



# Veterinary Laboratories Agency<sup>®</sup>

**ANNUAL REPORT AND ACCOUNTS 2010-2011**

An Executive Agency of the  
**Department for Environment, Food  
& Rural Affairs (Defra)**

**HC 1210**

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# Veterinary Laboratories Agency

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

## ANNUAL REPORT AND ACCOUNTS 2010-2011

Presented to the House of Commons pursuant to Section 7 of the Government Resources  
and Accounts Act 2000

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## CHIEF EXECUTIVE'S REVIEW

Much of the past year has been dominated by the merger of VLA with the Defra agency, Animal Health. Colleagues across the Agency have played a key role in various project teams and working groups to ensure the new Animal Health and Veterinary Laboratories Agency was in place by 1 April 2011. In addition, we have also had to respond to cuts in public sector funding, including some levied in year, which resulted in a reduction in Defra income for disease surveillance of £6m and a reduction in the contribution to running costs of £13m compared to 2009-10. We successfully met this challenge through a combination of growth of UK commercial income and efficiency savings to return a small surplus for the year.

However, despite these external pressures, VLA has continued to focus on 'business as usual' and the effective delivery of our range of veterinary and scientific services. We have also maintained our various quality standards and continued to improve our safety record.

An example of delivering 'business as usual' is our International Trade Programme which plays an essential role in protecting the UK from imported disease. This was highlighted during the year when we detected and confirmed cases of contagious equine metritis (CEM), equine infectious anaemia (EIA) and equine arteritis virus (EAV) in horses imported from Europe.

Another example is our scanning surveillance network which identified the presence of fowl coryza in poultry; the first case in Great Britain. Our Avian Expert Group has worked with Defra and the poultry industry providing advice and implementing risk assessments. We also saw pandemic virus (pH1N1) in poultry for the first time in the UK. The strain of virus was similar to the human pandemic strain and VLA played a key role in confirming pH1N1 as the causal agent in turkeys showing mild clinical signs of the disease.

Following VLA's confirmation of the first UK case of bovine neonatal pancytopenia (also known as bleeding calf syndrome) in 2009, VLA's regional laboratories continue to confirm further cases and we have completed a project, on behalf of Defra, to investigate this disease and help identify possible means of control.

In last year's review, I spoke about VLA's dedicated research on bovine tuberculosis (TB) and our successful appointment as marketing authorisation holder for BadgerBCG, the first TB vaccine for badgers. This achievement was recognised at the Defra Team Awards 2010 when the Agency's TB Vaccines team won 'Best Team Working in Partnership' Award along with Defra and the Food and Environment Research Agency for our collaborative work on the vaccine. Our TB research programme was also featured on the BBC's television programme, 'Countryfile', highlighting our contribution to the efforts on controlling this disease.

Research into vector-borne diseases is another high profile area of work for VLA and in 2010 we officially opened a new virology facility at our Weybridge site. This specialist facility has high containment laboratories as well as a virus archive and insectary. It will play an important role in supporting our Statutory & Exotic Viruses Programme and its work on wildlife zoonoses, and viral diseases such as influenza, Newcastle disease, and rabies.

This laboratory facility, like all our new buildings, has a number of sustainable features and was awarded a 'very good' BREEAM rating by the Building Research Establishment. In the same year, the Weybridge Stores Building, officially opened in early 2009, was also awarded an 'excellent' BREEAM rating and won the BREEAM award for the best sustainable industrial building. This facility provides bulk storage and manages the distribution of goods to our various sites. Its many sustainable features include wind turbines, rain water harvesting, solar panels and a rapeseed oil boiler.

Picking up again on the importance of collaboration, VLA signed a Memorandum of Understanding with the University of Surrey formalising our joint activities in veterinary research and education, particularly in the area of microbial sciences. We also launched a new joint undergraduate programme in veterinary biosciences which will bring opportunities to share expertise and work together on projects in the areas of systems biology, social sciences and molecular microbiology.

Following the success of VLA's first international conference, Animal Diseases 2009, we hosted a three-day national veterinary conference in 2010 at the University of Warwick. As another example of collaboration, this event was co-organised with the Government Veterinary Surgeons (GVS) and the Association of Government Veterinarians (AGV) and brought together government vets, scientists, and public health and food safety experts to discuss current veterinary issues and their impact on human health.

In response to our changing financial environment, we completed a major review of VLA's structure to enhance both our flexibility and resilience. We brought together many teams into larger departments so they are in a stronger position to meet efficiency demands by sharing resources, skills and expertise.

Turnover and profit from our commercial work, delivered by VLA Scientific, continues to grow and so plays an essential role in reducing the impact of funding cuts. This income enables us to support various scientific, technical and business projects across the Agency without being a burden on the public purse.

During the year, VLA Scientific launched a new compost plant validation and monitoring service for customers seeking approval for their compost processing under new EU regulations. This is the first service in the UK to cover both virus and bacteria validation as well as routine sample monitoring.

Herdsure®, our cattle health improvement service, also launched three new disease protocols and is now providing support for the control of six major endemic cattle diseases. Its bovine viral diarrhoea programme has also achieved CHCS (Cattle Health Certification Standards) accreditation and work is in progress on extending this to the other Herdsure® programmes.

I have always viewed quality, safety and environmental management as integral parts of our business and we continue to maintain our various scientific accreditations and meet the criteria of both ISO 9001: 2008 and environmental management standards. During the year, EU Commission auditors also completed successful audits of our European reference laboratories for TSEs, avian influenza and Newcastle disease.

Our safety record has continued to improve and I am pleased to report that the number of safety incidents have more than halved in recent years. 243 safety incidents were reported in 2007-08 and this number has reduced in the last few years with 108 incidents reported in 2010-11. The number of RIDDORS has also dropped from 18 in 2007-08 to six in 2010-11.

Commitment to improving staff engagement is also important for the Agency and we have always encouraged colleagues to take part in our staff surveys. Following the first Civil Service People Survey in 2009 we have worked on corporate and local action plans to identify areas of improvement. We also took part in the 2010 survey and, despite uncertainties facing the Agency, we maintained our high staff engagement index.

While my review can only focus on VLA's main achievements during the last year, I would like to use this opportunity to recognise the rich and remarkable history of VLA which has led to the reputation and position it has today for providing world-class veterinary and scientific services.

The Agency's origins date back to the late 1890s when a small laboratory was set up in a small basement room in London to respond to an outbreak of swine fever. Since then, its achievements and successes have been significant and regular; identifying and being key to the control of the BSE epidemic, responding to major disease outbreaks such as foot and mouth disease, and contributing to the efforts to control bovine TB.

The range of work and achievements extend beyond VLA's doors to include commercial activities, academic and international collaborations, and projects overseas to help developing countries control the devastating impact of animal disease.

None of this could be achieved without the commitment and dedication of everyone across the Agency. I very much enjoyed my time as Chief Executive of VLA and am honoured to be part of its history.

**Professor S. Peter Borriello**  
Chief Executive and Agency Accounting Officer

7 July 2011

**DIRECTORS' REPORT**  
**For the year ended 31 March 2011**

**Treasury Direction**

The accounts have been prepared in accordance with a direction issued by the Treasury in accordance with section 7(2) of the Government Resources and Accounts Act 2000.

**Background Information**

The Veterinary Laboratories Agency (VLA) became an Executive Agency of the Ministry of Agriculture, Fisheries and Food (MAFF) on 2 April 1990, with the then title of Central Veterinary Laboratory (CVL). Before this date the Laboratory formed part of the State Veterinary Service within the Ministry.

On 1 October 1995, CVL combined with the Veterinary Investigation Service in England and Wales, (until then part of the Ministry), to form an enlarged Agency under the new name of the Veterinary Laboratories Agency.

In 2001, the Government created the Department for Environment, Food and Rural Affairs (Defra), which incorporated all functions of former MAFF together with other bodies.

VLA's main premises are near Weybridge in Surrey. There are also 15 regional laboratories located throughout England, Wales and Scotland.

**Principal Activities**

VLA's main activities are to:

- (a) Provide Defra with an effective source of specialist laboratory and epidemiological scientific and technical expertise in the field of animal and public health.
- (b) Deliver specialised diagnostic, research and advisory services and products across the fields of infections, chemicals and poisons, and ionising radiations as required by Defra in pursuit of its statutory and policy objectives in the animal and public health sector.
- (c) Deliver services and products to other public and private sector organisations on a commercial basis, to help maintain and develop its efficiency and expertise.

**Merger**

With effect from 1<sup>st</sup> April 2011, VLA will no longer exist in isolation having merged with Animal Health. The new agency, Animal Health and Veterinary Laboratories Agency (AHVLA), will have a new vision and strategy to work towards in 2011-12. Further information can be found at [www.defra.gov.uk/ahvla](http://www.defra.gov.uk/ahvla).



**VLA Management Board**

The Directorate performs this function and comprises the following members:

Prof S. Peter Borriello	Chief Executive and Agency Accounting Officer
Mr Chris Morrey	Business Director
Mr Roger Hancock	Veterinary Director (from 28 September 2010 until 31 March 2011)
Mr Andrew Soldan	Acting Veterinary Director (until 27 September 2010) Commercial Director from 1 October 2010
Prof Chris Thorns	Science Director (until 31 March 2011)
Prof John Preston	External Member (until 31 March 2011)

**VLA Owner's Advisory Board**

It is Defra policy that each Executive Agency has a corporate owner accountable to the Defra Management Board for managing the ownership relationship with the Agency; for VLA this is the Chief Veterinary Officer.

