ensure the smooth transition of DHI staff joining from Defra in October 2006, and from the Egg Marketing Inspectorate (EMI) and the Wildlife Licensing and Registration Service (WRLS) in April 2007.

Work was also undertaken to ensure the transfer of the administrative support staff employed by the Scottish Executive in Scotland to the SVS in April 2007 and the complementary transfer to the Scottish Executive of predominantly veterinary policy staff, including the Chief Veterinary Officer (Scotland) who had served as SVS's Director of Professional Services.

These changes are responsible for some, but not all, of the increased numbers of staff employed by the SVS

during the year. Other increases reflect the strengthening of emergency responsiveness capability in each Animal Health Divisional Office, the need to implement the Business Reform Programme and manage the resulting change and the needs of a developing organisation reflected in enhanced or new processes to monitor and support the quality and the implementation of new work.

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

The SVS is also committed to equality of opportunity for employees and potential employees. During 2006-07 the SVS worked with Defra's HR 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 6.5 per cent of staff members had a notified disability.

The work of a Dairy Hygiene Inspector – Eleanor Baldwin



I inspect dairy farms across the south and west of Cumbria. As an inspector my job is to ensure farmers milk and keep their cows, goats, sheep or buffaloes according to strict hygiene standards.

I carry out inspections four days a week and on the fifth write up reports and

prepare enforcement letters if required.

On an inspection, I carry out a risk-based assessment and look for non-compliances with the regulations, such as insufficient teat preparation or poor equipment cleaning.

Appropriate advice is offered but

sanctions can include a guidance letter followed by a secondary inspection or a statutory notice indicating the improvements required, and prosecution if the non-compliance continues.

I prepare initial reports on site, leaving the farmer with a copy. Reports cover animals and housing, milking operations, milking and cooling equipment and milk storage.

Since good milking routines and teat cleanliness are key to producing milk hygienically, I regularly make early starts to carry out at least three of my four inspections each week at morning milking, successfully juggling this with the demands of my young family.



The work of an SVS vet – Katherine Edgar

My geographical area covers the Cotswolds and the Forest of Dean, both of which have a high incidence of bTB. I get out to affected farms as much as possible to build direct relationship with our local farmers and assist them with their restrictions and improve the biosecurity of their herds.

My area contains a quarantine kennels and various animal by-product plants, all of which were re-approved during 2006-07. I've also assisted our operational partners with two successful welfare prosecutions and represented the SVS in a radio interview on bTB pre-movement testing.

Within the Divisional Office my lead areas include bTB, Brucellosis, Equine Diseases, Health and Safety, and recently Cross Compliance Welfare Inspections. All of these involve a significant amount of team working and stakeholder engagement.

I have recently taken on additional responsibility as the primary contact in the SVS for equine notifiable diseases. I have delivered a presentation on these to Defra's Epidemiology Team, assisted my office to undertake West Nile Virus contingency exercises, assisted the incorporation of the zoonotic risks of emerging equine diseases into Health and Safety procedures and have

reviewed our field instructions and contingency plans.

In the event of an exotic disease emergency arising and a Local Disease Control Centre (LDCC) being established at Gloucester, I would be the LDCC Communications Team Manager.

This year my team has worked very hard to increase our capability and ensure we are ready to respond at a moment's notice. We have held monthly training exercises, integrated our Contingency LVIs in our team and used our experience to feed into the SVS's review of Contingency Communications.

6

Governance and the remuneration report



In line with Defra's delivery strategy, the then Secretary of State for

Environment, Food and Rural Affairs established the SVS as an Executive Agency with effect from 1 April 2005, the governance arrangements being set out in a Framework Document. The Agency is primarily 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 for 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 2006-07 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 agreed with its policy customers, and to control and monitor performance and delivery in accordance with these plans. 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.

The Directors who served on the Corporate Management Team 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 |
| Operations Director | Rob Paul |
| Operations Director (Scotland) | Derick McIntosh |
| Professional Services Director and Chief Veterinary Officer (Scotland) | Charles Milne |
| Strategic Planning Director | Tony Edwards |

In addition Philip Riley, a member of the Ownership Board, chairs the Audit and Risk Committee as a Non-Executive Director.

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

On 1 April 2007 Charles Milne transferred from the SVS to the Scottish Executive as Chief Veterinary Officer (Scotland).

Risk management

Risk management and review processes implemented in 2005-06 were developed further in 2006-07 to assist decision making and to support the Chief Executive's

assurance statement for the 2006-07 Statement on Internal Control. Risk management processes were embedded in each AHDO, in other cost centres and major projects during the year, and a computerised risk register was implemented to simplify the preparation, reporting and reviewing of risk. The Risk Committee was restructured as an executive committee of the Corporate Management Team to review risk throughout the Agency and the Audit and Risk Committee continued to develop its remit.

Internal and External Audit

During the year ended 31 March 2007, the SVS appointed Defra's Internal Audit Division to provide internal audit services. The Agency's Framework Document, reflecting the Government Resources and Accounts Act 2000, lays down that external audit is to be provided by the National Audit Office.

Representatives from Defra's Internal Audit Division have attended Corporate Management Team and Risk Committee meetings. Both National Audit Office and Internal Audit regularly attend the Audit and Risk Committee's meetings.

Remuneration Report

Remuneration policy

The SVS's Corporate Management Team's remuneration and performance conditions are determined by Defra 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 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 initially appointed to the role of Chief Executive on a three-year fixed term contract commencing on 10 October 2004. She has now been offered, and has accepted, a further three-year fixed term contract on the same terms and conditions commencing on 10 October 2007.

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

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

Although the costs for the Chief Executive and members of the Corporate Management Team are included in the SVS's Statement of Accounts, they are formally employed by Defra, SVS's parent Department.

Under arrangements made by Defra, Richard Bowen received an advance on salary of £12,500 from Defra on his appointment in 2005-06 which is repayable from January 2010, over eight years. The benefit from this loan for 2006-07 has been valued at £200. Tony Edwards has received the benefit from the use of a car provided under Defra's Private Use Scheme valued at £1,000.

Loans may be made to staff to cover season ticket

Table 3 – Emoluments and Pension Entitlements

The emoluments and pension entitlements of the Corporate Management Team members in 2006-07 were as follows (2005-06 in italics):

| | Emoluments Banding | Real increase in pension and lump sum at age 60 | Total accrued pension benefits at age 60 at 31 March 2007 | CETV at 31 March 2006 | CETV at 31 March 2007 | Real increase in CETV |
|---|--|--|--|------------------------------|------------------------------|------------------------------|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Glenys Stacey Chief Executive | 125-130 <i>(115-120)</i> | 0-2.5 | 2.5-5.0 | 44 | 73 | 27 |
| Richard Bowen HR Director <i>Appointed 2 January 2006</i> | 75-80 <i>(15-20)</i> <i>(70-75 Full Year Equivalent)</i> | 0-2.5 | 5.0-7.5 | 58 | 76 | 16 |
| Tony Edwards Strategic Planning Director | 80-85 <i>(75-80)</i> | 0-2.5 | 37.5-40.0 | 668 | 703 | 9 |
| Derick McIntosh Operations Director Scotland | 70-75 <i>(65-70)</i> | 0-2.5 Plus 0-2.5 Lump Sum | 25.0-27.5 Plus 75.0-77.5 Lump Sum | 573 | 608 | 9 |
| Charles Milne Professional Services Director and CVO (Scotland) | 75-80 <i>(75-80)</i> | 0-2.5 Plus 0-2.5 Lump Sum | 17.5-20.0 Plus 55.0-57.5 Lump Sum | 277 | 293 | 7 |
| Ann Nolan Business Change Director | 65-70 <i>(55-60)</i> | 0-2.5 Plus 2.5-5.0 Lump Sum | 22.5-25.0 Plus 70.0-72.5 Lump Sum | 380 | 409 | 18 |
| Rob Paul Operations Director | 70-75 <i>(65-70)</i> | 0-2.5 | 25.0-27.5 | 329 | 354 | 14 |
| David Robson Finance Director | 90-95 <i>(75-80)</i> | 0-2.5 | 15.0-17.5 | 252 | 281 | 17 |
| Ann Waters Contingency Planning Director | 75-80 <i>(70-75)</i> | 0-2.5 | 22.5-25.0 Plus 47.5-50.0 Lump Sum | 483 | 528 | 17 |

advances and relocation. As at 31 March 2007 there was one outstanding loan to Corporate Management Team members to the value of £779 (2005-06: £861).

