Veterinary
Medicines
Directorate

Veterinary Medicines Directorate
Annual Report & Accounts

2017/18

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

HC1171

Veterinary Medicines Directorate

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

Annual Report and Accounts 2017/18

Presented to the House of Commons pursuant to Section 7(3)(c) of the Government Resources and Accounts Act 2000

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Overview

Chief Executive's Statement

The Veterinary Medicines Directorate (VMD) is the UK regulator of veterinary medicines and policy adviser to ministers in this area. We seek to facilitate wide availability of safe and effective medicines for prevention and treatment of diseases and improved welfare in all animal species. In doing so we ensure that this is not at the expense of human health or the environment. Veterinary medicines are important to ensure a viable livestock and fish-farming industry and healthy lives for companion and working animals. We deal with all applications for a Marketing Authorisation for veterinary medicines to specified timelines, and when necessary urgency of need. We seek to ensure compliance with the regulatory framework by providing guidance and advice. Where necessary, we take more formal action against the illegal supply of veterinary medicines in order to protect human and animal health. We continue to seek opportunities to reduce regulatory burden and to improve our operational efficiency.

The VMD had a very successful year, delivering the Business Plan with in-year savings and reduced costs to industry and the taxpayer, while maintaining services independently assessed as excellent, and achieving the 10th highest staff engagement index in the Civil Service. We have retained whole business ISO 9001:2015 certification, and ISO 27001:2013 for Information Security Management Systems.

For much of the year we have been assessing the impact of intended EU exit on veterinary medicines regulations putting in place plans for issues that need to be addressed to ensure smooth continuation of medicines availability and over-sight at the point of EU exit, and opportunities that arise from exit. We have also undertaken extensive engagement with stakeholders.

Negotiating the proposals for new European Regulations on Veterinary Medicinal Products remained our major policy issue this year. We have maintained consultation within Government, Devolved Administrations, relevant professions and industry in order to develop the UK position, and have participated in appropriate EU committees and fora to present our view. Antibiotic resistance maintained its high profile, and in response the VMD continued to: support the UK 5-year Action Plan; met two years early the government target of a 20% reduction in antibiotic use in livestock production, and further enhanced its international leadership and influencing role. We have also been instrumental in the OIE (World Health Organisation for Animals) work to reduce antibiotic use and on proposals for surveillance of resistance in animal pathogens.

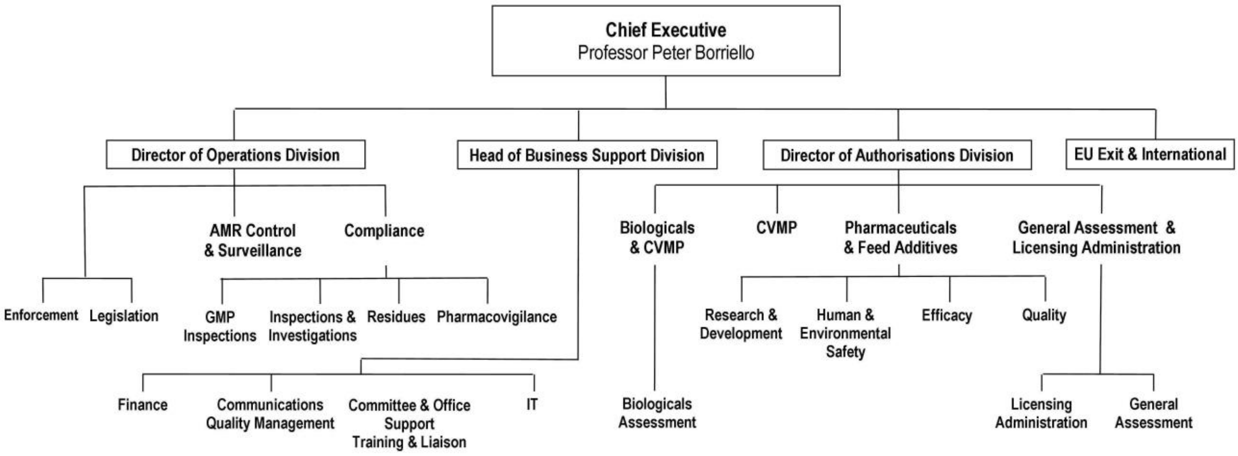
Our intent for the coming year is to: ensure preparedness for exit from the EU; that new ways of working are fully embedded; to identify further efficiencies and improvements which translate into reduced costs for industry and government; to expand partnership working, and to continue to reduce regulatory burden.

About the Veterinary Medicines Directorate

Purpose
The VMD is the UK competent authority for veterinary medicines regulation. We seek to ensure maximum availability of safe and effective medicines for prevention and treatment of diseases and improved welfare in all animal species. In doing so we ensure that this is not at the expense of human health or the environment. Veterinary medicines are important to ensure a viable livestock and fish-farming industry, and healthy pets. We deal with all applications for a Marketing Authorisation for veterinary medicines to specified timelines, and when necessary urgency of need.