The VLA Owner's Advisory Board (VOAB) was established to assist the corporate owner fulfil this task. Its remit is to advise the corporate owner on:

- the strategic direction for VLA,
- setting targets and business plans,
- reviewing performance,
- challenging the Agency on continuous improvement, and
- setting the level of oversight consistent with capacity and risk.

Membership of the Board:

Mr Nigel Gibbens	Chairman, Chief Veterinary Officer, Defra
Prof Chris Gaskell	External Member
Prof S. Peter Borriello	Chief Executive and Agency Accounting Officer, VLA
Mr Chris Morrey	Business Director, VLA
Dr Anne Grocock	External Member
Prof Robin Pritchard	VLA Audit & Risk Committee Chair
Mr Alick Simmons	Deputy Chief Veterinary Officer, Defra and Customer Board Chairman
Mr Chris Pleass	Head of Finance and Business Management, Food & Farming Group, Defra
Mr Simon Hall	Chief Veterinary Officer, Scotland
Dr Christianne Glossop	Chief Veterinary Officer, Wales

### **Customer Income**

Our work for Defra, during the year, accounted for 83% of our total revenue (2009-10, 87%) We continue to seek income from other sources, recognising that our core work is with Defra.

### **R&D Activities**

Our research and development work underpins the work of Defra's Food and Farming Group (FFG) in the control of animal diseases of statutory or public health significance. This work amounted to 22% of the total income from Defra in the year (2009-10, 18%).

### **Audit Services**

The provision of Internal Audit was supplied by RSM Tenon. The External Auditor is the Comptroller and Auditor General.

The Accounting Officer has taken all steps considered necessary to ensure that he is aware of any relevant audit information and that the External Auditors are also aware of that information. As far as the Accounting Officer is aware, there is no relevant audit information of which the External Auditors are unaware.

### **Payment Policy**

VLA's policy is to settle all creditors' accounts within creditors' own payment terms and conditions. During the year, VLA paid 99% of bills by the due date (2009-10, 99%).

In December 2008 the Government introduced an initiative to pay suppliers within 10 working days. VLA supports this initiative and during the year paid 92% of bills within 10 working days (2009-10, 88%).

### **Disabled Persons Policy**

We have our own Disabled Persons Officer who is responsible for VLA complying with the Civil Service Code of Practice on the employment of people with disabilities. All our posts are open to people with disabilities and our recruitment advertisements have an equal opportunity statement and the official disability symbol. We aim to retain staff who become disabled whilst in employment, either in their existing post or in alternative suitable work. Our policies and procedures meet the requirements of the disability Two Ticks standard. The number of disabled persons employed by VLA at 31<sup>st</sup> March 2011 was 136.

### **Communication**

Effective communication is an important part of the development and management of VLA. Our corporate communication channels include team briefings, an intranet and newsletters which keep staff informed of VLA's performance and financial situation. These are complemented by focus groups and workshops, when appropriate, to consult and involve staff during times of change and decision-making.

Regular audits are used to monitor the effectiveness of communication and to drive improvements. The national and departmental agreements on consultation procedures have been maintained.

### **Pensions**

All staff are eligible to join the Civil Service Pension Scheme (CSPS). An outline of the scheme is included in the Remuneration Report. Details of how pension liabilities are treated are in the notes to the accounts at 1 (m).

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## MANAGEMENT COMMENTARY

**Aim**

Our main aim is to help deliver the UK's requirements for animal and public health, and sustainable agriculture and food industries by delivering excellent and value for money knowledge, evidence and services.

**Vision**

Our vision is to be recognised as the leading national source and a key international source of quality evidence-based scientific and technical advice, services, support and leadership on surveillance, epidemiology and laboratory sciences for animal health and zoonoses. We want to make a difference and to be recognised by all as an organisation that provides benefit at the local, regional, national and international level.

**Service Performance and Quality Targets**

Our targets are set within the context of Defra's key business areas:

- Value for Public Money
- Profile, Influence and Responsiveness
- Excellent Scientific Knowledge and Services
- Capacity and Capability.

We provide the base data to enable Defra's Internal Audit Division to verify our performance and provide an independent assessment to Defra. This statement has their approval.

**Value for Public Money**

We are required to recover our full economic costs within the permitted 2% tolerance range through charges for services we provide to Defra and other public and private sector customers. In assessing performance against this target, we exclude early retirement costs and other exceptional items, but include notional insurance premiums (see note 3 to the accounts).

**This target was achieved in 2010-11 as shown below.**

	2010-11 (£'000)	2009-10 (£'000)
Operating income	86,238	109,649
Administration costs	85,713	121,296
Operating cost statement surplus (deficit)	525	(11,647)
Adjustments disclosed in note 3 to the accounts	(418)	21,890
Surplus/(deficit) for the year after adjustments	107	10,243

Our costs include a capital charge of £6,052,000 (2009-10, £34,663,000) comprising depreciation, impairment on buildings to be demolished and downward asset revaluations.

## Profile, Influence and Responsiveness

- **Achieve a score of 90% in the customer satisfaction survey (Previous years' targets were 85% for 2009-10 and 2008-09 based on a three year rolling average).** Each year we send a questionnaire to our main government customers, Defra and the Food Standards Agency (FSA), who account for nearly 90% of our work. The survey asks them to score our performance against a number of set questions on projects from across our Science Programmes which were completed during the year. The returned questionnaires and the comments enable us to identify trends (good and bad) and lessons to be learned. This process is managed by the Business Division and the results of the consolidated returns are calculated to give an overall satisfaction score. The report is circulated to the Directorate and Science Programme Managers who are required to produce an action plan in response to any issues raised in their area. A report on the outcome is presented to the Customer Board.  
**This target was met in each of the last three financial years.**
- **Improve VLA's safety record using 2007-08 as comparator.** This was a new target for 2009-10. A number of VLA's activities involve working with hazardous substances and animal husbandry so the safety of our staff is very important. A key aim is to improve our safety record and so a target was agreed to this effect using 2007-08 as a full year comparator rather than 2009/10 as this reflected a base level prior to our implementation of safety improvement plans. Achievement of this target is measured primarily against the number of Reporting of Injuries, Diseases and Dangerous Occurrences Regulations (RIDDORs) in the year.  
**This target was met in 2010-11 and 2009-10.**

## Excellent Scientific Knowledge and Services

- **Meet contracted Rationale Objectives Appraisal Monitoring Evaluation (ROAME) R&D milestones (2009-10, 90%; 2008-09, 90%)** This is an agreed performance measure for our work on research projects for Defra. It is set at the project initiation stage and covers the agreed milestones for the period of the projects, such as interim and final reports. The customer must agree any changes to the original timescale. The Business Division monitors performance during the year and provides regular progress reports to Defra and internally through its milestone tracking system.  
**This target was met in each of the last three financial years.**
- **Deliver contracted of surveillance deliverables on time. (2009-10, 85%; 2008-09, 85%)** This is similar to the above target except it covers our surveillance work and a much broader range of outputs. The surveillance work is made up of numerous projects for different customers in Defra's Food and Farming Group. The projects' deliverables vary and can be a monthly report or less frequent, depending on the nature of the individual project. We monitor and report on progress in a similar way to the above target.  
**This target was partially (97%) met in 2010-11 and in full in the previous two financial years.**
- **Deliver research final reports on time. (2009-10, 85%; 2008-09, 85%)** Research projects usually span three to five years and this target relates to those projects that were completed during the year.  
**This target was met in each of the last three financial years.**

- **Maintain appropriate third party quality accreditations.**

We achieved a range of formal external standards such as ISO 9001 across the Agency, ISO 14001, Good Laboratory Practice, Good Manufacturing Practice, Investors in People and ISO 17025 in different areas of our operations. Maintaining these standards is an important measure of demonstrating our commitment to quality. They are subject to regular audit and inspection and maintaining them is a challenging target.

**This target was met in each of the last three financial years.**

### **Capacity and Capability**

- **Conduct one tabletop notifiable disease simulation exercise to test current laboratory response capability, identify gaps and implement action plan.**

VLA plays a critical role in the event of a notifiable animal disease outbreak and this target was set to ensure capability was tested in readiness for any actual outbreaks. We took part in the Defra wide simulation exercise Silver Birch during 2010-11 which was focused on a Foot and Mouth Disease (FMD) outbreak. This involved running more than one exercise and no gaps in our laboratory response were identified, and hence we did not need to produce an action plan.

**This target was met in each of the last three financial years.**

### **Sustainability**

- **Prepare a plan for water use reduction for the 2010-11 to 2016-17 7% target.**

As part of the government's sustainability agenda a reduction in water use is a key component. The laboratory estate is significant consumer of water and to reduce consumption will take some time and hence the timeframe. This is a new target for 2010-11.

**This target was achieved.**

### **Risk Policy**

Risk management is one of the key internal controls within VLA and the policies are subject to regular review by VLA's Management Board and the Audit and Risk Committee. Full details of the risk environment within VLA are explained in of the Statement on Internal Control.

### **Land and Buildings**

The premises occupied by VLA comprise:

- A main laboratory site of 15 hectares near Weybridge, Surrey, with adjacent grassland and farm buildings of 75 hectares plus a farm unit of 50 hectares located within eight miles from the site.
- 15 Regional Laboratories throughout England, Scotland and Wales.

### **Sustainable Development**

We have clearly defined responsibilities for sustainable development and the monitoring and reporting of our performance is included in annual reports. We also integrate sustainable development into all our policy making and procedure setting.