The Cash Equivalent Transfer Value (CETV) shown 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 Principal Civil Service Pension Scheme (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. All

funding to finance the deferred remuneration the accrued pension benefits represent is paid to the Treasury.

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 £27,799, inclusive of tax and expenses (2005-06: £18,042 for a period of nine months).

The NAO has audited the information in the Remuneration Report as part of their audit of the financial statements.



Glenys Stacey, Chief Executive
28 June 2007

7

Financial review



During 2006-07 the SVS continued to develop its financial systems and

procedures to ensure business performance is managed and reported uniformly throughout the Agency to meet the Corporate Management Team's and stakeholders' needs. Detailed accruals accounting and variance analysis has been implemented in all cost centres; management information has been developed to improve budgeting, forecasting and resource planning; and processes have been enhanced to plan and implement new policy initiatives in conjunction with policy colleagues.

Other developments include beginning to review the costs of activities currently charged for, to ensure they reflect their full cost as part of the Government's intention to share responsibilities and costs with the farming and food industry, and continuing to strengthen the financial management of notifiable disease outbreaks.

The SVS's key cost drivers are activity volumes, and changes in policy and legislation. An example of an increase in cost resulting from an increase in activity volume and a change in policy is the increase in payments to Local Veterinary Inspectors in the year arising from an increase in the number of cattle tested for bTB to 5.6m in 2006-07. This increase is the result of increases in the incidence of bTB in certain parts of GB and a change in policy several years ago to increase the frequency of testing where bTB is found from once every four years to yearly and the introduction of pre movement testing. In 2006-07 the cumulative effect of this change in frequency was still working its way through the testing programme.



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. Actions initiated last year (e.g. automating post handling and closing regional offices) have delivered efficiencies of £1.65m in 2006-07 while further changes initiated this year (e.g. various operational and organisational processes) have delivered further efficiencies of £1.07m. Given the increase in work pressures in the year these efficiencies have been recycled in the Agency to enable more to be achieved for the same resource, rather than the same being achieved for less.

Results for the period

The SVS's Statement of Accounts reports results for the year 1 April 2006 to 31 March 2007. 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 (FRoM) published by HM Treasury.

The Statement of Accounts for the year ending 31 March 2007 are set out in section 9. The SVS follows Defra's accounting policies wherever appropriate to simplify the preparation of Defra's Consolidated Account.

In accordance with FRS6, *Acquisitions and Mergers*, the 2006-07 Statement of Accounts restates the SVS's figures for 2005-06 by including comparative 2005-06 figures for

the Dairy Hygiene Inspectorate. The NAO has audited these comparative figures in its audit of the 2006-07 accounts.

In essence, the SVS provides Great Britain with assurance against the risks of notifiable animal diseases, at a cost per-head in 2006-07 of £1.83⁷. SVS's costs are predominantly labour costs, with employment costs constituting £56.7m or 52 per cent of 2006-07 expenditure and Local Veterinary Inspectors £25.2m or 23 per cent of expenditure. Other direct costs constituted £16.3m or 15 per cent of 2006-07 expenditure, while notional charges and non-cash charges of £9.1m and £2.3m respectively, and constituted the remaining 10 per cent. This cost profile means that the SVS's costs are largely committed and cannot be reduced quickly without additional costs being incurred to reduce them, or without a direct impact on activity levels and risk. In addition, like all service businesses, this cost-profile means that costs are likely to rise at a faster rate than increases in the RPI. In turn this means that, subject to finding efficiencies through IT and other investments (which themselves require financing), funding will either 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, accepting the increase in risk this may bring.

Because the SVS was established as a gross running cost Agency, income generated during the year other than through Service Level Agreements with other public bodies, is returned to Defra who, in return, provide resources to fund the costs of undertaking this work. In 2006-07 £0.9m was received and returned to Defra (2005-06: £2.6m) 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 2007.

SVS's Net Operating Costs in 2006-07 were £9.7m more than in 2005-06, the increase being primarily the result of an increase in work volumes, (particularly relating to bTB, Disease Prevention, Emergency Preparedness and responding to emergencies) and expenditure on the Business Reform Programme.

The initial cash resource of £101.7m, allocated to the SVS for 2006-07 and included in the 2006-07 Business Plan, was increased during the year by budget switches of £3.2m from Defra as additional work and responsibility was transferred to the SVS, and by £3.0m to fund the additional work arising from the seven animal disease

emergencies in the year. By the year-end however, the timing of expenditure on the Business Reform Programme, from that initially projected, enabled £2.7m of resource cover to be returned to Defra.

£7.3m of the initial cash resource of £101.7m was for capital expenditure; that is expenditure from which benefit will be received in more than just the current financial year. The amount allocated to capital expenditure was increased during the year by transferring £3.0m of revenue expenditure to capital as the expenditure profile in the Business Reform Programme became clearer and to reduce the pressure on Defra's available Resource Departmental Expenditure Limit (DEL) when the Department had to seek in-year reductions in budgeted expenditure.

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 Balance Sheet showing net liabilities of £9.3m (2005-06: restated £9.4m). This is because the accounting policy followed by central Government departments accounts for expenditure on an accruals basis but funding on a cash basis. This is in accordance with the Net Cash Requirement voted by Parliament – rather than the Resources voted by Parliament. The effect of this policy is that although the commitments entered into during the year were in line with available resources, the difference between the available resources and the cash required in the year is not treated as an asset to finance the creditors or provisions at the year-end and therefore a 'deficit' results as noted above.

As Government accounting guidelines state that cash is not to be held in advance of need, cash to fund the creditors and provisions in the SVS Balance Sheet at 31 March 2007 will be drawn through Defra during 2007-08 when they become due for payment. This accounting policy could result in the SVS's Balance Sheet showing increasing net liabilities year-on-year but given the undertaking by Defra, 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 | 16,108 | 9,556 |
| Total invoices paid within target | 12,447 | 9,043 |
| Percentage of invoices paid within target | 77.3% | 94.6% |

The difference in the percentage between the number of invoices paid and the value of invoices paid reflects the impact of seventeen high value IBM invoices totalling £3.2m whose payment was delayed due to the time involved in agreeing and authorising them. We are actively working with IBM to improve our respective processes to enable future invoices to be confirmed and authorised more promptly.

No interest was paid in respect of the Late Payment of Commercial Debts (Interest) Act 1998 (2005-06: £Nil).

The SVS Balance Sheet contains few assets. Fixed Assets consist primarily of IT systems for managing animal disease and in 2006-07 these amounted to £6,964 per full time employee (2005-06 – restated to reflect the in-year merger with the Dairy Hygiene Inspectorate – £4,916). 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 until 1 April 2007, 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 2007 primarily consist of additions to IT systems of £4.9m and £1.2m for work carried out on five offices, to purchase equipment, improve space utilisation and encourage collaborative working practices. The SVS largely occupies office space owned by Defra, the costs for which are included in the Operating Cost Statement.

