



**ANNUAL REPORT AND
ACCOUNTS
2010/2011**



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1 CHIEF EXECUTIVE'S STATEMENT



This report and set of annual accounts summarises Animal Health's last year of operation as a separate entity. It has been a challenging year, in which the Agency has reduced its expenditure to meet tough in year targets and deliver its share of the government's savings targets.

Notwithstanding that the Agency has delivered major programmes across Great Britain – particularly in the area of bovine TB control and eradication, where policy has continued to develop rapidly and the Agency has advised and responded accordingly. Also this year we have been planning for the devolution of budgets from Defra to Scotland and Wales, as well as the work preparing Animal Health for merger with the Veterinary Laboratories Agency, both to take effect from 1 April 2011.

We have not lost sight of our key responsibility for ensuring that Great Britain is ready to respond to outbreaks of exotic animal disease. In 2010 we carried out a large scale national exercise to test the readiness of government across Great Britain to deal with an outbreak of Foot and Mouth Disease. This flagged the importance of ensuring that our shared approaches to managing differences of perspective and priority across the three administrations within Great Britain are effective and well understood. We will build next year's programme of exercises for the Animal Health and Veterinary Laboratories Agency around practising and developing in this area in particular. We also quickly identified and responded to two cases of equine infectious anaemia in the course of the year.

All of this was achieved with a reduced number of staff, and in an environment in which our operational partners have, like us, been experiencing severe pressures on resources. These constraints will become more acute over the years to come as we all seek to reduce the costs of our operations to the taxpayer. The merger with



the Veterinary Laboratories Agency offers us the opportunity to share expertise and infrastructure and seek ways to reduce the impacts of the significant financial savings we are all going to need to make.

I would like to thank our customers and stakeholders for their support over the period of Animal Health's existence – we look forward to continuing to work closely with them in the new Agency. And I would particularly like to thank our staff, who have shown significant flexibility over the last year, working hard to deliver more with less resource, and continuing to focus on delivering excellent services to our customers and on reducing animal health and welfare risks across Great Britain.

A handwritten signature in black ink that reads "Catherine Brown".

Catherine Brown
Chief Executive
19 May 2011

2 WHO WE ARE AND WHAT WE DO



Animal Health is an Executive Agency of the Department for Environment, Food and Rural Affairs (Defra). We operate across Great Britain on behalf of the Scottish Government, the Welsh Assembly Government, and the Food Standards Agency, as well as Defra.



We directly employ about 1,500¹ people and work with a network of private vets all over Great Britain. This gives us the comprehensive coverage we need to work effectively with farmers, producers, those involved in animal by-products, international trade and other parts of the livestock industry. Importantly, it also means we are able to respond swiftly and flexibly to emergencies wherever they occur.

What we do

We play a key part in delivering the Animal Health and Welfare Strategies of

governments across Great Britain. We work to prevent, control and eradicate exotic and endemic notifiable diseases, minimise the economic impact of animal disease, ensure high standards of welfare in farmed animals and improve food safety. We focus on working with others to drive down animal health and welfare related risks.

We do this in a range of different ways: responding to suspected cases of exotic notifiable disease; providing advice and guidance to farmers and other end user customers; monitoring the occurrence and incidence of different diseases; checking

¹1,489 average Full Time Equivalent staff during 2010/11

compliance with legislative requirements; issuing approvals and licences and supporting and guiding enforcement action where appropriate to ensure compliance.

Our day-to-day activity covers a wide range of tasks for diverse customer groups. These include:

- Carrying out surveillance and control work to detect the presence of endemic notifiable diseases, such as bovine tuberculosis (bTB) and salmonella;
- When we detect cases of exotic disease we manage the breakdown and, where necessary, take action to remove the infection;
- Checking the disease status of imported livestock;
- Working with Official Veterinarians (OVs) certifying that animals for export have passed all necessary checks;
- Checking compliance with animal by-product legislation to help minimise the risk of potentially dangerous substances entering the animal and human food chains;
- Conducting an annual risk based programme of welfare inspections under the EU Cross Compliance regime. As the Competent Control Authority in this area we undertake these on behalf of the paying agencies in the Scottish Government, the Welsh Assembly Government and the Rural Payments Agency;
- Responding to reports of welfare problems in livestock;
- Protecting the welfare of animals during transport;
- Dealing with incidents of other notifiable diseases such as scrapie and bovine spongiform encephalopathy (BSE);
- Registering and licensing the imports of endangered wildlife and products in relation to the Convention on International Trade in Endangered Species (CITES);
- Inspecting the facilities and processes used in dairy and egg production to ensure the safety of the human food chain and that eggs meet quality and traceability standards;
- Overseeing the Pet Travel Scheme (PETS), which allows pet dogs, cats and ferrets from certain countries to enter the UK without quarantine as long as they meet the requirements of the scheme.

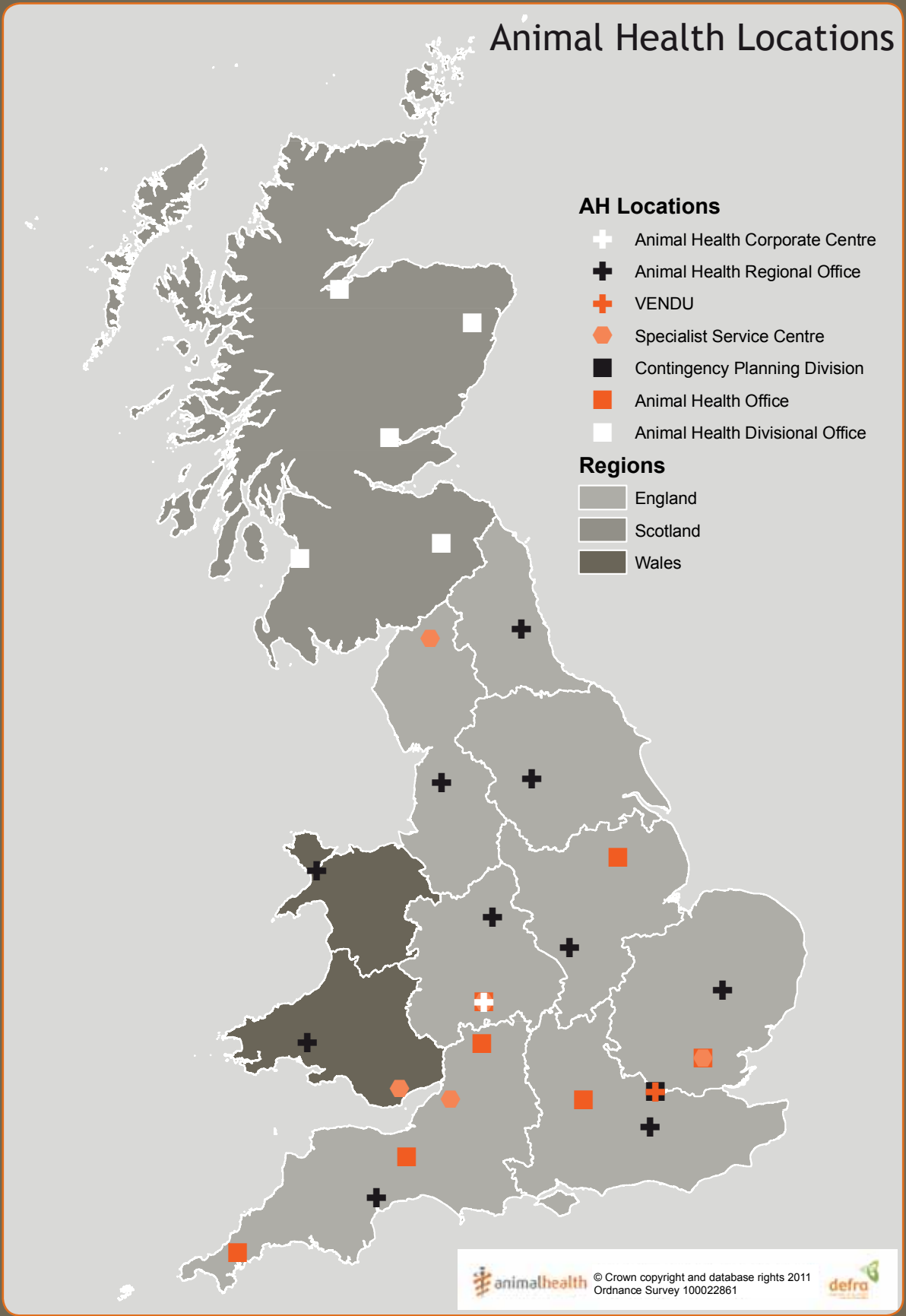
We work to prevent outbreaks of exotic disease, which are diseases not usually present in livestock in Great Britain, such as Foot and Mouth Disease, avian influenza, classical swine fever and rabies. We are responsible for making sure that should such an outbreak occur we are ready to respond effectively. One of our top priorities is working with our policy colleagues, operational partners and industry to ensure that together we are ready to deal with any outbreak of notifiable exotic disease that might occur.

Our contingency plans have been developed with policy colleagues and key delivery partners, and we carry out regular exercises to ensure they work well and are effective. A key element of the plans is the establishment of National and Local Disease Control Centres to ensure a coordinated response across Great Britain.

Coordinated support is essential from delivery partners such as local authorities, the police, the Health Protection Agency, the Veterinary Laboratories Agency and the Environment Agency, as well as representatives from industry and private veterinary practices. As resources are stretched more thinly across all publicly funded organisations it is more important than ever to work effectively together to minimise and manage risks.

Investigating reported cases of possible exotic disease forms a significant part of our routine activity - most are negative, but we put our comprehensive contingency plans into action when they are confirmed positive.

Figure 1: Map of Animal Health Regions and Divisions



3 OUR STRATEGY

We have continued to work with four complementary themes:

- To be the recognised experts in the delivery of animal health and welfare policy, helping our policy customers to form policy and agree implementation approaches that maximise their impact in achieving their desired outcomes, while minimising costs;
- To continue to be the provider of choice to our policy customers in Scotland and Wales, as well as England, because we believe that we can deliver a better service to all three governments through a Great Britain body - large enough to sustain expertise across all the diverse fields in which we work, and to give flexibility in tackling outbreaks of exotic disease wherever they occur in Great Britain;



- **To build on our relationships with our end-user customers - really understanding their agendas and what drives their behaviours, and effectively influencing them to reduce their animal health and welfare-related risk;**
- **To work collaboratively with others in the areas in which we work - making sure that together we make the biggest difference possible to animal health and welfare-related risk.**

This section sets out in summary some of what we have achieved during the reporting year.



Recognised experts in delivery

We seek to be recognised as experts in delivery. To be so requires that we are efficient, consistent, knowledgeable, resilient and innovative, and that what we do is based on the sound application of risk management principles.

Systems and processes

The Business Reform Programme (BRP) is an IT-enabled change programme designed to make us more efficient, consistent and resilient. During 2010/11 we implemented a system which helped us to plan and manage our work. We then implemented automated tracing for infected animals or other items that have been associated with disease. The benefits of technology are being seen in efficiency improvements we have been able to make across the field delivery activities. We have started to build the online portal to allow Official Veterinarians (OVs) to report their test results electronically.

In line with Cabinet Office requirements to ensure that risks relating to information assets are managed and controlled we have continued to deploy Information Security training. All staff have successfully completed Protecting Information Level 1, with relevant individuals successfully completing Level 2 and 3 to a satisfactory standard.

This year, everyone in Animal Health was asked to renew their Personal Commitment

Statement. It is a requirement that all those with a right to access our systems read and agree to follow our information and IT security policies, including those which relate to the appropriate use of email and the internet. It is also a requirement for our continued use of the Government Secure Intranet (GSI).

Emergency preparedness

February 2011 marked the 10 year anniversary of the Foot and Mouth Disease (FMD) outbreak in Great Britain. Today the Government needs to demonstrate that it is prepared for, and has effective contingency plans in place to deal with, a large scale outbreak of animal disease, such as Foot and Mouth Disease. To test these arrangements Animal Health worked effectively with Defra, Scottish Government, Welsh Assembly Government and operational partners to run a real time national scale exercise, known as 'Silver Birch'. In addition to confirming what worked well, the exercise report identified a number of ways to improve Great Britain's response to future outbreaks of notifiable animal disease.



TESTING OUR RESPONSE: EXERCISE SILVER BIRCH

In 2010 Animal Health planned and delivered the UK's national FMD exercise, known as 'Silver Birch', on behalf of Defra, the Scottish Government and the Welsh Assembly Government, with involvement from the Department of Agriculture and Rural Development Northern Ireland.

The aim of the exercise was to review and check the Government's contingency plans and policies for the control and eradication of an outbreak of FMD and thereby establish the current state of readiness.

The exercise included a field operational element, table top exercises, simulated strategic meetings and exercise briefings, and concluded with a two-day, live exercise involving participants from across the UK.

The exercise scenario was designed to be challenging and aimed to test Government plans for a medium to large scale FMD outbreak (with the two-day real-time exercise being played out at day seven and eight of the simulated outbreak). The scenario was based on disease spread from a market in the North East and South East of England. There was no spread to Northern Ireland.

Over 600 participants took part in exercise Silver Birch, including Ministers, Defra Management Board, Chief Veterinary Officers (UK, Scotland and Wales), officials from the four UK Administrations, Animal Health, the International Animal Health national reference laboratory at Pirbright and key operational partners and stakeholders.

"Over the past decade we have improved our preparedness and management of disease outbreaks. We have detailed plans to manage and resource our response, working with people across Government, the farming community and others," said Nigel Gibbens, UK Chief Veterinary Officer.

"Silver Birch was a success – it showed that we can effectively deal with an outbreak and, as it was designed to do, showed us the areas we can still improve on to improve our further response."

Exercise Silver Birch enabled Government to effectively test its contingency plans for an outbreak of FMD and valuable lessons have been identified. Feedback from participants has been very encouraging, there is a general consensus that it was a well planned and executed exercise and very successful in meeting its objectives.

Organisational structure

To increase the capability of Animal Health in an animal disease emergency the Veterinary Exotic Notifiable Diseases Unit (VENDU) transferred from Defra to Animal Health early in the year. This provided the opportunity for Animal Health to build the capacity for dealing with disease reports by drawing on veterinary resource within Animal Health, while ensuring that the valued advisory function to the Exotic Disease Policy programme and to the Chief Veterinary Officer (CVO) is retained. As part of our continuing drive to standardise and release efficiency savings the Specialist Service Centre (SSC) in Wales was launched for all Great Britain-tracing activity. Enabled by the improvements in Sam, this has delivered benefits in terms of the speed and consistency of tracings of potentially infected animals and other items which will enhance our effectiveness in fighting both endemic and exotic disease.

During this year the restrictions on civil service recruitment has seen the size of many teams reduce, with some teams reducing to a level where it was difficult to manage the full range of work. Where this occurred additional thought was needed in how work was managed to ensure that our objectives were still met.

In Scotland, where sites are small, work has been undertaken to reorganise the administrative functions so that specialist teams provide a function for the whole of Scotland.

Developing our people and expertise

Animal Health has continued to pay a lot of attention to developing its people in order to be recognised as expert in delivery and be able to work effectively with and influence its customers.

We continued to run the annual Employee Engagement Survey, designed to find out how our people were feeling about the organisation and what we could do better in terms of working effectively together. The Executive and Senior Management Teams met to discuss the results and focussed on the top three drivers of engagement within Animal Health, sharing best practice and

DETECTING DISEASE

Following post import testing by Animal Health, Equine Infectious Anaemia (EIA) was detected in one horse in the Northumberland area in September 2010. The imported horse did not show clinical signs of illness.

EIA is an exotic notifiable disease of equines spread through infected blood and bodily fluids, or predominately spread via large adult biting insects (e.g. Horsefly). These insects are active between May and September and only travel a short distance of 150 metres. This feature, coupled with the short period that the infected animal was on the premises, meant that the risk to equines outside the premises was considered to be low.

As detailed in the Contingency Plan for Exotic Diseases in order to proportionately respond to the incident a partial LDCC (Local Disease Control Centre) and a partial NDCC (National Disease Control Centre) were established, therefore allowing priority BAU (business as usual) activities to continue.

The North East Region responded quickly to the importation. Following confirmation of disease the infected horse was humanely euthanised by an experienced equine vet, and the carcass transported in a sealed vehicle to a disposal facility at the Veterinary Laboratories Agency (VLA). The handling of the incident demonstrated strong Animal Health and operational partner coordination in the management of signage, area foot patrols and the delivery of ongoing compliance and inspection visits.

identifying practical actions to improve these areas. Each office/team has put together an action plan to address issues locally and the Executive Management Team has generated a national action plan.

We have also continued to invest in learning and development. For our veterinary and technical staff a comprehensive schedule of specialist conferences has been held to provide an opportunity to refresh current knowledge, learn new skills and hear about changing legislative requirements. In addition all vets have been provided with access to the Advanced Veterinary Information System (AVIS) providing an extensive electronic resource on a number of exotic (high impact) animal diseases.



RE-ORGANISING THE ADMINISTRATIVE FUNCTIONS IN SCOTLAND

Animal Health operates from five small sites across Scotland. During this year the pressure on resources and recent restrictions on civil service recruitment have seen the size of administrative teams reduce. In some Divisions this reached a level where it was difficult for them to manage the full range of work, and they were very sensitive to unplanned absence.

Liaising with the teams across Scotland, work has been undertaken to re-organise some of the administrative functions into specialist administrative teams, located in the existing Divisional Offices, to provide an administrative function for the whole of Scotland.