Our approach to environmental management is consistent with the principles of the UK Sustainable Development Strategy 'Securing the Future' which are:

- Using sound science responsibly.
- Promoting good governance.
- Ensuring a strong, healthy and just society.
- Achieving a sustainable economy.
- Living within environmental limits.

We have an ISO 14001 accredited Environmental Management System, an Environmental Policy and a detailed Environmental Management Programme.

Eleven of our 16 sites, including Weybridge, have achieved ISO 14001 certification.

### **Efficiency and Flexibility**

We continually review our operations to seek improvements to our operations and with the uncertain economic climate this has increased in importance. During the year we have started to review our structure and have merged some units into larger departments to enable us to be more responsive and flexible to demand, obtaining synergies from the process. We have also consulted staff to identify opportunities for further efficiencies and income generation. The outcome is a definitive list of actions that are currently being taken forward.

### **Recruitment**

We have systems in place to ensure that recruitment is carried out using fair and open competition, and that selection is based on merit. This is subject to regular internal checks and an annual audit of VLA's recruitment policy and procedures to ensure compliance with the Civil Service Commissioners' Recruitment Principles. Further information is available on our website.

### **Diversity and Equality**

We operate a policy of equal opportunity regardless of race, gender, age, marital status, religion or belief, sexual orientation, disability or ethnicity in line with the Equality Act 2010. All staff are encouraged to develop themselves within their posts and progress to higher levels if they wish to do so. Progression is through fair and open competition based on merit.

Staff are able to join the various Defra groups such as the part-time and disability networks. Staff also have access to a Wellbeing Adviser, Harassment Officers and Trade Union Representatives, as well as Human Resources, if they wish to discuss any issues. There is an Agency Equal Opportunities Officer and a Diversity Champion.

### **Employee Involvement**

We aim to have a workforce able and capable of meeting its aims and objectives, and to have the necessary skills and expertise to achieve these goals. Staff are encouraged to become involved and to develop using the wide range of learning and development methods available to them.

Staff have been involved in the development of the Equality Scheme, can attend Directorate meetings, join a union and be represented by VLA Trade Union Side (TUS). Twice yearly Whitley meetings are held between senior management and the TUS as well as other more informal meetings to discuss policies and issues raised by staff.

Staff are also encouraged to take part in the Civil Service People Survey which measures staff engagement in government departments and agencies. These results provide us with a benchmark to compare our performance against the Civil Service as a whole and we can monitor improvements in the agency. The last survey was held in October 2010 and the results are available on our website.

We were awarded the Investor in People standard in December 1999 and since then we have maintained the standard against ever more challenging criteria. This is reflected in the opportunities available to staff to develop themselves in line with the needs of the business.

**Data Handling**

We have reviewed our data handling procedures in line with Cabinet Office instructions. We can confirm that there have been no personal data related incidents.

**Cost Allocation and Charging**

We have complied with the cost allocation and charging requirements set out in HM Treasury and Office of Public Sector Information Guidance.

**Sick Absence**

The average working days lost per employee during the year was 9.0 (2009-10, 8.4). 35% of staff had no sick leave during the year (2009-10, 33%).

## REMUNERATION REPORT

### Remuneration Policy

The remuneration of Senior Civil Servants is set by the Prime Minister following independent advice from the Review Body on Senior Salaries.

In reaching its recommendations, the Review Body must consider the following:

- 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.
- The Government's inflation target.

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

### Assessment of Performance

The Chief Executive and all senior managers are subject to a performance system that monitors their performance against agreed targets. For members of the SCS this is the performance management system introduced by the Civil Service Management Board. For the remaining managers, it is the performance management system as adopted by VLA.

### Service Contracts

Civil Service appointments are made in line with the Civil Service Commissioners' Recruitment Code. This requires appointment to be made on merit, on the basis of fair and open competition. The Code also includes the circumstances when appointments may otherwise be made.

The officials covered by this report, who are mainly Senior Civil Servants, hold appointments which are open-ended (except the Chief Executive), until they reach the normal retiring age of 65, although they have the option to retire at 60. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme.

The other officials are covered by standard VLA contracts which have no mandatory retirement age but keep the option to retire at 60.

Further information about the work of the Civil Service Commissioners can be found at [www.civilservicecommissioners.gov.uk](http://www.civilservicecommissioners.gov.uk).



The audited remuneration and pension entitlements of the most senior managers were as follows:

	Salary [2009-10] (£k)	Performance pay [2009-10] (£k)	Real increase in pension and lump sum at age 60 (£k)	Total accrued pension at age 60 at 31-3-11 and related lump sum (£k)	CETV at 31-3-10 (£k)	CETV at 31-3-11 (£k)	Real increase in CETV as funded by employer (£k)
Prof S. Peter Borriello	115-120 [115-120]	10-15 [5-10]	3	7	53	96	34
Roger Hancock	35-40 [35-40]	- [5-10]	1	105	492	538	3
Chris Morrey	75-80 [75-80]	5-10 [5-10]	4	53	256	295	14
Chris Thorns	70-75 [70-75]	5-10 [5-10]	-1	150	824	883	-6
Andrew Soldan	60-65 [30-35]	0-5 [0-5]	4	42	133	160	14

Roger Hancock returned to VLA from his secondment to Defra on 28 September 2010. Andrew Soldan continued as a member of the Directorate until 31 March 2011.

Full year equivalents for part year officials were:

	<u>2010-11</u> £k	<u>2009-10</u> £k
Andrew Soldan	60-65	65-70
Roger Hancock	75-80	85-90

Salaries include gross salaries, overtime; reserved rights to London weighting or London allowances; recruitment and retention allowances; private office allowances and any other allowance to the extent that it is subject to UK taxation. There were no benefits in kind (2009-10, nil).

Non-Executive members of the Audit and Risk Committee are paid £600 for attendance of each meeting. During the year Prof Robin Pritchard (Chairman) and Mr Rod Morgan attended three meetings each.

The members of VOAB, with the exception of VLA representatives are either Defra employees, which bears their direct costs, or non-Defra external members and Defra pays expenses for their attendance at the meetings.

Appointment of VLA's Chief Executive is by open competition. The appointment is fixed term for three years with the possibility of a two-year extension or permanency. Prof S. Peter Borriello was appointed to this post in October 2008.

The Chief Executive is a member of the Senior Civil Service and his remuneration is based on SCS salary scales. He is also entitled to a bonus based on achievement of the Agency's targets which is subject to external validation by Defra's Internal Audit Division which undertakes a full audit.

The Chief Executives' gross cost of employment in 2010-11 and 2009-10 (including superannuation benefit, employer's NI contributions, bonus and a taxable allowance) above as follows:

	<u>2010-11</u>	<u>2009-10</u>
	£	£
Prof S. Peter Borriello	170,012	168,262

Prof S. Peter Borriello is a member of the Nuvos Pension Scheme.

There were no loans to senior staff members during the year (2009-10, nil).

In addition to the above, Prof John Preston (external management board member) was paid a total of £2500 for his services and expenses (2009-10, £6082).

From 1<sup>st</sup> April, with the merger of VLA with Animal Health, the following current members of VLA Directorate have taken positions within the new merged body:

Chris Morrey     Finance Director  
John Preston     Non-Executive Director

### Civil Service Pensions

Pension benefits are provided through the Civil Service pension arrangements. From 30 July 2007, civil servants may be in one of four defined benefit schemes; either a 'final salary' scheme (**classic**, **premium** or **classic plus**); or a 'whole career' scheme (**nuvos**). These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under **classic**, **premium**, **classic plus** and **nuvos** are increased annually in line with Pensions Increase legislation. Members who joined from October 2002 could opt for either the appropriate defined benefit arrangement or a good quality 'money purchase' stakeholder pension with a significant employer contribution (**partnership** pension account).

Employee contributions are set at the rate of 1.5% of pensionable earnings for **classic** and 3.5% for **premium**, **classic plus** and **nuvos**. Benefits in **classic** accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. For **premium**, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike **classic**, there is no automatic lump sum. **Classic plus** is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per **classic** and benefits for service from October 2002 worked out as in **premium**. In **nuvos** a member builds up a pension based on his pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and, immediately after the scheme year end, the accrued pension is uprated in line with Pensions Increase legislation. In all cases members may opt to give up (commute) pension for lump sum up to the limits set by the Finance Act 2004.

The **partnership** pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of three providers. The employee does not have to contribute but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

The accrued pension quoted, is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of **classic**, **premium** and **classic plus** and 65 for members of **nuvos**.

Further details about the Civil Service pension arrangements can be found at the website [www.civilservice-pensions.gov.uk](http://www.civilservice-pensions.gov.uk).

### **Cash Equivalent Transfer Values**

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The figures include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their buying additional pension benefits at their own cost. CETVs are calculated in accordance within the guidelines and framework prescribed by the Institute and Faculty of Actuaries and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

The figures at 31 March 2010 may be different to the closing figures in last year's accounts. This is due to the CETV factors being updated to comply with the Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008.

### **Real Increase in CETV**

This reflects the increase in CETV that is funded by the employer. It does not include the increase in accrued pension due to inflation, or contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement).

**Professor S. Peter Borriello**

Chief Executive and Agency Accounting Officer

7 July 2011

## **STATEMENT OF AGENCY'S AND ACCOUNTING OFFICER'S RESPONSIBILITIES**

Under section 7(2) of the Government Resources and Accounts Act 2000, HM Treasury has directed VLA to prepare, for each financial year, a statement of accounts in the form and on the basis set out in the Accounts Direction. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of VLA and of its income and expenditure and cash flows for the financial year.