The Overview section of this report summarises our organisation, objectives, key risks to the achievement of our objectives, and how we have performed during the year.

Our structure



We are responsible for:

Government:

- Servicing, developing and implementing relevant government policy and legislation
- Supporting Ministers through briefing and advice on correspondence and Parliamentary Questions
- Collaborating with Ministers, Department for Environment and Rural Affairs (Defra) officials, other government departments and agencies, and other stakeholder groups
- Working with the EU Commission, embassies and other representatives of foreign governments
- Enforcement of the Veterinary Medicines Regulations
- Day-to-day management of the veterinary medicines Research and Development programme
- The co-ordination of Defra’s work on antimicrobial resistance

Veterinary pharmaceutical industry:

- Assessing, issuing and maintaining all national Marketing Authorisation (MA) applications in accordance with EC and UK legislation
- Acting as Reference Member State, Rapporteur, Co-Rapporteur or Concerned Member State for European applications
- Post-authorisation surveillance (pharmacovigilance) through the collation of suspected adverse event reports
- Licensing and/or inspection of manufacturers, wholesale dealers and retailers of veterinary medicines

Food industry:

- The surveillance for residues of veterinary medicines and banned substances in home-produced livestock and animal products, reporting of results and co-ordinating follow-up action. We have contracts with other agencies who carry out work on our behalf at abattoirs, other first processing premises and on farms

Future developments, performance and risk

Our key challenges throughout 2017/18 and our plans for meeting them have been outlined in the VMD's Business Priorities which are available on www.gov.uk.

Key future developments and/or risks are the:

- UK's exit from the EU
- economic climate affecting the veterinary pharmaceutical industry and the number of authorisation applications the VMD receives
- European Commission's work to review the EU legislation on veterinary medicines, medicated feeds and residues surveillance
- implementation of the UK strategy on antimicrobial resistance and the European Commission's action plan on antimicrobial resistance
- broadening externally funded outreach work on developing medicines regulation and antimicrobial resistance control capability

Our approach to managing the principal risks is described in the Governance Statement in this report.

Operating framework

We operate within an overall policy and financial framework determined by the Secretary of State for Defra, through the Parliamentary Under Secretary of State for Rural Affairs and Biosecurity. More information on our governance is set out in our Framework Document.

Going concern

The Statement of Financial Position at 31 March 2018 shows Taxpayers' Equity and other reserves of £11.46m (at 31 March 2017 this was £11.90m).

The VMD received 26% (£4.04m) of its operational funding from core Defra and 74% (£11.71m) through fees and charges. These income streams are expected to continue to meet the future funding for our liabilities. Parliament approves this funding annually and we have already received approval for Defra funding for next year. Therefore it is appropriate to adopt a going concern basis for these financial statements.

Performance Summary

Our operating expenditure for the financial year was £15.37m, a net increase of £0.36m against 2016/17. From 1 April 2016 administration of payments for the Research and Development programme transferred to the VMD, parliamentary funding of £1.00m was utilised to support these programme costs. Additional parliamentary funding was made available in year to resource the assessment of impact for EU exit (£0.18m) and for the development of the antibiotic resistance reference centre (£0.12m).

We recover the full economic costs of regulatory functions from those we regulate.

The costs of regulation of the veterinary pharmaceutical industry are recovered through fees and charges for authorisations and inspections work. The costs of regulation of the food industry are recovered through charges levied on abattoirs and other food processors. Through these fees we achieved full cost recovery.

For our government work we receive parliamentary funding through core Defra to an agreed budget. The approved budget for government activities was set at £4.54m, of which £4.04m was utilised, inclusive of non-cash and notional recharges. Government activities include enforcement, policy, Research and Development and the Antimicrobial Resistance programmes (AMR). Opportunities to commit budgeted funds to ongoing and new Research and Development projects, which could be completed in the year, did not crystallise due to resourcing issues in key areas. This is the primary reason leading to the reduced funding requirement from Defra.

We thoroughly monitor our financial performance and continue to seek efficiency while maintaining our standards of performance. We managed to achieve our 2017/18 targets, while reducing charges overall.

Cash flow
Cash and cash equivalents have increased from £4.18m as at 31 March 2017 to £5.63m as at 31 March 2018, an increase of £1.45m. In year, the VMD's cash draw down was £2.00m. The net cash requirement under the gross control funding arrangement was £0.55m.

We aim to follow the principles of the Better Payment Practice Code in compliance with the Public Sector Payment Policy to pay 80% of undisputed invoices within five working days. We support this initiative, and during the year paid all undisputed invoices within five working days.

Business priorities and Key Performance Indicators (KPIs)
Our Business Plan provided a framework of deliverables and KPIs through which we provide the best possible service to all our customers. We successfully delivered against this plan.

Performance Analysis

About the performance analysis
This report outlines our performance against our priorities for the financial year from 1 April 2017 to 31 March 2018. It gives examples of how we are achieving our aims and highlights important events from the year. It follows the structure of our Business Plan for 2015/16 to 2018/19 to show how we are meeting our objectives.