A workgroup consisting of the five Scottish Office Managers, the Business Change Coordinator for Scotland and a Divisional Veterinary Manager, acting as Executive Sponsor, was established. Their aims and anticipated outcomes were:

- To relieve pressure on administrative teams as staff would not need to maintain a competence across the whole range of Animal Health work.
- To improve consistency across the five Divisions in the administration of these work areas – processes would be reviewed, improved, standardised and best practice shared.
- To develop a higher level of expertise and hence increase staff confidence.
- To create more resilience in our offices by reducing the reliance on specific individuals in offices.
- To ensure the quantity of work in an office is matched by the administrative resource in that office.
- To improve quality and turnaround times of paper work from field staff as a result of a consistent approach.
- To standardise the use of Sam for these work areas and increase clarity about where responsibility lay between administrative and field teams for Sam activity.

After identifying work areas suitable for re-organisation the workgroup held a series of meetings involving administrative and field staff to complete Impact Assessments and Implementation Plans for the specific work areas. The Architecture Team from Worcester was also involved in early work, helping to develop process maps and Standard Operating Procedures (SOPs) for these work areas. The involvement of the field staff was very important in developing the best processes we could and also in helping to gain buy-in from all Divisional staff into the project. This has also been a useful opportunity to apply the principles of lean working to the business processes.

Rupert Hine, Director for Scotland said: “The enthusiasm which has been demonstrated throughout this process by all staff involved has been excellent, and it has been impressive to see how the Divisional teams have been so active in driving leaner and more efficient processes. I consider that this will reinforce our team’s commitment to providing the best service possible to our customers with the resources available.”



GETTING TECHNICAL: THE VETERINARY & TECHNICAL CONFERENCES

A series of specialised conferences were held for all veterinary and technical staff which provided the opportunity to refresh current knowledge, learn new skills and hear about changing legislative requirements, as well as offering a forum to share best practice and network with colleagues.

The design of these events was delivered through a highly collaborative approach with colleagues in the HR Learn team engaging with Directors, project groups and subject matter experts from across the business to draw on their business and professional knowledge.

Delegates participated in a full programme which offered a diverse range of topics aligned to the core veterinary and technical skills required within Animal Health including veterinary risk assessment; veterinary inquiry into notifiable diseases; health and safety; sample handling and engaging with the customer. The programme was interactive and incorporated a Directors' Q&A, which enabled delegates to pose a range of questions including those related to recent business developments. In total more than 500 staff attended the events.

In the opening keynote Nigel Gibbens, Chief Veterinary Officer, explored key themes faced by Animal Health and reiterated our position in being experts in delivery and a provider of choice. External speakers also included the Farm Crisis Network, Livestockwise, Human Applications and the Institute of Animal Health.

A crucial requirement of the programme was for a consistent event that met the varying levels of knowledge and experience in Animal Health within the veterinary and technical disciplines. The delivery of these conferences also captures needs borne through the employee engagement survey, which identified that veterinary and technical professionals wanted more training and interaction with others from across the business.

The conferences were well received by the delegates with 77% reporting the conferences as good or very good and 84% reporting they wanted more conferences of this type in the future.

Total Full Time Equivalent (FTE) working days lost due to sickness-related absence in 2010/11 was 11,149. With total spells of absence of 2,106 during the year, this represented an average of 7.2 working days lost per FTE member of staff. This represents a slight increase of 0.15 FTE average working days lost relative to the previous year.

We are committed to providing and maintaining a healthy and safe working environment. Health and Safety guidance, training and personal protective equipment is provided for members of staff who might be exposed to infection from disease. Significant work has been undertaken in the course of the year to improve the reporting and investigation of incidents and accidents.

We are also committed to equality of opportunity for employees and potential employees. Animal Health gives fair consideration to applications for employment from people with disabilities, having regard to the nature of the employment. It similarly seeks to enable members of staff who may become disabled to continue their employment. At 31 March 2011 6.8% of staff members had a notified disability.

Environmental impact

Animal Health's environmental impacts are generated largely by our accommodation, IT and travel needs. Our accommodation is provided by Defra, the Scottish Government or the Welsh Assembly Government, whose environmental policies accord with ISO 14001. The facilities management contract (Sustainable Workplace Management) has continued to assist us in identifying, prioritising and managing our environmental risks as part of Defra's Environmental Management System. A review of the contract took place in January to ensure we are receiving value for money by looking at the service performance and where changes can be made, identifying inconsistencies and simplifying the financial processes involved, as well as agreeing with the Cabinet Office on the way ahead.

Sustainable Workplace Management has introduced a bespoke solution to handle the

various waste streams Animal Health has in the most sustainable way to meet the new Sustainable Development in Government (SDiG) Targets - which have set an 80% recovery rate for waste (60% of which should be through recycling). Our waste is now managed by 15 regional recycling and waste sorting facilities and specialist re-processors.

New arrangements for the disposal of confidential waste have also been introduced, with secure 'Shred it' units replacing the use of shredders. All documents placed in the units are securely destroyed on site with a Certificate of Destruction being issued on the completion of the work, providing a clear audit trail that documents have been securely destroyed. Once destroyed, all material is baled and transported to a recycling mill where it is pulped and manufactured into products such as office paper and hand towels.

The majority of our IT is provided through Defra's strategic IT outsourcing contract with IBM, which addresses environmental performance. Animal Health has engaged with Defra to review and improve the efficiency and cost-effectiveness of our printing and photocopying capability through the Printer Refresh Project. We are replacing individual printers, scanners and copiers with Multi-Function Devices (MFDs). The aim is to save printing and copying costs, improve our carbon footprint, make our ways of working more efficient and improve security.

Animal Health has continued to support initiatives to encourage staff to think sustainably, such as Walk to Work Week and The Big Tree Plant.

Working with policy customers in Scotland, Wales and England

We want to be the provider of choice to policy customers in Scotland, Wales and England because we believe that a single body can respond more effectively to outbreaks of exotic disease and become expert in delivering animal health and welfare policy more cost effectively than three organisations could. We recognise that this means we will need to continue to change the way we deliver to respect the different needs and priorities of our different policy customers.

In Scotland we continue to be fully involved in the SEARS (Scotland's Environmental and Rural Services) programme, a partnership between eight public bodies aiming to improve the experience between land managers by working together to provide an efficient and effective service. As part of this group, Animal Health has been leading and coordinating work to promote high standards of biosecurity, developing a contingency planning tool for the intensive pig and poultry industry in response to a direct request from farmers who require Pollution Prevention and Control Permits issued by the Scottish Environment Protection Agency.

During 2010/11 the SEARS Delivery Design Team has been highly commended in the Public Services category of the Civil Service Awards. Kirsty Grewar, Office Manager at the Perth Animal Health Divisional Office represents Animal Health on the SEARS Delivery Design Team, which also includes colleagues from Forestry Commission for Scotland, Scottish Government, Scottish Natural Heritage, Rural Payments and Inspections Directorate and the Scottish Environment Protection Agency.

Controls to deal with the increasing incidence of sheep scab in Scotland were introduced in December 2010. The new order places a legal obligation on any person who has reason to believe that sheep in their possession or care have sheep scab to notify their local Divisional Veterinary Manager (DVM) as soon as possible. These new measures have enabled Animal Health to take enforcement

STICKER PASSES TEST

A new cattle TB test sticker system in North Wales has been widely welcomed – and could be rolled out across Wales.

The sticker clearly shows farmers and auctioneers that an animal being sold through local markets has been pre-movement TB-tested and cleared.

It shows the test date, practice name and is signed and dated by the farmer. It is then attached to the back of the animal's passport.

"This has been very well received by auctioneers, OVs and farmers," said David L Pugh, Regional Veterinary Lead, North Wales Animal Health Regional Office. "It is a simple process, but with huge benefits. Initial reports by Trading Standards have been favourable and it is hoped this can be rolled out to the whole of Wales in time for the autumn cattle store sales.

The TB Board approved system was developed following North Wales Eradication Board concern that there were cattle being sold that had not been tested.

action against those owners and keepers whose sheep are suspected of having scab, but who repeatedly fail to take the necessary action to treat.

In Wales we have continued to be involved in supporting the Welsh Assembly Government's (WAG) Bovine TB Eradication Programme. Stricter cattle controls, increased TB testing and a zero tolerance approach to not complying with regulations have been introduced as part of the plan and Animal Health has implemented processes and procedures to ensure policies are enforced and to deal with overdue tests.

In 2010/11, Animal Health has been critical in supporting the TB Eradication Group for England in reviewing the current bTB strategy and control measures and developing a plan for reducing the incidence of bTB in cattle and moving towards eventual eradication. Following a detailed consultation with Defra early in the year, Animal Health implemented certain policy changes designed to help ease the burden on cattle owners without materially increasing disease risks or breaching European regulations or domestic legislation.



KEEPING ON TOP OF TB: REDUCING OVERDUE TESTS

The Tuberculosis (Wales) Order 2008 strengthened the powers of entry to test cattle where a keeper fails to present their cattle for testing. In 2010/11 Animal Health, Wales has obtained warrants to enter premises to test cattle on a number of occasions when cattle keepers have not had their cattle TB tested on time. This has helped to reduce the number of overdue tests.

During July 2010 the South Wales Regional Office, working with policy colleagues at the Office of the Chief Veterinary Officer (OCVO), obtained a warrant to carry out an enforced TB test under the provisions of the Order at a farm where the short interval test was overdue by 11 months. The farmer was not cooperative and police presence was necessary to prevent a breach of the peace and enable the test to be carried out. Contractors were employed to assist with gathering the herd and a TB short interval test was successfully carried out which disclosed TB reactors. These reactors were confirmed as having lesions of TB after slaughter. The Welsh Assembly is entitled to recover the costs of this activity from the farmer. This process was successfully repeated for another herd short interval test in November when further reactors were found and slaughtered.

A decision was made by policy colleagues at OCVO to slaughter the remainder of the herd on disease control grounds. During February a warrant was obtained to enter the premises and slaughter the remainder of the herd. Police presence was required during the operation which was successfully carried out.

Wales' Chief Veterinary Officer, Professor Christianne Glossop, said that WAG will continue to support Animal Health and local authorities in taking a firm approach to anyone who does not comply with the regulations. Christianne said: "To do otherwise would be unfair to the vast majority of cattle keepers who abide by the rules and are working with us to eradicate this disease from Wales. Rapid early identification of infected cattle is a key component of the programme and regular testing is of great importance."

Influencing the behaviours of end-user customers

Our success in achieving our purpose - reducing animal health and welfare-related risks - relies on our ability to influence the behaviours of animal keepers and other end-user customers. We have recognised the need to become expert in understanding and influencing those key groups and this will include issuing relevant, up-to-date, accessible guidance and ensuring effective enforcement.

As part of Animal Health's ongoing commitment to improve customer service and deliver value for money, a targeted piece of customer insight was carried out following on from the detailed research carried out in 2009/10. The survey of 500 farmers was aimed at understanding

their experience of their recent TB test, their ability to access the internet and how effective Animal Health's website was in supporting their requirements. The overall results show that there is a high level of satisfaction with TB testing, and they provided specific ideas for how the website can be more customer focussed.

Animal Health contributes to establishing and maintaining animal welfare standards by checking animals on farms, at market and at slaughter. Where welfare problems arise there are a number of enforcement actions available, from giving advice, issuing warning letters, serving statutory notices or referral for prosecution. In 2010/11

BEATING BLUETONGUE

Surveillance work undertaken by Animal Health staff during 2010 has proved that there is no circulating bluetongue in Great Britain (GB). The surveillance programme involved a survey of cattle herds across GB with additional testing in areas where there is a greater risk of infection from continental Europe.

Nigel Gibbens, Chief Veterinary Officer, said: "We now have the results of our bluetongue surveillance in 2010 which show that all samples were negative for all BTV serotypes throughout GB. The results show that there is no circulating bluetongue in GB and counts as two years freedom from disease as is required within the bluetongue regulations. GB is now in a position to make the case to declare freedom from disease should we choose to do so and this is something we will now be considering over the next few months."

"There were two parts to our bluetongue surveillance in 2010. A programme of monthly monitoring was undertaken to support our change in status to a bluetongue 'Low Risk Zone' throughout the months of June to October and in November we carried out our national bluetongue survey. None of this would have been possible without the dedication and hard work of staff in Animal Health. It is thanks to you that we were able to complete both of these surveys within the allocated time and in the face of a great many other commitments not to mention the weather!"

"This truly was a collaborative effort between us, Animal Health and the Veterinary Laboratories Agency (VLA) and is a great example of how we can all work together in order to deliver results within a tight deadline with our delivery partners. I would like to express my sincere thanks and gratitude to all of you for your help and cooperation in helping us to achieve this outcome."

The survey was carried out jointly by Animal Health and the VLA on behalf of Defra, the Welsh Assembly Government and Scottish Government, to determine whether the bluetongue virus was circulating undetected in the national herd during 2010. The survey was necessary in order to conform to both EU regulations and the Government's own Bluetongue Control Strategy. An identical national survey was undertaken in November 2009.

A programme of monthly monitoring was also undertaken in certain areas of the South and East of England considered to be at potentially higher risk of a new incursion of bluetongue from continental Europe. This was to support Great Britain's change in status to a 'Low Risk Zone' for bluetongue serotype 8 which was agreed in June 2010. This monitoring, which involved sampling of cattle and sheep, was jointly undertaken by Animal Health and the Institute for Animal Health (on behalf of Defra, the Welsh Assembly Government and Scottish Government) throughout the months of June to October.

RACING TO GET READY FOR THE TALL SHIPS

During 2009 Animal Health was made aware that the port of Lerwick in the Shetland Isles would be hosting the Tall Ships Races in July 2011. There are a large number of voluntarily run marinas, boating clubs and small ports within the Shetland Isles that Animal Health had no information on. The committees that run these facilities required education and support on the regulations and compliance for the storage, transportation and disposal of International Catering Waste (ICW) generated as part of the competition, to ensure that they were aware of their responsibility to protect the Shetland Isles' livestock population from ICW generated diseases.

Multiple page information and guidance booklets were produced as part of the 'Marina Pack', which is easy to understand and offers a practical transfer of knowledge to a diverse customer base. Mail shots and site visits followed the pack providing opportunities to discuss the guidance and detail operator requirements. A relationship was also forged with the organiser of the Tall Ships Races, which built the foundations of a continually evolving relationship with the Operational Director. A multi-agency meeting was also held, followed by procedures being implemented to ensure that ICW can be identified, contained and destroyed in line with current policy. Information from this meeting was shared with other Scottish Divisions so they too could implement a strategy to ensure port operator compliance.

The level of compliance and understanding of stakeholders and customer base was astounding, from port authorities through to part time volunteer harbour masters and yachting enthusiasts. ICW receptacles (in all shapes and sizes) were wheeled out proudly across the Shetlands Isles with the words 'ICW - Category 1 By-product for disposal only'. Operators had also compiled the requisite visiting ship logs, records and protocol for correct ICW disposal. Independent dialogue between Marina Operators ensured that ICW on Shetland and "thon wife fae animal health" (ICW AH representative), continued awareness, and the importance of a disease free status in the Northern Isles.

We continually monitor and offer advice and guidance to the Tall Ships Director in the run up to this prestigious event.

Animal Health contributed to a number of successful prosecutions relating to welfare and conservation-related offences.

Working effectively with others

Designing cost-effective delivery mechanisms and delivering efficiently requires collaborative working across a network of organisations that all have a contribution to make. We therefore need to develop the ability to coordinate and collaborate across organisational boundaries to design and deliver integrated solutions to our policy and end-user customers.

Industry, other government agencies and local authorities

For the first time Animal Health took an exhibitor's stand at the Emergency Services Show, a leading industry event designed to encourage multi-agency cooperation.

The event features a wide range of organisations that serve the country in times of emergency including the police, ambulance and fire services. Commercial suppliers of equipment used in emergencies and voluntary organisations were also at the show to discuss their expertise and future challenges.

Animal Health used the event to promote its work in managing and controlling outbreaks of exotic animal disease. The event provided an excellent opportunity for raising awareness of Animal Health, who we are, what we do and where we fit in. The networking opportunities with local authorities and government offices reinforced the message that Animal Health wants and needs to work cooperatively with them during and before outbreaks to be able to plan effectively and deliver the shared response to incursions of exotic and notifiable disease.



Our enforcement work also relies on effective collaboration.

During 2010/11 a worrying increase in the number of rhinoceros horn products being sold in UK auction houses was detected, fuelling fears that the burgeoning UK trade in rhino horn will encourage poachers to trap and kill more wild rhinos. Animal Health contacted all auction houses and major antique trade associations in the UK to highlight the implications of trading rhino horn, while influencing key changes to rhinoceros conservation policy across the European Union.

Animal Health's Regulatory Hub team has worked with a number of organisations in Scotland to develop a new Animal Health and Welfare Framework in Scotland. The strategy provides a risk-based approach to animal health and welfare duties undertaken by local authorities and meets the objectives of the strategy for Great Britain.

Official Veterinarians

Official Veterinarians (OVs) undertake the bulk of effort required to deliver our surveillance testing regime for bTB, as well as many other tasks. During the early part of 2011 changes were introduced to the way Animal Health and OVs manage TB test data. The changes allow OVs performing TB tests to enter data directly onto Animal Health's core IT system (Sam), making the process quicker and more efficient.