In preparing the Statement of Accounts for the year ending 31 March 2007, the principal judgements required have centred upon 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 at the year-end.

Expenditure by country and by activity

The Statement of Accounts reports the results for the financial year in a highly structured and formulaic manner in accordance with Financial Reporting Standards, the

Treasury's Financial Reporting Manual and their respective disclosure requirements. The Statement of Accounts does not directly show where resources were spent, or on what activity.

Table 4 shows how much of the reported expenditure was spent in England, Scotland and Wales and in cost centres that cover the whole of Great Britain.

Table 4 – Agency Key Targets 2006-7 Expenditure by country

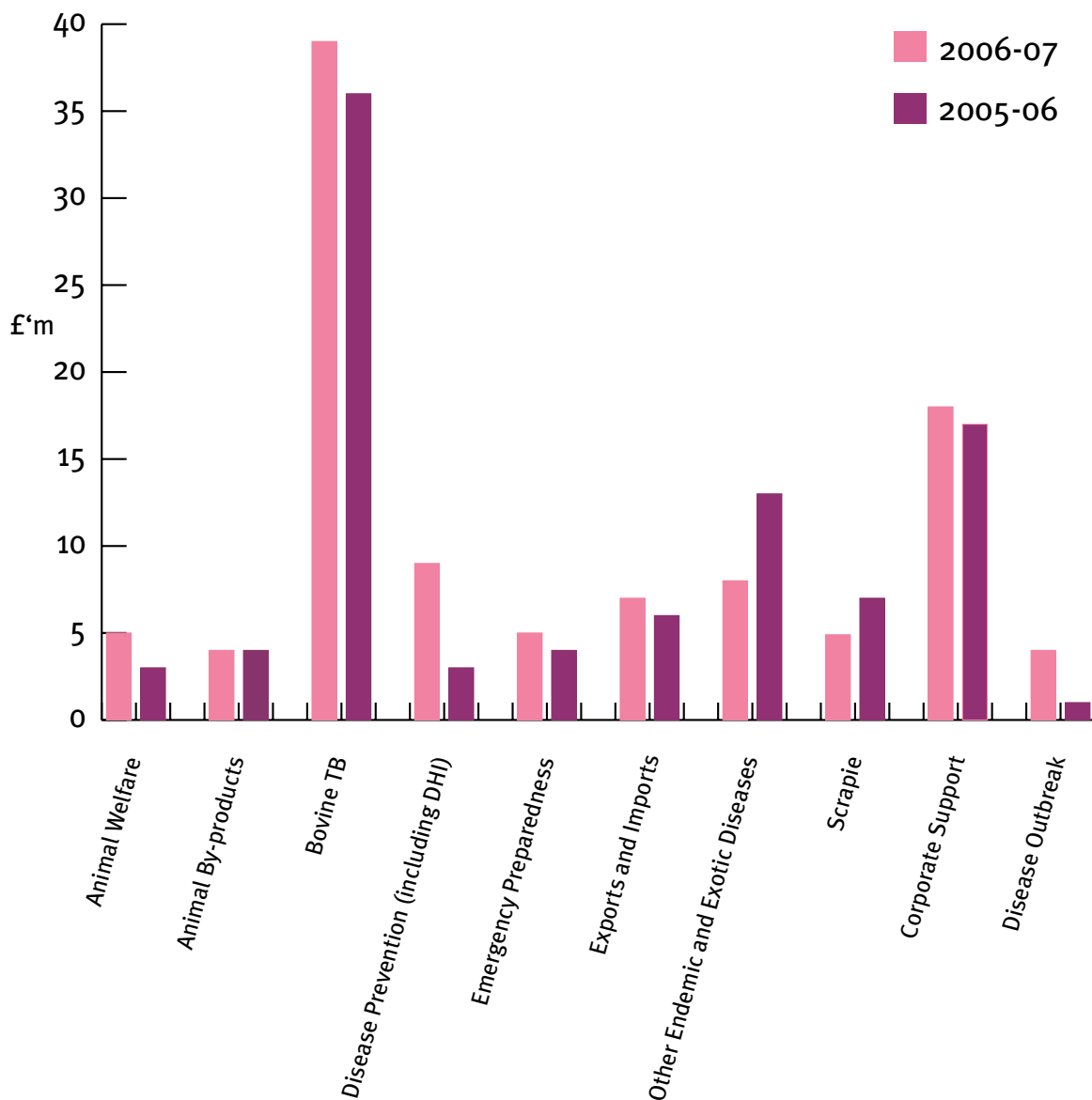
| | 2006-07 £m | 2005-06 £m |
|---|---------------|---------------|
| Animal Health Divisional Offices | | |
| England | 52.1 | 47.3 |
| Scotland | 8.1 | 7.5 |
| Wales | 9.3 | 9.8 |
| | 69.5 | 64.6 |
| Great Britain wide cost centres | | |
| Contingency Planning | 5.0 | 2.9 |
| International Trade | 1.7 | 2.1 |
| National Scrapie Unit | 1.9 | 2.2 |
| Business Development | 8.9 | 4.1 |
| Workforce Strategy and Development | 2.0 | 1.6 |
| Corporate Office | 6.0 | 8.5 |
| | 25.5 | 21.4 |
| Allocated Costs | | |
| Notional Charges | 9.1 | 9.2 |
| Non-Cash Charges | 2.3 | 1.6 |
| | 11.4 | 10.8 |
| Net Operating Costs | 106.4 | 96.8 |

This expenditure was incurred implementing policies to prevent and control the spread of animal disease. The expenditure in England and Wales reflects the incidence of bTB, while expenditure in Scotland excludes the cost of administrative staff and accommodation, which for accounting periods up to and including 2006-07 were provided by the Scottish Executive.

Figure 4, on page 40, profiles expenditure for the key areas of activity for 2006-07 and for 2005-06.

The operational activities showing the largest year on year percentage increases are Animal Welfare, Disease Prevention, Emergency Preparedness and Disease Outbreaks with increases of 47 per cent or £1.7m, 217 per

Figure 4 – Expenditure by activity



cent or £6.7m, 18 per cent or £0.8m and 314 per cent or £3.0m respectively. The increase in Animal Welfare work resulted from an increase in reports received while the increase in Disease Prevention and Emergency Preparedness work is in response to increased disease risk. The increase in time spent on Disease Outbreaks reflects the work undertaken to manage the seven outbreaks and emergencies during the year. Together, these increases reflect the reactive nature of much of the SVS's work and the limited ability to predict, let alone manage, demand. The SVS in other words has to manage the financial and operational challenge of balancing a variable and unpredictable level of activity against a largely fixed supply of resource.

The most sudden increase in demand and expenditure arises of course with an outbreak of exotic disease. In 2006-07 there were seven such outbreaks and emergencies resulting in additional outlay costs to the

SVS of £2.1m and total costs (including reallocated time costs of £3.8m). Compensation to owners – whose animals and other goods may be seized in order to eradicate a virus, prevent its spread and minimise the total impact and cost of an outbreak – is assessed by the SVS in accordance with EU regulations and national legislation but is paid by Defra. This is because Defra, as Great Britain's competent authority, has the responsibility to inform the EU when an outbreak is declared and to request support from the EU to reimburse the costs incurred in accordance with EU regulations. In 2006-07 Defra paid £1.1m in compensation and is claiming reimbursement from the EU for the allowable proportion of this and for the other costs incurred.