The Defra Strategy
The Defra Strategy sets out a shared vision and set of strategic objectives for the whole of Defra for the period up to 2020. It is intended to provide staff across the whole group of Defra organisations (including non-ministerial departments, executive agencies, non-departmental and other public bodies) with a clear, shared framework. Actions to achieve the strategic objectives are described in more detail in Defra's Single Departmental Plan. The Strategy includes an internal objective on Defra's people, not covered in the Single Departmental Plan.

Cutting across the Strategy are four themes that are critical to Defra achieving its objectives and will deliver important outcomes in their own right: better use of data; increasing productivity; better regulation; and working internationally.

Our performance
We successfully delivered against our Business Plan, the details of which are given against our business priorities below.

Business Priority 1 – Policy

A) Policy Lead on behalf of Defra for veterinary medicinal products and antimicrobial resistance

Why are we doing this? The VMD has overall responsibility in the UK for veterinary medicines policy and animal health aspects of antimicrobial resistance in England. This is part of the broader context of Defra's animal health and welfare responsibilities and the contribution this makes to safeguarding public health.

Policy work over the year had a number of key strands. One was preparing for the UK's exit from the EU to ensure that we continue to have an effective framework for the regulation of veterinary medicines. We fed into the work within the Defra group on the EU Withdrawal Bill, collaborated closely with fellow regulators including the Medicines and Healthcare Products Regulatory Agency, the Food Standards Agency and the Health and Safety Executive, and engaged key stakeholders on the future regulatory environment. Discussion of the EU Commission's proposals to reform the legislative framework on veterinary medicines and medicated feed continued in Brussels under the Maltese, Estonian and Bulgarian presidencies.

On antimicrobial resistance, we worked with the key stakeholders in the food chain and veterinary profession in implementing the animal health aspects of the Government's 5-year strategy and in taking forward the Government's response to the recommendations of the Independent Review on AMR. Notable achievements included: further significant reductions in antibiotic use in the livestock industry; the setting of targets for further reductions in antibiotic use by the individual livestock sectors themselves; and publication of the fifth combined Veterinary Antimicrobial Resistance and Sales Surveillance Report. The VMD was busy on the international front on AMR, for example by supporting the Foreign and Commonwealth Office's diplomatic activity to advance global initiatives, in particular the Inter Agency Coordination Group on AMR that brings together the World Health Organisation, the OIE and the Food and Agriculture Organisation (FAO); through secondments of VMD staff to the OIE and FAO; through the G7 Chief Veterinary Officers (CVO) work on AMR; and in the Codex Alimentarius AMR Task Force. We were active in fostering bilateral cooperation on AMR, including with Thailand, Malaysia, Hong Kong, Botswana, United States, New Zealand and Brazil.

B) Preparing for EU exit

Why are we doing this? The UK is preparing to leave the EU. As a consequence we need to ensure that animal medicines availability in the UK is not compromised, and where possible is enhanced, and that the UK remains attractive to the pharmaceutical industry for Marketing Authorisation applications and complying with all post authorisation regulations.

We have taken the responsible approach and prepared plans for all outcomes. We are working with stakeholders, Defra and other government departments to ensure a combined and comprehensive approach to developing solutions and capturing opportunities.

Business Priority 2 – Delivery

A) Facilitate optimal availability and safe use of veterinary medicines

Why are we doing this? We authorise veterinary medicines. Our work creates an environment that provides confidence and investment within the medicines industry and enables exports. It protects the food chain, human and animal health as well as the environment. It also ensures that unsafe medicines can be identified and appropriate corrective action taken including, where appropriate, removal from the market.

The expectations for our performance (time and quality) in terms of handling Marketing Authorisation applications, inspections and pharmacovigilance matters are set out in our Published Standards. We exceeded the criteria defined as "Excellent set at 97.52% by achieving an "Excellent" performance standard for 41 of the 42 (97.62%) individual parameters under this report. The independent Veterinary Products Committee (VPC) rated the quality of our initial assessments of Marketing Authorisation applications as level 1, the highest level, confirming that we properly identified potentially serious risks to human and animal health and the environment and that questions were comprehensive, clear and justified.

B) Surveillance, research and enforcement activities that influence the responsible, safe and effective use of veterinary medicines

Why are we doing this? To detect unsafe products or activities and to take corrective action so ensuring confidence in veterinary medicines, assist competitiveness, aid consumer confidence, assist with safety and help to ensure medicines, in particular antibiotics, are used responsibly to maintain effectiveness.