In May 2010, Animal Health announced its intention to move towards the procurement of professional veterinary services through open, fair and competitive tendering. Doing so will enable the supply of veterinary services to be put onto a more robust contractual basis, helps assure the quality of the services received, establishes a market price and complies with EU and domestic procurement regulations. The new arrangements will not come into force until 2012.

PROTECTING THE ENDANGERED: RHINOCEROS HORN

In 2010, the Specialist Service Centre (SSC) in Bristol took the lead in introducing stricter measures on the trade in rhinoceros horn, influencing key changes to rhinoceros conservation policy across the European Union. From September 2010, they have refused – except in exceptional circumstances – all applications to re-export or to sell specimens of rhinoceros horn.

As the UK's designated CITES (Convention on International Trade in Endangered Species of Wild Fauna and Flora) management authority, SSC Bristol has overall responsibility for regulating and monitoring trade in endangered species of flora and fauna. The aim is to ensure that trade is not detrimental to the survival of wild populations. There are five species of rhinoceros: White, Black, Indian, Javan and Sumatran. Of these, the Black, Javan and Sumatran are listed as Critically Endangered. The total population of these three species together is estimated at fewer than 5000 individuals left in the wild.

During the summer and autumn of 2010, SSC Bristol noticed a sharp increase in the number of applications being received to allow the re-export of rhinoceros horn products.

Head of Unit, John Hounslow, said: "There was evidence that comparatively poor examples of taxidermy containing rhino horn had been selling for £40,000 – £50,000, far exceeding their worth as art objects. In order to protect wild populations, it was necessary that future applications, whether for personal purposes or for commercial trade, were refused. This decision was based on evidence that such applications, if approved, would risk fuelling an illegal medicines market, which in turn directly leads to increased poaching".

Working in partnership with Defra policy colleagues and our Chief Executive, SSC Bristol made a submission to Ministers highlighting their concerns. They also sought advice from Animal Health stakeholders in the antiques trade on how best to introduce the proposed new policies and procedures.

Following through, they supported Defra colleagues in arguing their case in Europe and agreeing a pan-European approach to this problem. The result was a new set of standards for use across the European Union. Back in Bristol, the team at Temple Quay House worked quickly to ensure that the new standards were rolled out efficiently at delivery level.

Now, SSC Bristol's vision for the future is to build on the successful outcome in Europe with proposals for concerted worldwide action on rhinoceros horn markets at the next CITES Conference of the Parties in Thailand in 2013.

4 PERFORMANCE AGAINST TARGETS



The majority of our work is determined by legislation which in turn is driven by policies to minimise disease risk in Great Britain and, through working collaboratively with other countries, in the EU and across the world.



Our targets reflect the need to ensure compliance with this legislation, and also reflect the particular and differing needs of our policy customers and our own business development priorities. The following section summarises our performance in 2010/11 for the key Ministerial strategic and customer priority targets. These are described as:

- Met - all elements of the target fully achieved;
- Met in part - applied when the major elements of a target have been fulfilled;
- Not met - target not achieved by the end date.

RAG (Red, Amber and Green) thresholds are assigned to Customer Priority Indicators by the target owner and agreed by our policy customers. They are specific to each target and will vary. The assessment of each target is based on the specific RAG threshold which determines the outcome of whether the target has been met, met in part or not met.

Performance against targets has been reviewed by Defra's Internal Audit, who then report to the sponsor body accordingly.

MINISTERIAL STRATEGIC TARGETS 2010/2011

PRIMARY CATEGORY: CAPABILITY & CAPACITY

TARGET: Roll out new tracings module through the Business Reform Programme, enabling more efficient, faster and consistent tracing of potential transmitters of disease.

MET: Work Management Other and combined Tracing (Release 5) – System and Business Acceptance Testing completed. Work Management went live in all offices as planned. Centralised tracing unit operational and all tracing work transferred to the Cardiff Office.

TARGET: Reduce the reliance on unstable legacy IT systems through the development and implementation of SAM modules and releases.

MET: Release 5 now live and business transitions have been completed. Release 6 has received approval from the Cabinet Office and is well under development. Release 6 will transfer bTB functionality from Vetnet to Sam and a myriad of TB data systems (e.g. TBIC, TBIS and TB Data warehouse) will be retired. BRP Release 6 is scheduled to go-live July 2011. Capital for Release 7 & 8 has been approved by Defra and early scoping has been initiated.

In addition Arcadia and Bird Registration systems have been replaced.

TARGET: Working with our policy customers and operational partners, plan, design and deliver a programme of local and regional exercises across Great Britain to rehearse, enhance, embed and assure readiness for outbreaks of exotic notifiable disease. The programme will include objectives that test the Animal Health operational model, multiple outbreak centres and cross border activities. To be delivered in conjunction with operational partners.

MET: Each Region or Division has organised or participated in at least one exercise. All planned local and regional exercises have been completed satisfactorily and Lessons Identified reports have been released or are being prepared.

Final reports and the overarching Exercise Programme is being prepared and will be released in May/June.

TARGET: Deliver a structured programme to assure the readiness of central and local delivery to respond to an outbreak.

MET: All Emergency Readiness and Resilience Management Assurance Scheme (ERMAS) 1 visits have been undertaken. All Regions and Divisions have been assessed as being able to deliver an initial response within in the first 48 hours. The Emergency Readiness and Resilience Programme (ERRP) programme has provided assurance that each corporate business unit has outbreak response plans in place.

PRIMARY CATEGORY: CUSTOMER IMPACT

TARGET: To create a clear explanation of regulatory policies and procedures for end user customers. To help them understand the law, its associated policies and what responsibilities they have as owners/keepers. The headline advice and guidance will be compact and written in language which is easy to read but provides links to greater detail should it be required. The advice and guidance will make use of a variety of media that will enable Animal Health to reach the target audience.

Note: Demonstrating the provision of clear and accessible advice and guidance is an important precursor to successful criminal prosecution of non-compliant members of the regulated community.

MET: Due to a robust process for producing Advice and Guidance this enables the owner, target audience, communication method and timelines to be easily identified whilst involving appropriate policy and industry customers in the production and review process. Changes to EU directives and legislation has necessitated the requirement for new or amended Advice and Guidance to be prepared and issued to targeted sectors within the farming community. Extensive and timely Advice and Guidance has been issued throughout the year both in writing and verbally by Animal Health.

TARGET: Work with Official Veterinarians to improve effectiveness and consistency of their interventions.

MET: Regular meetings have been held with the British Veterinary Association (BVA). Regular issues of the Official Veterinarian Newsletter have been published. Contact has been made with every OV practice including updates on current topics.

The new OV training format incorporates both formal and informal assessment of learning. A TB training package has been completed and trialled successfully.

A consistent approach to stakeholder engagement has been introduced and top stakeholders identified. A reporting tool has been developed to capture feedback from OVs and other stakeholders.

TARGET: Engage with Official Veterinarians in Module 6 of Business Reform Programme.

MET: Several meetings have been held with BVA who were keen to work with Animal Health to help communicate the impact of Release 6 to OVs. Numerous presentations have been delivered by offices at OV practice meetings ensuring OVs have the opportunity to comment and influence. Articles contained within the OV Newsletter throughout the year and wider communications update letters have been sent.

Animal Health has engaged with independent software providers regarding a potential interface with Sam for software used by the OV community.

PRIMARY CATEGORY: VALUE FOR MONEY

TARGET: Produce a detailed, specific and costed Roadmap for Change to Animal Health's delivery model going forward designed to enable savings of at least 10%.

Work with policy customers and others to deliver changes as part of the Operational Efficiency Programme.

Achieve a 5% (£3m) efficiency saving by the end of the 2010/11 financial year.

MET: This target was superseded following the new Government Spending Review and subsequent cuts. Animal Health was given three different areas of cuts for 10/11. Two areas have been confirmed and imposed. In total this adds to more than the requested 5%.

The third element was an on-going reduction of at least 10%. This has been achieved by the 5% referred to above and a further 5% reduction in corporate charges and field activities. The latter has been agreed with the appropriate SROs in England, the Welsh Assembly and the Scottish Government.

The changes covered by the CSR07 Operational Efficiency Programme are included within the three areas of Animal Health's budgets.

TARGET: Ensure that services are delivered in the most efficient way possible, centralising administrative functions where appropriate, capitalising on technology and using standardised processes to help ensure quality.

MET: New Specialist Service Centre in Cardiff is fully operational. Plans for further centralisation have been considered as part of the Animal Health change roadmap with further opportunities for efficiencies when merged with VLA. Key roadmap projects have been focussed on Managing Outbreaks, Supply of Veterinary Services, Flexible Workforce, and Estates. R6 is under development.

Regions are being introduced to LEAN techniques and a Change Dashboard has been created and developed which will clearly identify benefits realisation.

Efficiency savings in England are being realised through the use of administrative staff completing tasks previously conducted by technical staff, thereby releasing them to carry out field visits.

Current Business Design Authority processes have been improved to better introduce change into the organisation.

CUSTOMER PRIORITY INDICATORS 2010/11

TARGET CATEGORY: EGG MARKETING INSPECTIONS (EMI)

TARGET: To achieve an appropriate compliance rate of follow up visits.

MET IN PART: 82% of follow-up visits were completed across Great Britain were achieved. The target for this Indicator was 82.5%.

TARGET: All EMI (Geographical) areas receive sufficient inspections (against risk based EMI system) through the period to provide uniform coverage of all premises involved with egg marketing.

MET: Over 100% of targeted inspections have been carried out across Great Britain.

TARGET: All premises function types receives sufficient inspections (against risk based EMI system) through the period to provide uniform coverage of all premises involved with egg marketing.

MET: Over 100% of targeted inspections have been carried out across Great Britain.

TARGET CATEGORY: EMERGENCY PREPAREDNESS

TARGET: By the end of March 2011 Animal Health Regions and Divisions in Great Britain will meet the agreed standards of preparedness as set out and measured by the Emergency Readiness and Resilience Management Assurance Scheme (ERMAS) to ensure they can effectively respond to an outbreak/incident of exotic animal disease.

MET: All required ERMAS visits have been undertaken across Great Britain.

TARGET CATEGORY: EXOTIC NOTIFIABLE DISEASE

TARGET: To ensure that a Veterinary Inspector is dispatched to any report of a suspected case of a Category A Exotic Notifiable disease (report or consultation) requiring a visit, within 30 minutes.

MET IN PART: 90% of Veterinary Inspectors were dispatched to a Category A Exotic Notifiable disease within 30 minutes. Late notifications and weather conditions led to visits taking place the following day.

TARGET CATEGORY: INTERNATIONAL TRADE

TARGET: To ensure that all consignments of exported cattle traced from new TB breakdowns are notified to Global Animal Health within 15 working days from the date of confirmation of disease.

NOT MET: Large volumes of tracings in individual offices have led to some late notifications. The tracing work was centralised during 2010 to a Specialist Service Centre to prioritise this work. 82% of breakdowns were notified to Global Animal Health within 15 working days.

TARGET: Follow up on all non-compliances identified at reconciliation and audit of export health certificates within five working days.

MET: 96% was achieved across Great Britain within five working days.

TARGET CATEGORY: TUBERCULOSIS

TARGET: Ensure Tracing action is initiated within 10 working days from date of confirmation.

NOT MET: Large volumes of tracings have led to some late initiations. Animal tracings work was centralised during 2010 to a Specialist Service Centre to prioritise this work. 89% of tracings were actioned within 10 working days across Great Britain.

TARGET: Ensure tracing action is completed within 45 working days (nine weeks) from date of confirmation of disease (England & Wales target).

MET: 87% of tracing action in England & Wales was completed within 45 working days.

TARGET: Ensure tracing action is completed within an average of 45 working days (nine weeks) from the date of confirmation of disease (Scotland target).

MET: Tracing action in Scotland was completed within an average of 11 working days.

TARGET: Remove reactors/DCs from breakdown herds within 10 working days from disclosure (England & Wales target).

NOT MET: 72% of reactors were removed within 10 working days. Delays were attributed in part to reasons outside of Animal Health's control. On average reactors in England and Wales were moved within 10 working days.

TARGET: Remove reactors/DCs from breakdown herds within an average of 10 working days from disclosure (Scotland target).

MET: Reactors in Scotland were removed within an average of four working days.

TARGET: Overdue Tests: Animal Health will have completed appropriate action on all overdue tests within three months of the test becoming overdue (England and Scotland target)*.

MET IN PART: Appropriate action was taken on 92% of overdue tests in England and Scotland. Delays were attributed in part to reasons outside of Animal Health's control.

TARGET: Overdue tests: Animal Health will have completed appropriate action on all overdue tests within three months of the test becoming overdue (Wales target)*.

MET: Appropriate action was taken on 97% of overdue tests in Wales.

TARGET: Short Interval Overdue tests: Animal Health will have completed appropriate action on overdue short interval tests within 150 days of the previous test (Wales target).

MET: Appropriate action was taken on 97% of Short Interval overdue tests in Wales.

TARGET: To deliver a planned programme of annual testing in Wales for 2010.

MET: 98% of programmed tests were completed by 31 December 2010.

TARGET CATEGORY: WELFARE

TARGET: Ensure that in cases where unnecessary suffering is disclosed (D scores), the average time for appropriate action by the Agency in Great Britain to have taken place is no more than 21 days.

MET: The average time taken to take appropriate action was no more than 11 days.

TARGET: By 30 June 2010 complete 50% of all allocated Cross Compliance (XC) inspections and 100% by 30 November 2010 to enable Great Britain Paying Agencies to meet their Single Payment Scheme deadlines.

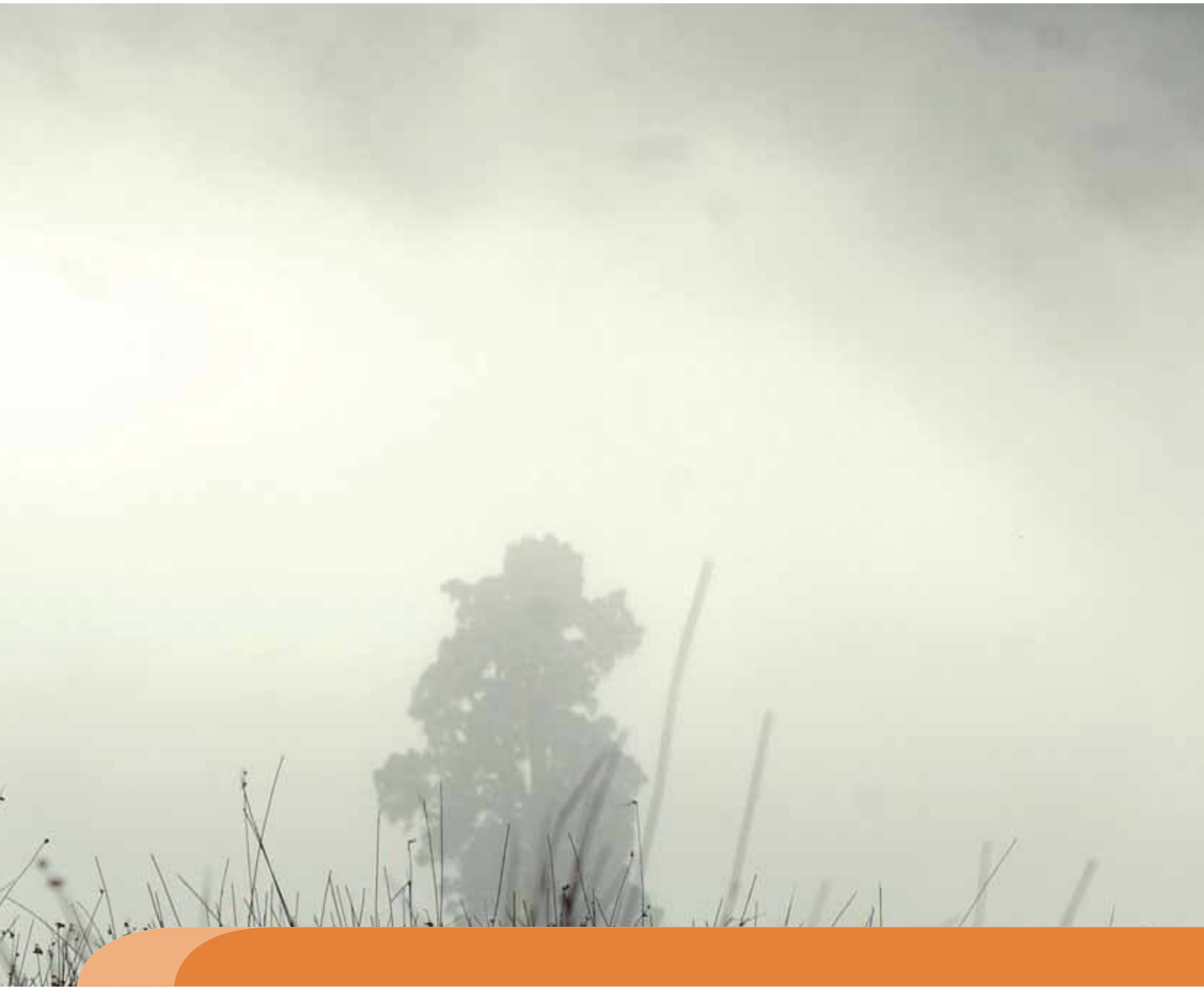
MET: 100% of programmed tests were completed by 31st December 2010.

Note: * TB Overdue Testing target split by country due to difference in resolution timescales.