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

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

The Accounting Officer of Defra has designated the Chief Executive of VLA as the Accounting Officer of VLA. The responsibilities of an Accounting Officer, as set out in chapter 3 of 'Managing Public Money' issued by HM Treasury, include:

- the propriety and regularity of the public finances for which the Accounting Officer is answerable,
- keeping proper records, and
- safeguarding VLA's assets.

## STATEMENT ON INTERNAL CONTROL 2010-11

### Scope of Responsibility

As Accounting Officer, I am responsible for maintaining a sound system of internal control that supports the achievement of VLA's policies, aims and objectives, set by the Department's Ministers, while safeguarding the public funds and departmental assets, for which I am personally responsible. This is in line with the responsibilities assigned to me in HM Treasury's 'Managing Public Money'.

VLA's work up to 31 March 2011 was overseen by the VLA Owners Advisory Board (VOAB). As a member of this Board, I ensured that the VLA Corporate Owner and other members were aware of the main risks managed by VLA by submitting regular reports to the quarterly meetings. Additionally, I ensured that VLA's business plans, which are submitted to and approved by, Ministers, include sections on risk.

I am accountable to the Department's Principal Accounting Officer for enabling her to discharge her overall responsibility in respect of ensuring that VLA, as part of Defra, has adequate financial systems and procedures in place.

### Purpose of the System of Internal Control

The VLA system of internal control was designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives. It could therefore only provide reasonable, and not absolute, assurance of effectiveness.

Internal control was based on an ongoing process designed to identify and prioritise the risks to the achievement of VLA's aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The system of internal control has been in place at VLA for the year ended 31 March 2011 and remains in place within the former VLA side of the Animal Health and Veterinary Laboratories Agency (AHVLA) to the date of approval of the Annual Report and Accounts and accords with Treasury guidance. Internal control measures are being reviewed as part of the merger and a new audit committee has been established and met in May. An internal audit plan has been agreed with the Executive Team.

### Capacity to Handle Risk

Risk management is recognised as the main internal control. A member of the Directorate, the Business Director, was responsible for the framework for effective risk management in VLA.

Regular reports were made to VLA's Management Board, the Directorate, VOAB and to the Audit & Risk Committee (A&RC) who assesses the effectiveness of the processes. The Risk Management Steering Group, a sub-committee of the ARC, was in place to ensure a consistent approach was followed, provide further challenge and to give guidance on any issues arising from the risk registers. Further sub-groups looked specifically at the risk of fraud and information security.

Guidance for staff on risk was available in VLA's Risk Management Strategy document and this, together with further information on risk, was available on VLA's intranet.

An independent view on VLA's risk management maturity was undertaken by the Internal Audit provider who rated it as Risk Defined.

### **The Risk and Control Framework**

The management structure and accountability of the VLA Board and Executive (Directorate) is detailed on page 5. A register of the Directors (Directorate in this instance) is maintained and reviewed annually.

The A&RC, chaired by an external member, provides support to management on Internal Control. Representatives from Internal and External Audit attend the A&RC to present and receive reports on risk and controls within VLA. In addition, Internal Audit gives an opinion on the control, risk and governance environment. Invitation to attend the meetings are also open to Defra Internal Audit who can comment on the process from a wider Defra perspective

The Committee's terms of reference and minutes of meetings are available to staff on the intranet. The risk management strategy has been reviewed by the Risk Management sub-committee and risk management will now be taken forward through the AHVLA Audit Committee.

The main processes in place for identifying, evaluating and managing risk are:

- Corporate and Divisional risk registers owned by members of the Directorate.
- Risk is an open standing agenda item at divisional management and team meetings.
- Each quarter, a formal review of the VLA Risk Register is undertaken by the risk owners and discussed at the Directorate performance meeting where the register is updated.
- Each quarter, the divisional directors review their risk register, update accordingly and publish it on the intranet.
- There is an opportunity each month at the regular Directorate meetings to discuss any new and emerging risks.
- At each meeting the A&RC received a report from the director responsible for risk management providing an update on changes made to the risk register and a report on the activities of the Risk Management Steering Group and the Fraud risk sub-group.
- At VOAB a regular report was produced on the control environment and the governance arrangements on risk. This was produced by the Business Director with independent opinion provided by the chair of the A&RC who is a member of VOAB. The chair of the A&RC is required to provide an annual report on the committee's activities and raise any concerns on Internal Control with the Corporate Owner.
- At a specific meeting each year, VOAB review's the top risks identified by VLA.

Our management of risk was embedded in planning and delivery by ensuring that:

- Directors promoted risk management at team meetings.
- Risk management was included in the Induction Course for new entrants.
- The risk management strategy, framework and risk registers were available on the intranet.
- Risk is an accepted principle and requirement for major capital investment, strategic plans and projects.
- Objective setting was linked to risk and risk owners have personal objectives to manage their risk area.

### **Review of Effectiveness**

As Accounting Officer, I am responsible for reviewing the effectiveness of our system of internal control. This is informed by the work of the internal auditors and the directors responsible for the development and maintenance of the internal control framework. Comments made by the external auditors in their management letter and other reports are also considered.

The following processes to maintain internal control are in place:

- The Directorate meets monthly to consider operational performance, and then quarterly to focus on strategic and medium term issues affecting the direction of VLA compared to its plan.
- Progress on achievement of the ministerial targets is reported to VOAB and for delivery specific targets to the Customer Board. The Chief Executive reports to the Chief Veterinary Officer and regular meetings are held during the year to discuss VLA's progress against its objectives.
- A balanced scorecard is the main internal measurement of performance and is operated in conjunction with the risk register. It is operated at Corporate and Divisional level forming the basis for work objective setting and is cascaded throughout VLA.
- The Audit & Risk Committee meets at least three times a year to consider the effectiveness of VLA's response to audit reports and its risk management framework. The Chairman of this committee also provides an independent opinion to VOAB.
- Risk management is a scorecard objective for the Business Director who is the nominated Risk Co-ordinator.
- All risks identified in the corporate and divisional risk registers have risk owners who are responsible for control and mitigation.
- To ensure that the risk of fraud is properly managed, there is a Fraud Management Policy together with a specific fraud risk register. A small team, chaired by the Business Director, manages and reviews the process.
- RSM Tenon, an independent company which operates to Government internal audit standards, provides internal audit services. Each year, the A&RC approve the audit strategy for the coming year, together with the Annual Plan. They submit regular reports which include an independent opinion on the adequacy and effectiveness of our system of internal control with recommendations for improvement. In 2010-11 the internal auditors annual audit opinion showed that our processes for risk management and governance were rated Green, and control was Amber.

As part of the review of the risk management strategy we have revised the format of our corporate risk register to delineate between the short and medium term risks facing the business. This format has been rolled out across all risk registers during the year. To provide better administration of the risk management process we have evaluated and implemented the software package, 4Risk, to automate procedures and provide better management information.

During the year, ISO 9001 certification was maintained across the whole range of our activities which provides further assurance on our business processes in operation.

I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Directorate and the A&RC.

#### **Significant Internal Control Issue**

There have been on-going problems with the management and performance of the Defra Sustainable Workplace Management (SWM) contract for the running of the VLA estate with non compliances identified and inadequate management information. This was though managed so that operational delivery during the year has been maintained.

However, these problems which were across the Defra Network, were identified as a concern that merited escalation to the ARC's of the various bodies, including VLA's, and Defra's itself. As a result Defra appointed a senior official at Director level to lead work to address the problems in December 2010.

Significant progress has been made and the intention is to reach agreement on an improved contract with the supplier to be operational in the summer of 2011 and to continue monitoring new bilateral agreements to deliver on health and safety actions very closely.

During 2011-12, VLA as part of the merged AHVLA will continue to develop its system of internal control through continual improvement, responding to evolving best practices and changes in the business environment to ensure that the new governance and organisational structure meets the anticipated changes in the environment in which the agency operates.

**Professor S. Peter Boriello**  
Chief Executive and Agency Accounting Officer

7 July 2011



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

I certify that I have audited the financial statements of the Veterinary Laboratories Agency for the year ended 31 March 2011 under the Government Resources and Accounts Act 2000. These comprise the Statement of Comprehensive Net Expenditure, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Taxpayers' Equity and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

**Respective responsibilities of the Accounting Officer and auditor**

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

**Scope of the audit of the financial statements**

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

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

**Opinion on Regularity**

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

**Opinion on the financial statements**

In my opinion:

- the financial statements give a true and fair view, of the state of the Veterinary Laboratories Agency's affairs as at 31 March 2011, and of the surplus for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

**Opinion on other matters**

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000; and
- the information given in the 'Director's Report' and the 'Management Commentary', included within the annual report, for the financial year for which the financial statements are prepared is consistent with the financial statements.

**Matters on which I report by exception**

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

- adequate accounting records have not been kept; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records or returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Statement on Internal Control does not reflect compliance with HM Treasury's guidance.

**Report**

I have no observations to make on these financial statements.