⁷ Dividing SVS's 2006-07 Net Operating Costs by the Office of National Statistics' estimate of the mid-2005 population of Great Britain: www.statistics.gov.uk/ci/nugget.asp?id=6



8

Plans and priorities



On 1 April 2007 the SVS changed its name to Animal Health to reflect its

extended remit resulting from the mergers with the Dairy Hygiene Inspectorate, the Egg Marketing Inspectorate and the Wildlife Licensing and Registration Service. In addition administrative staff in Scotland transferred to Animal Health from the Scottish Executive.

Animal Health's plans and priorities are set out in its Business Plan for 2007-08 and Corporate Plan for 2007-10, and over the next three years we aim to:

- substantially increase our leadership and change management abilities
- increase our professional skills and our veterinary capacity (most especially in readiness for emergencies)
- transform our delivery capacity by IT-enabling our field staff and introduce new ways of working; and
- maintain and improve our readiness and resilience for exotic disease outbreaks.

The landscape in which we work is changing and we need to increase our leadership and change management abilities to first respond to and then anticipate these changes.

We are strengthening our programme of training for field staff and are piloting new ways of working, both day-to-day and in emergencies, with a number of private veterinary practices. We plan to extend this pilot during 2007-08.

Our Business Reform Programme will move us from how we work now to new ways of working, with common processes and with IT an essential aid in the field.

We responded to seven exotic disease outbreaks and emergencies in 2006-07 and, informed by the qualitative

The new Animal Health logo



risk assessments and expert advice of the Chief Veterinary Officer, our agreed planning assumptions are that we will continue to experience such outbreaks. In addition Great Britain is at increasing risk of an outbreak of Bluetongue while the risk of other notifiable diseases, and new and emerging diseases is ever present. We will continue to give priority to disease surveillance and we will work closely with policy colleagues in the review and development of responsive strategies.

Our policy customers and sponsor Department are themselves undergoing significant change, transferring residual delivery functions to delivery bodies and rethinking the boundaries between policy and delivery. We will work with Defra to plan and implement the transfer of further responsibilities as the boundary between policy and delivery develops and is re-drawn in the Department's own change programme.

We will develop our operations strategy on the foundations laid in 2006-07 with our policy customers to



manage and deliver a set of effective, targeted, efficient and risk-based interventions that make a difference – in effect, better regulation. Our operations strategy will initially focus on developing formal quality assurance arrangements and on the activities which form the main body of our day-to-day work: undertaking surveillance, providing guidance and information, and undertaking inspections.

To deliver the joined-up services that our customers want, we will continue to work closely with our suppliers and with other delivery agents. We will strengthen our working relationship with Local Authorities by refreshing the current Framework Agreement and we will increasingly seek to collaborate and work with the livestock and other farming industries.

From 1 April 2007 we will lead a significant and challenging transformation programme to reform the animal registration, identification and movements regimes. This is likely to be a long-term programme of work but one which offers significant benefits to animal owners and the livestock industry. We will also begin to

develop a charging capacity and capability to enable Defra's Farm Regulation and Charging Strategy (November 2005) to be implemented in an effective and efficient manner.

Performance pressures

Government policy, largely driven by the EU together with specific initiatives, necessarily determine the way in which regulatory and other requirements in animal health and welfare are delivered. Animal Health can, and is keen to, play its full part, 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.

Animal Health's cost drivers for 2007-08 and future years remain those of previous years, namely changes in work volumes and new or changed policies, the need to develop Animal Health's capability and capacity, and pressures arising from legislation and other requirements from other Government Departments.

To help meet these pressures we will continue to develop operational and financial systems and procedures to support decision-making and we will continue to work closely with policy colleagues in Defra and the devolved administrations to address the benefits and costs of policy and possible policy options. In addition we will continue to pursue a policy of continuous improvement in effectiveness, efficiency and economy. It is possible however that a number of factors, which cannot be accurately forecast, could significantly affect the Agency's ability to achieve its targets and plans and the resources required to achieve these. Not least of these would be a large outbreak of an exotic notifiable disease.

For 2007-08, the initial cash resource allocated to Animal Health for current expenditure is £99.4m and a further £7.9m is allocated for capital expenditure. This will be increased during the year by budget switches as work and responsibility is transferred to Animal Health. Required budget switches already known include those relating to the transfer of administrative staff in Scotland from the Scottish Executive, the transfer of the Egg Marketing Inspectorate (EMI) and the Wildlife Licensing and Registration Service (WLRS). In addition further transfers may occur in-year as additional work is transferred to the Agency. Defra will continue to retain the budget for the notional costs of depreciation and the cost of capital, and soft charging will continue to apply to services provided by the Department. Funding for 2008-10 will be determined in the 2007 CSR and over the course of this period Animal Health will need to develop new funding streams to meet the Government's intention to share the responsibility and cost of managing notifiable animal disease with the farming and food industry. There will be new and additional costs and investment required to develop these new funding streams.

Preventing, controlling, and where feasible, eradicating notifiable animal disease, and dealing with outbreaks of exotic disease when they occur helps maintain standards of animal welfare, protects the food supply and the public from infections that are transmissible from livestock, either directly or through the food chain, and supports the 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 as needing to be faced over the coming years.



9

Statement of accounts



Statement of Chief Executive's responsibilities

Under the Government Resources and Accounts Act 2000, HM Treasury has directed the SVS 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.

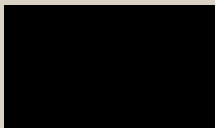
The statement of accounts is to be prepared on an accruals basis and must give a true and fair view of the Agency's state of affairs at the year end and of its income and expenditure, total recognised gains and losses and cash flows for the financial year.

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; and
- 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 SVS to be 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

28 June 2007

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 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

The 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.

The SVS's system of internal control has continued to be developed in the year ending 31 March 2007 and up to the date of approval of the Annual Report and Accounts in line with the SVS's development and in accordance with Treasury Guidance. This development has included the following activity:

Strategy and planning

The SVS's vision, mission and strategic objectives for 2006-07 were set out in its Corporate and Business Plans, and activity in the year is reported in the Annual Report. The 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. The risk register and the internal audit programme are linked to these plans.

Governance structures and processes

The Operations Board and the Delivery Review Board, established as key parts of the SVS's Governance structure, have provided vehicles for the SVS to work closely with Defra and the devolved administrations during the year. In addition to formal meetings, workshops have been held to explore strategic issues and these have also included participants from other organisations with whom the SVS works. Internally, the SVS's Audit and Risk Committee has developed its role and a separate executive Risk Committee reporting to the Corporate Management Team has been established to review risks across the Agency, and as part of a process of continuous improvement, a review of the SVS's governance compared with best-practice was in hand at the year-end.

Performance management

Measures to assess performance against agreed targets have continued to be developed in 2006-07, as have the processes to collect information for these measures on a consistent basis. The information collected is reviewed by the Operations Board, Corporate Management Team and Defra monthly. These reviews drive operational activity and also inform discussions with stakeholders regarding the effectiveness of existing policies.

The processes to collect information continue to be highly labour intensive, however, and this limits the flexibility and responsiveness of current operational management information and the

use that can be made of it to drive performance. These processes will remain labour intensive until new IT systems are implemented, revised working processes are developed and staff become proficient in their use.

Despite the difficulties caused by the inadequacies of current management information, considerable effort has been made to establish an increasingly consistent level of service across AHDOs and this, in turn, is enabling increasing attention to be paid to quality assurance. Considerable further attention will be paid to this in 2007-08 and in future years.