5 GOVERNANCE AND THE REMUNERATION REPORT



Animal Health provides agreed public health, animal health and welfare services for Defra in England, for the Scottish Government, for the Welsh Assembly Government and for the Food Standards Agency in accordance with relevant legislation and European Union directives and regulations. The Agency is financed primarily by Defra, and the Secretary of State for Defra is answerable for Animal Health to Parliament.



Strategic Advisory Board

Animal Health's work is overseen by a Strategic Advisory Board. It meets quarterly and consists of senior officials from Defra, the Scottish Government, the Welsh Assembly Government, Animal Health's Chief Executive and three non-executive directors. The Strategic Advisory Board advises the Secretary of State and Ministers in the Scottish Government and the Welsh Assembly Government on policy and operational matters relating to Animal Health and monitors the performance, efficiency and financial and managerial regularity of the Agency.

The Strategic Advisory Board recommends to Ministers the strategic direction the Agency should follow within the context of wider departmental and governmental objectives. The Board met regularly during 2010/11 to agree strategic direction, monitor activity and progress and to provide support and guidance to the Agency.

Animal Health Board

The Animal Health Board's principal responsibilities are to formulate the strategic direction for the Agency, to set this out in Corporate and Business Plans

agreed with policy customers, to control and monitor performance and delivery in accordance with these plans and to identify and manage corporate risks. During the year the Animal Health Board met regularly to review and decide upon strategy and policy and to monitor, evaluate and drive performance.

The directors who served on the Animal Health Board during 2010/11 are shown in the table below.

Risk Management

Risks are assessed by each cost centre and major project and the Animal Health Board considers these and assesses corporate risks. The Audit Committee has reviewed the adequacy of the Agency's risk

management processes during the year.

Internal and External Audit

For the year ended 31 March 2011, Animal Health's planned programme of internal audit work was completed and has informed the Statement on Internal Control. The Agency's Framework Document, reflecting the Government Resources and Accounts Act 2000, lays down that external audit is to be provided by the National Audit Office.

Both Internal and External Audit regularly attend the Audit Committee's meetings.

As Accounting Officer, I have taken all reasonable steps to make myself aware of information relevant to the external audit and to establish that our auditors are aware

Members of the Animal Health Board at 31 March 2011

Catherine Brown	Chief Executive
Richard Bowen	Human Resources Director
Rob Paul	Chief Operating Officer
Julie Pierce	Chief Information Officer until 14 May 2010, and then Chief Information Officer and Director of Corporate Services from 14 May 2010
Nick Coulson	Director of Veterinary and Technical Services
Rupert Hine	Director of Animal Health Scotland
Mike Steel	Director of Animal Health Wales
Nina Purcell	Director of Animal Health England from 27 September 2010
Tony Foster	Non-Executive Director

The following were members of the Animal Health Board for part of 2010/11

Andy Foxcroft	Director of Animal Health England until 27 September 2010
Jeff Cant	Interim Finance Director until 14 May 2010

Audit Committee Non-Executive Directors

Tony Foster	Committee Chairman
Margaret May	
Jim Oatridge	

No member of the Animal Health Board holds company directorships, nor has other significant interests that may conflict with their management responsibilities in Animal Health.

of that information. As far as both I and members of the Animal Health Board are aware, there is no relevant audit information that has not been brought to the National Audit Office's attention.

Remuneration Report

Remuneration Policy

Defra's Senior Civil Service Pay Committee, chaired by the Permanent Secretary, determines the remuneration and performance conditions of the Animal Health Board members. Consolidated pay awards and non-consolidated bonuses are assessed in accordance with normal Civil Service procedures and Defra's remuneration policy which is subject to the recommendations of the Senior Salaries Review Body.

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

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

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

Service Contracts

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

With the exception of Catherine Brown, Julie Pierce and Tony Foster, the Animal Health Board members at 31 March 2011 hold open-ended appointments until they reach normal retirement age. The employment of the Chief Executive and of the other Animal Health Board members may be terminated in accordance with normal Civil Service procedures. Early termination, other than for misconduct, would result in compensation being payable as set out in the Civil Service Compensation Scheme.

Catherine Brown was appointed as Chief Executive of Animal Health on 16 July 2008 on a three year fixed term contract.

Julie Pierce was appointed to the role of Chief Information Officer on a two year fixed term contract ending on 30 September 2011, and became Chief Information Officer and Director of Corporate Services from 14 May 2010.

Jeff Cant left his role as interim Finance Director on 14 May 2010. He did not receive any non cash or pension benefits from Animal Health.

Andy Foxcroft vacated the role as Director for England on 27 September 2010, and retired from Animal Health on 31 December 2010 under Defra's offer of Flexible Early Severance. He continued to receive his salary up to the end of December, along with compensation for loss of office amounting to £16,300, which is included within the figures in the Emoluments and Pension Entitlements (Audited) table.

Both Rob Paul and Nick Coulson have agreed to leave the employment of Animal Health as part of the cross Government Approved Early Retirement Scheme. Rob Paul will be leaving on 30 June 2011, while Nick Coulson will be leaving on 31 May 2011. The amounts payable to them on their agreed departure are excluded from the Emoluments and Pension Entitlements (Audited) table, although details are included in the footnotes.

Tony Foster continued in his role as Non-Executive Director for the Animal Health Board.

Emoluments and Pension Entitlements (Audited)

The emoluments and pension entitlements of the Animal Health Board members in 2010/11 are as follows (2009/10 in italics).

	Emoluments Banding	Bonus Banding	Real increase in pension and Lump sum at age 60	Total accrued pension benefits at age 60 at 31 March 2011	CETV at 31 March 2010	CETV at 31 March 2011	Real increase in CETV
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Directors on the Animal Health Board at 31 March 2011							
Catherine Brown	130-135 <i>(130-135)</i>	10-15 <i>(10-15)</i>	3	10	55	90	23
Rob Paul Chief Operating Officer	80-85 ^a <i>(80-85)</i>	5-10 <i>(10-15)</i>	1	39	493	582	14
Richard Bowen HR Director	80-85 <i>(80-85)</i>	0 <i>(10-15)</i>	1	10	130	164	13
Julie Pierce Chief Information Officer to 14 May 2010, and then Chief Information Officer and Director of Corporate Services from 14 May 2010	130-135 <i>(200-205² to 5 October 2009 and 45-50 from 5 October 2009)</i>	0 <i>(0)</i>	3	4	11	44	27
Rupert Hine Director for Scotland	70-75 <i>(65-70)</i>	5-10 <i>(0-5)</i>	1	11	99	120	6
Mike Steel Director for Wales	65-70 <i>(5-10; full year equivalent 65-70)</i>	0 <i>(0)</i>	1	1	2	21	19
Nina Purcell Director for England from 27 September 2010	30-35 <i>(full year equivalent 60-65)</i> <i>(0)</i>	0 <i>(0)</i>	1	27	411	484	15
Nick Coulson Director of Veterinary and Technical Services	80-85 ^a <i>(50-55; full year equivalent 80-85)</i>	5-10 <i>(0)</i>	0	41	608	698	0
Tony Foster Non-Executive Director	0-5 <i>(10-15)</i>	0 <i>(0)</i>	N/A	N/A	N/A	N/A	N/A
Directors during 2010/11							
Andy Foxcroft Director for England to 27 September 2010	65-70 <i>(70-75)</i>	0 <i>(5-10)</i>	1	5	41	56	14
Jeff Cant Finance Director to 14 May 2010	20-25 ¹ <i>(135-140)</i>	0 <i>(0)</i>	N/A	N/A	N/A	N/A	N/A
Audit Committee							
Tony Foster Non-Executive Director Chair of the Audit Committee	0-5 <i>(5-10)</i>	0 <i>(0)</i>	N/A	N/A	N/A	N/A	N/A

NOTES

¹ In the period to 14 May 2010 Jeff Cant was employed on a temporary basis through a recruitment agency. The amount disclosed above represents the amount paid by Animal Health to the recruitment agency and includes VAT. The total amount paid was £22,078 (2009-10 £139,200).

² In the period from 1 April 2009 to 5 October 2009 Julie Pierce was employed on a temporary basis through a recruitment agency. The amount disclosed above represents the amount paid by Animal Health to the recruitment agency and includes VAT. The total amount paid was £201,210.

³ Both Rob Paul and Nick Coulson are leaving the Agency, on 30 June 2011 and 31 May 2011 respectively, as part of the Approved Early Retirement Scheme. The figures in the above table exclude the agreed exit costs to be paid to them on their departure, even though these are being accrued by Core Defra in the Departmental accounts to 31 March 2011. These figures amount to approximately £335,000 and £262,000 respectively.



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

Due to a pensions revaluation by the Cabinet Office during the year, the Cash Equivalent Transfer Value (CETV) as at 31 March 2010 shown in the table differs from that included within the Remuneration Report for 2009/10 to comply with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008.

Although the costs for the Chief Executive and members of the Animal Health Board are included in Animal Health's Statement of Accounts, they are formally employed by Defra, Animal Health's parent Department.

Under arrangements made by Defra, Richard Bowen received £4,889 Additional Housing Cost Allowance in 2010/11 which is included in his emoluments reported above (2009/10 £5,170). He also received an advance on salary of £12,500 from Defra on his appointment in 2005/06 which is repayable from January 2010 over eight years. The balance outstanding on this loan as at 31 March 2011 is £9,375. The benefit from this loan for 2010/11 has been estimated at £200 (for 2009/10 this value was £200).

Under the terms of her employment, Julie Pierce received £18,173 in Detached Duty in lieu of a house move for the duration of the contract. This amount is included in her emoluments reported above (2009/10 £NIL).

Loans may be made to staff to cover season ticket advances and relocation. As at 31 March 2011 there were no outstanding loans to Animal Health Board members (2009/10 nil).

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

The pension information for each member of the Animal Health Board shows the benefits each member has accrued as a consequence of their total membership in the Principal Civil Service Pension Schemes (PCSPS). This includes the value of benefits

from other PCSPS employments, benefits transferred into the PCSPS from other pension schemes and additional pension benefit purchased by members at their own expense, as well as the benefit accrued from service in Animal Health. All funding to finance the deferred remuneration the accrued pension benefits represent is paid to the Treasury. Further information on these pension schemes is provided in Note 4 in the Statement of Accounts.

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

From 1 April 2011, with the merger of Animal Health and the Veterinary Laboratories Agency the following current members of the Animal Health Board have taken positions with the new merged body:

Catherine Brown	Chief Executive
Nina Purcell	Chief Operating Officer (with the assistance of Rob Paul until his retirement on 30 June 2011)
Julie Pierce	Chief Information Officer and Director of Corporate Services
Richard Bowen	Human Resources Director
Nick Coulson	Director of Veterinary and Technical Services (until his retirement on 31 May 2011)
Rupert Hine	Director of Animal Health Scotland to 15 May 2011, then Director of Advice Services from 16 May 2011
Mike Steel	Director of Animal Health Wales
Tony Foster	Non-Executive Director



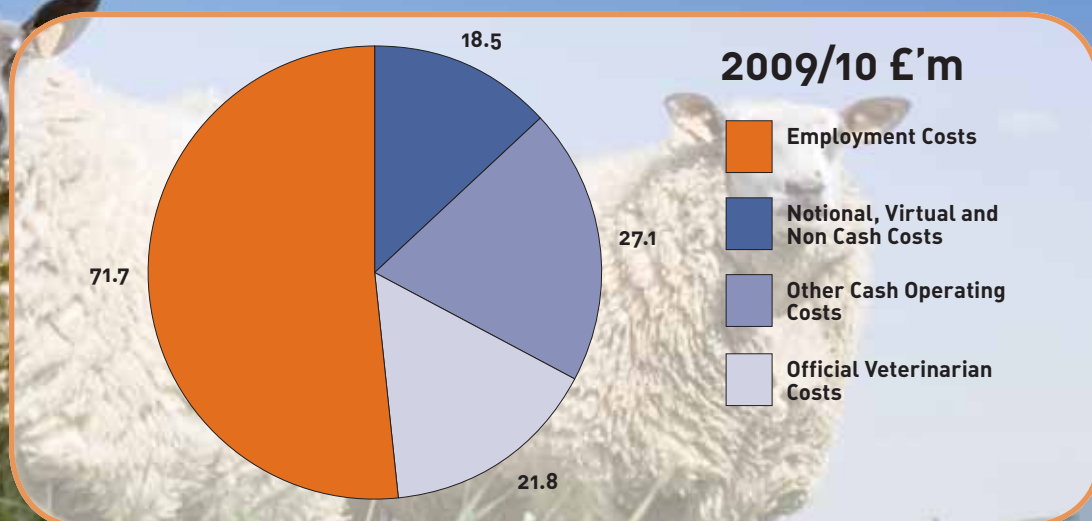
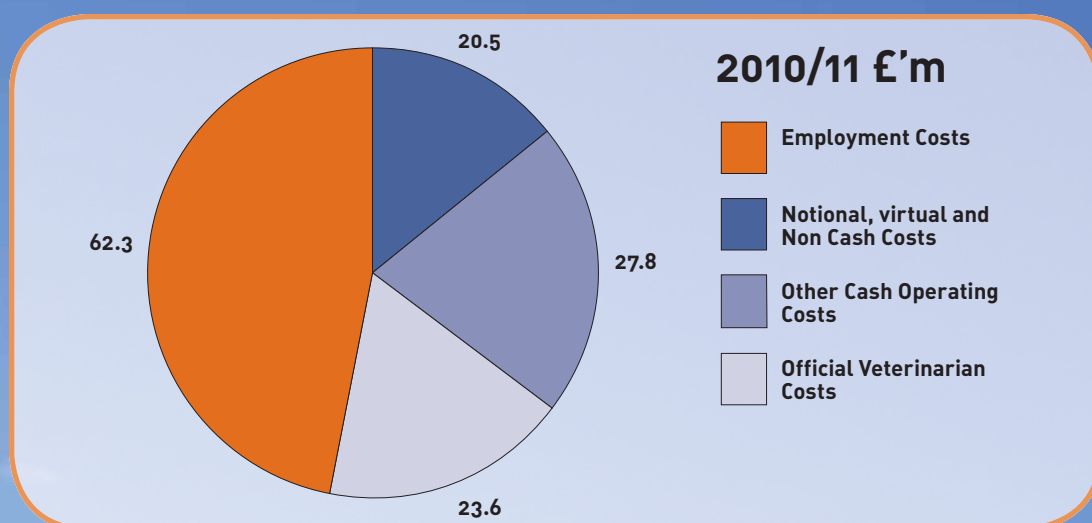
Catherine Brown
Chief Executive
19 May 2011



6 FINANCIAL REVIEW



Animal Health's Statement of Accounts reports the results for the year 1 April 2010 to 31 March 2011. It is prepared on an accruals basis in accordance with Section 7(2) of the Government Resources and Accounts Act 2000, the Accounts Direction issued by HM Treasury and the *Government Financial Reporting Manual* (FReM), published by HM Treasury.



The accounting policies contained within the FReM apply International Financial Reporting Standards as adapted or interpreted for the public sector context.

The Statement of Accounts for the year ended 31 March 2011 is set out in Section 8. Animal Health follows Defra's accounting policies where appropriate to Animal Health's own activities, to simplify the preparation of Defra's Consolidated Account.

In accordance with IFRS 3, *Business Combinations*, and iFReM 4.2.15 the 2010/11 Statement of Accounts restates the 2009/10 costs to include the comparative costs of the VENDU work that was transferred from

Defra to Animal Health on 1 April 2010.

Within the overall expenditure for the year Animal Health's Net Operating Costs in 2010/11 of £134.2m were £4.9m less than in 2009/10, reflecting reductions in budgets in the region of £17m from those received during 2009/10 against increases in activity volumes, changes of policy and further development of the Agency's Business Reform Programme.

Animal Health's gross operating costs are predominantly people related, with employment costs constituting £62.3m (46.4%) of 2010/11 gross expenditure and Official Veterinarian costs constituting £23.6m (17.6%) of gross spend.

Other operating costs of £48.3m include expenditure of £10.5m or 7.8% for all other operating costs paid in cash, including further development work on the Business Reform and Livestock Programmes. Other operating costs also included hard charges from Defra for corporate services of £17.3m (12.9%). Notional and non-cash costs during 2010/11, including the virtual charge from Defra to cover accommodation, amounted to £20.5m (15.3%).

Although expenditure has been managed within the agreed reduced available resources, the accounting policy for how funding is recognised for statutory accounts purposes follows that set by Defra and other central government departments, and results in the Statement of Financial Position showing net current liabilities of £20.6m (2009/10 restated £19.3m).

This occurs because the accounting policy followed by central government departments accounts for expenditure on an accruals basis but funding on a cash basis in accordance with the Net Cash Requirement voted by Parliament - rather than in accordance with the resources voted by Parliament. The effect of this policy is that although commitments entered into during the year were in line with available resources, the difference between the available resources and the cash required in the year is not treated as an asset to finance the creditors or provisions at year end, and therefore a 'deficit' results as noted above. As the Government Resources and Accounts Act 2000 states that cash is not to be held in advance of need, cash to fund the creditors and provisions in Animal Health's Statement of Financial Position as at 31 March 2011 will be provided by Defra during 2011/12 when they become due for payment. Given this undertaking by Defra, it is considered appropriate to prepare the Statement of Accounts on a going concern basis.

Supplier payments

In paying creditors, Animal Health aims to follow the principles of the Better Payment Practice Code in compliance with the Public Sector Payment Policy, and continues to adhere to the Government's initiative to pay suppliers within an agreed reduced number

of working days of submitting a properly-presented and non-disputed invoice. During the first part of 2010/11 this target stood at 10 working days, and was reduced further to five working days from October 2010.