*Amyas C E Morse  
Comptroller and Auditor General  
National Audit Office  
151-197 Buckingham Palace Road  
Victoria  
London  
SW1W 9SP  
15 July 2011*

**STATEMENT OF COMPREHENSIVE NET EXPENDITURE  
FOR THE YEAR ENDED 31 MARCH 2011**

			2010-11	2009-10
Notes			£000	Restated £000
			Income	
			Staff Costs	Other Costs
<b>Administration costs:</b>				
Staff costs	4	40,554		42,569
Other administrative costs	5		45,159	78,727
Operating income	6		(84,684)	(107,650)
EU Income	6		(1,554)	(1,999)
<b>Totals</b>		<u>40,554</u>	<u>45,159</u>	<u>(86,238)</u>
<b>Net operating cost (surplus)</b>			<u>(525)</u>	<u>11,647</u>
 <b>Other Comprehensive Net Expenditure</b>				
			2010-11	2009-10
			£000	£000
Net loss on revaluation of Property, Plant and Equipment			-	(34,690)
			<u>          </u>	<u>          </u>
Total Comprehensive (Surplus) Net Expenditure for the year ended 31 March 2011			<u>(525)</u>	<u>46,337</u>

All activities arise from continuing operations.

The notes on pages 27 to 46 form part of these accounts.

**STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 MARCH 2011**

	Notes	31 March 2011 £000	31 March 2010 (restated) £000	31 March 2009 (restated) £000
<b>Non-current assets</b>				
Property, plant and equipment	7	236,994	223,476	274,403
<b>Total non-current assets</b>		<b>236,994</b>	<b>223,476</b>	<b>274,403</b>
<b>Current assets</b>				
Inventories	10	5,277	4,625	4,318
Trade and other receivables	11	4,397	4,697	5,623
Cash and cash equivalents	12	1,136	909	697
<b>Total current assets</b>		<b>10,810</b>	<b>10,231</b>	<b>10,638</b>
<b>Total assets</b>		<b>247,804</b>	<b>233,707</b>	<b>285,041</b>
<b>Current liabilities</b>				
Trade and other payables	13	(18,333)	(22,343)	(20,800)
<b>Total current liabilities</b>		<b>(18,333)</b>	<b>(22,343)</b>	<b>(20,800)</b>
<b>Total assets less current liabilities</b>		<b>229,471</b>	<b>211,364</b>	<b>264,241</b>
<b>Non-current liabilities</b>				
Provisions	14	(67)	(147)	(234)
<b>Assets less liabilities</b>		<b>229,404</b>	<b>211,217</b>	<b>264,007</b>
<b>Taxpayers' equity</b>				
General fund		183,657	177,571	191,817
Revaluation reserve		45,747	33,646	72,190
<b>Total taxpayers' equity</b>		<b>229,404</b>	<b>211,217</b>	<b>264,007</b>

The notes on pages 27 to 46 form part of these accounts.

**Professor S. Peter Borriello**  
Chief Executive and Agency Accounting Officer

7 July 2011

**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 31 MARCH 2011**

		2010-11	2009-10
	Notes	£000	£000
<b>Cash flows from operating activities</b>			
Net operating surplus (cost )		525	(11,647)
Adjustments for non-cash transactions	5		
Establishment costs (notional)		17,575	16,752
Impairment & Revaluation		(564)	22,065
Depreciation		6,859	12,598
Notional costs		61	(119)
(Profit) Loss on disposal of fixed assets		(42)	16
Notional Income		(75)	
Decrease in trade and other receivables		300	926
(Increase) in inventories		(652)	(307)
Increase/(Decrease) in trade payables		(4,010)	1,559
Use of provisions	14	(152)	(153)
<b>Net cash inflow from operating activities</b>		<u>19,825</u>	<u>41,690</u>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	7	(7,766)	(14,625)
Proceeds of disposal of property, plant and equipment		168	147
<b>Net cash outflow from investing activities</b>		<u>(7,598)</u>	<u>(14,478)</u>
<b>Cash flows from financing activities</b>			
Cash paid to Defra		(12,000)	(27,000)
<b>Net financing</b>		<u>(12,000)</u>	<u>(27,000)</u>
<b>Net increase in cash and cash equivalents in the period</b>		<u>227</u>	<u>212</u>
<b>Cash and cash equivalents at the beginning of the period</b>	12	<u>909</u>	<u>697</u>
<b>Cash and cash equivalents at the end of the period</b>	12	<u><u>1,136</u></u>	<u><u>909</u></u>

**STATEMENT OF CHANGES IN TAXPAYERS' EQUITY  
FOR THE YEAR ENDED 31 MARCH 2011**

Notes	General Fund £000	Revaluation Reserve £000	Total Reserves £000
<b>Balance at 31 March 2009</b>	191,817	72,190	264,007
<b>Changes in taxpayers' equity 2009-10</b>			
Deficit for year (restated)	(11,647)	-	(11,647)
Assets transferred from Defra	7 2,384	-	2,384
Property income	(237)	-	(237)
Net loss on revaluation of property, plant and equipment	-	(33,110)	(33,110)
Non-cash charges – auditor's remuneration	5 68	-	68
Establishment costs	16,752	-	16,752
Transfers between reserves	5,434	(5,434)	-
<b>Total recognised income and expenses for 2009-10</b>	204,571	33,646	238,217
Funding to Parent	(27,000)	-	(27,000)
<b>Balance at 31 March 2010</b>	177,571	33,646	211,217
<b>Changes in taxpayers' equity 2010-11</b>			
Surplus for year	525	-	525
Property income	(75)	-	(75)
Net surplus on revaluation of property, plant and equipment	-	12,101	12,101
Non-cash charges – auditor's remuneration	61	-	61
Establishment costs	17,575	-	17,575
Transfers between reserves	-	-	-
<b>Total recognised income and expenses for 2010-11</b>	195,657	45,747	241,404
Funding to Parent	(12,000)	-	(12,000)
<b>Balance at 31 March 2011</b>	183,657	45,747	229,404

The purpose of the revaluation reserve is to hold movements in value for VLA's assets. If assets are revalued upwards this reserve increases, if assets are revalued downwards this reserve is charged with the decrease to the extent of previous upward revaluations.

The purpose of the general reserve is to reflect all other funding to VLA in respect of the cost of obtaining premises and the net cost of running the Agency for each financial year.

## NOTES TO THE ACCOUNTS

### 1. Statement of Accounting Policies

The financial statements have been prepared in accordance with the 2010-11 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained within the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context, and comply with the guidelines issued by the International Financial Reporting Interpretations Committee (IFRIC).

Where the FReM permits a choice of accounting policy, a judgement has been made to select the most appropriate policy to suit the particular circumstances of VLA for the purpose of giving relevant and reliable information to the reader. VLA's accounting policies have been applied using estimates and assumptions that affect the application of policies, based on historical experiences and other factors that are believed to be reasonable under the circumstances. They have been applied consistently in dealing with items which are considered material in relation to the Accounts.

Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision only affects that period. They are made in the period of revision and future periods, if the revision affects both current and future periods.

#### (a) Accounting convention

These accounts have been prepared under the historical cost convention, modified to account for the revaluation of non-current tangible assets, intangible assets, assets available for resale, other financial assets, as well as work in progress and inventories, where material.

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the statement of financial position date and amounts reported for income and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates.

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

#### **Project accruals and deferred income**

The Agency is responsible for managing scientific project progress, income received and expenditure incurred on each project. Projects may span across more than one financial year and the preparation of the financial statements requires the Agency to determine, based on an evaluation of the terms and conditions of the arrangements, that it fully and accurately reflects the completeness of any accruals or deferred income in this regard by reference to stage of completion of any ongoing projects.

#### **Indexation of non-current assets**

The Agency restates the non-current assets at current cost each year as stated in note 1(c) below. Depreciation of the assets is spread across the deemed useful economic life, which also requires the use of judgement.

**(b) Administration and programme expenditure**

The Statement of Comprehensive Net Expenditure is required to be analysed between administration and programme income and expenditure. As VLA has no programme expenditure all income and costs relate to Administration.

**(c) Tangible non-current assets**

Title to the freehold land and buildings shown in the accounts is held as follows:

- (i) All freehold land and buildings comprising the farms attaching to the main laboratory site at Weybridge are held in the name of the Secretary of State for Environment, Food and Rural Affairs;
- (ii) All freehold land and buildings at the main laboratory site at Weybridge and at any of the Regional Laboratories are Civil Estate property.

Freehold land and buildings are stated at fair value and are professionally revalued at least every 5 years at existing use value, in accordance with guidance issued by the Royal Institute of Chartered Surveyors, the last revaluation having taken place in 2010. Properties are revised annually by means of a desk top review undertaken by DTZ Limited, where every valuation is reviewed having regard to local and national indices and local knowledge. Non-property tangible assets have been stated at fair value using appropriate indices, where material.

The minimum level for capitalisation of a tangible asset is £2000.

**(d) Depreciation**

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

Buildings and roads	5 to 60 years
Plant and machinery	5 to 10 years
Laboratory equipment	5 to 10 years
Computers	3 to 10 years
Farm vehicles, cars	5 to 15 years

**(e) Impairment**

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



**(f) Work in progress and inventories**

Work in progress represents costs incurred on specific projects, including direct materials and labour, plus attributable overheads less provision for known or expected losses as soon as foreseen. Due to the nature of work in progress, commercial and European Union income is not recognised until customers are invoiced. Inventories are stated at the lower of cost, or net current replacement cost where materially different, and net realisable value.

**(g) Capital charge**

In accordance with the FReM and HM Treasury requirements there has been a change of accounting policy and a notional non-cash charge for the cost of capital employed is no longer included in the Statement of Comprehensive Net Expenditure. Comparatives have been adjusted accordingly. The reconciliation in Note 2 shows the impact of this change of accounting policy.

