ASSURING THE SAFETY, QUALITY & EFFICACY OF VETERINARY MEDICINES

# Veterinary Medicines Directorate Annual Report & Accounts

# 2010/11

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

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# Veterinary Medicines Directorate

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

# Annual Report and Accounts 2010/11

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# Contents

# Chief Executive's Foreword

A particularly interesting year with an election, a new coalition Government and several staff changes all contributing to the challenges we faced. As usual major change was taken in our stride and was well managed by the Veterinary Medicines Directorate[1] (VMD) staff who adapted and moved forward.

A new Government brings change and a raft of new policies. As a result the changes proposed following the annual review of the Veterinary Medicines Regulations[2] (VMR) were delayed, firstly by the election and then by Government controls on introducing new legislation. The most notable legislative change is to procedures for variation of Marketing Authorisations (MA). We have now delayed the introduction of the new regulations until October 2011 to provide further time for scrutiny of the proposed legislation. This is disappointing for the industry but the delay has yielded a benefit as we were able to take the opportunity to review the planned 1.5% authorisation fees increase in the light of some successful VMD internal cost saving measures and, as a result, have been able to postpone this increase. The next scheduled review of the VMR is planned for implementation in October 2012 and will include the results of a review of the criminal offences in the VMR leading to recommendations for those that could become civil offences.

During the previous year the VMD had diligently prepared to tender for the analytical services contract for the statutory residues programme, in recognition of the expiry of the current contract at the end of 2010. However, on reviewing the proposal, Ministers decided in April 2010 to utilise the 'in house' analytical capability at the Food and Environmental Research Agency (Fera). The preparations for the tender provided a good base for discussions with Fera and thanks to excellent partnership working between Fera, the LGC and the VMD, a remarkably smooth transition of the work was achieved at the turn of the year. Fera have made a good start with their new analytical service and economies of scale will allow us to pass savings back to the food industry over the next four years. I have written to the Chief Executive Officer (CEO) of the LGC offering our sincere thanks for their professional approach and the excellent quality of their analytical services over the period of the old contract. Despite being disappointed at not being able to compete in a new tender process, LGC completed their contractual obligations with great professionalism which is a credit to their reputation and their staff.

In response to increasing concerns about Antimicrobial Resistance (AMR), we continued to work both nationally and internationally with veterinary and human medicine colleagues to continue to minimise the risk to human health from the use of antimicrobials in animals. Key elements were: the publication, in co-operation with the Department of Health[3] (DH), of the second overarching report; VMD's publication of the annual sales data report[4]; the development of the Heads of Medicines Agencies[5] (HMA) (veterinary) Antimicrobial Resistance Strategy; and the UK (VMD) agreeing to lead a task force to ensure the implementation of the related HMA(v) Action Plan. We also led for the UK on the finalisation of the Codex risk assessment guidelines for foodborne AMR. Following a review of AMR responsibilities in the Department for Environment, Food & Rural Affairs[6] (Defra), Ministers decided that the VMD should take responsibility for policy, surveillance and related Research and Development (R&D) from 1 April 2011. AMR will therefore feature significantly in the work of the Agency for some years.

1 You can find out more about the VMD and its work via www.vmd.defra.gov.uk
2 You can find out more about the Veterinary Medicines Regulations at www.vmd.defra.gov.uk/public/vmr.aspx
3 You can find out more about the DH via www.dh.gov.uk
4 You can access the Antimicrobial Sales Data report at www.vmd.defra.gov.uk/vet/antimicrobial_pubs.aspx
5 You can find out more about the HMA via www.hma.eu
6 You can find out more about the work of Defra via www.defra.gov.uk

Our preparations for the review of the EU Directives concerning veterinary medicines, medicated feed and veterinary medicine residues continued throughout the year. In particular, we responded to questionnaires from the Commission as they developed the proposed changes which are expected to be progressed in 2012. Reviews of three major pieces of EU legislative text will require significant resource and the VMD is well prepared to play its part in the process.

Like the rest of the Civil Service, the VMD had to operate new Government controls on recruitment, promotions, travel and subsistence and procurement to reduce our operating costs. We did this successfully, keeping sufficient resources and expertise to meet customer demands while at the same time reducing operating costs. Some notable initiatives include increased levels of teleconferencing and reduced travel costs. We delivered our savings plan efficiently, although staff took this too much to heart resulting in reduced levels of training to a disappointingly low level. Training is an important investment for the future and we plan to keep the 2011/12 budget at the same level as 2010/11 even though this was significantly underspent. As we are funded significantly by industry fees and levies, much of this saving contributed to our ability to postpone the planned authorisation fee increases originally planned for October 2010 until October 2012.

Despite streamlining our costs, the VMD has continued to deliver a high quality assessment of applications for MAs. Our performance has been evaluated as “excellent” when measured against our published standards and also in terms of our applied science, as assessed by the independent Veterinary Products Committee[7] (VPC). We have continued to attract a significant share of EU assessment work. By way of illustration for Decentralised Procedures (DCP) involving the UK, during the period March 2010 to February 2011 we were the Reference Member State (RMS) for 42 out of 110 procedures involving the UK (i.e. 38%).

The VMD has pursued a number of referrals at the EU level in order to ensure the safety of veterinary medicines, particularly those containing antimicrobials intended for use in food species. This has created additional work for the VMD, other member states, the Committee for Veterinary Medicinal Products[8] (CVMP) and for companies. However, we firmly believe this is necessary, justified work which is also helping to demonstrate that, as part of the changes to EU legislation, it is essential to take action to address the lack of harmonisation between member states where information for older products is involved.

The VMD’s effective management of pharmacovigilance information combined with the process of inspecting sites involved in production, storage or supply of veterinary medicines has helped to ensure the continuing quality, safety and efficacy of veterinary medicines. The VMD was highly influential in a number of company decisions to suspend the sale of certain Veterinary Medicinal Products (VMP) in the UK and the EU as a result of consideration of potential safety issues that had arisen from the analysis of data collected through pharmacovigilance. After an extensive project involving staff from the VMD and input from stakeholders, a new VMD website was launched in January 2011. The new website represents a major improvement in our ability to communicate with interest groups and the public. The product information database contained within the website is increasingly recognised as a definitive source of information for all authorised veterinary medicines in the UK. In addition, the VMD’s monthly column in the Veterinary Record is also proving to be a valuable communication tool for veterinary surgeons.

Our Quality Management System (QMS) has advanced considerably this year, with a clear vision defined, with almost all of the necessary standard operating procedures finalised and all teams audited. The VMD is beginning to realise some of the benefits of the Quality System and these will increase as it becomes firmly embedded into day to day practice. In particular its

[7] You can find out more about the work of the VPC via their website www.vmd.defra.gov.uk/vpc
[8] You can find out more about the work of the CVMP via the EMA website www.ema.europa.eu

value in the training of new staff is being recognised, particularly as the organisation is undergoing a period of very significant staff changes.

A number of key Information Technology (IT) systems have been developed and are now successfully in operation. Of particular note is the introduction of the on-line reporting facility for Suspected Adverse Reactions (SARs). This system makes it easier for SARs to be reported and improves the efficiency of data handling in the pharmacovigilance team. A further innovation is the development of a capability to receive, handle, assess and store electronic data submitted in support of applications. The industry has responded positively and the majority now submit their applications in an electronic format as a matter of routine. This has significant advantages in terms of reduced paper usage and offers a significant reduction in storage costs.

For those companies not able to provide electronic data packages and as a strategy to deal with the historical data held and stored by the VMD, we have developed a bespoke scanning system to rapidly digitalise this data. This has created interest from other member states and companies as a potential tool for reducing their reliance on paper based media. This is a good example of how information technology is improving efficiency for both the industry and for the VMD.

During the year the VMD defended a judicial review. The case centred on a product being marketed as non-medicinal but where the VMD held the opinion it was presented as a medicinal product under the definition of the Veterinary Medicines Regulations. The VMD’s opinion was upheld by the judgement. This confirmation of the regulatory position on products being presented as veterinary medicines has permitted the VMD to review its policy on the marketing of a number of unauthorised medicines and as a result we are now focusing our attention on three areas of specific concern (herbal wormers, nosodes and nutritional supplements).

In closing I would wish to pay tribute to John FitzGerald who retired from his position as Director of Operations on 31 March 2011. John has been in the Civil Service for over 38 years and a major contributor to the success of the VMD since 1996. He has quite correctly received accolades from many of our stakeholders for his sterling service and I have very much appreciated John’s experience and support during my time as the CEO.

This is also my last contribution to the Annual Report and Accounts as I plan to retire from the Civil Service at the end of July 2011. The past 15 years at the VMD has been a superb experience and I pay credit to the staff who quietly and efficiently achieve an important regulatory role for society and help protect the health and welfare of the domesticated animals in the UK. They have been, and remain an outstandingly strong group of professionals and this can be illustrated by reference to the outcome of the Civil Service staff survey where the VMD’s engagement index was scored at 66%. It has been a privilege to work with them and I wish the Veterinary Medicines Directorate every success for the future.

**Steve Dean**
Chief Executive
20 May 2011

# Management Commentary

## Preparation and Audit of the Accounts

The Accounts have been prepared under a direction issued on 22 December 2010 by HM Treasury under Section 7(2) of the Government Resources and Accounts Act 2000 and are audited by the Comptroller and Auditor General.

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

So far as the Accounting Officer is aware, there is no relevant audit information of which the VMD's auditors are unaware. The Accounting Officer has taken all the steps that he ought to have taken to make himself aware of any relevant audit information and to establish that the VMD's auditors are aware of that information.