	£'000	Number
Total invoices paid in a year	28,261	8,626
Total invoices paid within reduced payment target	27,271	8,286
Percentage of invoices paid within target	96.5%	96.1%
Total invoices paid within contractual terms	28,260	8,625
Percentage of invoices paid to contract	100%	100%

No interest was paid in respect of the Late Payment of Commercial Debts (Interest) Act 1998 (2009/10 £nil).

Accounts summary

No research and development work was undertaken, and no charitable donations were made during the year ended 31 March 2011.

Prior to 1 April 2009 Animal Health received a 'hard charge' from Defra for all services provided centrally. From 1 April 2009, the charge relating to accommodation became a virtual charge following the decision to source these services through an external provider. All hard and virtual charges are set by Defra, which also provides the budget to fund these.

Animal Health's Statement of Financial Position shows that the main assets of the Agency are Intangible Fixed Assets. These are almost entirely comprised of internally-generated software, the total of which is expected to increase further as more modules of the Business Reform Programme are constructed and implemented.

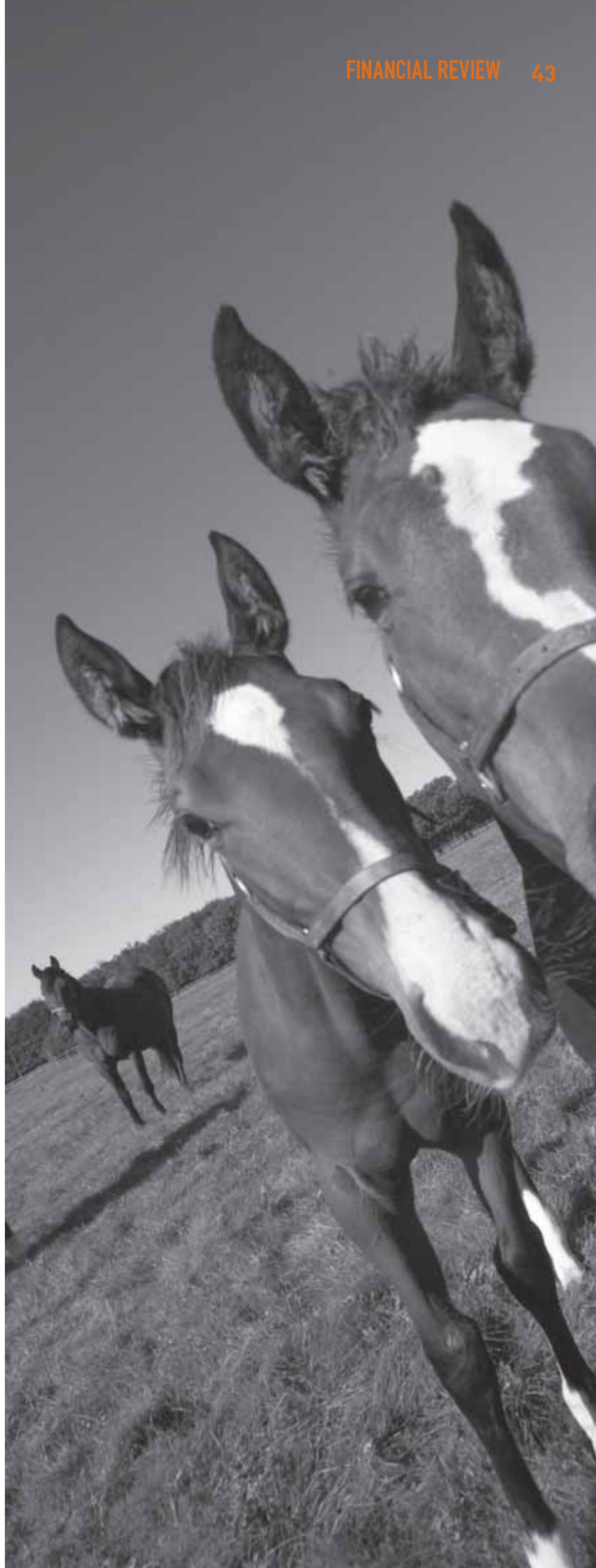
Animal Health's IT infrastructure and IT hardware are provided by Defra through IBM, with whom Defra has entered into

a strategic partnership. Similarly, with the exception of property in Scotland where the Scottish Government provides the Agency with accommodation, all accommodation used by Animal Health is either owned by, or leased through, Defra.

As a result of the introduction of International Financial Reporting Standards during the 2009/10 financial year, the way in which these relationships are disclosed in the accounts of Animal Health has changed considerably. Included within Tangible Fixed Assets is the value of the 'right of use' for the IT assets utilised by Animal Health, but that are owned by Defra, as required under IFRIC12 *Service Concession Arrangements*. This has been offset by an equal and opposite lease liability to reflect the substance of the transaction. Similarly, IFRIC4 *Determining whether an Arrangement contains a Lease* has led to additional disclosure within the operating lease section of the Statement of Accounts to reflect Animal Health's occupation and utilisation of properties not owned by the Agency, but by or through Defra. The movements on these are reflected within the Statements of Account for the year ended 31 March 2011.

Expenditure by country and by activity

The segmental analysis included within the financial statements provides an indication of where the reported spend of Animal Health was spent in England, Scotland and Wales and in cost centres that cover the whole of Great Britain. Given the wide risks this expenditure seeks to mitigate, the variety and variability of activity undertaken, and the Agency's remit, costs which are incurred for the benefit of the whole of Great Britain cannot be readily allocated between jurisdictions.



7 PLANS AND PRIORITIES

With effect from 1st April 2011 Animal Health will no longer exist in isolation, having merged with the Veterinary Laboratories Agency. The new Agency, Animal Health and Veterinary Laboratories Agency (AHVLA), will have a new vision and strategy to work towards in 2011/12.

**Further information can be found at:
<http://www.defra.gov.uk/ahvla/>.**





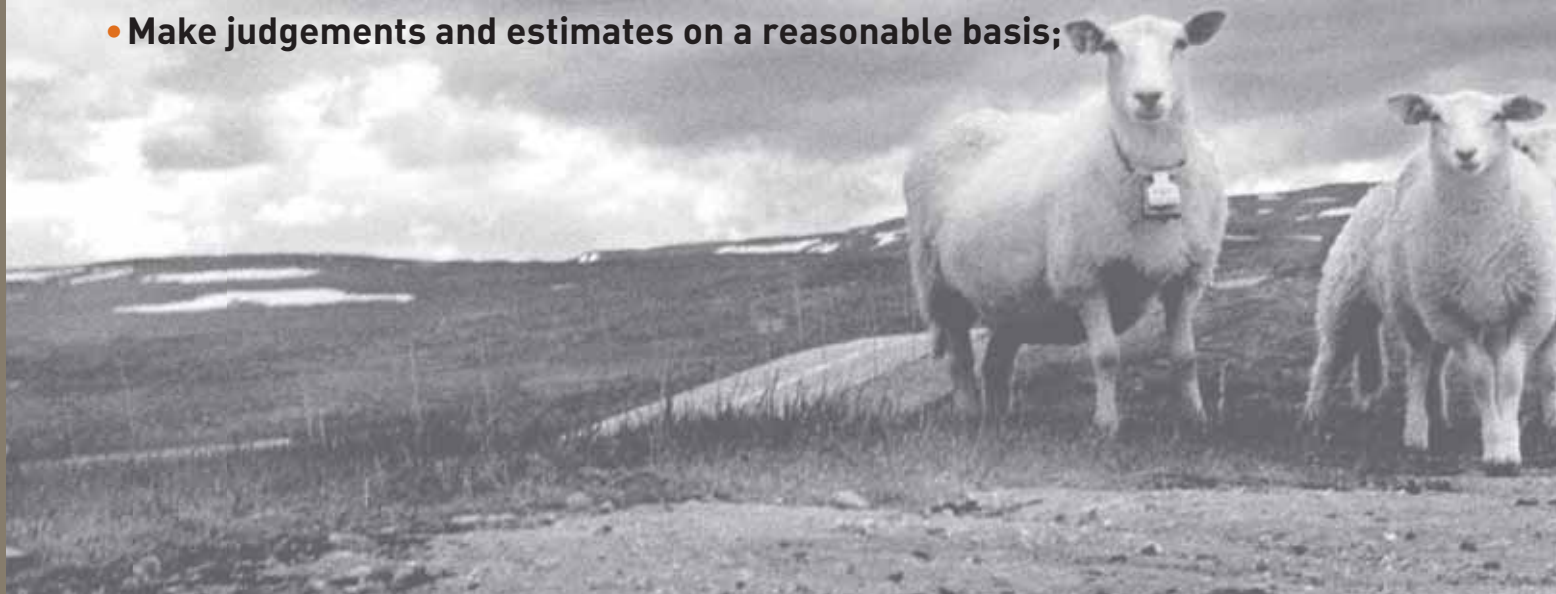
8 STATEMENT OF ACCOUNTS

Statement of Accounting Officer's Responsibilities

Under the Government Resources and Accounts Act 2000, HM Treasury has directed Animal Health to prepare for each financial year a Statement of Accounts in the form and on the basis set out in the Accounts Direction.

The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of Animal Health and of its income and expenditure, recognised gains and losses and cash flows for the financial year. In preparing the Statement of Accounts, the Accounting Officer is required to comply with the requirements of the *Government Financial Reporting Manual* and in particular to:

- Observe the Accounts Direction issued by HM Treasury, including the relevant accounting and disclosure requirements and apply suitable accounting policies on a consistent basis;
- Make judgements and estimates on a reasonable basis;



- **State whether applicable accounting standards as set out in the *Government Financial Reporting Manual* have been followed and disclose and explain any material departures in the financial statements;**
- **Prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Agency will continue in operation.**

The Accounting Officer of Defra has designated the Chief Executive of Animal Health as Accounting Officer for the Agency. 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 Animal Health's assets, are set out in *Managing Public Money*, published by HM Treasury.



Catherine Brown
Chief Executive
19 May 2011



Statement on Internal Control

Scope of responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of Animal Health's objectives and goals, while safeguarding the public funds and assets for which I am personally responsible, in accordance with the responsibilities assigned to me in *Managing Public Money*.

Animal Health's work up to 31 March 2011, when the Agency merged with the Veterinary Laboratories Agency, was overseen by a Strategic Advisory Board, which consisted of senior officials from Defra, the Scottish Government, the Welsh Assembly Government and three non-executive directors. The Board advised the Secretary of State and Ministers on policy and operational matters relating to Animal Health and monitored the performance, efficiency and financial and managerial regularity of the Agency. The Board also recommended to Ministers the strategic direction the Agency should follow within the context of wider departmental and governmental objectives. I also sat on this Board, which met on a quarterly basis to agree strategic direction, monitor activity and progress and to provide support and assistance to the Agency, and it is through this body that any risks that were relevant to the Agency were flagged to Ministers.

The purpose of the system of internal control

Animal Health's system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve objectives and goals; it could therefore only provide reasonable and not absolute assurance of effectiveness.

The system of internal control was based on an ongoing process designed to:

- Identify and prioritise the risks to the achievement of Animal Health's objectives and goals;
- Evaluate the likelihood of those risks being realised, and their impact should they be realised;
- Manage and mitigate those risks efficiently, effectively and economically.

The system of internal control has been in place at Animal Health for the year ended 31 March 2011, and remains in place within the former Animal Health side of the Animal Health and Veterinary Laboratories Agency (AHVLA) up to the date of approval of the Annual Report and Accounts, and accords with Treasury guidance.

Capacity to handle risk

The Agency existed to mitigate the risk to the economy and public health of notifiable animal disease. Veterinary risks are primarily addressed through the policies the Agency executed and by the operating procedures by which they were delivered.

Organisational and corporate risks that could affect the Agency's ability to deliver its remit were assessed by the Animal Health Board which was responsible for the overall management of the Agency's risk exposure. Strategic risks such as those associated with business change, changes in the animal health and welfare delivery landscape, the delivery of strategic IT, dependencies on partners to enable the Agency to deliver its objectives and goals were assessed by the Animal Health Board and the Executive Management Team, who in turn reported to the Animal Health Board. Risks associated with operational delivery during and between outbreaks of exotic animal disease were reviewed by the 'Senior Management Team', which reported to the Executive Management Team, with significant residual risks being escalated to the Animal Health Board for consideration. In addition to considering these risks individually, the Animal Health Board also reviewed their potential cumulative impact.

The Audit Committee has reviewed the adequacy of the Agency's risk-management processes through the course of the year.

The risk and control framework

Animal Health's system of internal control continued to develop during the financial year in line with the Agency's development and in accordance with HM Treasury Guidance. This included activity in the following key areas:

Risk Management

The Risk Management process used by Animal Health aids understanding and promotes consistency in the way risks are managed across the Agency.

The aim of Animal Health's Risk Management process was to facilitate a standard approach to the management of risk through Identifying, Assessing, Addressing, Reviewing and Reporting.

- Identify - the risk originator must describe the components of the risk in unambiguous terms and provide data to help evaluate the likelihood of the risk occurring and the impact to Animal Health if the risk occurs.
- Assess - the risk coordinator must consider the evaluated risk and how it should be treated. This is done using the Terminate, Reduce, Accept or Pass on (TRAP) method as outlined in the Animal Health Risk Template and instructions available to all staff. The risk coordinator must make a recommendation of what further action is required to the risk owner. If necessary, the risk must be added to the appropriate Risk Register.
- Address - the risk owner must ensure the appropriate action is taken or escalate the risk by following the specified escalation route.
- Review and Report - the risk coordinator must ensure that the Risk Register is updated regularly so it can be reviewed on a monthly basis.

Every risk will have an owner and coordinator. The owner is accountable for the management of those risks and the coordinator is the point of contact and reports to the owner. The risk coordinator also assesses the information and enters the risk on the relevant Risk Register.

To assist in the assessment and central review of risk, an online Risk Management system "4Risk" was adopted by Animal Health. Each cost centre within Animal Health maintained its own Risk Register. Each Risk Register must be reviewed and updated on a monthly basis. As part of the quarterly Stewardship Report, each cost centre manager must confirm that they have

reviewed and updated their Risk Register.

The delivery risk register was monitored and updated by 'Delivery Management Team' on a monthly basis. Any significant risks were escalated to the corporate risk register which was monitored and updated by the Animal Health Board.

Data risk management

As set out in Cabinet Office guidance, incidents - the disclosure of which would in itself create an unacceptable risk of harm - may be excluded from this report on data risk management in accordance with the exemptions contained in the Freedom of Information Act 2000, or may be subject to the limitations of other UK information legislation.

Information risk has been controlled during the year by making all staff explicitly aware of their responsibilities regarding the information of the Agency, and through the repeated provision of Cabinet Office on-line training - Protecting Information Level 1 has been completed to a satisfactory standard by all staff, with further advanced levels of training being completed by other more senior staff, as required. This training formed part of a 'cultural awareness programme' for Animal Health staff and management; it included presentations across the Agency's offices, an intranet rewrite and increased communications. The Information Asset Owner provided quarterly reports to the Defra Senior Information Risk Owner, which are reviewed as to the effectiveness of controls and identifies if incidents have taken place. Animal Health reported no protected personal data related incidents to the Information Commissioner's Office in 2010/11 and there were no other data related incidents deemed to be significant or critical. An audit conducted into the Incident Reporting Procedure by the Information Commissioners Office during the 2010/11 resulted in an overall conclusion of reasonable assurance.

Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the system of internal control is informed by the work of internal audit and the executive managers within Animal Health who

have responsibility for the development and maintenance of the internal control framework, and comments made by external audit in their management letters and other reports. Both the Animal Health Board and Audit Committee advise on the implications for my review, and a plan to address weaknesses and ensure continuous improvements is in place.

My review is also informed by:-

- The framework established for the Agency's accountability with Defra, the Scottish Government and the Welsh Assembly Government;
- Quarterly reporting to the Agency's Strategic Advisory Board, which oversees Animal Health on behalf of the Secretary of State for the Environment, Food and Rural Affairs, Defra's Accounting Officer, the Scottish Government and the Welsh Assembly Government, and by regular meetings with Defra, the Scottish Government and the Welsh Assembly Government;
- Meetings of the Animal Health Board, Executive and Senior Management Team to review Animal Health's strategic direction and risks, and performance against the agency's objectives and goals;
- The work of the Agency's managers and staff who have responsibility for developing, supporting and operating within the internal control framework;
- Risk management arrangements under which key risks that could affect the achievement of Animal Health's objectives and goals are actively managed;
- Stewardship reporting through which each Animal Health Regional and Divisional Office and other business units report on risk and compliance with the internal control framework;
- Assurance provided by Defra's Shared Services Directorate on the accuracy, completeness and security of the data the directorate transacts on behalf of Animal Health;
- The work of the Audit Committee which reviews the effectiveness of the system of internal control and assurance processes, and has the authority to challenge and

escalate where potential risks are identified;

- The results of the work of external audit;
- Reports by internal audit, prepared in accordance with Government Internal Audit Standards, which include their independent opinion on the adequacy and effectiveness of the Agency's internal controls together with recommendations for improvement where necessary. Internal audit continue to provide a number of reports during the year in which they provide their opinions on assurance regarding the adequacy of the controls considered, including an annual assurance statement concerning the overall control framework.

Significant internal control issue

No significant issues have come to light during 2010/11 that will require additional disclosure within the Statement on Internal Control.