Risk management

Consistent risk management processes using a computerised risk register have been implemented and embedded during the year in each AHDO, in other cost centres and in major projects. To review risks and the response to risks, the Risk Committee has been restructured as an executive committee of the Corporate Management Team who consider corporate risks monthly. These developments in risk management have been reviewed by the SVS Audit and Risk Committee, and risks and their management have also been reported to the SVS Ownership Board during 2006-07.

The SVS 2006-07 corporate risks included 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 the SVS's limited capacity – rather than capability – to respond to outbreaks 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 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's Business Reform Programme, which will increase the Agency's effectiveness in managing operational delivery while delivering an improvement in productivity through a new IT enabled operating model, is mission critical and comes within the scope of the Office of Government Commerce's (OGC's) Project and Programme Management controls. During 2006-07 the OGC carried out a Gateway 2 Review to confirm the Business Case and to ensure that the procurement strategy for the Programme was robust and appropriate. It strongly endorsed the Programme, recognising the significant progress made since the initial Gateway 0 Review.

Management of change

The SVS has continued to change and develop itself while also responding to the changes in its environment. Change management programmes have been delivered for the management teams in each office as part of a restructured management development programme. 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 2007-08.

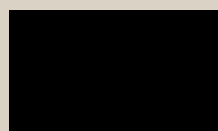
Accounting Officer's review

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 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 strategic direction and risks, and its performance against the Agency's objectives and goals
- the work of SVS managers and staff who have responsibility for developing, supporting and operating within the internal control framework
- risk management arrangements under which key risks that could affect achievement of SVS's objectives and goals are actively managed
- stewardship reporting through which each AHDO and other cost centre reports on risk and compliance with the internal control framework
- the work of the Audit and Risk Committee which monitors the system of internal control
- the results of the work of the External Auditors; and
- reports by Internal Audit, prepared in accordance with Government Internal Audit Standards, which include their independent opinion on the adequacy and effectiveness of SVS's internal controls together with recommendations for improvement where necessary. Internal Audit have provided an 'adequate' assurance on the effectiveness of SVS's internal controls for 2006-07 reflecting the work done to develop the SVS's controls and governance since becoming an Agency.

Both internal and external audits provide a service to 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 2006-07 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 SVS's objective or goals during the year. During 2007-08 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

28 June 2007

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 2007 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. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Agency, the Chief Executive and Auditor

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

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

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

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

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

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. I consider the implications for my report if I become aware of any apparent misstatement 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 judgements 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.

Audit opinion

In my opinion:

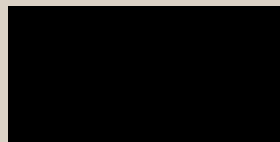
- the financial statements give a true and fair view, in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by HM Treasury, of the state of the Agency's affairs as at 31 March 2007, and of the net operating cost, recognised gains and losses and cash flows for the year then ended
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000; and
- the information given within Sections 1, 4, 6 and 7 of the Annual Report is consistent with the financial statements.

Audit opinion on regularity

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

Report

I have no observations to make on these financial statements.



John Bourn

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

2 July 2007

Operating Cost Statement

For the year ended 31 March 2007

| | Note | 2006-07 £'000 | 2005-06 Restated £'000 |
|----------------------------------|------|------------------|------------------------------|
| Employment Costs | 5 | 56,685 | 51,261 |
| Local Veterinary Inspector Costs | 6 | 25,273 | 23,519 |
| Other Operating Costs | 7 | 27,787 | 23,685 |
| | | 109,745 | 98,465 |
| Income | | | |
| Cost Recoveries | 4 | 4,147 | 4,334 |
| Less Surrendered to Defra | 4 | (854) | (2,632) |
| | | 3,293 | 1,702 |
| Net Operating Costs | | 106,452 | 96,763 |

In accordance with FRS6, *Acquisitions and Mergers*, the results for 2005-06 have been restated following the merger of the Dairy Hygiene Inspectorate with the SVS on 1 October 2006 (see Note 24).

All income and expenditure is derived from continuing operations.

The notes on pages 56 to 72 form part of these accounts.



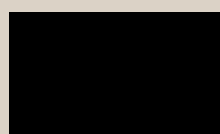
Balance Sheet

As at 31 March 2007

| | Note | 31 March 2007 | | 31 March 2006 Restated | |
|---|------|---------------|-----------------|---------------------------|-----------------|
| | | £'000 | £'000 | £'000 | £'000 |
| Fixed Assets | | | | | |
| Tangible Assets | 9 | | 9,938 | | 6,652 |
| Intangible Assets | 10 | | 50 | | 53 |
| | | | <u>9,988</u> | | <u>6,705</u> |
| Current Assets | | | | | |
| Stock | 12 | 152 | | 370 | |
| Debtors and Prepayments | 13 | 1,722 | | 2,444 | |
| Cash at Bank and in Hand | 14 | <u>2,991</u> | | <u>134</u> | |
| | | | 4,865 | | 2,948 |
| Creditors due within one year | 15 | | <u>(23,760)</u> | | <u>(18,140)</u> |
| Net Current Assets/(Liabilities) | | | <u>(18,895)</u> | | <u>(15,192)</u> |
| Total Assets less Current Liabilities | | | (8,907) | | (8,487) |
| Provisions for Liabilities and Charges | 16 | | (353) | | (875) |
| | | | <u>(9,260)</u> | | <u>(9,362)</u> |
| Taxpayers Equity | | | | | |
| General Fund | 17 | | (9,269) | | (9,368) |
| Revaluation Reserve | 18 | | 9 | | 6 |
| | | | <u>(9,260)</u> | | <u>(9,362)</u> |

In accordance with FRS6, *Acquisitions and Mergers*, the results for 2005-06 have been restated following the merger of the Dairy Hygiene Inspectorate with the SVS on 1 October 2006 (see Note 24).

The notes on pages 56 to 72 form part of these accounts.



Glenys Stacey
Chief Executive

28 June 2007

Cashflow Statement

For the year ended 31 March 2007

| | Note | 2006-07 £'000 | 2005-06 Restated £'000 |
|--|------|------------------|------------------------------|
| Net Cash (Outflow) from Operating Activities | 19 | (91,053) | (74,574) |
| Capital Expenditure | 19 | (2,465) | (446) |
| | | (93,518) | (75,020) |
| Net Cash requirement received from Defra | | 96,375 | 75,154 |
| Increase in Cash | | 2,857 | 134 |

In accordance with FRS6, *Acquisitions and Mergers*, the results for 2005-06 have been restated following to the merger of the Dairy Hygiene Inspectorate with the SVS on 1 October 2006 (see Note 24).

Statement of Recognised Gains and Losses

For the year ended 31 March 2007

| | Note | 2006-07 £'000 | 2005-06 Restated £'000 |
|---|------|------------------|------------------------------|
| Net Gain/(Loss) on Revaluation of Tangible Fixed Assets | 18 | 8 | (7) |

The notes on pages 56 to 72 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 2006-07 Financial Reporting Manual (FRoM). The accounting policies have been applied consistently and where the FRoM permits a choice of accounting policy, SVS have followed those adopted by Defra, its parent department.

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

2 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 generated under Service Level Agreements do not form part of this surrender, and is retained to fund the activity for which it is paid. Income received in lieu of private usage of equipment is also retained.

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

Funding recognition

The SVS follows Defra's policy which recognises funding to be 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 appropriate indices provided by the Office for National Statistics. Any upward revaluation is credited to the Revaluation Reserve. A deficit on revaluation is debited to the Income and Expenditure Account if the deficit exceeds the balance held for previous revaluations in the Revaluation Reserve.