## About Us

**Aim**

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

**Vision**

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

**Operating Framework**

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

We operate within an overall policy and financial framework determined by the Secretary of State for Defra, through the Minister of State (Local Environment, Marine & Animal Welfare). Our day-to-day management within this framework, and our performance against our key targets, is the responsibility of our CEO, supported by Directors of Authorisations and Operations. Our policy, legal and resources framework is set out in our Framework Document.

We divide our work into three main areas, or "operating segments":

**Authorisations**: responsible for the assessment of applications; issuing and maintenance of Marketing Authorisations; and the licensing of manufacturers and wholesale dealers of veterinary medicines. The main customers are Marketing Authorisation holders; manufacturers and importers of veterinary medicines; manufacturers of medicated animal feedingstuffs; retailers of veterinary medicines and medicated animal feedingstuffs; the veterinary profession; other stakeholders including farmers and keepers of animals; the European Medicines Agency[9] (EMA); Department of Health (DH); Food Standards Agency[10] (FSA) and consumers.

**Residues**: responsible for the surveillance for residues of veterinary medicines and banned substances in home-produced livestock and animal products and imported animal products, reporting of results and co-ordinating follow-up action. The Residues business has contracts with other agencies and companies who carry out work on our behalf at abattoirs and other first

[9] You can find out more about the EMA via www.ema.europa.eu
[10] You can find out more about the work of the FSA via their website www.food.gov.uk

processing industries, on farms and at retailers of meat and other animal products, and at ports. We also work with other stakeholders including consumer representative groups, the European Commission and the FSA who are responsible for food safety follow-up action.

**Operations**: responsible for servicing, developing and implementing new policy/legislation on all aspects of veterinary medicines; providing support to Ministers through briefing and advice on replies to correspondence and Parliamentary Questions; pharmacovigilance for veterinary medicines; inspection of manufacturers, wholesale dealers and retailers of veterinary medicines and day-to-day management of the veterinary medicines R&D programme on behalf of the Policy customer (Food & Farming Group (FFG), Defra). The Policy Business works closely with Ministers and officials of Defra and other Government Departments and Agencies including the FSA, the general public, industry, consumer representative groups, the European Commission, embassies and other representatives of foreign governments.

**Responsibilities**

The VMD's main responsibilities are:

- the assessment, issue and maintenance of all national MAs for veterinary medicines in accordance with EC and UK legislation;
- acting as Reference Member State (RMS), Rapporteur, Co-Rapporteur or Concerned Member State (CMS) for designated European applications for centralised, decentralised or mutual recognition authorisations;
- controls on the manufacture and distribution of veterinary medicinal products including inspections;
- pharmacovigilance through the surveillance of Suspected Adverse Reactions (SARs);
- surveillance for residues of veterinary medicines and illegal substances in animals and animal products;
- the provision and implementation of policy advice on these matters to Ministers;
- the management of the Research and Development (R&D) programme linked to veterinary medicine issues; and
- the co-ordination of Defra's work on antimicrobial resistance via the Defra Antimicrobial Resistance Coordination (DARC) Group[11].

**VMD Directors**

The Directors who served during the year and since the year-end were:

| | |
|---|---|
| Steve Dean | Chief Executive and Agency Accounting Officer |
| John FitzGerald | Director of Operations (retired 31 March 2011) |
| Paul Green | Director of Operations (from 28 March 2011) |
| Jackie Atkinson | Director of Authorisations. |

[11] You can find out more about the DARC Group at www.vmd.defra.gov.uk/vet/antimicrobial_darc.aspx

**VMD Management Board**

The Management Board's aim is to provide advice and re-assurance to the CEO that effective measures are in place for:

- the delivery of key objectives agreed annually with the Minister and published in the VMD Business Plan[12];
- achieving good value for money; and
- regularity and propriety in the administration and operation of the Agency.

The Management Board members who served during the year and since the year-end were:

| | |
|---|---|
| Steve Dean | Chief Executive and Agency Accounting Officer |
| John FitzGerald | Director of Operations (retired 31 March 2011) |
| Paul Green | Director of Operations (from 28 March 2011) |
| Jackie Atkinson | Director of Authorisations |
| Simon Brown | Head of Finance |
| Anna-Maria Brady | Head of Biologicals and Administration |
| Ruth Kearsley | Head of Pharmaceuticals and Feed Additives |
| Lesley Johnson | Head of Post Authorisation Surveillance Unit |
| Maggie Steel | Head of IT |
| David Rayner | Head of Core Services, Quality and Communications |
| John Preston | External member |
| Brian Morris | External member |
| David Skilton | External member |

**VMD Owner Advisory Board (OAB)**

The VMD Owner Advisory Board meets quarterly under the Chairmanship of Defra's Chief Veterinary Officer (CVO) and has the following terms of reference:

- agreeing a VMD strategy that is suitable for Defra, Northern Ireland, Scottish Government, Welsh Assembly Government and the VMD and takes into account the needs of other key stakeholders;
- ensuring the alignment of the Agency's capacity and capability to deliver on behalf of Defra and Devolved Administrations;
- considering the Ministerial targets and performance indicators to ensure they remain challenging;
- continuous review of 'shared' risks to the business and Defra;
- ensuring that the Chief Executive delivers against Ministerial and corporate performance targets taking account of the level of risk within the business plan;
- ensuring that Defra funding is sufficiently robust to meet the requirements of the Agency's strategy;
- ensuring that the CEO delivers continued value for money improvements; and
- ensuring that contingency arrangements are in place.

[12] You can find a copy of our Business Plan on our website at www.vmd.defra.gov.uk/pdf/BusinessPlan.pdf

The OAB advises the corporate owner on agreeing and/or updating the following governance and business documents:

- the VMD Framework Document;
- the VMD Strategic/Corporate Plan (if not included in the Business Plan);
- the Annual Report & Accounts;
- the Annual Business Plan, including Ministerial targets; and
- the Terms of Reference for the Board.

The OAB members who served during the year and since the year-end were:

| | |
|---|---|
| Nigel Gibbens | Chief Veterinary Officer, Defra (Chair) |
| Steve Dean | Chief Executive Officer, VMD |
| John FitzGerald | Director of Operations, VMD (retired 31 March 2011) |
| Paul Green | Director of Operations, VMD (from 28 March 2011) |
| Jackie Atkinson | Director of Authorisations, VMD |
| Robert Houston | Northern Ireland |
| Simon Hall | Scottish Government |
| Christianne Glossop | Welsh Assembly Government |
| Brian Harding | Defra Corporate Customer (deputy Chair) |
| Chris Pleass | Defra Finance |
| Alison Gleadle | Food Standards Agency |

Non executive members:

| | |
|---|---|
| John Preston | Chair of the VMD Audit & Risk Committee |
| Bruce Jones | Independent Veterinary Business Consultant |

**Personal data-related incidents**

There have been no cases of personal data-related incidents during the year.

# Risk, Future Developments and Performance

The VMD's policy for managing its principal risks is described in the Statement on Internal Control.

The key challenges to the VMD throughout 2011/12 and its plans for meeting them have been outlined in the VMD's Business Plan, which is available on our website.

The key risks and/or future developments for the Agency are the:

- economic climate affecting the veterinary pharmaceutical industry and the volume of Authorisation applications the VMD receives;
- impact on the VMD's income of changes to the Variation Regulations;
- management of change in senior leaders following the retirement of the Director of Operations and the planned retirement of the CEO in July 2011;
- continuing development of the European Network of medicine regulatory agencies and the continuing expansion of the European Union;
- implementation of the changes in the Veterinary Medicines Regulations 2011;
- European Commission proposals to amend EC legislation on residues and medicated feed additives;
- European Commission's preparations to review the veterinary medicines legislation with proposals expected towards the end of 2012;
- transfer of full responsibility for Defra's policy work on antimicrobial resistance (including surveillance and R&D management) to the VMD on 1 April 2011;
- further implementation of electronic working;
- action to control illegal sales of medicines on the internet;
- EMA's roadmap for 2010/15 and the HMA Strategy for 2010/15 which together set out the strategy for medicines across the EU.

# Financial Review

The VMD's total expenditure for the year was £14.3m, a decrease of 3.6% against 2009/10.

The Statement of Comprehensive Net Expenditure shows "Net Operating Income" (income less expenditure) of £0.4m. However the adjusted cost recovery result (see below) is £0.2m, equivalent to 101% cost recovery. The results for the VMD's operating segments are shown in notes 3 and 4 to the Accounts, summarised as follows:

| | Income<br>£m | Expenditure<br>£m | Cost recovery<br>£m |
|---|---|---|---|
| Veterinary Pharmaceutical Industry | 7.4 | 7.1 | 0.3 |
| Food Industry | 4.0 | 4.0 | 0.0 |
| Government | 3.4 | 3.5 | -0.1 |
| **Total VMD** | **14.8** | **14.6** | **0.2** |

Income collected from the Veterinary Pharmaceutical Industry increased by 2.3% on 2009/10 due to increases in application volumes relating to marketing authorisations and higher than anticipated industry turnover growth. Fees to this industry were not increased during the year.

Income collected from the Food Industry reduced by 1.4% due to fluctuations in food industry activity. Charges to the Food Industry were not increased during the year, reflecting significant efficiency savings made, most notably in the transfer of sub-contracted analytical work to Fera.

Total Defra funding was £3.44m, a decrease of 7.7% on 2009/10 of which:

- 4.0% relates to a one-off additional funding allocation in 2009/10 for investigation work;
- 7.2% relates to Defra budget cuts; and
- -3.5% compensates for increased Defra service recharges.