The 2009/10 Statement on Internal Control for Animal Health contained two issues, the details of which and the subsequent work that has been taken by the Agency to rectify this position being as follows:-

Animal Health use of non-payroll staff

Work requested by the Agency of internal audit identified that Animal Health 'had failed in some instances to comply with internal procedures, EU procurement rules and had failed to follow Office of Government Commerce (OGC) policies and standards on public procurement. These failures led to the Agency paying contractor rates that varied from those on agreed Government procurement frameworks, resulting in the agency effectively overpaying some contractors by £634k and making savings on other contractors of £547k.

Since that point, the Agency updated its processes and procedures for the recruitment of non-payroll staff, resulting in a reduction in the numbers of such individuals being utilised.

The use and management of non-payroll staff is now undertaken in line with EU

procurement rules and OGC policies and standards of public procurement, and senior management continue to be confident that the processes and procedures now in place are sufficiently robust to prevent any recurrence.

During November 2010, internal audit were asked by the Agency management to perform a follow-up audit on the use and recruitment of non-payroll staff. This identified that of the four recommendations previously made during the 2009/10 investigation, three were now considered closed, whilst the remaining one was 'substantially complete'. In addition, the review identified that the Agency was now in a position of making net savings (by £366k as at 31 March 2011) on such individuals when compared to the appropriate rates.

Shared Services Directorate (SSD) payments

During May 2010, the Agency was advised that two payments processed in March 2010 by SSD on behalf of one of their customer organisations and intended for an authorised supplier were diverted and paid into a third-party bank account. Payment runs were initially suspended, with weekly payments eventually being resumed subject to manual controls as agreed with Defra Internal Audit and the NAO. The matter was subsequently referred to the police.

Normal payment runs were eventually resumed from September 2010 and, from 4 October 2010, the five day prompt payment terms were implemented. No further problems have been experienced. A Defra Internal Audit Department report on Key Controls during April 2011 has confirmed that the controls in place at SSD are 'adequate', with standard transactional controls being supplemented by additional controls around the payments process in response to the 2009/10 incident.

During 2011/12 Animal Health, as part of the merged Animal Health and Veterinary Laboratories Agency (AHVLA) will continue to develop its system of internal control through continual improvement, responding to evolving best practice and changes in its business environment to ensure that the new governance and organisational structure meets the anticipated changes in the environment in which the Agency operates under my stewardship as the Chief

Executive of the new merged organisation.



Catherine Brown
Chief Executive
19 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 Animal Health 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 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 Agency's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Agency; and the overall presentation of the financial statements.

In addition I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate. In addition, I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income reported in the financial statements have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Opinion on Regularity

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

Opinion on the financial statements

In my opinion:

- **the financial statements give a true and fair view, of the state of the Animal Health's affairs as at 31 March 2011 and of the net operating cost 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 sections 2, 3, 4 and 6 and the 'Animal Health Board' element of section 5 of 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.
- 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

9 June 2011

ANIMAL HEALTH

STATEMENT OF COMPREHENSIVE NET EXPENDITURE

For the year ended 31 March 2011

PROGRAMME COSTS	Note	2010/11 £'000	2009/10 Restated £'000
Employment Costs	4	62,323	71,665
Other Administrative Costs			
Official Veterinarian Costs	5	23,598	21,802
Other Operating Costs	5	48,274	45,630
		134,195	139,097
Operating Income	7	(6,210)	(6,010)
		(6,210)	(6,010)
Net Operating Costs		127,985	133,087
<hr/>			
OTHER COMPREHENSIVE EXPENDITURE	Note	2010/11 £'000	2009/10 Restated £'000
Net gain on revaluation of Property, Plant and Equipment		(101)	(40)
Net loss / (gain) on revaluation on Intangibles		1,802	(6,812)
Total Comprehensive Expenditure for the year ended 31 March 2011		129,686	126,235

In accordance with IFRS 3, *Business Combinations*, and *FReM 4.2.15* the results for 2009/10 have been restated following the transfer to Animal Health of the Veterinary Exotic Notifiable Diseases Unit (VENDU), from Defra, with effect from 1 April 2010. Accordingly 2009/10 programme costs have increased by £278k. The unit ensures that reports of exotic notifiable diseases are dealt with effectively and efficiently.

Figures for 2009/10 have been restated to reflect changes in the FReM removing the Agency's requirement to provide a notional non-cash charge for the cost of capital employed. Accordingly programme costs for 2009/10 have been reduced by £1,174k.

All income and expenditure is derived from continuing operations.

The notes on pages 58 to 86 form part of these accounts.

STATEMENT OF FINANCIAL POSITION

As at 31 March 2011

	Note	31 March 2011 £'000	31 March 2010 Restated £'000	1 April 2009 Restated £'000
Non Current Assets				
Property, Plant and Equipment	8	9,605	13,434	7,168
Intangible Assets	9	57,068	57,091	43,489
Long Term Receivables	12	21	25	29
Total Non Current Assets		66,694	70,550	50,686
Current assets				
Inventories	11	178	215	238
Trade and Other Receivables	12	470	227	540
Other Current Assets	12	4,013	4,289	3,621
Cash and Cash Equivalents	13	7,016	683	1,588
Total Current Assets		11,677	5,414	5,987
Total Assets		78,371	75,964	56,673
Current Liabilities				
Trade and Other Payables	14	(3,787)	(5,137)	(4,289)
Other Liabilities	14	(27,755)	(19,064)	(21,807)
Provisions	16	(741)	(555)	(226)
Total Current Liabilities		(32,283)	(24,756)	(26,322)
Non Current Assets less Net Current Liabilities		46,088	51,208	30,351
Non Current Liabilities				
Lease Obligations	15	(6,989)	(9,575)	(2,564)
Provisions	16	(339)	-	(72)
		(7,328)	(9,575)	(2,636)
Assets less Liabilities		38,760	41,633	27,715
Taxpayers' Equity				
General Fund	17	35,966	35,370	27,328
Revaluation Reserve	17	2,794	6,263	387
Total Taxpayers' Equity		38,760	41,633	27,715

In accordance with IFRS 3, *Business Combinations*, and FReM 4.2.15 the results for 2009/10 have been restated following the transfer to Animal Health of VENDU work with effect from 1 April 2010.

The notes on pages 58 to 86 form part of these accounts.



Catherine Brown
Chief Executive
19 May 2011

STATEMENT OF CASH FLOWS

For the year ended 31 March 2011

	Note	2010/11 £'000	2009/10 Restated £'000
Cash flows from operating activities	18	(100,282)	(113,342)
Cash flows from investing activities	18	(9,957)	(26,135)
Cash flows from financing activities	18	116,572	138,572
Net increase / (decrease) in cash and cash equivalents in the period		6,333	(905)
Cash and cash equivalents at the beginning of the period	13	683	1,588
Cash and cash equivalents at 31 March		7,016	683

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		27,328	387	27,715
Transfers between reserves	17	976	(976)	-
Non-Cash charges - notional charges	5	8,330	-	8,330
Non-cash Adjustments	17	(16)	-	(16)
Transfers of functions	17	278	-	278
Comprehensive expenditure for the year		(133,087)	6,852	(126,235)
Net Parliamentary Funding - drawn down	18	131,561	-	131,561
Balance at 31 March 2010		35,370	6,263	41,633
Transfers between reserves	17	1,768	(1,768)	-
Non-Cash charges - notional charges	5	7,631	-	7,631
Non-cash Adjustments	17	24	-	24
Comprehensive expenditure for the year		(127,985)	(1,701)	(129,686)
Net Parliamentary Funding - drawn down	18	119,158	-	119,158
Balance at 31 March 2011		35,966	2,794	38,760

The notes on pages 58 to 86 form part of these accounts

NOTES TO THE ACCOUNTS

1 Basis of accounts

These accounts have been prepared on an accruals basis in accordance with the Accounts Direction issued to Animal Health by HM Treasury and in accordance with the 2010/11 *Government Financial Reporting Manual* (FReM). The accounting policies have been applied consistently and where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of Animal Health for the purpose of giving a true and fair view has been selected by management.

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

On 1 April 2011 Animal Health merged with the Veterinary Laboratories Agency to form AHVLA. As the new merged body will continue to carry out the functions previously carried out by Animal Health, alongside those of the Veterinary Laboratories Agency, the financial statements have been prepared on a going concern basis.

2 Statement of accounting policies

These financial statements have been prepared in accordance with the 2010/11 *Government Financial Reporting Manual* (FReM) issued by H M Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of Animal Health for the purpose of giving a true and fair view has been selected by management. All estimates are based on knowledge of current facts and circumstances, assumptions concerning past events, and forecasts of future events and actions. Actual results may differ from these estimates. The particular policies adopted by Animal Health are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

2.1 Accounting conventions

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

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:

a. Key judgements

Depreciation and amortisation

The Agency depreciates and amortises non-current assets across deemed useful economic life. An asset's useful economic life is based upon judgements.

b. Key estimates

Indexation rates

The Agency values non-current assets at current replacement costs as described in notes 2.4 and 2.5. The Agency uses indexation rates published by the Office for National statistics as a basis for estimating current replacement cost. In November 2010, the Office for National Statistics reclassified and revised the indices that Animal Health applies.

Accrued Official Veterinarian costs

The Agency estimates the value of tests undertaken by Official Veterinarians prior to the reporting date, where test results have not been received by that date. Estimates of the value accrued are based upon the volume of tests allocated to Official Veterinarians in March and historic test costs.

2.2 Income recognition

Animal Health is a gross running cost Agency. Income received for services in excess of 5% of the total revenue budget is surrendered back to Defra which provides the resources to finance the cost of the provision of those services. This threshold was not reached in the financial year.

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

Income is credited to the Statement of Comprehensive Net Expenditure on an accruals basis.

2.3 Funding recognition

Animal Health follows the FReM requirement to recognise funding as being the Net Cash Requirement voted by Parliament, rather than the delegated proportion of the Department's Expenditure Limit. This is recognised within Taxpayers equity within the Statement of Financial Position.

2.4 Property, plant and equipment

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

Property, plant and equipment are valued monthly at current replacement cost by using appropriate indices provided by the Office for National Statistics. Any permanent upward revaluation is credited to the Revaluation Reserve. A deficit on revaluation is debited to the Statement of Comprehensive Net Expenditure if the deficit exceeds the balance held for previous revaluations of the relevant asset in the Revaluation Reserve.

Plant and equipment assets have been stated at fair value using appropriate indices, where material, provided by the Office of National Statistics.

Subsequent expenditure is capitalised if the criteria for initial capitalisation are met, i.e. if it is probable that economic benefits will flow to the Agency, and that the cost of the expenditure can be reliably measured.

Depreciation is charged over the useful life of assets to ensure their value, less residual value, is written off over their useful life. The residual value is the carrying amount of the asset which is expected to be realised on disposal. Depreciation is charged in the month of

disposal but not in the month of acquisition. Depreciation is not charged on assets under the course of construction. Each component of an asset with a value deemed material to the total fair value of the asset is capitalised and depreciated separately. Components no longer to be used are derecognised. Under the requirements of international financial reporting standards, useful lives, component values and residual values are reviewed annually.

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

2.5 Intangible assets

Intangible Assets comprise software licences, which are valued at historic cost and internally generated software - including assets in the course of construction - which are regularly revalued by using appropriate indices provided by the Office for National Statistics. Software licences are capitalised where the licence period is for more than one year and the cost is greater than £500. Software licences are amortised over the term of the licence or their useful economic life, if shorter.

Assets in the Course of Construction are not depreciated or revalued until the project concerned is brought into service. Assets in the Course of Construction mainly relate to internally developed computer software and systems, which includes capitalisation of contractor costs, on projects costing in excess of £50,000.

Costs related to internally generated assets are classified as relating to either research or development phases. The Agency's expenditure on research activities is written off to the Statement of Comprehensive Net Expenditure as incurred, due to the inherent uncertainty surrounding the economic benefit resulting from it. Capitalisation of development costs is contingent on fulfilment of all of the following criteria:

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

Amortisation commences when the developed asset is fully brought into use, and is based on a systematic allocation over the period during which the Agency is expected to benefit from the use of the intangible asset. Asset lives are typically in the range of 2-10 years. The Agency does not hold any intangible assets with an indefinite useful life.

2.6 Service concession arrangements (IFRIC 12)

Through Defra, Animal Health has entered into a contract with IBM for the supply of IT services. The contract is for a term of eight years from February 2010. The contract falls within the scope of IFRIC 12 as interpreted by the FReM and is disclosed within the accounts as a service concession arrangement. A lease liability has been included to reflect the capital value of payments to IBM to lease IT infrastructure assets throughout

the duration of the eight year contract. A matching asset has been raised to reflect the benefit that the Agency will derive from having access to IBM's IT infrastructure assets. Depreciation has been applied on a straight line basis consistent with the Agency's depreciation policy. These IT infrastructure assets, which consist of laptops, servers and hardware, are classed as one tangible service concession asset under property, plant and equipment.

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

2.7 Depreciation and amortisation

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

Furniture and Fittings	5 - 30 years
IT Hardware and Software	2 - 10 years
Office Equipment	5 - 11 years
Plant and Machinery	5 - 15 years
Scientific Equipment	5 - 10 years
Vehicles	4 - 12 years

A full month's depreciation is charged to the Statement of Comprehensive Net Expenditure in the month following acquisition and in the month of disposal.

2.8 Impairment

Impairments are recognised when the recoverable amount of non-current assets falls below their carrying amount.

In line with an adaptation in the FReM, any permanent diminution in the value of an asset due to clear consumption of economic benefit or service potential should be recognised in full as an impairment loss in the Statement of Comprehensive Net Expenditure. However, in order to align the balance in the Revaluation Reserve with that which would have resulted through strict application of *IAS 36*, an amount up to the value of the impairment is transferred to the General Fund for the individual asset concerned.

Downward revaluations, resulting from changes in market value, only result in an impairment where the asset is revalued below its historical cost carrying amount. In these cases the accounting treatment is as for any other impairment, with amounts being firstly set against any accumulated balance in the revaluation reserve, and any amount in addition to this being recognised as an impairment and recorded in the Statement of Comprehensive Net Expenditure.

2.9 Inventories

Inventory, which consists of veterinary consumables and contingency stock, is stated at the lower of cost and net realisable value. Animal Health holds a level of contingency inventory as part of its preparedness for outbreaks of exotic notifiable animal disease.

2.10 Value Added Tax (VAT)

Animal Health is covered by Defra's VAT registration. Input VAT is generally not recoverable and output VAT generally does not apply, except as specified in HM Treasury (Contracting Out) Direction and HM Treasury (Taxing) Direction, respectively. Costs are shown inclusive of VAT where applicable.

2.11 Cash and cash equivalents

Cash and cash equivalents represent funds held by the Office of HM Paymaster General plus a small amount held in a commercial bank account which is used to receive funds from commercial activities prior to transfer to Government Banking System.

2.12 Hard charges / Notional charges

In previous financial years Defra notionally charged Animal Health for centrally provided services. In 2010/11 financial year the majority of these services provided were hard charged. The value of both hard and notional charges is determined by Defra. Further details are provided in Note 5.

2.13 Programme expenditure

The Statement of Comprehensive Net Expenditure comprises programme expenditure only as defined by Defra in their Delegated Authorities letter dated 20 April 2010 addressed to the Accounting Officer of the Agency.

2.14 Capital charge

In accordance with the FReM and HM Treasury requirements the Agency is no longer required to provide for cost of capital charges. Therefore a notional non-cash charge for the cost of capital employed in the period has not been included in the Statement of Comprehensive Net Expenditure, and prior year comparatives have been adjusted accordingly. As a result of the abolition of cost of capital charges net operating costs in 2009/2010 have been reduced by £1,174,000.

2.15 Employee benefits

a. Pensions

Pension arrangements are described in Note 4 to the Accounts. Pension contributions are charged to Operating Expenditure on an accruals basis.

Pension benefits are provided through the civil service pension arrangements, full details of which can be found in the Remuneration Report and in Note 4.

Although the Principal Civil Service Pension Scheme (PCSPS) is a defined benefit scheme, departments, agencies and other bodies covered by the scheme recognise the cost of the 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 PCSPS. In respect of defined contribution schemes, the Agency recognises the contributions payable for the year.

b. Holiday pay provision

Under *IAS 19* provision needs to be made for short term employee benefits that are payable within 12 months of the end of the period. Accordingly an accrual has been made for holiday pay and other benefits accruing to employees in employment at the year end.

c. Early departure costs

The Agency is required to meet the additional costs of benefits beyond the normal PCSPS benefits in respect of employees who retire early. The Agency provides in full for this cost when the early retirement programme has been announced and is binding on the agency. The Early Departure Provision for additional pension costs are actually funded by Defra although the liability sits within Animal Health's accounts

2.16 Administration and programme expenditure and income

The Agency's expenditure and income are all classified as programme. The classification of expenditure and income as programme follows the definitions set by HM Treasury.

2.17 Financial instruments

The Agency holds a range of financial instruments, aggregated into classes based on their nature. The majority of these relate to contracts for 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. Accordingly there is no disclosure in terms of *IFRS 7*.

2.18 Provisions, contingent liabilities and assets

In accordance with *IAS 37, Provisions, Contingent Liabilities and Contingent Assets*, Animal Health provides for its obligations arising from past events where a reliable estimate of the obligation can be made and it is probable that the obligation will be required to be settled. Where material, the future costs have been discounted using the rate of 2.2% (2009/10 2.2%) as directed by HM Treasury.