Work went as planned for this target and success is shown by:

- the continuing low number of non-compliant residue samples
- no trends detected or reports received that required immediate action
- continued enforcement activity, highlights of which include;
    - 944 internet product listings for illegal sale of veterinary medicinal products (VMP) removed
    - 569 cases from complaints and enquiries concerning breaches of the Veterinary Medicines Regulations (VMR) completed
    - 326 letters issued regarding breaches of the VMR
    - 281 cases completed from complaints and enquiries concerning borderline VMPs
    - 12 Seizure Notices issued where illegal medicines were seized
    - seven Improvement Notices issued where improvements were required in accordance with the VMR
    - two successful prosecutions, one animal owner for prescription fraud and one retailer for placing a VMP on the market without having been granted a Marketing Authorisation
    - continuing productive engagement with internet platforms to tackle illegal sales

C) To support and influence the development of the regulation of veterinary medicines outside of the EU in low and middle income countries and the international convergence of regulation processes

Why are we doing this? There is increasing international recognition of the importance of regulation of veterinary medicines driven by a combination of interest in stewardship and appropriate use of antibiotics and development of livestock business for low and middle income countries. UK international action is expected for both antimicrobial resistance and Sustainable Development Goals. Our capability to support these initiatives is increasingly recognised at the global level, non-government funding is available to be accessed, and increasing influence outside of the borders of the EU supports EU exit objectives.

We secured a two-year contract (total value £250,000) with the World Bank to support the development and implementation of a framework for the regulation of veterinary medicines in Ethiopia. We had extensive dialogue with the Bill and Melinda Gates Foundation to explore how we can support its initiatives in sub-Saharan Africa.

Business Priority 3 – Customers and Interest Groups

A) To ensure that the regulatory services provided by the VMD are seen as effective and efficient by those we regulate and stakeholders

Why are we doing this? To retain confidence in medicines and to inform continual business improvement. This is important as it allows us to retain a critical mass of specialists, which helps the sustainability of the operation and to focus efforts in the areas of most value within the constraints of our regulatory obligations.

An independent web based survey of the veterinary pharmaceutical industry, supported by targeted follow-up telephone interviews, reported its findings to us in March 2018. The results showed that:

- overall level of service across 14 areas were measured with ten being scored as "Good" or "Excellent" by at least 80% of respondents
- when compared against the five largest agencies in the EU, 73% of respondents rated us as "Good" or "Excellent"
- when compared against the five largest agencies in the EU, we were ranked first for six of the ten parameters, and second in the other four
- overall satisfaction had increased for 21% of customers compared with 2016 – other results remained similar or scored more highly. Overall satisfaction had slightly declined for 7% of respondents

Feedback on our meetings with companies was one of the sources of customer information gathered in 2017/18. Using a five box marking system, 94% of companies considered the meetings as "Excellent" (63%) or "Good" (31%) and 6% considered them as "Acceptable".

B) Provision of appropriate services to policy customers in Defra, other government departments and the Devolved Administrations.

Why are we doing this? To ensure the services provided meet policy customer needs in a cost efficient way to support animal, public and wider environmental health, and economic growth.

During May 2018 we carried out a survey of government colleagues who use our policy services or with whom we work to make and deliver policy. We hold the survey each year to complement the regular in-year assessment of the delivery of specific policy areas. Our survey covered services provided by our Antimicrobial Resistance, Legislation, Residues and EU Exit teams.

We asked ten questions about the service we provided in 2017/18 based on Defra's formal approach to policy making. With a rating system from "1 = unacceptable service: radical overhaul required" through to "5 = excellent service: no changes required".

Overall, 50% of respondents rated the quality of the policy we provided as "excellent: no changes required" with 50% rating us as "good". Half of respondents rated the way we provided policy services as "excellent", with 25% rating us as "good" – 25% had "no view".

For the other eight questions respondents, who had a view, rated us either "good" or "excellent", with one "acceptable" for the question "how do you score your satisfaction with how the VMD understands the policy issues?" We were also praised for showing leadership and keeping others informed of the wider policy agenda; for our clear and open communication; and for the way we liaise with the devolved administrations.

On the specific question "thinking about your overall satisfaction what do you think is the most important thing for the VMD to improve as it provides policy services?", we received two helpful suggestions:

- feeding back how contributions are being taken on board
- maintaining the level of clarity and consistency

We will work to improve and maintain our service in these areas, though this respondent said that "feeding back" was a "minor point" set against the wider, high quality service we deliver with them.

We will use these results over the coming year to improve the way we make and deliver policy.

C) Communications to customers and interest groups

Why are we doing this? To raise awareness of the work of the VMD and why it is important that veterinary medicines are properly regulated and used. To enable effective feedback on our work.

In 2017/18 we delivered a significant amount of work on our annual communications priorities and business as usual activities in line with our Communications and Engagement Strategy.