The reduction in operating costs compared to 2009/10 follows the successful implementation of a cost-savings action plan impacting on many expenditure categories. Staff costs decreased by 1.6% compared to 2009/10, with a 2.5% reduction in average full-time-equivalent staff numbers and a significant shift from temporary to permanent staff.

From 1 April 2010, in line with HM Treasury advice, the agency no longer records a Cost of Capital charge in its Accounts but continues to include a notional Cost of Capital charge in the calculation of fees and charges. The Cost of Capital charge applies to the average net assets in the Statement of Financial position, with the exception of cash balances, to the extent that these are funded by fees and charges. The VMD's measure of Cost Recovery against its Business Plan target therefore includes a Cost of Capital Charge. A reconciliation between Net Operating Income and Cost Recovery result is provided at Note 4 to the Accounts and the previous year's Net Operating Cost has been restated to reflect this change.

Capital expenditure in the year was £0.12m, a 57% decrease on 2009/10 as a further efficiency measure. Land & Buildings are carried in the Statement of Financial Position at "Depreciated

Replacement Cost" applying to specialist buildings. Depreciated Replacement Cost is defined as "the current cost of replacing an asset with its modern equivalent asset less deductions for physical deterioration and all relevant forms of obsolescence and optimisation." The VMD building is considered to be a "specialised" asset because it is located within a Defra site contained within a defined boundary accessed via a shared estate road and therefore cannot be operated as a separate entity.

The VMD is partly funded by Defra and the position is shown in the 'Taxpayers' Equity' section of the Statement of Financial Position. The General Fund represents the value of the VMD's net current assets as at 1 April 1991, which is the date from which the first Accounts Direction became effective, plus subsequent external funding movements, plus the accumulated net operating result transferred from the Statement of Comprehensive Net Expenditure. This reserve is not distributable. The Revaluation Reserve represents the unrealised cumulative balance of indexation and revaluation adjustments to non-current assets.

**Events after the reporting period**

Up to the date of issue, there have been no events since 31 March 2011 that would have a significant impact on the Annual Report & Accounts or would be likely to have a significant impact on the future performance of the VMD.

**Payment policy and performance**

The VMD's policy is to settle all creditors' accounts within creditors' own payment terms. During the year, the VMD paid 100% of valid invoices by the due date (2009/10: 100%). In March 2010 the Government introduced a new target to pay 80% of undisputed invoices within five working days. The VMD supports this initiative and during the year paid 80% of undisputed invoices within five working days. The trade creditor balance at 31 March 2011, as a proportion of the total amount invoiced by suppliers in the year, equates to 4 days.

# Targets

The Secretary of State for Defra announced our targets to Parliament on 16 September 2010. These provide a framework of actions in which the VMD can provide the best possible service to all its customers.

***Target 1 – Value for Money***

***Achieve cost recovery and demonstrate progress in the three elements of Value for Money (Economy, Efficiency and Effectiveness).***

Note 4 to the Accounts shows that the VMD recovered 101% of its total costs.

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

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

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

- preparing and implementing a savings plan which generated savings of 3.6% on the previous year;
- reducing the cost of residues analytical services by 11% on a full year;
- taking over the management of the veterinary medicines residues contracts from Defra with no additional resources;
- encouraging the veterinary pharmaceutical industry to move to electronic submission of applications so that more than 75% of new MA applications were received electronically, reducing the amount of paper used and stored; and
- maintaining its level of service without increasing fees.

***Target 2 – Customers***

***a) At least 70% of customers in the veterinary pharmaceutical industry to consider the level of service provided by the VMD to be good or excellent and for the VMD to act on areas identified requiring improvement within the confines of the available resources.***

Feedback on 36 company meetings was the main source of customer information in 2010/11. Questionnaires were returned on 31 occasions and, of these, an overall rating of good or excellent was given on 30 returns.

***b) Policy customers in Defra and Other Government Departments (OGDs) consider the level of service provided by the VMD to be satisfactory.***

Defra did not carry out the survey to measure performance against this target.

***Target 3 – Operations/Policy Delivery***

***a) Authorise veterinary medicines according to legislative requirements and to monitor their ongoing safety and efficacy and to take proportionate action.***

The overall performance against published standards corresponded to 97.9% so meeting the criteria defined as excellent. This is very similar to the result from last year (98.3%) indicating that the high level of performance has been maintained.

The independent Veterinary Products Committee rated the quality of the VMD assessments for two national MA applications as excellent.

***b) Encourage the responsible, safe and effective use of VMPs according to the legislative requirements through proportionate action and act to detect and deter illegal use.***

Work generally went to plan for this target and its success is shown by the continuing low level of positive residue results in surveillance programmes which were fully completed. Changes to the Veterinary Medicines Regulations were delayed by the election and subsequent better regulation procedural changes and the target is now to implement these in October 2011. Greater prioritisation of inspections was required because of an inspector's long term absence but the key inspection targets were achieved. The antimicrobial sales report was published on time showing a small increase in the total amount sold in 2009. Evidence of responsible use was borne out by the lack of UK food associated resistance incidents reported.

***c) Ensure UK policy principles influence EU legislative change.***

We continued to work closely with colleagues across the EU by taking an active role in the Heads of Medicines Agencies Group and its task forces on the HMA Strategy, improving the medicines legislation and antimicrobial resistance, which the UK leads. We also responded to Commission questionnaires and information requests from their consultants as they develop proposals to amend the veterinary medicine, residues and medicated feed legislation.

***Target 4 – Capacity and Capability***

***Ensure the VMD utilises its funding streams efficiently to ensure that it maintains capability and capacity to deliver its business objectives and is fit for purpose***

We worked to the processes introduced centrally to control expenditure and staff numbers making business cases to justify the expenditure (e.g. on promotional attendance at shows, and recruitments to fill specialist vacancies) to ensure we had the capability and capacity to deliver our business objectives in the light of the prevailing demands made on our services. In particular, the amount of work received from the pharmaceutical industry continued at a high level and appropriate staff numbers were in place to meet our published standards. We continued to develop our IT systems to keep them fit for purpose. This included launching on-line reporting for Suspected Adverse Reactions in September 2010, putting in place data exchange systems with Fera to support the transfer of residue surveillance work to them from January 2011, launching our new website in January 2011 and introducing bespoke systems to allow for the efficient processing of electronic submissions and to support the scanning and electronic storage of historical data.

***Target 5 – Sustainability: Increase recycling by 4%***

This target was difficult to achieve because all waste from the VMD is recycled by burning to produce steam as an energy source for the site. Printer cartridges have been recycled for many years but we were able to introduce battery recycling so that no new batteries were issued for VMD equipment unless the old batteries were surrendered for recycling.

# People Strategy

**Staff Numbers**

At 31 March 2011 we employed 158 permanent staff (151 full-time equivalent) and 6 temporary staff (5.5 full-time equivalent) supplied by local employment agencies. The average number of full-time-equivalent permanent and temporary staff during the year is shown in Note 5 to the Accounts.

The VMD complies with Equal Opportunities legislation and Departmental policy in relation to disabled employees. The VMD applies the Department's policies on equal opportunities and health and safety at work.

**Employee Involvement**

The VMD encourages staff involvement in its activities through a variety of channels including a VMD intranet, topic meetings, day-to-day line management contacts and diverse membership of project teams. Regular team meetings review progress against the Business Plan and review risk. A staff suggestion scheme exists to encourage original ideas. Office notices and the intranet are used to disseminate information. An annual staff meeting to review the work of the past year and discuss future plans is addressed by the CEO. Staff have access to the staff welfare facilities offered by the Department and Trade Union membership and representation is in accordance with Departmental policies.

The VMD was re-accredited as an Investor in People (IiP) in 2009. The assessment was made against new IiP standards and the VMD was awarded 'silver' status in recognition of the continuing efforts in the development and training of its staff. Our next IiP assessment will take place during June 2012.

The VMD benchmarks itself biennially against the European Foundation for Quality Management (EFQM) Excellence Model recommended by the Cabinet Office. The VMD took part in the European Union (EU) Benchmarking process led by the Heads of Medicines Agencies in June 2010.

The results of benchmarking, IiP assessment and Civil Service wide employee engagement surveys have been used to inform the 2011/12 Business Improvement Delivery Plan.

**Sickness Absence**

The total full-time-equivalent days lost through staff sickness absence in the year was 1,154 compared to 1,239 in 2009/10. The average working days lost per employee during the year was 7.6 compared to 8.3 in 2009/10.

**Pensions**

Future pensions provision is made for all permanent staff through the provisions of either the Principal Civil Service Pension Scheme or a stakeholder pension scheme with employer contributions. Details of how pension liabilities are treated in the Accounts are provided in Note 5 to the Accounts and the Remuneration Report.

# Environmental Matters and Social and Community Issues

Working closely with Defra and the Sustainable Development Commission (SDC) www.sd-commission.org.uk we produced our third Sustainable Development (SD) Action Plan.[13] It covers the period from January 2010 to December 2011 and continues our work as part of the commitment to the UK Government Sustainable Development Strategy – *Securing the Future* (March 2005), under which all Government departments and their executive agencies produced focused sustainable development action plans based on the Strategy.

Our previous plans set out how, by using sound science responsibly and implementing good governance to develop policy and regulate veterinary medicines (our core business since 1990), we contributed to outcomes that are now included under the SD banner. The third plan takes this work further, and by building on our experiences from implementation of the earlier plans (both achievements and lessons learned) and the advice we received from Defra and the SDC we have delivered a far reaching and challenging plan. It sets out a series of actions to guide our business operations and allow us to contribute as far as possible to the Government's SD objectives. It also shows how we are increasingly embedding SD principles and priorities in our decision making, whilst also delivering the requirements set down in European and UK legislation for veterinary medicines.