**(h) Intangible non-current assets**

The Agency's expenditure on research activities is written off to the statement of comprehensive net expenditure as incurred, due to the inherent uncertainty surrounding the economic benefit resulting from it. Capitalisation of development costs is contingent on fulfilment of all of the following criteria:

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

Amortisation commences when the developed asset is brought fully into use, and is based on a systematic allocation over the period during which the Agency is expected to benefit from the use of the intangible asset. Asset lives would be typically in the range of 2 to 10 years.

**(i) Operating income**

Operating income represents the value of goods and services provided by the Agency during the year. Where income is in respect of work carried out on long term scientific projects, it is based on activities carried out during the year. Income received in excess of these activities is carried forward as payments in advance unless the project is complete. Where the level of activities carried out exceeds income, it is carried forward as a debtor to the extent that it is deemed recoverable.

**(j) Value added tax**

Most of the activities of the Agency are outside the scope of VAT and in general output tax does not apply and input tax on services is not recoverable. Some recoveries of tax do take place under the contracted out services provisions applicable to Government bodies. Irrecoverable VAT is charged to the relevant expenditure category or included in the capitalised purchase cost of non-current assets. Where output tax is charged, or input tax is recoverable, the amounts are stated net of VAT.

**(k) Research and development**

Research and development expenditure is written off as incurred.

**(l) Notional charges**

The costs of the following services are included in the statement of comprehensive net expenditure on a notional basis: establishment costs and audit fees.

(m) **Pensions**

Past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme, which are described in the Remuneration Report and at note 4. The defined benefit elements of the schemes are unfunded and are non-contributory except in respect of dependents' benefits. VLA recognises the expected cost of these elements on a systematic and rational basis over the period during which it benefits from employees' services, by payment to the Principal Civil Service Pension Scheme (PCSPS) of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS. In respect of the defined contribution elements of the schemes, VLA recognises the contributions payable for the year.

(n) **Early departure costs**

VLA is required to meet the additional costs of benefits beyond the normal PCSPS benefits in respect of employees who retire early. VLA provides in full for this cost when the early retirement programme has been announced and is binding upon the Agency.

(o) **Other employee benefits**

VLA recognises a liability and expense for all other employee benefits including unused annual leave, accrued at the statement of financial position date, provided these amounts are material in the context of the overall staff costs. No other material employee benefits were accrued at the statement of financial position date.

(p) **Foreign currency translation**

Assets and liabilities in foreign currencies are translated into sterling using the rate of exchange at the statement of financial position date, or where appropriate, the rate of exchange fixed under the terms of the relevant transaction. Transactions in foreign currencies are translated into sterling using the rate at the date of the transaction. Differences on translation are written off to the statement of comprehensive net expenditure.

(q) **Leases**

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

The determination of whether an arrangement is, or contains a lease, is based on the substance of that arrangement. This assessment is based on whether the arrangement is dependent on the use of a specific asset and conveys the right to use the asset.

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

All payments under operating leases are charged to the statement of comprehensive net expenditure as they are incurred.

(r) **Financial assets**

These comprise receivables which are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. Receivables are carried in the statement of financial position at cost less appropriate provisions for doubtful receipts.

(s) **Financial liabilities**

These comprise trade and other payables and other financial liabilities. They are initially recognised at fair value of consideration received less directly attributable transaction costs. They are subsequently measured at amortised cost.

(t) **Provisions**

VLA provides for obligations arising from past events where the Agency has a present obligation at the balance sheet date, and where it is probable that it will be required to settle the obligation and a reliable estimate can be made. Where material, future costs have been discounted using the pensions discount rate of 1.8%.

(u) **Derivative financial instruments and hedging**

The Agency does not use derivative instruments such as interest rate swaps or any other hedging facilities.

## 2. IFRS and changes in the FReM

There have been no new IFRSs which have impacted the prior year comparatives.

Major FReM changes for 2010-11

The Agency has reviewed the major FReM changes for 2010-11. In accordance with the FReM and HM Treasury requirements there has been a change of accounting policy and a notional non-cash charge for the cost of capital employed is no longer included in the Statement of Comprehensive Net Expenditure. Comparatives have been adjusted accordingly. The following reconciliation shows the impact of this change of accounting policy.

### Restatement of 2009/10 figures:-

	£000's
Net Operating Cost per prior year accounts	19,941
Less Cost of Capital per prior year accounts	(8,294)
Restated Net Operating Cost per Statement of Comprehensive Net Expenditure	11,647

### Impending application of newly issued accounting standards not yet effective

At the date of authorisation of these financial statements, the following standards relevant to the Agency were issued but not yet effective:

- IAS 24 Related Party disclosures, revised definition of related parties

This standard has not been adopted by the Agency or the Department ahead of their implementation date. The future impact of IAS 24 on the Agency's financial statements is not considered to be significant. The Department is reviewing the likely impact of the adoption of IFRS 9.

### 3. Key Performance Target

Within the prescribed 2% tolerance level the Agency is required to recover its full economic costs through charges for services it provides to Defra and other public and private sector customers. For the purpose of assessing performance against this target, full economic costs exclude the costs of early retirement and other items outside VLA's control, but include an assessment of notional insurance premiums.

The target has been achieved in 2010-11 as shown by the table below:

	2010-11 £'000	2009-10 £'000 Restated
Income	86,238	109,649
Less Expenditure	85,713	121,296
Surplus (Deficit) for the year before agreed adjustments	525	(11,647)
Add early retirement costs (note 5)	25	50
Add: exceptional costs arising from compensation claims	-	7
Add: costs of Defra Voluntary Early Departure Scheme	347	-
Add: indexation decrease recognised in statement of comprehensive net expenditure	-	21,990
Add: impairment of fixed assets & release of provision	(560)	75
Less: notional insurance premium	(230)	(232)
Surplus/(Deficit) for the year after adjustments	107	10,243

The notional insurance premium which is an estimate has not been included in the statement of comprehensive net expenditure but is included above for cost recovery purposes as permitted by the Treasury Fees and Charges Guide. During 2008-09 it was agreed that impairment of fixed assets is an item outside of VLA's control.

### 4. Staff Numbers and Related Costs

Staff costs comprise

	2010-11 £000	£000	£000	2009-10 £000
	Total	Permanently employed staff	Others	Total
Wages and salaries	32,373	31,968	405	34,110
Social security costs	2,344	-	-	2,426
Other pension costs	5,837	5,837	-	6,033
<b>Total net costs</b>	<b>40,554</b>	<b>40,149</b>	<b>405</b>	<b>42,569</b>

The charge for wages and salaries includes the movement for the year in the annual leave accrual.

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme but VLA is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out as at 31 March 2007.

Details can be found in the accounts of the Cabinet Office: Civil Superannuation ([www.civilservice-pensions.gov.uk](http://www.civilservice-pensions.gov.uk)).

For 2010-11, employers' contributions of £5,718,277 were payable to the PCSPS (2009-10, £5,922,000) at one of four rates in the range 16.7 to 24.3 per cent (2009-10, 16.7 to 24.3 per cent) of pensionable pay, based on salary bands. The scheme's Actuary reviews employer contributions every four years following a full scheme valuation. The contribution rates changed with effect from 1 April 2009. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions of £111,510 (2009-10, £103,000) were paid to a panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3 to 12.5 per cent (2009-10, 3 to 12.5 per cent) of pensionable pay. Employers also match employee contributions up to 3 per cent of pensionable pay. In addition, employer contributions of £8,050 (0.8 per cent; 2009-10, £8,000, 0.8 per cent) of pensionable pay, were payable to the CSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees. There were no contributions due to the partnership pension providers at the reporting period date or contributions prepaid.

#### **Average number of persons employed**

The average number of whole-time equivalent persons employed during the year was as follows.

	2010-11			2009-10
	Total	Permanent staff	Others	Total
Directly Employed	1,151	1,127	24	1,215
Other	23	-	23	16
<b>Total</b>	<b>1,174</b>	<b>1,127</b>	<b>47</b>	<b>1,231</b>

#### **4.1 Reporting of Civil Service and other compensation schemes – exit packages**

During the year 13 employees agreed to leave VLA under a voluntary exit release scheme. The details for these staff who will leave in June 2011 are as per the table overleaf.

(a)	(b)	(c)	(d)	(e)
	2010-11		2009-10	
Exit package cost band	Number of compulsory redundancies	Number of other departures agreed	Number of compulsory redundancies	Number of other departures agreed
<£10,000	-	3	-	-
£10,000-£25,000	-	7	-	-
£25,001-£50,000	-	3	-	-
£50,001-£100,000	-	-	-	-
£100,001-£150,000	-	-	-	-
£150,001-£200,000	-	-	-	-
Total number of exit packages by type	-	13	-	-
Total resource cost (£)	-	347,000	-	-

Redundancy and other departure costs have been accrued for in 2010-11 as these staff leaving under the scheme had accepted the terms of the offers made to them as at 31 March 2011. Costs have been calculated in accordance with the provisions of the Civil Service Compensation Scheme, a statutory scheme made under the Superannuation Act 1972. Where the department has agreed early retirements, the additional costs are met by the department and not by the Civil Service Pension Scheme. The costs relating to members of the Directorate leaving the agency under the cross Government Approved Early Retirement Scheme have not been included in the above as these costs are payable by Defra.