Internally developed fixed assets are recognised as Assets in the Course of Construction and

treated as capital expenditure, but not depreciated until the project is brought into service. Assets in the Course of Construction are not revalued until brought into use. Internally developed computer software includes capitalisation of contractor costs on projects costing in excess of £50,000.

Intangible Fixed Assets

Intangible Fixed Assets comprise software licences and are capitalised where the licence period is for more than one year and the cost is greater than £500. Intangible Fixed Assets are valued at historical cost. 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 normally in the following ranges:

| | |
|--------------------------|--------------|
| Furniture and Fittings | 5 – 30 years |
| IT Hardware and Software | 2 – 12 years |
| Office Equipment | 5 – 11 years |
| Plant and Machinery | 5 – 15 years |
| Scientific Equipment | 5 – 15 years |
| Vehicles | 4 – 12 years |

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

Stock

Stock, which consists of veterinary consumables and contingency 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 exotic notifiable animal disease.

Value Added Tax (VAT)

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 per cent applied to the mean value of capital employed during the period (2005-06: 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 in its own accounts the provision and future liabilities in respect of employees who have been granted early retirement.

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.

Merger accounting

In accordance with FRS6, *Acquisitions and Mergers*, the amalgamation of the Dairy Hygiene Inspectorate with the SVS on 1 October 2006 has been treated as a group reconstruction. In accordance with FRS6, amounts relating to the Dairy Hygiene Inspectorate for the half year prior to the merger are included in the SVS's results for 2006-07, and the SVS's 2005-06 comparatives have been restated to show the combined position for the previous year. Further details are provided in Note 24.

3 Going concern

The Balance Sheet at 31 March 2007 shows negative Taxpayers Equity of £9,260k (2005-06: £9,362k). This reflects liabilities incurred in 2006-07 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 the 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 2007-08 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

| | 2006-07 | 2005-06 Restated |
|----------------------------------|---------|---------------------|
| | £'000 | £'000 |
| Income Received | | |
| Defra | 657 | 708 |
| Defra Agencies | 456 | 387 |
| Scottish Executive | 89 | 45 |
| Welsh Assembly Government | 1,093 | 1,190 |
| Food Standards Agency | 1,662 | 1,702 |
| Other | 190 | 302 |
| | 4,147 | 4,334 |
| Less Income surrendered to Defra | (854) | (2,632) |
| | 3,293 | 1,702 |

During 2005-06 all income was surrendered to Defra as Service Level Agreements had still to be agreed with parties to whom the SVS provides services. During 2006-07, Service Level Agreements with the Food Standards Agency, the Rural Payments Agency, the Veterinary Medicines Directorate and the Welsh Assembly Government have been agreed, and the resulting income has been retained to fund the cost of this work. The restated income for 2005-06 reflects Service Level Agreement income generated in 2005-06 by the Dairy Hygiene Inspectorate.

The income figures include two areas of activity where the full cost exceeds £1m. The information below is provided for Fees and Charges purposes, not for the purposes of Statement of Standard Accounting Practice 25.

| | 2006-07 | | | 2005-06 Restated | | |
|---------------------------|---------|-----------|-----------------------|---------------------|-----------|-----------------------|
| | Income | Full Cost | Surplus/ (Deficit) | Income | Full Cost | Surplus/ (Deficit) |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Welsh Ewe Genotyping | 938 | 938 | 0 | 1,093 | 1,093 | 0 |
| Dairy Hygiene Inspections | 1,662 | 1,733 | (71) | 1,702 | 1,669 | 33 |
| | 2,600 | 2,671 | (71) | 2,795 | 2,762 | 33 |

The income for the Welsh Ewe Genotyping Scheme was received from the Welsh Assembly Government to cover the additional costs incurred in Wales in testing the susceptibility of ewes to scrapie (the testing of rams being financed by Defra's Ram Genotyping Scheme).

The income for Dairy Hygiene Inspections was received from the Food Standards Agency for the inspection of dairies and untreated milk samples. In 2006-07 the income received did not offset the costs incurred, resulting in a deficit of £71k for this work. This deficit was projected when the Dairy Hygiene Inspectorate merged with the SVS on 1 October 2006.

5 Employment costs

Employment costs comprise:

| | 2006-07 | 2005-06 Restated |
|---|---------------|---------------------|
| | £'000 | £'000 |
| Salaries | 41,517 | 38,244 |
| Employer's National Insurance Contributions | 3,309 | 3,069 |
| Employer's Pension Contributions | 7,735 | 6,800 |
| | <u>52,561</u> | <u>48,113</u> |
| Less: Recoveries for Seconded Staff | 24 | – |
| | <u>52,537</u> | <u>48,113</u> |
| Contractor Costs | 3,216 | 1,852 |
| Temporary Veterinary Inspector Costs | 932 | 1,296 |
| | <u>56,685</u> | <u>51,261</u> |

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

In addition to the costs shown above, contractor costs of £1.1m have been capitalised. These are included within the additions to IT Equipment and Assets in the Course of Construction shown in Note 9.

Average number of full-time equivalent staff

| | 2006-07 | 2005-06 Restated |
|-------------------------------------|--------------|---------------------|
| | FTE | FTE |
| Veterinary Staff | 268 | 264 |
| Technical Staff | 262 | 261 |
| Administrative and Managerial Staff | 897 | 828 |
| | <u>1,427</u> | <u>1,353</u> |

| | 2006-07 | 2005-06 Restated |
|----------------------|--------------|---------------------|
| | FTE | FTE |
| Permanent | 1,322 | 1,265 |
| Fixed Term Contracts | 47 | 2 |
| Casual and Temporary | 58 | 86 |
| | <u>1,427</u> | <u>1,353</u> |

In addition to staff employed by the SVS, the Scottish Executive employed 72 full-time equivalent administrative staff to support the SVS in Scotland (2005-06: 69).

The remuneration and emoluments of the Corporate Management Team are set out in the Remuneration Report on page 34.

Pension contributions

Pension benefits are provided through the Principal Civil Service Pension Scheme (PCSPS). 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. The last full valuation took place on 31 March 2003 and the next full valuation, which was due to take place on 31 March 2007, has not yet been published. Further details 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 2006-07, employer contributions of £7,508k were payable to the PCSPS (2005-06: £6,565k) at one of the four rates in the range 17.1 per cent to 25.5 per cent (2005-06: 16.5 per cent to 24.6 per cent) of pensionable pay based on salary bands. 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 the 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 2006-07 of £227k (2005-06: £235k) were paid to one or more of a panel of four appointed stakeholder pension providers. Employer contributions are age-related and range from 3.0 per cent to 12.5 per cent of pensionable pay. No employer contributions (2005-06: £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

| | 2006-07 | 2005-06 Restated |
|--|---------|---------------------|
| | £'000 | £'000 |
| Local Veterinary Inspector costs in year | 25,345 | 23,153 |
| Adjusted for non-cash items | | |
| Provision for expected RPI increase for financial year | 16 | – |
| Reversal of over-provision of RPI increase for previous year | 16 | (72) |
| | 25,273 | 23,519 |

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 2007 is based on activity undertaken by Local Veterinary Inspectors and paid during the financial year together with:

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



7 Other operating costs

| | 2006-07 | 2005-06 |
|---|---------------|-------------------|
| | £'000 | Restated £'000 |
| Hard Charges | | |
| IT Costs | 4,459 | 1,706 |
| Accommodation and Utilities | 3,753 | 3,678 |
| Travel and Subsistence | 3,395 | 3,081 |
| Office Services | 2,382 | 2,766 |
| Veterinary Consumables | 1,238 | 569 |
| Training | 918 | 515 |
| Recruitment | 181 | 349 |
| Early Retirement Costs | – | 193 |
| Internal Audit | – | 20 |
| (Profit)/Loss on Disposal of Fixed Assets | (2) | 8 |
| | <u>16,324</u> | <u>12,885</u> |
| Notional Charges | | |
| IT Services | 6,879 | 7,020 |
| Estates Management and Accommodation Services | 1,098 | 1,066 |
| Accounting Services | 476 | 462 |
| Human Resources Services | 393 | 382 |
| Procurement and Contract Services | 139 | 83 |
| External Audit | 90 | 90 |
| Legal Services | 61 | 49 |
| | <u>9,136</u> | <u>9,152</u> |
| Non-Cash Costs | | |
| Depreciation | 2,026 | 1,847 |
| Current Replacement Cost Adjustment | 682 | (59) |
| Cost of Capital | (381) | (140) |
| | <u>2,327</u> | <u>1,648</u> |
| | <u>27,787</u> | <u>23,685</u> |

Notional charges cover the National Audit Office's audit fee, and services provided to the SVS by Defra. The notional charge from Defra includes Internal Audit costs, though in 2005-06 Internal Audit were requested to carry out work to the value of £20k over and above the work provided by the notional charge. No comparative additional internal audit work was carried out in 2006-07 and no remuneration was paid to auditors in respect of non-audit work.

8 Interest payable and similar charges

The SVS incurred no charges for interest or similar charges during 2006-07 (2005-06: £Nil).

9 Tangible fixed assets

| | IT Equipment | Assets in the Course of Construction | Scientific Equipment | Office Equipment and Furniture | Plant and Motor Vehicles | Total |
|--------------------------|-----------------|--|-------------------------|---|--------------------------------|----------|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Cost or valuation | | | | | | |
| 1 April 2006 | 7,580 | 1,565 | 378 | 1,007 | 296 | 10,826 |
| Additions | 1,502 | 3,400 | – | 1,239 | 3 | 6,144 |
| Transfers | 14,557 | (1,565) | 5 | 132 | 149 | 13,278 |
| Disposals | (243) | – | – | (9) | (51) | (303) |
| Revaluation | 509 | – | (2) | (32) | 4 | 479 |
| 31 March 2007 | 23,905 | 3,400 | 381 | 2,337 | 401 | 30,424 |
| Depreciation | | | | | | |
| 1 April 2006 | (3,284) | – | (89) | (609) | (192) | (4,174) |
| Transfers | (13,165) | – | (5) | (119) | (151) | (13,440) |
| Charged | (1,830) | – | (37) | (118) | (38) | (2,023) |
| Disposals | 243 | – | – | 9 | 51 | 303 |
| Revaluation | (1,183) | – | 1 | 28 | 2 | (1,152) |
| 31 March 2007 | (19,219) | – | (130) | (809) | (328) | (20,486) |
| Net Book Value | | | | | | |
| 31 March 2007 | 4,686 | 3,400 | 251 | 1,528 | 73 | 9,938 |
| 31 March 2006 | 4,296 | 1,565 | 289 | 398 | 104 | 6,652 |

Transfers include fully depreciated assets transferred to the SVS from Defra during the year. The value of this adjustment to cost and to accumulated depreciation was £13,459k. There is no effect on Net Book Value.

The Net Book Value for Plant and Motor Vehicles includes £69k for Motor Vehicles and £4k for Plant and Machinery (2005-06: £101k and £3k respectively).

The Net Book Value for Office Equipment and Furniture includes £635k for Office Equipment and £893k for Furniture and Fittings (2005-06: £361k and £37k respectively).

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

In accordance with FRS6, *Acquisitions and Mergers*, the results for 2005-06 have been restated following the merger of the Dairy Hygiene Inspectorate with the SVS on 1 October 2006 (see Note 24).



10 Intangible fixed assets

| | Software Licences £'000 |
|----------------------------|----------------------------|
| Cost of valuation | |
| 1 April 2006, as restated | 58 |
| 31 March 2007 | <u>58</u> |
| Amortisation | |
| 1 April 2006, as restated | 5 |
| Charged for the year | <u>3</u> |
| 31 March 2007 | <u>8</u> |
| Net Book Value | |
| 31 March 2007 | 50 |
| 31 March 2006, as restated | <u>53</u> |

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 2007 is calculated using HM Treasury's discount rate of 3.5 per cent (2005-06: 3.5 per cent) 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.

| | 2006-07 £'000 | 2005-06 Restated £'000 |
|----------------------------------|------------------|------------------------------|
| Capital Employed at 1 April | (9,496) | 1,495 |
| Capital Employed at 31 March | (12,251) | (9,496) |
| Mean Value of Capital Employed | <u>(10,874)</u> | <u>(4,001)</u> |
| Cost of Capital per the Accounts | (381) | (140) |

12 Stock

| | 2006-07 £'000 | 2005-06 Restated £'000 |
|--------------------------------------|------------------|------------------------------|
| Veterinary Consumables | 404 | 688 |
| Less Provision for Contingency Stock | <u>(252)</u> | <u>(318)</u> |
| | 152 | 370 |

13 Debtors and prepayments

| | 2006-07 | 2005-06 Restated |
|--------------------------------------|--------------|---------------------|
| | £'000 | £'000 |
| Amounts falling due within one year: | | |
| Trade Debtors | 279 | 409 |
| Defra and Defra Agency Debtors | 598 | 1,312 |
| Other Debtors | 79 | 172 |
| Prepayments and Accrued Income | 422 | 502 |
| VAT | 308 | 18 |
| | <u>1,686</u> | <u>2,413</u> |
| Amounts falling due after one year: | | |
| Other Debtors | 36 | 31 |
| | <u>1,722</u> | <u>2,444</u> |

Debtors include £873k due from other central government bodies (2005-06: £1,312k) and £5k from Local Authorities (2005-06: £Nil).

14 Cash at bank and in hand

| | 2006-07 | 2005-06 Restated |
|---|--------------|---------------------|
| | £'000 | £'000 |
| Office of HM Paymaster General Accounts | 2,988 | 124 |
| Commercial Bank Accounts | 3 | 10 |
| | <u>2,991</u> | <u>134</u> |

15 Creditors due within one year

| | 2006-07 | 2005-06 Restated |
|----------------------------------|---------------|---------------------|
| | £'000 | £'000 |
| Trade Creditors | 1,094 | 772 |
| Defra and Defra Agency Creditors | 8,095 | 7,905 |
| Tax and Social Security | 161 | 123 |
| Other Creditors | 425 | 71 |
| Capital Creditors and Accruals | 5,394 | 1,717 |
| Accruals | 8,591 | 7,552 |
| | <u>23,760</u> | <u>18,140</u> |

Creditors due within one year include £7,788k due to other central government bodies (2005-06: £8,028k), and £38k due to other public bodies (2005-06: £Nil).

16 Provisions for liabilities and charges

| | LVI | Asbestos | Early Departure | Total |
|------------------------------|-------|----------|--------------------|-------|
| | £'000 | £'000 | £'000 | £'000 |
| At 1 April 2006, as restated | 522 | 160 | 193 | 875 |
| Utilised | (450) | – | (127) | (577) |
| Provided | – | 287 | – | 287 |
| Released | (72) | (160) | – | (232) |
| At 31 March 2007 | – | 287 | 66 | 353 |

The LVI provision at 1 April 2006 of £522k related to an increase in rates payable to Local Veterinary Inspectors for work carried out in 2005-06. There is no closing provision as the rate increases to which the provision refers were paid during 2006-07.