[13] You can find out more about the VMD's Sustainable Development Plan at www.vmd.defra.gov.uk/pdf/SDAP.pdf

# 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 has regard to the following considerations:

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

The 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.

**Service Contracts**

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

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

Further information about the work of the Civil Service Commission can be found at www.civilservicecommission.org.uk.

Professor Steve Dean was appointed under an open contract but had indicated that he will retire on 2 August 2011.

**Salaries and Pension Benefits (Audited)**

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

'Salary' includes gross salary; performance pay or bonuses; 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.

Directors are appraised annually against a set of competencies and individually targeted objectives. Bonuses are the only form of remuneration subject to performance conditions. Bonuses paid in 2010/11 relate to performance in 2009/10 and bonuses paid in 2009/10 relate to performance in 2008/09.

No amounts have been paid during the year in respect of compensation to former senior managers or to third parties for services of a senior manager.

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

No employer contributions were made to partnership pension accounts during 2010/11 or 2009/10.

The Agency Chief Executive's salary, as defined above, was £103,750 for the year (2009/10 £102,683).

**Benefits in Kind**

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

**Pension Benefits**

**Cash Equivalent Transfer Values**

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

The figures include the value of any pension benefit in another scheme or arrangement which the member has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their buying additional pension benefits at their own cost. CETVs are worked out 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.

**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, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

| **2010/11** | **S Dean** Chief Executive | **J FitzGerald** Director of Operations *(retired 31 March 2011)* | **J Atkinson** Director of Authorisations | **P Green** Director of Operations *(from 28 March 2011)* |
|---|---|---|---|---|
| | **£000** | **£000** | **£000** | **£000** |
| Salary (as defined above) in 2010/11 | 100-105 Including 10-15 bonus | 85-90 Including 5-10 bonus | 75-80 Including 5-10 bonus | 0-5 Including 0 bonus |
| Salary (as defined above) in 2009/10 | 100-105 Including 5-10 bonus | 90-95 Including 5-10 bonus | 80-85 Including 5-10 bonus | – |
| Real increase/(decrease) in pension and related lump sum at age 60 | 0-2.5 plus 0-2.5 lump sum | 0-(2.5) plus 0-(2.5) lump sum | 0-2.5 plus 0-2.5 lump sum | 0-2.5 plus 0-2.5 lump sum |
| Total accrued pension at age 60 and related lump sum | 15-20 plus 45-50 lump sum | 35-40 plus 115-120 lump sum | 20-25 plus 30-35 lump sum | 10-15 plus 40-45 lump sum |
| CETV at 31 March 2011 | 399 | 878 | 277 | 226 |
| CETV at 31 March 2010[1] | 339 | 784 | 234 | – |
| Real increase/(decrease) in CETV after adjustment for inflation and changes in market investment factors | 15 | (5) | 3 | – |

[1] The actuarial factors used to calculate CETVs were changed in 2010/11. For consistency, the CETVs at 31 March 2010 and 31 March 2011 have both been calculated using the new factors. The CETV at 31 March 2010 therefore differs from the corresponding figure in last year's report which was calculated using the previous factors.

**VMD Owner Advisory Board**

Membership details of the OAB are shown on page 7. With the exception of the VMD and the external members, the OAB members served only in their capacity as senior managers of the parent or other government department. Defra bears the cost of their representatives and the external members and details of these members' salaries, pensions, company directorships or other significant interests are included in their departments' resource accounts.

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

**External Board Members**

Membership details of the Management Board are shown on page 5. The three external members also form the Audit & Risk Committee and David Skilton chairs the Veterinary Products Committee. The following salaries and benefits-in-kind were paid to the external members:

| **2010/11** | **J Preston £000** | **B Morris £000** | **D Skilton £000** |
|---|---|---|---|
| Salary (as defined above) | 0-5 | 0-5 | 0-5 |
| Benefits-in-kind | 0-5 | 0-5 | 0-5 |
| Total | 0-5 | 0-5 | 5-10 |

| **2009/10** | **J Preston £000** | **B Morris £000** | **D Skilton £000** |
|---|---|---|---|
| Salary (as defined above) | 0-5 | 0-5 | 5-10 |
| Benefits-in-kind | 0-5 | 0-5 | 5-10 |
| Total | 0-5 | 5-10 | 10-15 |

Members' 'salaries' relate to attendance fees, from which payroll taxes are deducted at source. Benefits-in-kind relate to the reimbursement of travel expenses to the VMD's offices. The VMD settles the members' income tax liability on the benefits-in-kind through a 'PAYE Settlement Agreement'.

The external members did not receive any pension benefits as part of their remuneration.

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

**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 joining from October 2002 may opt for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder pension with an employer contribution (**partnership** pension account).

Employee contributions are 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 initial pension is payable on retirement. For **premium**, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike **classic**, there is no automatic lump sum. **Classic plus** is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per **classic** and benefits for service from October 2002 worked out as in **premium**. In **nuvos** a member builds up a pension based on 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 the accrued pension is uprated in line with Pensions Increase legislation. In all cases members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

The **partnership** pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 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 http://www.civilservice.gov.uk/my-civil-service/pensions/index.aspx

**Steve Dean**
Chief Executive
20 May 2011

# Statement of Accounting Officer's Responsibilities

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

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

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

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

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

# Statement on Internal Control

**Scope of responsibility**

As Chief Executive I am accountable to the Secretary of State for Defra for the performance and operation of the VMD in accordance with the Framework Document and the VMD's Business Plan. I am responsible for securing efficiency and the economical conduct of business and for the propriety and regularity of the public funds allocated to the VMD.

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the VMD's policies, aims and objectives, whilst safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in "Managing Public Money".

The Secretary of State for Defra determines the overall policy and financial framework within which the VMD operates but is not involved in the day-to-day management of the Agency. The Defra ownership function in relation to the VMD is exercised by the CVO and he receives advice on the Agency's strategic direction and performance from the VMD Owner Advisory Board (OAB). The role of the OAB includes assuring the Minister that the VMD has appropriate and effective mechanisms for financial control, audit and risk management.

**The purpose of the system of internal control**

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of departmental policies, 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 in the VMD for the year ended 31 March 2011 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

**Capacity to handle risk**

The VMD has a comprehensive risk-management process reaching every level of the business under the leadership of the Chief Executive and taking advice from the independent Audit & Risk Committee.

As Chairman of the VMD's Management Board, I have responsibility for providing the strategic leadership necessary to endorse the VMD's risk management procedures and to ensure that they are being implemented appropriately throughout the Agency.

The VMD's Risk Register, minutes of Audit & Risk Committee meetings and information on risk management procedures have been made available to all staff via a dedicated risk-management site on the VMD's Intranet. The continued use within the Agency of project management principles has reinforced the awareness of staff towards the management of risk and encouraged the use of good practice.

These measures are directed towards ensuring a common understanding of the terminology used in relation to the management of risk, identifying areas where best practice can be adopted and describing the procedures that have been put in place to manage risk within the Agency.

**The risk and control framework**

The procedures in place at the VMD are designed to ensure a regular review of the risks facing the Agency and encourage active consideration of the possible options for managing each risk down to an acceptable level.

The VMD's Strategic Risk Register contains the top risks facing the Agency. It is reviewed at least monthly by the Accounting Officer and the VMD's Directors to consider the current status of the risks and to consider whether any new risks are emerging that would threaten the achievement of the Agency's objectives. A Change Summary document is maintained to identify the date and reason for any significant changes made to each risk.

The VMD seeks to identify other risks that, although not significant enough to appear on the Risk Register, could still affect the successful outcome of the VMD's objectives. These risks are managed within individual business areas and are 'owned' by the respective Departmental Heads or Project Leaders. Progress against them is reported to Directors at regular intervals. Our risk management processes, including the register, are regularly reviewed against a model used by our internal auditors. The strategic risk register is supplemented by a list of standing controls (setting out control measures that have been embedded within normal business processes). The VMD's approach to risk management is set out in a single document communicated to all staff. This includes the process for the review and escalation of risks to ensure the Agency Accounting Officer and Directors are fully aware of the changing risk landscape to enable timely action to be taken.

**Project management principles**

The general principles of project management have been developed and applied across the VMD for many years. Used effectively and in a fit-for-purpose way, these principles have helped the Agency to ensure that:

- projects are goal-oriented;
- projects deliver real benefits and outcomes on time using resources efficiently and effectively;
- all stakeholders are identified and properly engaged;
- links and dependencies between different projects, policies and the Business Plan are identified;
- risks are identified and effectively managed.

Project Management training is available to all staff and this helps to ensure that the appropriate skills and disciplines are applied. Each formal project has a Senior Responsible Officer and a project plan. Risk registers are maintained for each project to ensure the level of risk is identified at the planning stage and monitored throughout the life of the project.

**Strategy and planning**

The VMD publishes a Business Plan. This describes the VMD's vision, how the VMD works to deliver Defra's objectives and the VMD's targets and key performance indicators. A key part of the Business Plan is the financial plan, which sets out the resources required to achieve the Business Plan targets and how they will be funded. The Business Plan is considered by the OAB and signed off at Ministerial level following OAB and Corporate Owner advice. The Business Plan is developed from Directors' and senior managers' meetings during the year, in which they discuss their understanding of the VMD's operating environment, including anticipated political, operational and financial developments.