Highlights included:

- engaging pro-actively and openly with stakeholders to understand fully the issues to be addressed in making preparations to leave the EU. A very productive stakeholder engagement event was held at the VMD in February 2018 with over 70 stakeholders attending
- engaging with key stakeholder groups to agree sector specific targets to reduce antibiotic use in livestock. These targets were published on 27 October 2017
- working closely with the veterinary profession and animal welfare groups to promote the "Colostrum Is Gold" campaign (Feb 2018), to develop the "Trust your vet" campaign (March 2018) and to disseminate important messages on the responsible use of antibiotics during the European Antibiotic Awareness Day and the World Antibiotic Awareness Week in November 2017. The Veterinary Antimicrobial Resistance and Sales Surveillance report was published and launched at the RUMA-VMD conference (Responsible Use of Medicines in Agriculture Alliance) on 27 October 2017
- issuing a quarterly newsletter on enforcement issues highlighting our enforcement successes and encouraging reports to us about breaches of the VMR
- placing monthly updates and ad hoc articles of interest in the Veterinary Record and Veterinary Times and giving quarterly updates to the pharmaceutical industry through our newsletter - MAVIS

- engaging with stakeholders on the proposals for new European legislation on veterinary medicines and medicated feed
- attending industry and public events to promote awareness of the work of the VMD, our online services, and items of interest to the specific stakeholder groups
- handling routine and high-profile media enquiries and using media opportunities, such as filming an interview with the Channel 4 programme ‘Food Unwrapped’ about the use of antibiotics in farming, to promote the responsible use of antibiotics and highlight the VMD and the Government’s work
- using our Twitter account to maximise the coverage and impact of our key messages enabling supportive (and influential) individuals and organisations to endorse and relay them
- running effective education and outreach programmes having given 12 lectures to third/fourth year undergraduate students and MSc students at UK vet schools and universities on the work of the VMD, professional responsibilities and antimicrobial resistance policy
- attendance at bi-annual meetings for industry groups for parasite control as well as participation in ad hoc workshops
- participation in Defra’s Animal and Plant Health Agency (APHA) ‘species groups’ meetings to discuss issues such as emerging disease threats, evidence of lack of efficacy, and to feed into the relevant fora such as the Veterinary Risk Group

Business Priority 4 – Value For Money

Achieve cost recovery and delivery of value for money

Why are we doing this? To ensure that we can demonstrate to all our customers how we achieve best value for money. To ensure an appropriate regulatory framework is in place that supports growth whilst providing appropriate safeguards to protect the food chain, human and animal health and the environment.

We recovered all of our costs (including a Cost of Capital charge) from the provision of services to industry. Additional analysis of the fees and costs to industry is provided within the Parliamentary Accountability and Audit Report section.

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

- preparing and implementing a savings plan which generated real terms savings on the previous year funding requirement from Defra
- managing contracts to reduce costs whilst maintaining its level of service, to enable reduced charges to industry

Business Priority 5 – Capacity and Capability

To ensure funding streams are used efficiently to maintain capability and capacity to deliver business objectives

Why are we doing this? To enable us to deliver our other business objectives by maintaining staffing and other support structures at a level that ensures the business is fit for purpose. Through risk management we aim to identify and respond to issues that could adversely affect the business. We seek continuous improvement to enable us to meet current and future business needs and to ensure we provide value for money.

Throughout the year we continued to develop our IT systems to keep them fit for purpose. Our IT team continue to extend the support for our finance systems working towards integration between relevant systems to improve the efficiency of processes.

We continued to invest in the training and development of staff and on, average each, member of staff undertook just under eight days of learning and development.

We were recertified in October 2016 for both ISO 9001:2015 for the whole business, and ISO 27001:2013 security certification of our IT systems. Neither recertification audit found any non-conformities or any issues of significance.

Social and Community Issues and Environmental Matters

Social and community issues

Defra launched its Equality, Diversity and Inclusion Strategy in January 2017 covering the period 2017 to 2020. The aim of the strategy is to ensure the VMD is a great place to work and to deliver our aspirations to be an organisation with a diverse, open and inclusive culture.

The Strategy's four themes of: respect; include; support; and engage, incorporate our strategic priorities which include: promoting inclusive behaviours; tackling discrimination, bullying and harassment, and improving career support.

All our people are required to complete training on:

- unconscious bias
- health and safety awareness
- disability awareness
- equality and diversity essentials
- counter fraud, bribery and corruption

All our assessments of Marketing Authorisations include an environmental impact assessment to ensure that the use and disposal of veterinary medicines do not adversely affect the environment.

Environmental matters: sustainability report for the calendar year 2017

For more information please see Defra's Annual Report and Accounts – section headed: "Commentary on Sustainable Performance", which covers the VMD.

Under the Greening Government Commitments we have a commitment to reduce our greenhouse gas emissions, the amount of waste we generate and our water consumption. Defra's Built Environment Sustainability Team (BEST) provides us with quarterly figures on each of the following categories. Due to availability this report is based on data from Quarter 4 of 2016/17 and Quarters 1 to 3 of 2017/18. This is the same basis as used for the figures in the 2016/17 report.