The opening asbestos provision of £160k was released in the year for work undertaken on the Taunton Animal Health Divisional Office, which in the event, was funded by Defra. An additional provision, which is expected to be utilised in 2007-08, has been provided to remove asbestos identified during the year in other properties occupied by the SVS.

Although Defra funds the Early Departure Provision for the additional pension costs for employees who have been granted early retirement, full costs must be reflected in the SVS's Accounts. The in-year movement reflects the payments made by Defra on behalf of the SVS in 2006-07. No provision was required to be created for early departures in 2006-07.

17 General fund

Movements in the year ending 31 March 2007 consist of amounts generated from operational activities, the costs of group reconstruction and notional and non-cash charges. The reserve is not distributable.

| | 2006-07 | 2005-06 Restated |
|--|-----------|---------------------|
| | £'000 | £'000 |
| At 1 April | (9,368) | 1,480 |
| Net Operating Costs for the Year | (106,452) | (96,763) |
| Net Cash Requirement Received from Defra | 96,375 | 75,154 |
| Developing Defra Project Cost Capitalised | – | 172 |
| Notional Charges | 9,136 | 9,152 |
| Cost of Capital Charge | (381) | (140) |
| Adjustments in relation to the set-up of the SVS | – | 1,332 |
| Transfer from Revaluation Reserve | 5 | 2 |
| Costs of the Dairy Hygiene Inspectorate prior to its transfer to the SVS on 1 October 2006 | 194 | 242 |
| In-year adjustments between the SVS and Defra | 1,222 | 1 |
| At 31 March | (9,269) | (9,368) |

18 Revaluation reserve

| | 2006-07 | 2005-06 Restated |
|---------------------------------------|---------|---------------------|
| | £'000 | £'000 |
| At 1 April | 6 | 15 |
| Arising on Indexation during the year | 8 | (7) |
| Transfer to General Fund | (5) | (2) |
| At 31 March | 9 | 6 |

19 Net cash inflow from operating activities

Reconciliation of Operating Costs to the Net Cash Outflow from Operating Activities

| | 2006-07 | 2005-06 Restated |
|--|-----------|---------------------|
| | £'000 | £'000 |
| Net Operating Costs | (106,452) | (96,763) |
| Notional Charges | 9,136 | 9,152 |
| Non-Cash Costs | 2,327 | 1,648 |
| Non-Cash Movements in Provisions | 55 | 719 |
| Net Operating Costs excluding Notional and Non-Cash Costs | (94,934) | (85,244) |
| (Profit)/Loss on disposal of Fixed Assets | (2) | 8 |
| Decrease in Stocks | 218 | 92 |
| Decrease/(Increase) in Debtors | 722 | (1,929) |
| Increase in non-Capital Creditors and Provisions | 1,421 | 11,769 |
| Less Non-Cash Movements in Provisions | (55) | (719) |
| | (92,630) | (76,023) |
| Non-Cash Transactions | | |
| Adjustments in relation to the set-up of the SVS | – | 1,207 |
| Costs of the Dairy Hygiene Inspectorate prior to its transfer to the SVS on 1 October 2006 | 194 | 242 |
| In-year adjustments between the SVS and Defra | 1,383 | – |
| Net Cash (Outflow) from Operating Activities | (91,053) | (74,574) |

Capital Expenditure and Financial Investment

| | 2006-07 | 2005-06 Restated |
|--|---------|---------------------|
| | £'000 | £'000 |
| Tangible Fixed Asset Additions | (6,144) | (2,226) |
| Developing Defra project funding | – | 172 |
| Increase in Capital Creditors | 3,677 | 1,608 |
| Proceeds from the disposal of Fixed Assets | 2 | – |
| | (2,465) | (446) |

Change in Cash Balance

| | 2006-07 | 2005-06 Restated |
|------------------------------------|---------|---------------------|
| | £'000 | £'000 |
| At 1 April | 134 | (125) |
| Notional Increase in Cash | – | 125 |
| Actual (Decrease)/Increase in Cash | 2,857 | 134 |
| At 31 March | 2,991 | 134 |

20 Capital commitments

| | 2006-07 | 2005-06 Restated |
|---------------------|---------|---------------------|
| | £'000 | £'000 |
| Capital Commitments | 5,266 | 253 |

£5,019k of the above Capital Commitments relate to the Business Reform Programme.

21 Commitments under operating leases

| | 2006-07 | 2005-06 Restated |
|--------------------------------|---------|---------------------|
| | £'000 | £'000 |
| Operating Leases which expire: | | |
| Within one year | 98 | 49 |
| Between one and five years | 696 | 301 |
| After five years | 1,515 | 893 |
| | 2,309 | 1,243 |

Operating lease rentals for property charged to the Operating Cost Statement in 2006-07 amounted to £2,217k (2005-06: £1,318k).

22 Contingent liabilities

There were no material contingent liabilities at 31 March 2007 (2005-06: £Nil).

23 Losses and special payments

| | 2006-07 | 2005-06 Restated |
|------------|---------|---------------------|
| | £'000 | £'000 |
| Cases | 15 | 7 |
| Cost £'000 | 44 | 3 |

The majority of the cost incurred in 2006-07 relates to the self-insurance cost, in accordance with HM Treasury policy, of a road traffic accident which occurred prior to the SVS becoming an Agency on 1 April 2005.

24 Comparatives

In accordance with FRS6, *Acquisitions and Mergers*, merger accounting principles have been applied to the group reconstruction resulting from the amalgamation of the Dairy Hygiene Inspectorate with the SVS on 1 October 2006. In accordance with FRS6 the 2005-06 comparatives have been restated to show the combined position of the previous year:

| | 2005-06 £'000 |
|--|------------------|
| Operating Cost Statement | |
| Net Operating Costs for the Year to 31 March 2006 | 96,791 |
| Transfer of Dairy Hygiene Inspectorate | (33) |
| Cost of Capital Adjustment | 5 |
| Restated Net Operating Costs for the Year to 31 March 2006 | 96,763 |

| | 2005-06 £'000 |
|---|------------------|
| Balance Sheet | |
| General Fund Balance as at 31 March 2006 | 9,643 |
| Transfer of Dairy Hygiene Inspectorate | (275) |
| Restated General Fund Balance as at 31 March 2006 | 9,368 |

25 Related party transactions

Defra is a related party of the SVS. During the year ending 31 March 2007 Defra funded the SVS and provided a number of corporate services to the SVS. 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 the SVS during the year.

Transactions totalling £139k and £76k were paid in the year on an arms length basis to Lambert, Leonard and May, and to McAllister and Davies respectively for veterinary services. These transactions are disclosed as a partner in each of these veterinary practices is married to a SVS member of staff.

26 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 per cent). 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.

27 Post balance sheet events

On 1 April 2007 the SVS changed its name to Animal Health to reflect more accurately the wider remit the Agency now has following its merger with the Dairy Hygiene Inspectorate on 1 October 2006, and with the Egg Marketing Inspectorate and Wildlife Licensing and Registration Service on 1 April 2007.

In addition, administrative staff formerly employed by the Scottish Executive to support Animal Health Divisional Offices in Scotland, transferred to Animal Health on 1 April 2007 and a number of policy staff correspondingly transferred from Animal Health to the Scottish Executive.

FRS 21 requires that the SVS disclose the date on which the accounts are authorised for issue. This is the date on which the certified accounts are despatched by the SVS to the Secretary of State for Environment, Food and Rural Affairs who then lays them before the Houses of Parliament. The authorised date for issue is 25 July 2007.

How to contact us

On 1 April 2007 the State Veterinary Service changed its name to Animal Health. Our contact details are as follows:

Animal Health

Corporate Centre
Spur 3, Block C
Government Buildings
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Worcester
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