Once the Business Plan is approved, action plans are formalised in order to facilitate its successful achievement. Business cases are prepared and, where appropriate, OGC Gateway Reviews[14] are conducted, to inform significant investment decisions.

Priority tasks are identified to deliver each Business Plan target, which is owned by one or more Directors. The targets form the basis of group action plans that feed into personal work objectives for VMD staff. Performance against the key targets, including the financial targets, is monitored quarterly by the Management Board and the OAB and reported on by Defra's Internal Audit following an end of year review.

**Governance structures and processes**

The VMD operates according to the principles and responsibilities set out in the Agency's Framework Document. The CEO is appointed by and is directly accountable to the Minister for the day to day management of the VMD. As CEO, I am entitled to direct contact with HM Treasury with regard to the proper conduct of the Agency's finances.

I am advised and assisted in my responsibilities by a Management Board and Governance oversight is provided by an Audit & Risk Committee. Three external non-executive Directors sit on the Management Board and form the Audit & Risk Committee. These committees are supported by the provision of a full range of management information, including financial performance, to support their deliberations.

As CEO I am a member of the OAB. The OAB is chaired by the Chief Veterinary Officer (the Defra Agency Owner) and is composed of two external members, senior officials from Defra (including the Defra Agency Customer), the devolved administrations and the FSA and is responsible for advising Ministers on strategic matters concerning the Agency.

Our Internal Audit work is currently provided by RSM Tenon, who provide an annual opinion on the adequacy and effectiveness of internal control including financial controls. This is based on a selection of risk-based audits carried out during the year, internal audit's annual Key Control Testing exercise, which seeks to provide assurance on the VMD's core systems, and other advice work on risk, control systems and governance given by Internal Audit during the year.

Each year the VMD conducts a control workshop, facilitated by Defra's Internal Audit team, covering elements of Risk Management, Control and Governance. The workshop allows an opportunity for senior VMD staff to express their opinions on a number of assertions relating to the control and risk framework by identifying strengths and weaknesses, providing assurance on the control framework and identifying possible issues for disclosure and actions to be taken.

The VMD holds regular internal and external meetings with a variety of stakeholders, including representatives of the veterinary profession, pharmaceutical companies, consumers and staff. Information about the VMD, its governance and operations is kept available on its internet site. The VMD is accredited to IiP at the silver standard following a reassessment in 2009 against the new IiP standard.

A significant proportion of the VMD's non-pay overhead costs are recharges for services provided by other Defra bodies. Accountability for these costs lies with the Agency Chief Executive, who seeks to manage operational and financial risks through Service Level Agreements[15] that demonstrate value for money. The responsibility for managing the delivery of accommodation-related services lies with Defra under the Sustainable Workplace Management

[14] An OGC Gateway Review is a "peer review" in which independent practitioners from outside a project use their experience and expertise to examine the progress and likelihood of successful delivery of the project at key decision points in its lifecycle.

[15] A Service Level Agreement is a part of a service contract where the level of service is formally defined. This will normally include a number of Key Performance Indicators, which are used to inform an evaluation of the effectiveness of service delivery.

(SWM) contract. Defra is currently re-negotiating its centrally-managed performance measurement mechanism with the service provider that is designed to encourage effective service delivery across the Defra family. At the date of this report, Key Performance Indicators relevant to the VMD are still not in place. As the Agency Chief Executive I therefore have limited control over the costs and the effectiveness of service delivery in this area.

**Management of change**

The Agency European Steering Committee has progressed the development of a clear strategy for the VMD's role in Europe and is providing training and information for staff on European matters.

The establishment of a VMD-wide Quality Management System has made significant progress during the year with more than 97% of Standing Operating Procedures having been approved. A programme of training and VMD internal audit is in progress.

Every two years the VMD reviews its performance against the European Foundation for Quality Management (EFQM) standards and implements changes considered necessary to enhance the VMD's performance. A benchmarking process was last completed in March 2009 with results fed into the VMD's Business Improvement Delivery Plan.

The inclusion of the VMD's staff in the Civil Service People Surveys in 2009 and 2010 provided a strong and consistent view of the organisation's strengths and areas for development, which are captured in the VMD's Business Improvement Delivery Plan.

**Information security**

VMD staff have all received training on information security, are experienced in handling commercially confidential data and are aware of the specific procedures that must be followed. Our commitment and competency in relation to IT security is recognised by accredited policies and procedures through the ISO 27001 standard and in being awarded Government Secure Intranet (GSi) accreditation for our IT network in December 2010. Our IT Security Forum reviews the specific information security risk register every six months and our IT Strategy and Implementation Plan is reviewed every six months by our IT Steering Group.

**Performance management**

All staff have the opportunity to engage in the development of the Business Plan and individuals are expected to be able to relate the objectives in their Personal Development Plan to the VMD targets.

Monthly meetings are held by all business groups to monitor performance against defined targets and budgets and to evaluate risk. Quarterly meetings are held by the Authorisations Division to review progress against their workplan and progress of projects.

Operational, Authorisation and Financial Performance Reports are produced monthly and circulated to the Directors and senior managers and reported formally to the Management Board on a quarterly basis. Authorisations performance against published standards of service is published in the VMD's "Marketing Authorisation Veterinary Information Service"[16] (MAVIS) publication on a quarterly basis.

The VMD conducts formal Customer Surveys of our pharmaceutical industry customers every two years and operates a programme of customer care visits throughout the year. The results

[16] **MAVIS is published online at www.vmd.defra.gov.uk/vet/mavis.aspx**

and discussions are recorded and follow-up actions are communicated to the individual customers and in more general terms to the industry.

**Review of effectiveness**

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

- the work of our internal auditors and their audit reports;
- the executive managers within the Agency, who have responsibility for the development and maintenance of the internal control framework;
- comments made by the National Audit Office in their management letter and other reports.

I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Management Board and the Audit & Risk Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

The Audit & Risk Committee's advice continues to be valuable in assisting the VMD in the development of corporate governance, risk management and control strategies. At each meeting the Committee is given the opportunity to:

- comment on the Risk Register;
- advise the Chief Executive and the Management Board on issues of risk, control and governance;
- review the VMD's business processes, providing assurance on the effectiveness of the systems of internal control;
- review the work and performance of Internal Audit and its recommendations, including the adequacy of management's responses; and
- discuss progress reports and the management letter from our external auditors, the National Audit Office.

Assurance has been taken from the following Internal Audit reviews reported during the year:

- the VMD's risk management framework;
- the VMD's records management processes to ensure compliance with the Freedom of Information Act;
- VMD management of the risks associated with the handover of the statutory residues testing contract;
- management of the risks around the Defra Estates strategy;
- processes for handling electronic submissions from Marketing Authorisation Holders;
- methodology for apportioning overhead costs across the organisation's operating segments; and
- key financial controls.

The VMD's Management Board:

- reviews the VMD's operational management, risk management and service delivery;
- reviews progress towards achievement of key performance targets; and

- receives reports from the Chairman of the Audit & Risk Committee.

The Internal Audit Service, currently provided by RSM Tenon:

- operates under the requirements set out in Government Internal Audit Standards and the IIA-UK's International Standards for the Professional Practice of Internal Auditing; and
- provides regular reports following review and evaluation of the Agency's risk management, control and governance arrangements, making recommendations for improvements where appropriate.

RSM Tenon's Head of Internal Audit has provided an independent opinion regarding the adequacy and effectiveness of the VMD's arrangements for governance, risk management and control during the year. The report concluded that for the 12 months ended 31 March 2011, the VMD's governance arrangements were adequate; the VMD had a well established approach to risk management; and that the control framework was in place and complied with.

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

**Steve Dean**
Chief Executive
20 May 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 Medicines Directorate 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 Chief Executive and auditor**

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

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

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Veterinary Medicines Directorate's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Veterinary Medicines Directorate; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Annual Report 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 Medicines Directorate's affairs as at 31 March 2011, and of the net operating income 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 '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
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

26 May 2011

# Statement of Comprehensive Net Expenditure

for the year ended 31 March 2011

| | *Note* | 2011 | | | 2010 restated |
|---|---|---|---|---|---|
| | | **Staff costs £000** | **Other costs £000** | **Income £000** | **£000** |
| **Administration costs:** | | | | | |
| Staff costs | *5* | (7,112) | | | (7,230) |
| Other administrative costs | *6* | | (7,231) | | (7,642) |
| Operating income | *3* | | | 14,746 | 15,051 |
| **Totals** | | (7,112) | (7,231) | 14,746 | 179 |
| **Net operating income** | | | | 403 | 179 |
| **Other comprehensive expenditure:** | | | | | |
| Net gain on revaluation of Property, Plant and Equipment | | | | 395 | 621 |
| **Total comprehensive income for the year ended 31 March 2011** | | | | 798 | 800 |

The 2009/10 net operating income has been restated following the removal of the Cost of Capital charge (see Note 2).

All activities arise from continuing operations.

All of the above income and expenditure is classified as "Administration" for Resource Accounting purposes.

The notes on pages 33 to 47 from part of these accounts.