SUSTAINABILITY DATA		**2017**	**2016**	**2015**
Non-Financial Indicators ('000 tonnes CO^2)	Total gross emissions	0.148	0.217	0.220
	gross emissions Scope 1	0.037	0.064	-
	gross emissions Scope 2	0.104	0.146	-
	gross emissions Scope 3	0.007	0.007	-
Non-Financial Indicators (tonnes)	Total Waste - incinerated with energy recovery	9.8	12.2	8.0
Related Energy Consumption (million KWh)	Electricity: non-renewable	0.258	0.301	0.280
	Gas	0.339	0.330	0.320
Financial Indicators (£million)	Expenditure on domestic official business travel	0.136	0.149	0.145
Non-Financial Indicators ('000 m^3)	Water consumption supplied	0.903	1.124	0.631
	Water consumption per full time equivalent (FTE)	0.006	0.007	0.004
Scope 1: Gas consumption emissions (direct) *Scope 2: Electricity consumption emissions (indirect)* *Scope 3: Travel emissions (indirect)*				

The costs for our energy, water and waste disposal are part of the overall Defra Corporate Recharge costs and are not billed separately. The VMD building is located on a shared site with APHA in Weybridge and all our waste goes into one system to help the site incinerator burn less flammable waste such as animal bedding and carcasses. The glass and metals are extracted and flash heat treated to ensure biosecurity.

Greening Government Commitment targets and performance

Commitment	Target		2017 Performance
Total gross emissions:			
to reduce carbon emissions by 38% from the estate and business related travel	2009/10 baseline	254 tCO^2	148 tCO^2
	2019/20 target	157.5 tCO^2	
Domestic travel:			
to cut domestic business travel flights by 30%	2013 baseline*	34 flights[+]	17 flights[+]
	2019/20 target	24 flights[+]	
Waste:			
to reduce the amount of waste generated by 25%	2009/10 baseline	43.7 tonnes	9.8 tonnes
	2019/20 target	32.8 tonnes	
Water:			
an overall reduction in water consumption	2009/10 baseline	1,000 m^3	903 m^3
	2019/20 target	reduction	

* Flight records are not available prior to 2013, therefore this figure is used for our baseline.

[+] Figures are given as return flights per person.

Greenhouse gas emissions

The main direct impacts for the VMD are in our electricity and gas consumption. Significant changes to consumption cannot be made without considerable capital investment, for example to introduce more energy efficient heat sources, to reduce solar gain. The 32% reduction from 2016 was a result of moving to monitoring this target using actual meter readings rather than estimates, which were overestimated in the past.

Domestic travel

Staff undertake nearly all domestic business travel using the train with the exception of travel to Northern Ireland and Scotland. The impact of carbon emissions for these is balanced with economic and efficiency factors and is limited to essential travel.

Waste

Our main direct impacts of waste are in relation to paper and other office related waste. However, we have produced 70% less waste against the target for 2019/20. We continue to work to reduce the Agency's paper usage by moving to digital working.

Water consumption

An investigation into the increase in water usage since 2015 found this was due to a water leak on site which has been fixed and the water usage has now reduced.

Our main water use is in the toilet facilities. We have 'water pigs' in the cisterns which reduce flush rates. We cannot do more to reduce toilet facility water usage without capital investment in new hardware. The two showers are already low volume units.

Professor SP Borriello
Chief Executive
22 June 2018

Accountability Report

Corporate Governance Report

Director's Report

Board and Executive Directors
The VMD employs two Directors in addition to the Chief Executive.

Position	Position holder
Chief Executive	Peter Borriello
Director of Authorisations	Marie Odile Hendrickx (until 04/08/17)*
Director of Operations	Paul Green

* There were interim arrangements for cover, pending recruitment of a replacement.

The notice period for Executive Directors is three months.

The composition of the Management Board (including non-executive members) having authority or responsibility for directing or controlling the major activities during the year is described within the Governance Statement in this report.

The Board members had no company directorships or other significant interests which conflicted with their management responsibilities in the financial year 2017/18.

Protecting personal data
There were no personal data-related incidents in the VMD in 2017/18. Incidents, the disclosure of which would in itself create an unacceptable risk of harm, may be excluded 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.

Statement of Accounting Officer's Responsibilities

Under the Government Resources and Accounts Act 2000 HM Treasury has directed the VMD 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 the VMD and of its net operating expenditure, changes in taxpayers' equity and cash flows for the financial year.

In preparing the Accounts the Accounting Officer is required to comply with the requirements of the Government Financial Reporting Manual (FReM) 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 FReM have been followed, and disclose and explain any material departures in the Accounts
- prepare the accounts on the going concern basis

The Accounting Officer for Defra has designated the Chief Executive of the VMD as Accounting Officer of the VMD. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the Agency's assets, are set out in Managing Public Money published by HM Treasury.

Preparation and audit of the Accounts

The Accounts have been prepared under a direction issued on 19 December 2017 by HM Treasury under Section 7(2) of the Government Resources and Accounts Act 2000 and are audited by the Comptroller and Auditor General.

Our income and expenditure was monitored under a gross control total by HM Treasury and was also incorporated into the Defra Resource Accounting total.

So far as the Accounting Officer is aware, there is no relevant audit information which has not been shared with the VMD's auditors. The Accounting Officer has taken all the necessary steps to make himself aware of any relevant audit information and to establish that the VMD's auditors are aware of that information.

The Accounting Officer takes personal responsibility for the judgements applied to determine that the annual report and accounts are fair, balanced and understandable, and confirms that annual accounts, as a whole, are fair, balanced and understandable.