**5. Other Administrative Costs**

	Note	2010-11 £000	Restated 2009-10 £000
Consumable supplies		10,564	13,655
Establishment costs		17,915	16,210
Site services		7,331	8,206
Personnel Costs		1,597	1,551
Travel and Subsistence		729	1,098
Defra Overheads		431	411
Rentals under operating leases		324	336
Site demolition and clearance		(807)	2,700
Depreciation		6,859	12,598
Impairment and revaluation		247	22,065
(Profit)/ Loss on disposal of property, plant and equipment		(42)	16
Auditors' remuneration and expenses (notional)		61	68
Property Income (notional)		(75)	(237)
Early Retirement Provision	14	25	50
<b>Total</b>		<b>45,159</b>	<b>78,727</b>

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

The notional audit fee includes the National Audit Office's audit fee of £61,250 for the audit of the 2010-11 financial statements (2009-10, £63,000), and an audit fee of nil for the audit of the Agency's IFRS Trigger Point 4 submission to HM Treasury (2009-10, £5,200). No remuneration was paid to the auditors for non-audit work.



**6. Income**

		2010-11	2009-10
		£000	£000
		Total	Total
Defra	Disease Surveillance	29,518	35,109
	Contribution to Running Costs	25,895	39,188
	Research & Development	16,517	17,831
	Diagnostic Testing	55	15
	Business Services	81	3,557
	Other	84	29
		<u>72,150</u>	<u>95,729</u>
Other UK Government	Research & Development	1,555	1,789
	Disease Surveillance	1,283	985
	Diagnostic Testing	114	265
	Other	81	68
		<u>3,033</u>	<u>3,107</u>
UK Commercial	Diagnostic Testing	4,803	4,037
	Research & Development	1,933	2,088
	Scientific Products	435	352
	Other	179	105
		<u>7,350</u>	<u>6,582</u>
Overseas Commercial	Research & Development	566	836
	EU Research	1,554	1,151
	EU Community Reference Labs	-	848
	Scientific Products	413	540
	Diagnostic Testing	311	440
	Other	861	416
		<u>3,705</u>	<u>4,231</u>
<b>Total</b>		<u><u>86,238</u></u>	<u><u>109,649</u></u>

## 7. Property, Plant and Equipment

	Land	Buildings	Information Technology	Vehicles, Fittings, Plant & Machinery	Lab Equipment	Payments on Account & Assets under Construction	TOTAL
	£000	£000	£000	£000	£000	£000	£000
<b>Cost or valuation</b>							
At 1 April 2010	17,260	184,858	2,264	5,875	28,079	12,133	250,469
Additions	-	4,114	310	270	1,759	1,313	7,766
Reclassifications	-	2,516	-	-	-	(2,516)	-
Disposals	-	(72)	(485)	(202)	(2,487)	-	(3,246)
Revaluation	216	17,383	(81)	46	1,908	-	19,472
<b>At 31 March 2011</b>	<b>17,476</b>	<b>208,799</b>	<b>2,008</b>	<b>5,989</b>	<b>29,259</b>	<b>10,930</b>	<b>274,461</b>
<b>Depreciation</b>							
At 1 April 2010	-	2,817	2,100	2,200	19,876	-	26,993
Provided in year	3	4,625	143	453	1,635	-	6,859
Reclassification	-	-	-	-	-	-	-
Disposals	-	(1)	(480)	(195)	(2,443)	-	(3,119)
Revaluation	-	5,410	(68)	7	1,385	-	6,734
<b>At 31 March 2011</b>	<b>3</b>	<b>12,851</b>	<b>1,695</b>	<b>2,465</b>	<b>20,453</b>	<b>-</b>	<b>37,467</b>
<b>Net book value</b>							
<b>At 31 March 2010</b>	<b>17,260</b>	<b>182,041</b>	<b>164</b>	<b>3,675</b>	<b>8,203</b>	<b>12,133</b>	<b>223,476</b>
<b>At 31 March 2011</b>	<b>17,473</b>	<b>195,948</b>	<b>313</b>	<b>3,524</b>	<b>8,806</b>	<b>10,930</b>	<b>236,994</b>
<b>Asset Financing</b>							
<b>Owned and operating lease at 31 March 2011</b>	<b>17,473</b>	<b>195,948</b>	<b>313</b>	<b>3,524</b>	<b>8,806</b>	<b>10,930</b>	<b>236,994</b>

DTZ Limited undertook a follow up desk based professional valuation of land and buildings during the year ended 31 March 2011 with an effective date of 1 April 2011. The valuation increased the values of land and buildings which are reflected in the above values as at 31 March 2011 (decrease of £56,680,000 in 2009-10). The increase was credited to the revaluation reserve. £34,690,000 of the reduction in 2009-10 was charged to the Revaluation Reserve and £21,990,000 to the Operating Cost Statement.

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	Land	Buildings	Information Technology	Vehicles, Fittings, Plant & Machinery	Lab Equipment	Payments on Account & Assets under Construction	TOTAL
	£000	£000	£000	£000	£000	£000	£000
<b>Cost or valuation</b>							
At 1 April 2009	38,861	271,484	1,830	3,916	26,894	1,999	344,984
Additions	-	1,323	163	1,050	1,965	12,508	17,009
Transfers	-	1,379	-	995	-	(2,374)	-
Disposals	-	(2,269)	(20)	(149)	(1,485)	-	(3,923)
Revaluations	(21,601)	(87,059)	291	63	705	-	(107,601)
<b>At 31 March 2010</b>	<b>17,260</b>	<b>184,858</b>	<b>2,264</b>	<b>5,875</b>	<b>28,079</b>	<b>12,133</b>	<b>250,469</b>
<b>Depreciation</b>							
At 1 April 2009	12	47,708	1,776	1,836	19,249	-	70,581
Provided in year	5	10,695	82	279	1,537	-	12,598
Transfers	-	(99)	-	99	-	-	-
Disposals	-	(2,269)	(20)	(51)	(1,420)	-	(3,760)
Impairments	-	75	-	-	-	-	75
Revaluations	(17)	(53,293)	262	37	510	-	(52,501)
<b>At 31 March 2010</b>	<b>-</b>	<b>2,817</b>	<b>2,100</b>	<b>2,200</b>	<b>19,876</b>	<b>-</b>	<b>26,993</b>
<b>Net book value</b>							
<b>At 31 March 2010</b>	<b>17,260</b>	<b>182,041</b>	<b>164</b>	<b>3,675</b>	<b>8,203</b>	<b>12,133</b>	<b>223,476</b>
<b>At 31 March 2009</b>	<b>38,849</b>	<b>223,776</b>	<b>54</b>	<b>2,080</b>	<b>7,645</b>	<b>1,999</b>	<b>274,403</b>
<b>Asset financing</b>							
<b>Owned and operating lease at 31 March 2010</b>	<b>17,260</b>	<b>182,041</b>	<b>164</b>	<b>3,675</b>	<b>8,203</b>	<b>12,133</b>	<b>223,476</b>

## 8. Financial Instruments

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

### Financial assets by category

Loans and receivables	2010-11 £000	2009-10 £000
Cash	1,136	909
Trade debtors	2,074	1,756
Other debtors	2,087	2,216
	<u>5,297</u>	<u>4,881</u>

The above figures exclude statutory debtors which relate to VAT due from HM Revenue and Customs.

None of the financial assets have been subject to impairment.

An analysis of the ageing of the non impaired trade debtors is shown below:

	0-30 days £000	31-60 days £000	Over 60 days £000	Total £000
As at 31 March 2011	<u>1,359</u>	<u>227</u>	<u>488</u>	<u>2,074</u>
As at 31 March 2010	<u>1,128</u>	<u>356</u>	<u>272</u>	<u>1,756</u>

### Financial liabilities by category

Financial liabilities	2010-11 £000	2009-10 £000
Trade creditors	147	978
Accruals	17,306	20,197
	<u>17,453</u>	<u>21,175</u>

The above figures exclude statutory creditors which relate to tax and social security due to HM Revenue and Customs. All financial liabilities are payable within one year.

**Credit risk**

The Agency's principal financial assets are bank balances and trade and other receivables. These represent VLA's maximum exposure to credit risk in relation to financial assets. The credit risk is primarily attributable to its trade receivables. The amounts presented in the statement of financial position are net of provisions for doubtful receivables estimated by the Agency's management based on prior experience and their assessment of current economic value.

Set out below is the movement in the provision for bad and doubtful debts relating to the Agency's trade receivables.

	2010-11 £000	2009-10 £000
Provision at 1 April 2010	90	50
Charges to statement of comprehensive net expenditure	69	47
Provision Used	<u>(85)</u>	<u>(7)</u>
Balance at 31 March 2011	<u>74</u>	<u>90</u>

**Hedging**

The Agency does not involve itself in any hedging transactions.

**9. Impairments**

Impairments have arisen in respect of future demolition of buildings and preparatory works in connection with assets under construction amounting to £247k (2009-10, £75k).

The impact of the professional valuation of land and buildings as at 1 April 2011 is explained in note 7.

**10. Inventories**

	2010-11 £000	2009-10 £000	2008-09 £000
Work in progress	3,541	2,810	2,481
Raw materials and consumables (scientific supplies)	607	680	733
Finished goods and goods for resale (products and media)	1,129	1,135	1,104
	<u>5,277</u>	<u>4,625</u>	<u>4,318</u>

**11. Trade and Other Receivables**

	2010-11 £000	2009-10 £000	2008-09 £000
<b>Amounts falling due within one year:</b>			
Trade receivables	2,074	1,756	1,752
VAT	-	-	13
Prepayments and accrued income	1,797	1,787	2,073
Defra and Defra Agencies	236	699	1,381
Other Government	290	455	404
	<u>4,397</u>	<u>4,697</u>	<u>5,623</u>

There are no amounts owing from local authorities, NHS Trusts, public corporations or trading funds (2009-10 and 2008-09, nil).