# Statement of Financial Position

as at 31 March 2011

| | *Note* | **2011** | | **2010** | | **2009** | |
|---|---|---|---|---|---|---|---|
| | | **£000** | **£000** | **£000** | **£000** | **£000** | **£000** |
| **Non-current assets:** | | | | | | | |
| Property, plant and equipment | *7* | **6,213** | | 6,091 | | 5,534 | |
| Intangible assets | *8* | **106** | | 102 | | 100 | |
| **Total non-current assets** | | | **6,319** | | 6,193 | | 5,634 |
| **Current assets:** | | | | | | | |
| Trade and other receivables | *9* | **2,683** | | 2,984 | | 2,756 | |
| Cash and cash equivalents | *10* | **2,669** | | 2,468 | | 3,528 | |
| **Total current assets** | | | **5,352** | | 5,452 | | 6,284 |
| **Total assets** | | | **11,671** | | 11,645 | | 11,918 |
| **Current liabilities:** | | | | | | | |
| Trade and other payables | *11* | **(2,367)** | | (1,746) | | (1,860) | |
| **Total current liabilities** | | | **(2,367)** | | (1,746) | | (1,860) |
| **Assets less liabilities** | | | **9,304** | | 9,899 | | 10,058 |
| **Taxpayers' equity** | | | | | | | |
| General fund | | | **5,932** | | 6,922 | | 7,702 |
| Revaluation reserve | | | **3,372** | | 2,977 | | 2,356 |
| **Total taxpayers' equity** | | | **9,304** | | 9,899 | | 10,058 |

**S P Dean**
Chief Executive and Agency Accounting Officer
20 May 2011

The notes on pages 33 to 47 from part of these accounts.

# Statement of Cash Flows

for the year ended 31 March 2011

| | *Note* | 2011 | 2010 restated |
|---|---|---|---|
| | | **£000** | **£000** |
| **Cash flows from operating activities:** | | | |
| Net Operating Income | | **403** | **179** |
| Adjustments for non-cash transactions: | | | |
| Depreciation, amortisation and revaluation losses | *6* | 392 | 347 |
| Defra service charges to General Fund | *6* | 1,074 | 953 |
| Auditors remuneration charged to General Fund | *6* | 33 | 38 |
| Decrease in accruals for non-current assets | | 66 | 29 |
| Decrease/(increase) in trade and other receivables | | 301 | (228) |
| Increase/(decrease) in trade and other payables | | 621 | (114) |
| **Net cash inflow from operating activities** | | **2,890** | **1,204** |
| **Cash flows from investing activities:** | | | |
| Purchase of property, plant and equipment | | (124) | (246) |
| Purchase of intangible assets | | (65) | (68) |
| **Net cash outflow from investing activities:** | | **(189)** | **(314)** |
| **Cash flows from financing activities:** | | | |
| Repayment of Defra operational funding | | (2,500) | (1,950) |
| **Net financing:** | | | |
| **Net increase/(decrease) in cash and cash equivalents** | | **201** | **(1,060)** |
| **Cash at the beginning of the year** | | **2,468** | **3,528** |
| **Cash at the end of the year** | | **2,669** | **2,468** |

The notes on pages 33 to 47 from part of these accounts.

# Statement of Changes in Taxpayers' Equity

for the year ended 31 March 2011

| | *Note* | General Fund £000 | Revaluation Reserve £000 | Total Reserves £000 |
|---|---|---|---|---|
| **Balance at 1 April 2009** | | **7,702** | **2,356** | **10,058** |
| **Changes in taxpayers' equity for 2009/10:** | | | | |
| Net gain on revaluation of property, plant and equipment | | - | 621 | 621 |
| Defra service charges to General Fund | *6* | 953 | - | 953 |
| Auditors remuneration charged to General Fund | *6* | 38 | - | 38 |
| Net operating income for the year (restated) | | 179 | - | 179 |
| **Total recognised income and expense for 2009/10** | | 1,170 | 621 | 1,791 |
| Repayment of Defra operational funding | | (1,950) | - | (1,950) |
| **Balance at 31 March 2010** | | 6,922 | 2,977 | 9,899 |
| **Changes in taxpayers' equity for 2010/11:** | | | | |
| Net gain on revaluation of property, plant and equipment | | - | 395 | 395 |
| Defra service charges to General Fund | *6* | 1,074 | - | 1,074 |
| Auditors remuneration charged to General Fund | *6* | 33 | - | 33 |
| Net operating income for the year | | 403 | - | 403 |
| **Total recognised income and expense for 2010/11** | | **1,510** | **395** | **1,905** |
| Repayment of Defra operational funding | | (2,500) | - | (2,500) |
| **Balance at 31 March 2011** | | **5,932** | **3,372** | **9,304** |

The notes on pages 33 to 47 from part of these accounts.

# 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) and the Accounts Direction issued by HM Treasury.

The accounting policies contained in 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 the Agency, for the purpose of giving a true and fair view. The Agency's accounting policies have been applied consistently in dealing with items which are considered material in relation to the Accounts.

### 1.1 Judgements and key sources of estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the Statement of Financial Position date and amounts reported for income and expenditure 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:

**Deferred income**

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

**Indexation of non-current assets**

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

### 1.2. Accounting convention

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

### 1.3. Property, plant and equipment

Items of property costing £2,000 or more, and plant and equipment or IT software costing £500 or more, where there is an expected useful economic life of more than one year, are carried in the Statement of Financial Position as non-current assets at fair value.

Property is valued at Depreciated Replacement Cost applying to specialist buildings. Depreciated Replacement Cost is defined as "the current cost of replacing an asset with its modern equivalent asset less deductions for physical deterioration and all relevant forms of obsolescence and optimisation."

Non-property assets are carried at fair value using indices provided by the Office for National Statistics. Losses on revaluation are charged to the Revaluation Reserve to the extent that gains have been recorded previously and otherwise to the Statement of Comprehensive Net Expenditure.

### 1.4. Depreciation

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

During the year, asset lives were in the following ranges:

| | |
|---|---|
| Freehold land | Not depreciated |
| Freehold buildings | 44 years |
| IT equipment | 3-5 years |
| IT software | 3-10 years |
| Furniture, fittings and office equipment | 10 years |

### 1.5. Operating income

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

### 1.6. Income recognition

Income received in advance of work done is deferred to future periods to the extent necessary to cover the work estimated to be outstanding at the year end. Income receivable for work done in the year is accrued to the extent necessary to cover the work estimated to be complete at the year end.

### 1.7. Defra service recharges

Defra service recharges are charged to the Statement of Comprehensive Net Expenditure. Where Defra service recharges are not invoiced they are charged to the General Fund.

### 1.8. Financial instruments

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

### 1.9. Value Added Tax (VAT)

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

### 1.10. Research and development

The VMD is responsible for the management of Defra's Veterinary Medicines Research and Development programme. However the programme costs are borne by Defra and not by the VMD. Therefore only the costs of administering the programme are recognised in the VMD accounts.

### 1.11. Pensions

Past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS) which are described in the Remuneration Report and Note 5(iii). The defined benefit schemes are unfunded and are non-contributory except in respect of dependants' benefits. The Agency 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 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 schemes, the Agency recognises the contributions payable for the year.

### 1.12. Leases

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

### 1.13. Administration and programme expenditure

All of the VMD's income and expenditure is classified as "Administration" for Resource Accounting purposes.

### 1.14. General Fund

The net operating result for each year is transferred from the Statement of Comprehensive Net Expenditure to the General Fund. The General Fund represents the value of the VMD's net assets less liabilities as at 1 April 1991, which is the date from which the first Accounts Direction became effective, plus subsequent external funding movements, plus the accumulated net operating result transferred from the Statement of Comprehensive Net Expenditure. This reserve is not distributable.

### 1.15. Revaluation Reserve

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

### 1.16. Disclosure of IFRSs in issue not yet effective

The Agency has reviewed the IFRSs in issue but not yet effective, to determine if it needs to make any disclosures in respect of those new IFRSs that are or will be applicable. References to 'new IFRSs' include new Interpretations and any new amendments to IFRSs and Interpretations. It has been determined that the following new IFRSs are relevant to the VMD but will have no significant impact on the Agency's financial statements.

New IFRSs:

- IFRS 9 Financial Instruments
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

Amendments to IFRSs resulting from Annual Improvements to IFRSs (May 2010):

- IFRIS 1 First-time adoption of IFRS
- IFRIS 3 Business Combinations
- IFRIS 7 Financial Instruments Disclosure
- IAS 1 Presentation of Financial Statements
- IAS 27 Consolidated and Separate Financial Statements
- IAS 34 Interim Financial Reporting
- IFRIC 13 Customer Loyalty Programmes
- IFRIC 14 Prepayments of a Minimum Funding Requirement

### 1.17. Major FReM changes for 2011/12

The Agency has reviewed the major FReM changes for 2011/12 and determined that the following will have no significant impact on the financial statements.

- Chapter 3 Parliamentary Accountability
- Chapter 4 Accounting Boundaries
- Chapter 11 Income and Expenditure
- Chapters 11 and 13 Accounting for Tax Credit
- Chapters 5, 6, 7 and 11 Accounting for Capital Government Grants and Similar Financing from Non-Government Sources.

## 2. Changes to Government Accounting Framework

From 1 April 2010, in line with HM Treasury advice, the Agency no longer records a Cost of Capital charge in its Accounts but continues to include a notional Cost of Capital charge in the calculation of fees and charges (see Note 4). The Cost of Capital charge applies to the average net assets in the Statement of Financial position, with the exception of cash balances, to the extent that these are funded by fees and charges. The Cost of Capital charge is set by HM Treasury and is currently 3.5% (2009/10: 3.5%).

As a result of the above a Prior Period Adjustment (PPA) has been made with the comparative figures for 2009/10 being restated as follows.

| | **£000** |
|---|---|
| Net operating cost for 2009/10 including Cost of Capital Charge | (38) |
| Removal of Cost of Capital Charge | 217 |
| **Net operating income for 2009/10 excluding Cost of Capital Charge** | **179** |

There are no adjustments to reported cash flows or changes in taxpayers' equity in 2009/10.