Governance Statement

The Accounting Officer is responsible for maintaining a system of internal control that supports the achievement of the Agency's policies, aims and objectives, while safeguarding public funds and departmental assets. This is in accordance with the responsibilities assigned in the HM Treasury publication; Managing Public Money.

Assurance and audit findings in this governance statement overall confirm that we have complied with the governance arrangements effectively.

Governance framework

The VMD is an Executive Agency of Defra. We are the UK policy lead on veterinary medicines and, as the national competent authority, are responsible for the implementation of all aspects of the VMD and related legislation.

The Agency is led by the Chief Executive Officer (CEO), who is accountable to the Secretary of State for Defra for our performance and operation and for the achievement of our business priorities in accordance with its targets and key deliverables.

The Secretary of State for Defra determines the overall policy and financial framework within which we operate and the Defra ownership function is exercised by the Defra Director General for Food, Farming and Biosecurity (DG FFaB). The DG FFaB provides advice and challenge on our strategic direction and performance to the VMD management. The CEO formally reports on Agency performance on a quarterly basis to the Defra Board through the DG FFaB.

Committee structure

The VMD Management Board (MB) meets quarterly and is the internal governance board providing advice, support and challenge on: the delivery of the key objectives; achieving value for money, and regularity and propriety in the administration and operation of the VMD. Chaired by a Non-executive Director (NED) Julia Drown, the MB consists of the CEO, the two Directors, the Head of the Business Support Division, the Head of Finance and two other NEDs, David Corner and Andrew Coulson. The Chief Veterinary Officer, a Defra representative and selected Heads of Teams, as appropriate and applicable to the tabled agenda, are also invited to attend. Minutes of MB meetings are published on gov.uk.

The Audit and Risk Assurance Committee (ARAC), a sub-committee of the MB, also meets quarterly and provides advice to the CEO on the adequacy and effectiveness of the VMD's governance and risk management frameworks. Chaired by a NED, David Corner, and consisting of two other NEDs Julia Drown and Andrew Coulson, the committee considers reports from a number of senior staff, Defra's internal auditors (KPMG) and external auditors (National Audit Office). Minutes of ARAC meetings are published on gov.uk.

Executive Management Board (EMB) is formed of the CEO, the two Directors and the Head of Business Support Division who collectively form the Executive Team that sets the direction for the Agency and has the overall authority to run the Agency on a day-to-day basis.

The Veterinary Products Committee is an independent scientific advisory committee which advises the VMD on veterinary medicinal products and animal feed additives.

The VPC held meetings in May, September and February. Minutes of meetings and further information is published on gov.uk. The Committee considered and gave advice to the VMD for three applications to vary authorised products to change their legal category. It continued to monitor veterinary pharmacovigilance activities through the reports compiled by the VMD's Pharmacovigilance team. In addition, the Committee held an open meeting in September and gave presentations on the work it has carried out on aiding the availability of anthelmintics and the benefits of pharmacovigilance reporting.

Six new members were appointed and a serving member took on the role of Chair in January to serve for a four year term.

The overall governance structure and associated assurance, as well as advice and challenge, are enriched by the VPC and regular discussions between the CEO and the CVO. We take part in the EU's Benchmarking of European Medicines Agencies peer-assessment for our medicines functions and we hold external certification to ISO 9001:2015 (Quality Management), which covers all our operational processes. We also hold external certification to ISO 27001:2013 (Information Security).

During the year we have worked effectively with Defra's Internal Auditors to review: IT systems business continuity; alert handling process; management of organisational knowledge, and EU exit governance and risk management to confirm the VMD's assurance and control framework is fit for purpose.

We have continued to focus on performance management both at an individual and business level. We achieved a Civil Service People Survey engagement index score of 66% in 2017 which represents the 10th highest score out of 98 in the survey.

Compliance with the Corporate Governance Code

The focus of HM Treasury's Corporate Governance Code (CGC) is on ministerial departments and sets out the protocol, accountabilities and role of Departmental Boards. We apply the principles of the code, which requires that Boards operate according to recognised precepts of good corporate governance in business: leadership; effectiveness; accountability; and sustainability. It also requires that arrangements are in place for an annual evaluation of the effectiveness of the Board and for results of the evaluation to be acted on.

The MB and ARAC assessed their effectiveness and the quality of the management information and performance data at each meeting and found both to be acceptable. A more formal assessment was carried out following their March 2018 meetings whereby Committee members and regular attendees of the Boards completed a questionnaire. The results were discussed at their next meetings.

The EMB has formally assessed its compliance with the CGC and its effectiveness as evidenced by the full delivery of the 2017/18 targets and key deliverables, and the results of the 2017 annual staff survey. The outcomes of the EMB are reported to staff through the weekly Chief Executive's Newsletter and where appropriate Office Notices. To increase involvement and increase challenge from outside the Executive Team, individual Heads of Team are invited on a rolling basis for a month each to attend and contribute to the meeting.