**12. Cash and Cash Equivalents**

	2010-11 £000	2009-10 £000
Balance at 1 April	909	697
Net change in cash and cash equivalent balances	<u>227</u>	<u>212</u>
Balance at 31 March	<u>1,136</u>	<u>909</u>
The following balances at 31 March were held at:		
Government Banking Service (OPG, 2009-10)	<u>1,136</u>	<u>909</u>
Balance at 31 March	<u>1,136</u>	<u>909</u>

**13. Trade and Other Payables**

	2010-11 £000	2009-10 £000	2008-09 £000
<b>Amounts falling due within one year</b>			
Other taxation and social security	729	767	793
Trade payables	147	985	609
Defra payables	2,938	6,488	6,567
Other Government payables	1	-	86
Staff and superannuation	553	577	610
Accruals and deferred income	13,894	13,429	12,135
VAT	71	97	-
	<u>18,333</u>	<u>22,343</u>	<u>20,800</u>

There are no amounts owing to local authorities, NHS Trusts, public corporations or trading funds (2009-10 and 2008-09, nil).

**14. Provisions**

	Early departure costs £000
Balance at 1 April 2010	274
Provided in the year	25
Provisions not required written back	-
Provisions utilised in the year	(152)
Unwinding of discount	-
Balance at 31 March 2011	<u>147</u>

	Early departure costs £000
Analysis of expected timing of discounted flows	
Between 2012 and 2016	147
Between 2017 and 2021	-
Thereafter	-
Balance at 31 March 2011	<u>147</u>

£81k of the above provision is payable within one year (2009-10, £127k) and is included under Trade and Other Payables. £67k of the above provision is payable in more than one year (2009-10, £147k).

The Agency meets the additional costs of benefits beyond the normal CSPA benefits in respect of employees who retire early by paying the required amounts annually to the CSPA over the period between early departure and normal retirement date. The agency provides for this in full when the early retirement programme becomes binding by establishing a provision for the estimated payments discounted by the pensions discount rate of 1.8 per cent in real terms.

**15. Capital Commitments**

	2010-11 £000	2009-10 £000
Property, plant and equipment	<u>273</u>	<u>2,852</u>

## 16. Other Financial Commitments

Defra has entered into non-cancellable contracts on behalf of VLA for the provision of ICT services and property facilities maintenance in respect of VLA's occupation of buildings that are either owned or leased by Defra or specialised properties held on the Agency's Statement of Financial Position. The figures for 2009-10 have been restated to include ICT services and to reflect a change in the disclosure requirements to disclose the total amounts to which VLA is committed to pay. The commitments, analysed by the period during which they expire are as follows:

	2010-11 £000	2009-10 £000 Restated
Not later than 1 year	8,864	7,656
Later than 1 year but not later than 5 years	34,251	30,209
Later than 5 years but not later than 10 years	42,165	37,273
Later than 10 years but not later than 15 years	25,082	29,370
Later than 15 years but not later than 20 years	-	-
Later than 20 years but not later than 25 years	-	-
Later than 25 years	-	-
	<u>110,362</u>	<u>104,508</u>

## 17. Commitments Under Leases

### Operating leases

Total future minimum lease payments under operating leases are given in the table below:

	2011 £000	2010 £000
<b>Buildings</b>		
Not later than 1 year	152	169
Later than 1 year but not later than 5 years	269	375
Later than 5 years but not later than 10 years	139	134
Later than 10 years but not later than 15 years	139	135
Later than 15 years but not later than 20 years	131	133
Later than 20 years but not later than 25 years	86	102
Later than 25 years	16	21
	<u>932</u>	<u>1069</u>
<b>Land</b>		
Not later than 1 year	50	50
Later than 1 year but not later than 5 years	70	89
Later than 5 years but not later than 10 years	88	88
Later than 10 years but not later than 15 years	88	88
Later than 15 years but not later than 20 years	88	88
Later than 20 years but not later than 25 years	88	87
Later than 25 years	57	74
	<u>529</u>	<u>564</u>



**Other**

Not later than 1 year	11	27
Later than 1 year but not later than 5 years	1	10
	<u>12</u>	<u>37</u>

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

**18. Contingent Liabilities**

There were no contingent liabilities at 31 March 2011 (31 March 2010, nil).

**19. Related-party Transactions**

(a) Veterinary Laboratories Agency (VLA) is an Executive Agency of the Department for Environment, Food and Rural Affairs (Defra).

Defra is regarded as a related party. During the year VLA has had a significant number of material transactions with Defra and with other entities for which Defra is regarded as the parent Department. These are:

- Veterinary Medicines Directorate,
- Animal Health
- The Food Environment Research Agency (FERA)

In addition, the Agency has had a small number of transactions with other Government departments and other central Government bodies, the most significant of which is the Food Standards Agency.

(b) No Board members, members of the key management staff or other related parties have undertaken any material transactions with VLA during the year.

**20. Segmental Analysis**

An analysis of income from services provided to customers is as follows:

	Income 2010-11	Surplus/ (Deficit) 2010-11	Income 2009-10	Surplus/ (Deficit) 2009-10 Restated
	£000	£000	£000	£000
Defra and other Government	75,183	(124)	98,836	(12,266)
Commercial activities	7,350	932	6,582	666
Overseas activities	3,705	(284)	4,231	(47)
Total	<u>86,238</u>	<u>525</u>	<u>109,649</u>	<u>(11,647)</u>

IFRS 8 requires an entity to disclose greater analysis than that shown above. However, has not generated this analysis as IFRS 8 does not require an entity to report information that is not prepared for internal use, and the cost to develop it would be excessive.

**21. Events after the Reporting Period**

The Veterinary Laboratories Agency's financial statements are laid before the Houses of Parliament by the Secretary of State for Environment, Food and Rural Affairs. IAS 10 requires Veterinary Laboratories Agency to disclose the date on which the accounts are authorised for issue. The authorised date for issue is 15 July 2011.

As one of the first outcomes of a review of Defra delivery bodies the Secretary of State announced on 29 June 2010 that Veterinary Laboratories Agency would merge with Animal Health. The effective date of this merger is 1 April 2011, and this will see the existing functions of the two bodies continue in the merged entity (AHVLA) and therefore the preparation of the financial statements on a going concern basis remains appropriate.

**ACCOUNTS DIRECTION GIVEN BY THE TREASURY  
IN ACCORDANCE WITH SECTION 7(2) OF THE GOVERNMENT RESOURCES AND  
ACCOUNTS ACT 2000**

1. This direction applies to the Veterinary Laboratories Agency, an Executive Agency of the Department for Environment, Food and Rural Affairs.
2. The Veterinary Laboratories Agency shall prepare accounts for the year ended 31 March 2011 in compliance with the accounting principles and disclosure requirements of the edition of the Government Financial Reporting Manual issued by H M Treasury ("the FReM") which is in force for 2010-11.
3. The accounts shall be prepared so as to:
  - a) give a true and fair view of the state of affairs at 31 March 2011 and the income and expenditure and cash flows of the Veterinary Laboratories Agency for the financial year then ended; and
  - b) provide disclosure of any material expenditure or income that has not been applied to the purposes intended by Parliament or material transactions that have not conformed to the authorities which govern them.

**Chris Wobschall**

Head of Assurance and Financial Reporting Policy Team,  
Her Majesty's Treasury  
22 December 2010

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**LOCATIONS****MAIN LABORATORY**

**Weybridge** New Haw, Addlestone, Surrey, KT15 3NB

**REGIONAL LABORATORIES**

**Aberystwyth** Y Buarth, Aberystwyth, Ceredigion, SY23 1ND  
**Bury St. Edmunds** Rougham Hill, Bury St. Edmunds, Suffolk, IP33 2RX  
**Carmarthen** Job's Well Road, Johnstown, Carmarthen, SA31 3EZ  
**Langford** Langford House, Langford, Bristol, BS40 5DX  
**Lasswade** International Research Centre, Pentlands Science Park, Bush Loan, Penicuik, Midlothian, EH26 0PZ  
**Luddington** Luddington, Stratford-upon-Avon, Warwickshire, CV37 9SJ  
**Newcastle** Whitley Road, Longbenton, Newcastle upon Tyne, NE12 9SE  
**Penrith** Merrythought, Calthwaite, Penrith, Cumbria, CA11 9RR  
**Preston** Barton Hall, Garstang Road, Barton, Preston, PR3 5HE  
**Shrewsbury** Kendal Road, Harlescott, Shrewsbury, Shropshire, SY1 4HD  
**Starcross** Staplake Mount, Starcross, Exeter, Devon, EX6 8PE  
**Sutton Bonington** The Elms, College Road, Sutton Bonington, Loughborough, Leicestershire, LE12 5RB  
**Thirsk** West House, Station Road, Thirsk, N. Yorkshire, YO7 1PZ  
**Truro** Polwhele, Truro, Cornwall, TR4 9AD  
**Winchester** Itchen Abbas, Winchester, Hants, SO21 1BX

**SURVEILLANCE CENTRES**

**Royal Veterinary College** Department of Veterinary Pathology, Hawkshead Campus, Hawkshead Lane, North Mymms, Hatfield, Hertfordshire AL9 7TA  
**Liverpool University** Department of Veterinary Pathology, Leahurst, Neston, South Wirral, CH64 7T



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