A contingent liability is disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

In addition to contingent liabilities disclosed in accordance with *IAS 37*, the Agency discloses for parliamentary reporting and accountability purposes certain statutory and non-statutory contingent liabilities where the likelihood of a transfer of economic benefit is remote, but which have been reported to Parliament in accordance with the requirements of Managing Public Money.

A contingent asset is disclosed where an inflow of economic benefits is probable.

2.19 Finance leases

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

The Agency has no finance leases, other than the service concession arrangements referred to in 2.6.

2.20 Operating leases

All payments under operating leases are charged to the Statement of Comprehensive Net Expenditure as they are incurred. Operating lease incentives are accounted for on a

straight line basis over the length of the lease. The determination of a lease is based upon the substance of that arrangement - whether the arrangement is dependent upon the use of a specific asset and conveys the right to use that asset.

2.21 Impending application of newly issued accounting standards not yet effective

The Agency provides disclosure that it has not yet applied a new accounting standard, and known or reasonably estimable information relevant to assessing the possible impact that initial application of the new standard will have on the Agency's financial statements.

IFRS 9 Financial instruments, classification and measurement will be applied to future accounting periods.

IFRS 9 Financial instruments was implemented in November 2009 and applied to financial assets. Additional requirements relating to the classification and measurement of financial liabilities are due for implementation in January 2013. The Agency will apply the new standards for the accounting period ending 31 March 2013 and for comparative periods. The amendments made to *IFRS 9* are unlikely to impact upon the Agency as it is exposed to little credit, liquidity or market risk.

3 Operating segments

With effect from 1 April 2009 Animal Health's Target Operational Model (TOM) project was implemented, which changed the organisational and reporting structure. England changed from 15 divisions to eight regions, which aligned with regional Government offices. Wales comprised two regions whilst Scotland had five regions. For each country there is a Country Director reporting directly to the Animal Health Board.

Animal Health provides similar services throughout Great Britain working to support the delivery of animal health and welfare and conservation policy and the reporting criteria are therefore geographically orientated rather than being based on any other criteria. The three regional areas are centrally supported by Operations and Corporate Support. Finally there are reports for capital project work undertaken (e.g. BRP and TOM), outbreak costs and the transfer of notional costs into Animal Health.

The reporting analysis is based on: England, Wales, Scotland, Central Operations - Delivery, Central Operations - Support, Corporate Support, Projects, Outbreaks and finally Incidents and Transfers. The management information that will be provided to the Board of Directors is based upon the regional structure we have introduced in order for the Board to evaluate performance and to allocate resources.

In terms of *IFRS 8* the operating segments of the Agency are England, Wales and Scotland. The other areas on which management information is provided cannot be deemed to be operating segments as they only incur expenses and earn minimal revenue that is incidental to their activities.

a. Income

Animal Health is a gross running cost Agency and any income is generated from Service Level Agreements that are entered into with our major customers. Our top customer is the Welsh Assembly Government. Other important customers include: Food Standards Agency, Defra, Veterinary Medicines Directorate, Veterinary Laboratories Agency, Natural England and Rural Payments Agency. Income can be allocated as follows:

	2010/11 £'000	2009/10 £'000
England	3,051	3,588
Wales	2,924	2,110
Scotland	235	312
As per Financial Accounts	6,210	6,010

Revenue in England includes £1,505k (2009/10 £1,572k) invoiced to the Food Standards Agency for work done on Dairy Hygiene inspections. Income of £434k (2009/10 £405k) has been raised through the licensing of animal movements under CITES legislation.

Revenue from Wales includes £2,821k (2009/10 £1,608k) invoiced to Welsh Assembly Government for work done on the TB Health Check Wales programme.

b. Expenditure

Net expenditure can be allocated as follows:

	2010/11 £'000	2009/10 Restated £'000
England	47,373	51,152
Wales	9,655	10,403
Scotland	6,663	7,302
Specialist Services and Shared Service Level Agreements	4,039	4,664
Delivering Services	67,730	73,521
Business Change	4,853	9,027
Corporate Support	4,718	4,933
Finance and Miscellaneous	4,522	3,490
HR and Learning and Development	2,176	2,455
IMT	4,015	5,140
Shared Services	35,693	35,978
Supporting Delivery	55,977	61,023
BRP	13,197	17,797
Projects	948	720
Improving the Business	14,145	18,517
TOTALS	137,852	153,061
Less:		
Capital Expenditure	12,581	14,688
Modified Historic Cost Adjustment	14	8
Lease Payment under IFRIC 12	1,070	1,791
Excess Hard Charges	-	3,300
	13,665	19,787
	124,187	133,274
Add:		
Staff Leace Accrual	-	(40)
Adjustment to Veterinary Consumables	-	(165)
Official Veterinarian Accrual Adjustments	675	-
Depreciation on IBM Assets	1,364	(32)
Costs Recharged	(64)	-
Impairments	1,829	-
Other Minor Variances	(6)	50
Net Operating Costs	127,985	133,087

c. Gross assets

An allocation of Gross Assets is not provided to the chief operating decision maker on a regular basis and accordingly no analysis is provided here.

d. Interest

The Agency had no interest revenue or expense.

e. Liabilities

The Animal Health Board does not require an analysis of liabilities by segment for the purposes of allocating resource or assessing performance. Accordingly no analysis is included in these accounts.

f. Depreciation and amortisation

Depreciation and amortisation of non-current assets is shown under the Shared Services cost segment and totalled £11,017k (2009/10 £10,122k) in the period net of the modified historic cost adjustment.

4 Staff Numbers and related costs

	2010/11 £'000	2009/10 Restated £'000
Salaries	45,563	49,298
Employer's National Insurance Contributions	3,412	3,702
Employer's Pension Contributions	8,438	8,752
	57,413	61,752
Contractor Costs	3,059	9,948
Staff Exit Costs	1,715	-
Staff Leave Accrual	136	(40)
Temporary Veterinary Inspector Costs	-	5
	62,323	71,665

Contractor costs have been separately identified as they are not employed staff and are not included in the table of average number of full time equivalent staff. In addition to the costs shown above, Contractor Costs of £2.6m (2009/10 £4.3m) have been capitalised. These are included within the additions to IT Software and Assets in the Course of Construction shown in Note 9 – Intangible Assets.

Under *IAS 19*, an accrual has been established for staff leave payable in the next 12 months.

Staff costs exclude departure costs of £313k (2009/10 £Nil), relating to members of the Animal Health Board that are paid by Defra.

a. Pension contributions

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme but Animal Health is unable to identify its share of the underlying

assets and liabilities. A full actuarial valuation was carried out as at 31 March 2011. 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 £8,311k were payable to the PCSPS (2009/10 £8,620k restated) at one of four rates in the range 16.7% to 24.3% (2009/10 16.8% to 24.4%) of pensionable pay based on salary bands. The scheme's Actuary reviews employer contributions every four years following a full scheme valuation. The salary bands and contribution rates were revised for 2010/11 and will remain unchanged until 2014/15. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

Employers can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions of 127k (2009/10 £132k restated) were paid to one or more of a panel of four appointed stakeholder pension providers. Employer contributions are aged-related and range from 3.0% to 12.5% (2009/10 3.0% to 12.5%) of pensionable pay. Animal Health also match employee contributions up to 12.5% of pensionable pay. In addition, employer contributions of £nil (2009/10 £nil) were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirements of these employees. Contributions due to the partnership pension providers at the 31 March 2011 were £nil (2010 £nil). Contributions prepaid at 31 March 2011 £nil (2010 £nil).

No persons (2009/10 no persons) retired early on ill-health grounds; the total additional accrued pension liabilities in the year amounted to £nil (2009/10 £nil).

b. Average number of full time equivalent staff

	2010/11	2009/10
	FTE	Restated FTE
Veterinary Staff	227	284
Technical Staff	252	241
Administrative and Managerial Staff	1,010	1,075
	1,489	1,600

	2010/11	2009/10
	FTE	Restated FTE
Permanent	1,436	1,504
Fixed Term Contracts	22	36
Casual and Temporary	31	60
	1,489	1,600

The remuneration and emoluments of the Animal Health Board are set out in the Remuneration Report in the Annual Report and Accounts.

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

During the year 45 employees left Animal Health under voluntary early release schemes. The details are as per the table below

Exit Package Cost Band	Number of other departures agreed	Total number of exit packages by cost band
<£10,000	6	6
£10,000 - £25,000	14	14
£25,000 - £50,000	14	14
£50,000 - £100,000	7	7
£100,000 - £150,000	2	2
£150,000 - £200,000	-	-
£200,000>	2	2
Total number of exit packages by type	45	45
Total resource cost (£'000)	2,028	2,028

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. Where the department has agreed early retirements, the additional costs are met by the department and not by the Civil Service Pension Scheme. Any ill-health retirement costs are met by the pension scheme and are not included in the table.

Included in the above is £613k, relating to members of the Animal Health Board leaving the Agency under the cross Government Approved Early Retirement, of which £313k is payable by Defra. Full details of exit packages offered to members of the Animal Health Board can be seen in the remuneration report.

No employees left the Agency in 2009/10 under Civil Service or other compensation packages.

5 Non pay running costs

	2010/11 £'000	2009/10 Restated £'000
Official Veterinarian Costs		
Official Veterinarian Costs	23,598	21,802
Operating costs		
Office Services	3,514	3,784
Travel and Subsistence	3,093	3,772
IT Costs	1,729	3,736
Training	1,247	1,647
Veterinary Consumables	923	958
Accommodation and Utilities	(2)	441
Recruitment	29	345
Loss on Disposal of Fixed assets	8	194
Disease Eradication Costs	3	(112)
	10,544	14,765
Hard Charges		
IT Services	14,153	9,425
Accounting and HR Services	2,765	2,720
Procurement and Contract Services	110	146
Internal Audit	125	107
Legal Services	100	7
	17,253	12,405
Notional Charges		
Estates Management and Accommodation Services	7,461	8,105
Defra Investigation Services	81	120
External Audit	89	105
	7,631	8,330
Non-Cash Costs		
Depreciation and Amortisation	11,017	10,122
Impairments	1,829	8
	12,846	10,130
	48,274	45,630

Official Veterinarians are qualified veterinarians in private practice who undertake work on behalf of Animal Health. The charge against operating costs for the year ended 31 March 2011 is based on activity undertaken by Official Veterinarians and paid for during the year together with:

- Activity carried out in the year but not paid for at the year-end for which test results forms had been received; and
- Accrued payments for activity carried out in the year not paid for at the year-end for which test result forms had not been received.

With effect from 1 April 2009 the responsibility for the upkeep and maintenance of the Estate occupied by Animal Health offices was outsourced as part of a department wide facilities management contract across the Defra family. Costs associated with Estates Management and Accommodation are now notionally charged to Animal Health. Animal Health still incurs some Accommodation and Utility costs not covered by the outsourcing contract. During the year these costs have been offset by asbestos and dilapidation provisions not required of £251k (2009/10 £nil).

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

The estimated value of non-specialised freehold property owned by Defra but occupied by Animal Health is £7,235k (2009/10 £7,514k).

With effect from 1 April 2009 a Facilities Management contract for the entire Defra Estate was awarded to Interserve and this has been recharged from Defra to Animal Health by way of a notional charge in 2009/10 and 2010/11.

Within "Estates Management and Accommodation Services" £2,143k (2009/10 £2,028k) relate to facilities management costs associated with the proportion of occupation of buildings that are either owned or leased by Defra or specialised properties held on the Agency's Statement of Financial Position. The commitments are consistent with arrangements containing a lease as defined by *IFRIC 4*.

The IT Services Hard Charge is in relation to the use of IT infrastructure assets supplied under contract with IBM. We have not been able to separate the finance and service charge elements of these costs.

Notional charges include accommodation charges provided to Animal Health by the Veterinary Laboratories Agency and the services of Defra Investigation Services. The External Audit fee includes the National Audit Office's audit fee of £89k for the audit of the 2010/11 financial statements (2009/10 £90k), and extra audit fees of £nil for additional work (2009/10 £15k for the audit of the Trigger Point 3 submission to HM Treasury). No remuneration was paid to the auditors for non-audit work.

In November 2010, in line with the Standard Industrial Classification of All Economic Activities 2007 (UK SIC 2007), the Office for National Statistics reclassified and revised the producer price indexation rates, that Animal Health uses to revalue non-current assets to current cost valuation. After applying the revised indexation rates to Animal Health's non-current assets the recoverable value of a number of assets fell below the historical carrying amount and therefore an impairment of £1,829k has been recognised in non-cash costs.

6 Interest payable and similar charges

Animal Health incurred no charges for interest or similar charges during 2010/11 (2009/10 £nil).

7 Income

	2010/11 FTE	2009/10 Restated FTE
Income Received		
Defra	909	795
Other Defra sponsored bodies	527	423
Welsh Assembly Government	2,821	2,586
Food Standards Agency	1,505	1,659
Other	448	547
	6,210	6,010

Only income in excess of 5% of the revenue budget is surrendered to Defra. Income generated under Service Level Agreements did not form part of the prior year surrender, and was retained to fund the activity for which it was paid; previously all other income was surrendered. Income received includes the following activity where the full cost exceeds £1m. The information below is provided for Fees and Charges purposes, not for the purposes of IFRS 8.

	Income £'000	2010/11 Full cost £'000	Surplus £'000	Income £'000	2009/10 Full Cost £'000	Surplus £'000
Dairy Hygiene Inspections	1,505	1,369	136	1,572	1,383	189
Health Check Wales	2,821	2,821	-	1,608	1,608	-

Income shown above does not include any amounts collected by Animal Health where it was acting as agent for the Consolidated Fund rather than as principal. The amounts collected as agent for the Consolidated Fund (which are otherwise excluded from these financial statements) were:

	2010/11 £'000	2009/10 £'000
Fines and penalties	67	20
Less:		
Uncollectible Debts	(12)	-
Amount payable to the Consolidated Fund	55	20
Balance held at the start of the year	20	-
Payments into the Consolidated Fund	(24)	-
Balance held on trust at the end of the year	51	20

Fines and penalties income relates to penalty notices issued under the Eggs and Chicks (England) Regulations 2009 and the Eggs and Chicks (Wales) Regulations 2010.

8 Property, plant and equipment

2010/11	Scientific Equipment £'000	Equipment and Furniture £'000	Plant and Motor Vehicles £'000	IT Assets £'000	Total £'000
Cost or valuation					
1 April 2010	560	3,702	407	14,799	19,468
Additions	-	-	-	-	-
IBM Asset Movement	-	-	-	(1,868)	(1,868)
Transfers	-	-	-	-	-
Disposal	-	(82)	(33)	(4)	(119)
Revaluation	59	114	15	(4)	184
31 March 2011	619	3,734	389	12,923	17,665
Depreciation					
1 April 2010	(278)	(1,950)	(352)	(3,454)	(6,034)
Charged	(59)	(572)	(16)	(33)	(680)
IBM Asset Depreciation	-	-	-	(1,364)	(1,364)
Disposals	-	64	33	4	101
Revaluation	(27)	(57)	(8)	9	(83)
31 March 2011	(364)	(2,515)	(343)	(4,838)	(8,060)
Net Book Value					
31 March 2011	255	1,219	46	8,085	9,605
31 March 2010	282	1,752	55	11,345	13,434
Asset Financing:					
Owned	255	1,219	46	53	1,573
Service Concession Arrangements	-	-	-	8,032	8,032
Net Book Value at 31 March 2011	255	1,219	46	8,085	9,605

The Net Book Value for Plant and Motor Vehicles includes £39k for Motor Vehicles and £7k for Plant and Machinery (2010 £48k and £7k respectively).

The Net Book Value for Office Equipment and Furniture includes £348k for Office Equipment and £871k for Furniture and Fittings (2010 £424k and £1,328k respectively).

2009/10	Scientific Equipment £'000	Equipment and Furniture £'000	Plant and Motor Vehicles £'000	IT Assets £'000	Total £'000
Cost or valuation					
1 April 2009	531	3,768	420	6,034	10,753
Additions	6	15	-	-	21
IBM Asset Movement	-	-	-	8,741	8,741
Transfers	9	(10)	1	-	-
Disposal	-	(109)	(22)	-	(131)
Revaluation	14	38	8	24	84
31 March 2010	560	3,702	407	14,799	19,468
Depreciation					
1 April 2009	(218)	(1,412)	(344)	(1,611)	(3,585)
Charged	(55)	(582)	(24)	(32)	(693)
Depreciation	-	-	-	(1,801)	(1,801)
Disposals	-	61	22	-	83
Revaluation	(5)	(17)	(6)	(10)	(38)
31 March 2010	(278)	(1,950)	(352)	(3,454)	(6,034)
Net Book Value					
31 March 2010	282	1,752	55	11,345	13,434
31 March 2009	313	2,356	76	4,423	7,168
Included within IT assets above are service concession assets held under a 'Right of Use' arrangement with IBM as follows:					
				2010/11 £'000	2009/10 £'000
Balance at 1 April				11,264	4,324
Extension to the service concession arrangement				-	8,347
Adjustment to the service concession arrangement				(1,868)	394
Depreciation				(1,364)	(1,801)
Balance at 31 March				8,032	11,264

9 Intangible assets

2010/11	Software Licences £'000	IT Software £'000	Assets in the Course of Construction £'000	Total £'000
Cost or valuation				
1 April 2010	58	73,775	18,165	91,998
Additions	-	-	12,581	12,581
Transfers	-	19,493	(19,493)	-
Disposals	-	-	-	-
Impairments	-	(2,541)	-	(2,541)
Revaluation	-	(3,352)	-	(3,352)
31 March 2011	58	87,375	11,253	98,686
Amortisation				
1 April 2010	(17)	(34,890)	-	(34,907)
Charged	(3)	(8,970)	-	(8,973)
Disposals	-	-	-	-
Impairments	-	712	-	712
Revaluation	-	1,550	-	1,550
31 March 2011	(20)	(41,598)	-	(41,618)
Net Book Value				
31 March 2011	38	45,777	11,253	57,068
31 March 2010	41	38,885	18,165	57,091

Assets in the Course of Construction relate to IT systems in development for the Business Reform Programme. When brought into use their value is re-assessed and any adjustment will be reflected in the Financial Statements for the year concerned.