## 3. Operating income and costs

### 3.1. Operating income

Income was earned from the following business segments:

| | 2011 | | | 2010 |
|---|---|---|---|---|
| | External | Defra | Total | Total |
| | £000 | £000 | £000 | £000 |
| Veterinary Pharmaceutical Industry | 7,352 | 9 | 7,361 | 7,317 |
| Food Industry | 3,945 | 49 | 3,994 | 4,052 |
| Government | - | 3,391 | 3,391 | 3,682 |
| | 11,297 | 3,449 | 14,746 | 15,051 |

### 3.2. Operating costs

Costs that cannot be directly allocated to individual operating segments are allocated according to staff time utilised. Staff time utilised during the year was as follows.

| | 2011 | 2010 |
|---|---|---|
| | % | % |
| Veterinary Pharmaceutical Industry | 75 | 74 |
| Food Industry | 5 | 6 |
| Government | 20 | 20 |
| | 100 | 100 |

## 4. Key performance target

The Agency's 2010/11 Business Plan includes one key financial performance target: *Achieve cost recovery and demonstrate progress in the three elements of Value for Money (Economy, Efficiency and Effectiveness)*. In assessing performance against this target, a notional Cost of Capital charge is recorded for industry-funded operating segments, in addition to the costs included in the Statement of Comprehensive Net Expenditure (see Note 2). For 2010/11 an overall cost recovery of 101% was achieved. However the VMD seeks to achieve 100% cost recovery for each of its three operating segments and for 2010/11 the results were as follows.

| | **2011** | | | |
|---|---|---|---|---|
| | Veterinary Pharmaceutical Industry **£000** | Food Industry **£000** | Government **£000** | **Total £000** |
| Income | 7,361 | 3,994 | 3,391 | **14,746** |
| Expenditure | (6,920) | (3,925) | (3,498) | **(14,343)** |
| Net operating income per Statement of Comprehensive Net Expenditure | 441 | 69 | (107) | **403** |
| Less: cost of capital charge | (190) | (12) | - | **(202)** |
| Cost recovery surplus/(deficit) | 251 | 57 | (107) | **201** |
| Cost recovery performance | 104% | 101% | 97% | **101%** |

| | **2010** | | | |
|---|---|---|---|---|
| | Veterinary Pharmaceutical Industry **£000** | Food Industry **£000** | Government **£000** | **Total £000** |
| Income | 7,317 | 4,052 | 3,682 | **15,051** |
| Expenditure | (7,170) | (4,154) | (3,548) | **(14,872)** |
| Net operating income per Statement of Comprehensive Net Expenditure | 147 | (102) | 134 | **179** |
| Less: cost of capital charge | (171) | (10) | - | **(181)** |
| Cost recovery surplus/(deficit) | (24) | (112) | 134 | **(2)** |
| Cost recovery performance | 100% | 97% | 104% | **100%** |

In the 2009/10 Annual Report and Accounts, a Cost of Capital charge was applied to all operating segments in the Cost Recovery performance measure. The 2009/10 cost recovery performance figures above have been restated to allow comparison on a consistent basis.

The information in Notes 3 and 4 is provided for fees and charges purposes.

## 5. Staff costs

### 5.1. Staff cost summary

Staff costs consist of the following.

| | 2011 | | | 2010 |
|---|---|---|---|---|
| | Permanently employed staff | Temporary staff | Total | Total |
| | **£000** | **£000** | **£000** | **£000** |
| Wages and salaries | 5,480 | 156 | 5,636 | 5,776 |
| Social security costs | 445 | - | 445 | 438 |
| Other pension costs | 1,031 | - | 1,031 | 1,016 |
| | 6,956 | 156 | 7,112 | 7,230 |

During the year there were no recoveries of staff costs in respect of outward secondments (2009/10: £nil).

Included in the permanently-employed staff costs is an accrual for untaken annual leave of £151,000 (2009/10: £180,000). This comprises of £118,000 (2009/10: £141,000) wages and salaries, £9,000 (2009/10: £11,000) social security costs and £24,000 (2009/10: £28,000) other pension costs.

### 5.2. Senior managers' remuneration

Details of the Chief Executive's and senior managers' salaries and pension entitlements are shown in the Remuneration Report.

### 5.3. Pensions

The Principal Civil Service Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme but the VMD is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out at 31 March 2007. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

For 2010/11, employers' contributions of £1,014,000 were payable to the PCSPS (2009/10: £997,000) at one of four rates in the range 16.7% and 24.3% of pensionable pay, based on salary bands (the rates in 2009/10 were between 16.7% and 24.3%). The scheme's Actuary reviews employer contributions every four years following a full scheme valuation. The salary bands and contribution rates were revised for 2009/10 and will remain unchanged until 2013/14.

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.

Employer's contributions of £17,000 (2009/10: £19,000) were paid to one or more of a panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3% to 12.5% of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay.

At the balance sheet date, no contributions were payable to the partnership pension providers (2009/10: £nil) and no contributions were prepaid (2009/10: £nil). No individuals retired early on ill-health grounds during the year and therefore no additional pension liabilities have been accrued for this purpose.

### 5.4. Early departure costs

Redundancy and other departure costs have been paid in accordance with the provisions of the Civil Service Compensation Scheme, a statutory scheme made under the Superannuation Act 1972. Exit costs are accounted for in full in the year of departure or earlier where a demonstrable commitment exists. All exit packages were in the cost band £50,000 - £100,000 as follows.

| | **2011** | **2010** |
|---|---|---|
| | **Number** | **Number** |
| Number of compulsory redundancies | - | - |
| Number of other departures agreed | 1 | - |
| Total number of exit packages in cost band | 1 | - |

### 5.5. Staff numbers

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

| | **2011** | | | **2010** |
|---|---|---|---|---|
| | **Permanently employed staff** | **Temporary staff** | **Total** | **Total** |
| | **Number** | **Number** | **Number** | **Number** |
| Scientific | 51 | 1 | 52 | 50 |
| Administrative | 100 | 3 | 103 | 109 |
| | 151 | 4 | 155 | 159 |

## 6. Other administrative costs

| | Note | 2011<br>£000 | 2010<br>£000 |
|---|---|---|---|
| **(i) Direct subcontracting costs** | | | |
| Services provided by Industry | | 1,871 | 2,517 |
| Services provided by Other Government Departments: | | | |
| Food and Environment Research Agency | | 1,333 | 855 |
| Meat Hygiene Service | | 479 | 483 |
| Animal Health | | 442 | 459 |
| Fisheries Research Services | | 112 | 112 |
| Medicines and Healthcare products Regulatory Agency | | 11 | 62 |
| Centre for Environment, Fisheries and Aquaculture Science | | 2 | 13 |
| | | **4,250** | **4,501** |
| **(ii) Other costs** | | | |
| IT systems maintenance | | 268 | 284 |
| Consultancy | | 24 | 83 |
| Travel and subsistence | | 146 | 240 |
| Training | | 63 | 137 |
| Accommodation | | 74 | 82 |
| Communications | | 122 | 125 |
| Independent expert committees | | 94 | 129 |
| Stationery and publications | | 138 | 113 |
| Operating leases | | 32 | 34 |
| Movement on provision for bad debts | | 44 | 21 |
| Other costs | | 172 | 268 |
| | | **1,177** | **1,516** |
| **(iii) Departmental recharges** | | | |
| Defra service recharges: | | | |
| Invoiced | | 305 | 287 |
| Charged to the General Fund | | 1,074 | 953 |
| Auditors remuneration | | 33 | 38 |
| | | **1,412** | **1,278** |
| **(iv) Depreciation, amortisation and revaluation losses** | | | |
| Depreciation of property, plant and equipment | 7 | 327 | 272 |
| Amortisation of intangible assets | 8 | 61 | 75 |
| Losses on disposal of non-current assets | | 4 | - |
| | | **392** | **347** |
| **Total other administrative costs** | | **7,231** | **7,642** |

Within the Statement of Comprehensive Net Expenditure the full cost of occupation is reflected in relation to buildings that are held on the Agency's Statement of Financial Position. The costs are proportionate to occupation and include rates, utilities, management overheads and facilities management.

Included in Auditors Remuneration for the year is £nil (2009/10: £5,000) audit work in readiness for International Financial Reporting Standards. No remuneration was paid to the auditors in respect of non-audit work.

Invoiced Defra service recharges relate to Human Resources and Legal services. Defra service charges charged to the General Fund relate to Estates Maintenance and Investigation services.

Consultancy costs include the provision to management of objective advice relating to the strategy, structure, management or operations of the Agency in pursuit of its objectives.