Intangible Assets other than software licences and Assets in the Course of Construction are revalued each month using indices approved by the Office for National Statistics.

Impairments relate to the revaluation of IT software in line with the revised indexation rates published by the Office for National Statistics. Due to adverse changes in the indexation rates the recoverable market value of a number of assets has fallen below the historical carrying amount. Impairments losses have been recognised in other operating costs as a non-cash charge.

2009/10	Software Licences £'000	IT Software £'000	Assets in the Course of Construction £'000	Total £'000
Cost or valuation				
1 April 2009	58	50,653	19,044	69,755
Additions	-	7	14,660	14,667
Transfers	-	15,304	(15,304)	-
Disposals	-	-	(235)	(235)
Revaluation	-	7,811	-	7,811
31 March 2010	58	73,775	18,165	91,998
Amortisation				
1 April 2009	(14)	(26,252)	-	(26,266)
Charged	(3)	(7,625)	-	(7,628)
Disposals	-	-	-	-
Revaluation	-	(1,013)	-	(1,013)
31 March 2010	(17)	(34,890)	-	(34,907)
Net Book Value				
31 March 2010	41	38,885	18,165	57,091
31 March 2011	44	24,401	19,044	43,489

10 Financial instruments

As the cash requirements of the Animal Health are met through the Estimate process, financial instruments play a more limited role in creating and managing risk than would apply to a non public sector body. The majority of financial instruments relate to contracts to buy non financial items in line with the Agency's expected purchase and usage requirements and the Agency is therefore exposed to little credit, liquidity or market risk. Accordingly no disclosure is deemed necessary.

11 Inventories

	2011 £'000	2010 £'000	2009 £'000
Veterinary Consumables	275	329	356
Less Provision	(97)	(114)	(118)
	178	215	238

12 Trade receivables and other current assets

	2011 £'000	2010 £'000	2009 £'000
Amounts falling due within one year:			
Trade receivables	382	158	396
Other receivables	88	69	144
Trade and Other Receivables	470	227	540
Other Current Assets			
Deposits and advances	3	4	-
VAT	2,119	2,549	1,783
Prepayments and accrued income	1,891	1,736	1,838
	4,013	4,289	3,621
Amounts falling due after more than one year			
Deposits and advances	21	25	29
Other Current Assets	4,034	4,314	3,650
As at 31 March	4,504	4,541	4,190

Trade receivables and other current assets include £1,580k due from other central government bodies (2010 £615k, 2009 £3,267k) and £nil due from public corporations and trading funds (2010 £nil, 2009 £7k).

The above trade receivables and other current assets exclude £1k (2010 16k) that is payable to the Consolidated Fund once the debts are collected.

13 Cash and cash equivalents

	2011 £'000	2010 Restated £'000	2009 Restated £'000
Government Banking System	7,006	669	1,574
Commercial Bank Account	10	14	14
	7,016	683	1,588

During the prior year, under requirements from HM Treasury, Animal Health started to use the Government Banking System (GBS) a new shared service provider to the public sector. GBS is part of HM Revenue and Customs and had procured banking services from the Royal Bank of Scotland Group and Citibank. As funds in these accounts will be transferred to the Exchequer on a daily basis these accounts will not be classified as commercial bank accounts.

Cash and cash equivalents above exclude £50k (2010 £4k) that is payable to the Consolidated Fund.

14 Trade payables and other current liabilities

	2011 £'000	2010 £'000	2009 £'000
Trade and Other Payables:			
Trade payables	(462)	(1,359)	(2,712)
Other payables	(3,325)	(3,778)	(1,577)
	(3,787)	(5,137)	(4,289)
Other Liabilities			
Accruals and deferred income	(27,672)	(18,954)	(21,717)
Other taxation and social security	(83)	(110)	(90)
	(27,755)	(19,064)	(21,807)
Provisions	(741)	(555)	(226)
As at 31 March	(32,283)	(24,756)	(26,322)

Trading payables and other current liabilities due within one year include £15,654 due to other central government bodies (2010 £6,679k, 2009 £6,488k), £nil due to public corporations and tradig funds (2010 £4k, 2009 £6k), and £nil due to Local Authorities (2010 £12k, 2009 £6k).

Included within other payables is the future current liability of £1,346k to pay for the 'Right of Use' assets to IBM (2010 £1,697k, 2009 £3,302k).

15 Lease obligations due in more than one year

	2011 £'000	2010 £'000	2009 £'000
Not later than one year	1,346	1,697	3,302
Balance in current liabilities	1,346	1,697	3,302
Later than one year and not later than five years	4,850	5,884	2,564
Later than five years	2,139	3,691	-
Balance in Non Current Liabilities	6,989	9,575	2,564
Balance at 31 March	8,335	11,272	5,866

Lease obligations arise from the adoption of IFRIC 12 in respect of IBM Right of Use Assets and IBM who provide the valuation of the asset have also provided Defra with a lease charge applicable to the whole contract including Core Defra, its agencies and NDPBs. This has been allocated to Animal Health on the basis of the headcount within the organisation as a percentage of the total.

16 Provision for liabilities and charges

2010/11	Early departure costs £'000	Taxation £'000	Other £'000	Asbestos and Dilapidations £'000	Total £'000
At 31 March 2010	-	113	46	396	555
Provided in the year	524	150	-	215	889
Provisions not required	-	(92)	-	(251)	(343)
Provisions utilised in the year	-	(21)	-	-	(21)
At 31 March 2011	524	150	46	360	1,080

	Early departure costs £'000	Taxation £'000	Other £'000	Asbestos and Dilapidations £'000	Total £'000
Not later than one year	196	150	46	349	741
Balance in current liabilities	196	150	46	349	741
Later than one year and not later than five years	272	-	-	11	283
Later than five years	56	-	-	-	56
Balance in Non Current Liabilities	328	-	-	11	339
At 31 March 2011	524	150	46	360	1,080

The asbestos provision is in relation to the requirement to remove asbestos identified in a number of properties occupied by Animal Health. No work has been undertaken during the 2010/11 financial year.

Following advice that Animal Health will be responsible for the removal of asbestos identified in occupied property and for future dilapidations on specialist building areas, a comprehensive review of our future plans for our occupied properties revealed that a provision of £243k needed to be made in respect of properties that the Agency would be vacating in 2011/12. These plans have been changed since those originally included for the 2010/11 financial year.

The movement in the early retirement provision represents additional staff whose release from the Agency was funded during 2010/11. The provision for those staff who left during the financial year under the old release scheme relates to the additional superannuation payable between the date of departure and the point where the former employee reaches normal retirement age. The provision for staff leaving under the new release scheme relates to their agreed lump sum payment payable on departure from the Agency where

they have agreed to leave their post prior to 31 March 2011.

The Agency meets the additional costs of the benefits beyond the normal PCSPS benefits in respect of employees who retire early by paying the required amounts annually to the PCSPC over the period between the early departure and normal retirement date. The Agency provides for this in full when the early retirement programme becomes binding by establishing a provision for the estimated payments discounted by the Treasury discount rate, where material.

The opening taxation provision related to a potential liability relating to staff expenses, where staff had been on secondment for a period exceeding 24 months. The final settlement has now been agreed with HMRC. A further taxation provision has been made during the year in relation to equipment supplement expenses paid to staff for the past three years with incorrect dispensation.

Provisions that fall due within one year are transferred to current liabilities.

2009/10	Early departure costs £'000	Taxation £'000	Other £'000	Asbestos and Dilapidations £'000	Total £'000
At 1 April 2009	11	100	-	187	298
Provided in the year	-	13	46	278	337
Provisions not required	-	-	-	-	-
Provisions utilised in the year	(11)	-	-	(69)	(80)
At 31 March 2010	-	113	46	396	555
	Early departure costs £'000	Taxation £'000	Other £'000	Asbestos and Dilapidations £'000	Total £'000
Not later than one year	-	113	46	396	555
Balance in current liabilities	-	113	46	396	555
Later than one year and not later than five years	-	-	-	-	-
Later than five years	-	-	-	-	-
Balance in Non Current Liabilities	-	-	-	-	-
At 31 March 2010	-	113	46	396	555

17 Reserves

GENERAL FUND	2011 £'000	2010 £'000	2009 £'000
At 1 April	35,370	27,328	10,159
Net operating costs for the year	(127,985)	(133,087)	(116,866)
Net cash requirement received from Defra	119,158	131,561	133,297
Notional charges	7,631	8,330	603
Transfer from revaluation reserve	1,768	976	20
Transfer of functions	-	278	65
Adjustments in year between Animal Health and Defra	24	(16)	50
At 31 March	35,966	35,370	27,328

Movements in the period consist of amounts generated from operational activities, the costs of group reconstruction and notional and non-cash charges. Adjustments in year between Animal Health and Defra represent transfers of costs between the two organisations. The reserve is not distributable.

REVALUATION RESERVE	2011 £'000	2010 £'000	2009 £'000
At 1 April	6,263	387	644
Arising on Indexation during the year (net)	101	6,852	38
Write off devaluation against reserve	(1,802)	-	(275)
Transfer to General Fund	(1,768)	(976)	(20)
At 31 March	2,794	6,263	387

17 Reserves (continued)

ANALYSIS OF REVALUATION RESERVE

	Tangible Assets £'000	Intangible Assets £'000	Total £'000
Balance at 1 April 2009	55	332	387
Net gain on revaluation of property, plant and equipment	40	-	40
Net gain on revaluation of intangible assets	-	6,812	6,812
Transfers between reserves	(28)	(948)	(976)
In Year Movement	12	5,864	5,876
Balance at 31 March 2010	67	6,196	6,263
Net gain on revaluation of property, plant and equipment	101	-	101
Net loss on revaluation of intangible assets	-	(1,802)	(1,802)
Transfers between reserves	(67)	(1,701)	(1,768)
In Year Movement	34	(3,503)	(3,469)
Balance at 31 March 2011	101	2,693	3,794

The notes on pages 58 to 86 form part of these accounts.

18 Net cash outflow from operating activity

Cash flows from operating activities	2010/11	2009/10
	£'000	Restated £'000
Net Operating Costs	(127,985)	(133,087)
Adjustments for non-cash transactions	20,477	18,460
Loss on disposal of non-current assets	8	194
Decrease / (Increase) in trade and other receivables	37	(351)
Decrease in inventories	37	23
Increase in trade payables	6,595	900
Use of provisions	525	257
Net Operating Costs excluding Notional and Non-Cash Costs	(100,306)	(113,604)
Adjustments Non-cash	24	262
Net cash outflow from operating activities	(100,282)	(113,342)
Cash flows from investing activities	2010/11	2009/10
	£'000	Restated £'000
Purchase of property, plant and equipment	-	(21)
Purchase of intangible assets	(12,581)	(14,667)
IFRIC 12 IBM Asset Movement	1,868	(8,741)
Increase / (Decrease) in capital payables	746	(2,795)
Proceeds from the disposal of non current assets	10	89
Net cash outflow from investing activities	(9,957)	(26,135)
Cash flows from financing activities	2010/11	2009/10
	£'000	Restated £'000
Net cash requirement received from Defra	119,158	131,561
(Decrease) / Increase in non current lease obligations	(2,586)	7,011
Net financing	116,572	138,572
Change in Cash and Cash Equivalents	2010/11	2009/10
	£'000	Restated £'000
At 1 April	683	1,588
Increase / (Decrease) in cash	6,333	(905)
At 31 March	7,016	683

19 Capital commitments

There were no material capital commitments at 31 March 2011 (2009/10 £nil).

Although the Agency was not committed to making any direct capital spend at the end of the financial year, capital spend will be incurred during the forthcoming twelve months. Most of this will be incurred on the BRP, and costs will be capitalised thereafter in accordance with the agreed policy. At 31 March 2011, Animal Health was committed to time and materials BRP-related spend of £1.342m during 2011/12 (2010/11 £1.438m), approval for the ongoing capital expenditure has been obtained from Defra. Once this spend has been incurred, and the relevant modules evaluated, the level of capitalisation will be determined.

Through the agreement in place covering accommodation occupied by Animal Health the agency has a capital commitment in 2010/11 of £nil (2009/10 £274k), which will be charged in the same way as in 2009/10, as a virtual charge.

20 Commitments under operating leases

Within the operating leases commitment disclosure, is disclosure of the costs relating to the proportion of the occupation of Defra leasehold properties. These arrangements between Animal Health and Defra reflect a future commitment to reimburse Defra for the underlying rentals paid to landlords for the provision of leasehold accommodation. These commitments are consistent with arrangements containing a lease as defined by *IFRIC 4*.

	2010/11 £'000	2009/10 Restated £'000
Leasehold property operating lease payments due in:		
Not later than one year	1,658	1,790
Later than one year and not later than five years	3,886	5,669
Later than five years	2,899	6,079
	8,443	13,538

Of the above £99k (2009/10 £133k) related to Land and £8,344k related to buildings (2009/10 £13,405k).

21 Obligations under service concession arrangements

Animal Health as an Executive Agency of Defra has entered into a service concession arrangement with IBM that covers the whole Department. It aims to support the Agency by providing a modernised IT infrastructure, in line with the wider government IS strategy, which will give the Department access to cost effective IT services and infrastructure. All service concession assets are classed as one tangible IT service concession asset.

The contract is for a term of eight years from February 2010. The contract prices are subject to an annual incremental increase, applied from 1 April the start of the financial year. This increase is based on the consumer price index (CPI) as at the end of January in the previous financial year. There are no beneficial entitlements at the end of contract, although the Agency has the option to purchase specified assets at net book value on exiting the contract.

During the term of the contract, Animal Health has the right to use assets owned by IBM,

and IBM are obliged to provide the IT assets for use at a level dictated by performance obligations placed on IBM, and underlying IT product developments commissioned by the Agency. Animal Health has an obligation to spend a specified amount of money each year on undertaking IT projects, which is currently set at approximately one third of the amount the Agency spends on IT projects annually.

There is flexibility in terms of termination providing the option to end the service or key aspects thereof. The financial penalty for this clause is on a sliding scale depending on several factors, including time left on the contract.

Animal Health is committed to meet the remainder of the payments to IBM that relate to the service element of the contract referred to in Note 2.6. Amounts payable are as follows:

	2010/11 £'000	2009/10 Restated £'000
Obligations under service concession arrangements due in:		
Not later than one year	13,911	13,965
Later than one year and not later than five years	49,158	50,035
Later than five years	21,865	33,118
	84,934	97,118

22 Other financial commitments

Other financial commitments relate to facilities management costs associated with the proportion of occupation of buildings that are either owned or leased by Defra or specialised properties held on the Agency's Statement of Financial Position. The commitments are consistent with arrangements containing a lease as defined by *IFRIC 4*.

	2010/11 £'000	2009/10 Restated £'000
Facilities management costs relating to Defra leasehold, specialised and freehold properties due in:		
Not later than one year	1,926	1,683
Later than one year and not later than five years	7,324	6,710
Later than five years	14,648	15,097
	23,898	23,490

23 Contingent liabilities

There were no material contingent liabilities at 31 March 2011 (2009/10 £nil).

24 Losses and special payments

	2010/11	2009/10
Cases	13	8
Cost (£'000)	27	26

25 Related party transactions

Animal Health is an Executive Agency of Defra and is sponsored by them. During the period ended 31 March 2011 Defra funded Animal Health and provided a number of corporate services to Animal Health. In addition Animal Health had a number of operational transactions with the Department's other Executive Agencies, (the Food and Environmental Research Agency, the Rural Payments Agency, the Veterinary Laboratories Agency and the Veterinary Medicines Directorate), and with other government bodies, notably the Scottish Government, the Welsh Assembly Government, the Food Standards Agency and the Meat Hygiene Service.

£172k was paid in the year on an arms length basis to Honddu (formerly McAllister and Davies) for veterinary services (2009/10 £181k). These transactions are disclosed as a partner in the practice is married to an Animal Health member of staff.

During the prior year an undisclosed conflict of interest was identified with a member of senior management. The conflict concerned the recruitment of contractors from Hayden Consulting Limited through Pentir Talent Solutions, where a close personal relationship existed between the member of Animal Health senior management and Hayden Consulting Limited. The total amount paid in the year to Pentir Talent Solutions was £nil (2009/10 £1,777k) of which the related party transaction is only part.

None of Animal Health's Board members, other key managerial staff or other related parties undertook any material transactions with Animal Health during the period.

The Agency keeps a fully updated Register of Interests.

26 Events after the reporting period

Animal Health's financial statements are laid before the Houses of Parliament by the Secretary of State for Defra. *IAS 10, Events After the Reporting Period*, requires Animal Health to disclose the date on which the accounts are authorised for issue. The authorised date for issue is 1 July 2011.

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

The merger of Animal Health and the Veterinary Laboratories Agency has also been referred to in the Statement of Internal Controls and the Remuneration Report.



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