## 7. Property, plant and equipment

| | Land | Buildings | IT Equipment | Furniture Fittings & Equipment | Total |
|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 |
| **Cost or Valuation:** | | | | | |
| At 1 April 2010 | 470 | 5,334 | 1,051 | 380 | 7,235 |
| Additions | - | 5 | 49 | 4 | 58 |
| Disposals | - | (3) | (11) | (19) | (33) |
| Revaluation | - | 2,597 | (118) | 2 | 2,481 |
| At 31 March 2011 | 470 | 7,933 | 971 | 367 | 9,741 |
| **Depreciation:** | | | | | |
| At 1 April 2010 | - | - | (845) | (299) | (1,144) |
| Charged in year | - | (204) | (111) | (12) | (327) |
| Disposals | - | - | 10 | 19 | 29 |
| Revaluation | - | (2,190) | 106 | (2) | (2,086) |
| At 31 March 2011 | - | (2,394) | (840) | (294) | (3,528) |
| **Net Book Value:** | | | | | |
| **At 31 March 2011** | **470** | **5,539** | **131** | **73** | **6,213** |
| At 31 March 2010 | 470 | 5,334 | 206 | 81 | 6,091 |
| **Cost or Valuation:** | | | | | |
| At 1 April 2009 | 1,533 | 4,260 | 901 | 368 | 7,062 |
| Additions | - | 69 | 128 | 11 | 208 |
| Disposals | - | - | (130) | (2) | (132) |
| Revaluation | (1,063) | 1,005 | 152 | 3 | 97 |
| At 31 March 2010 | 470 | 5,334 | 1,051 | 380 | 7,235 |
| **Depreciation:** | | | | | |
| At 1 April 2009 | - | (512) | (731) | (285) | (1,528) |
| Charged in year | - | (132) | (126) | (14) | (272) |
| Disposals | - | - | 130 | 2 | 132 |
| Revaluation | - | 644 | (118) | (2) | 524 |
| At 31 March 2010 | - | - | (845) | (299) | (1,144) |
| **Net Book Value:** | | | | | |
| At 31 March 2010 | 470 | 5,334 | 206 | 81 | 6,091 |
| At 31 March 2009 | 1,533 | 3,748 | 170 | 83 | 5,534 |

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

The Land and Buildings were valued at 31 March 2011 by an independent valuer in accordance with guidance issued by the Royal Institution of Chartered Surveyors. Buildings were valued at Depreciated Replacement Cost applying to specialist buildings in accordance with IAS 16, defined as the current cost of replacing an asset with its modern equivalent asset less deductions for physical deterioration and all relevant forms of obsolescence and optimisation.

## 8. Intangible assets

| | £000 |
|---|---|
| **Cost or valuation:** | |
| At 1 April 2010 | 679 |
| Additions | 65 |
| Disposals | - |
| At 31 March 2011 | 744 |
| | |
| **Amortisation:** | |
| At 1 April 2010 | (577) |
| Charged in year | (61) |
| Disposals | - |
| At 31 March 2011 | (638) |
| | |
| **Net Book Value:** | |
| **At 31 March 2011** | **106** |
| | |
| At 31 March 2010 | 102 |
| | |
| **Cost or valuation:** | |
| At 1 April 2009 | 777 |
| Additions | 77 |
| Disposals | (175) |
| At 31 March 2010 | 679 |
| | |
| **Amortisation:** | |
| At 1 April 2009 | (677) |
| Charged in year | (75) |
| Disposals | 175 |
| At 31 March 2010 | (577) |
| | |
| **Net Book Value:** | |
| At 31 March 2010 | 102 |
| | |
| At 31 March 2009 | 100 |

Intangible assets comprise software licences.

## 9. Trade and other receivables

| Amounts falling due within one year: | 2011 | 2010 | 2009 |
|---|---|---|---|
| | £000 | £000 | £000 |
| Trade receivables | 688 | 551 | 461 |
| Balances with other central government bodies | 860 | 1,015 | 885 |
| Other receivables | 22 | 35 | 33 |
| VAT recoverable | 76 | 186 | 139 |
| Prepayments and accrued income | 1,037 | 1,197 | 1,238 |
| | 2,683 | 2,984 | 2,756 |

Trade receivables are shown net of a provision of £138,000 (2009/10: £94,000, 2008/09: £74,000) for bad and doubtful debts. The provision is calculated according to the age and status of the debt and recent sector-specific debt-recovery information. Included in receivables there are no balances with local authorities, NHS bodies, public corporations or trading funds (2009/10: £nil, 2008/09: £nil).

Balances with other central government bodies at the year-end includes £860,000 with Defra and its agencies (2009/10: £1,015,000, 2008/09: £nil).

At the year end the VMD had no receivables falling due after more than one year (2009/10: £nil, 2008/09: £nil).

## 10. Cash and cash equivalents

| | 2011 | 2010 |
|---|---|---|
| | £000 | £000 |
| Balance at 1 April | 2,468 | 3,528 |
| Net change in cash and cash equivalent balances | 201 | (1,060) |
| Balance at 31 March | 2,669 | 2,468 |
| | | |
| The following balances at 31 March were held: | | |
| At Office of HM Paymaster General/Government Banking Services | 2,669 | 2,453 |
| At commercial banks | - | 15 |
| Balance at 31 March | 2,669 | 2,468 |

## 11. Trade and other payables

| Amounts falling due within one year: | 2011 £000 | 2010 £000 | 2009 £000 |
|---|---|---|---|
| Trade payables | 39 | 50 | 48 |
| Balances with other central government bodies | 396 | 219 | 213 |
| Balances with public corporations and trading funds | 4 | 12 | 147 |
| Other taxation and social security | 158 | 186 | 179 |
| Accruals and deferred income | 1,770 | 1,279 | 1,273 |
| | 2,367 | 1,746 | 1,860 |

Included in payables there are no balances with local authorities or NHS bodies (2009/10 £nil, 2008/09 £nil).

Balances with other central government bodies at the year-end includes £353,000 owing to Defra and its agencies (2009/10 £189,000, 2008/09 £190,000).

At the year end the VMD had no payables falling due after more than one year (2009/10: £nil, 2000/09: £nil).

## 12. Capital commitments

There were no contracted commitments at 31 March for which no provision has been made in the accounts (2009/10: £nil).

## 13. Commitments under operating leases

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

| **Obligations under operating leases comprise:** | 2011 £000 | 2010 £000 |
|---|---|---|
| **Land and Buildings** | | |
| Not later than one year | - | 7 |
| **Contract Hire cars** | | |
| Not later than one year | 28 | 24 |
| Later than one year not later than five years | 16 | 26 |
| | 44 | 57 |

The Land & Buildings commitment in 2009/10 related to the occupation of a Defra leasehold property. The arrangement between the Agency and Defra reflected a future commitment to reimburse Defra for the underlying rental paid to the landlord for the provision of leasehold accommodation.

### 14. Other financial commitments

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

| | 2011 | 2010 |
|---|---|---|
| | £000 | £000 |
| Not later than 1 year | 280 | 257 |
| Later than 1 year but not later than 5 years | 1,117 | 1,029 |
| Later than 5 years but not later than 10 years | 1,397 | 1,286 |
| Later than 10 years but not later than 15 years | 838 | 1,029 |
| | 3,632 | 3,601 |

### 15. Losses statement

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | Cases | Value | Cases | Value |
| | Number | £000 | Number | £000 |
| Claims waived | 39 | 140 | 2,192 | 109 |
| Claims abandoned | - | - | 2 | - |
| | 39 | 140 | 2,194 | 109 |

No individual case exceeded £250,000 in value.

### 16. Related party transactions

As the VMD is an Executive Agency of Defra and is sponsored by them, Defra is regarded as a related party. During the year, the VMD has had significant transactions with Defra and a number of its agencies, including Veterinary Laboratories Agency, Food and Environment Research Agency, Animal Health and Centre for Environment, Fisheries and Aquaculture Science.

The VMD has transacted with various other central Government bodies. Most of these transactions have been with the Medicines and Healthcare products Regulatory Agency, Meat Hygiene Service, Fisheries Research Services, Government Car and Despatch Agency and the National School of Government. None of the board members, key managerial staff or other related parties has undertaken any material transactions with the VMD during the year other than reimbursement for travel and subsistence in the normal course of business.

### 17. Financial instruments

As the cash requirements of the VMD are met through the Estimates process, financial instruments play a more limited role in creating and managing risk than would apply to a non-public sector body. 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.

### 18. Events after the reporting period

The VMD's financial statements are laid before the House of Parliament by the Secretary of State for Defra. IAS10 requires the VMD to disclose the date on which the accounts are authorised for issue. The authorised date for issue is 26 May 2011.

# Glossary

| | |
|---|---|
| AMR | Antimicrobial Resistance |
| CEO | Chief Executive Officer |
| CETV | Cash Equivalent Transfer Value |
| CMS | Concerned Member State |
| CVMP | Committee for Veterinary Medicinal Products |
| CVO | Chief Veterinary Officer |
| DARC | Defra Antimicrobial Resistance Coordination Group |
| DCP | Decentralised Procedures |
| Defra | Department for Environment, Food & Rural Affairs |
| DH | Department of Health |
| EC | European Commission |
| EFQM | European Foundation for Quality Management |
| EMA | European Medicines Agency |
| EU | European Union |
| Fera | Food and Environment Research Agency |
| FFG | Food and Farming Group |
| FReM | Financial Reporting Manual |
| FSA | Food Standards Agency |
| GSi | Government Secure Intranet |
| HMA | Heads of Medicines Agencies |
| IFRIC | International Financial Reporting Interpretations Committee |
| IFRS | International Financial Reporting Standards |
| IiP | Investors in People |
| IT | Information Technology |
| MA | Marketing Authorisation |
| MAFF | Ministry of Agriculture, Fisheries and Food |
| MAVIS | Marketing Authorisations Veterinary Information Service |
| OAB | Owner Advisory Board |
| OGD | Other Government Departments |
| PCSPS | Principal Civil Service Pension Scheme |
| PFI | Public Finance Initiative |
| QMS | Quality Management System |
| R&D | Research and Development |
| RMS | Reference Member State |
| SARs | Suspected Adverse Reactions |
| SD | Sustainable Development |
| SDC | Sustainable Development Commission |
| SWM | Sustainable Workplace Management |
| VMD | Veterinary Medicines Directorate |
| VMP | Veterinary Medicinal Product |
| VMR | Veterinary Medicines Regulations |
| VPC | Veterinary Products Committee |

ASSURING THE SAFETY, QUALITY & EFFICACY OF VETERINARY MEDICINES

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