Conflicts of interest
All VMD staff and Board members are required annually to declare interests which could emerge as a conflict of interest. There is a standing agenda item on declarations of interest at the start of every Board meeting and members who have declared a specific conflict leave the meeting during the discussion of that item. During 2017/18 no Board member conflicts of interest were identified.

Governance and control

Whistleblowing
We are committed to high standards, reinforced by the Civil Service Code, of integrity, honesty and professionalism in all that we do.

We encourage all employees to use Defra's Whistleblowing Policy if they need to raise a concern about a past, present or imminent wrongdoing within Defra/VMD; or any wrongdoings which conflict with the Civil Service Code.

Business critical models and quality assurance
An appropriate quality assurance framework is in place to assess business models relevant to the Agency. We obtain, through MB and ARAC, assurance that the associated risks are properly managed. There are no business models which currently fall within the definition 'business critical models' as set out by HM Treasury.

Quality Management System
Our Quality Management System (QMS) ensures processes and procedures are documented and managed effectively. Trained VMD auditors, Defra Internal Auditors (KPMG) and external consultants (NAO and SGS) provide assurance that processes are being followed and improvements are made on an ongoing basis. Our QMS is certified to ISO 9001:2015.

Business continuity plans
We operate a Business Continuity (BCP) Management system to ensure the operation of key activities in the event of a serious incident, including our off-site IT back-up systems. In 2017/18 we successfully invoked the plan and subsequently 'learned lessons' when changes to our IT systems unexpectedly overran. Our senior management team also carried out its annual 'desk-top' test of the plan; we held BCP awareness-raising workshops for all our people; and took part in a successful site-wide evacuation exercise.

Information management and data security
We have an established governance structure to ensure that information assets are handled appropriately by the Information Systems Security Officer (ISSO). To support the ISSO, the Agency's IT Security Officer provides a focal point for Information Asset Owners to seek guidance on effective approaches to managing risk. Information data handling courses are embedded in induction processes and each year we are required to complete the Responsible for Information training course.

Data security remains critical and is assured by the VMD's maintenance of the Cabinet Office Security Standards and external certification to ISO 27001:2013.

There were no data security lapses that were deemed to be significant or critical during 2017/18.

We have also been part of a wider Defra Group Data Protection Programme that is working with Data Protection teams and other stakeholders to help prepare for the General Data Protection Regulations (GDPR). We are confident that through the work we are doing with the Programme, including carrying out data impact assessments and preparing privacy notices, the VMD will be prepared for GDPR implementation in May 2018.

Managing our risks and significant issues
Our primary role is in the authorisation of veterinary medicines, which is always based on assessing the benefit of medicines against their risks. Consequently the very nature of our work is to examine risks, to reduce these to an acceptable level, and then to consider the residual risks against the benefits. This philosophy in managing risks is adopted in the approach to risk management across the organisation to identify key risks that could threaten the achievement of the VMD's objectives.

Our Strategic Risk Register and significant issues are regularly reviewed by the EMB, MB and ARAC and updated as necessary. The degree of risk is measured by considering the likelihood and impact of those risks and issues, and in 2017/18 these were:

Operational
- reduction in funding
- inadequate business continuity procedures

Reputational
- reduced confidence in veterinary medicines, food safety and/or the VMD
- risk of litigation
- failure to deliver on newly secured contracts with third sector funders for medicines regulation capability development work

Financial
- remaining in budget
- failure to deliver statutory requirements
- risk of fraud
- access to capital and the increasing cost of contracts and estates investment
- developing and delivering a new finance system

Staffing

- the ability to attract or retain experienced professional staff for certain skills is difficult, particularly in buoyant veterinary medicines and IT sectors where demand for scarce experience and talent is high. This is despite high staff engagement scores
- delivery pressures due to extended recruitment timings also need careful management, with flexible mechanisms being required to balance delivery needs and to respond to dynamic customer requirements

Governance or structural changes

- imposed change to estate and/or other support services

International and EU exit

- international process/regulation changes that adversely impact UK interests including exit from the EU
- consideration of EU exit and its impact on the VMD

Delivery by partners

- inability of partner organisations to deliver on our behalf
- decreasing resilience of others to deliver commissioned services

All of these were managed appropriately through:

- careful workforce and succession planning
- providing first-class learning and development that develops talent within the Agency
- strong management focus on efficiencies
- contract management

One high risk area for the Agency was identified regarding the UK's exit from the EU, in particular, the impact of potential new legislation and the uncertainty over our new relationship with the EU.

Some of the specific actions we implemented and progressed to help control risks included:

- improved management of information and data requests, tracking all such demands through our communication management system and applying controls on delivery
- an improved approach to succession planning with dedicated external assessment of the potential of some staff, continuation of improvements in processes for active management of performance and attendance issues
- raising our concerns at senior level with delivery partners and the DG FFaB

The Strategic Risk Register is supplemented by a list of 'standing' controls setting out routine control measures, to ensure as far as possible we incorporate risk mitigations into our business-as-usual activities.

We also seek to identify risks that, while not significant enough to appear on the Strategic Risk Register, could still affect the successful outcome of the our objectives. These risks are managed within individual business areas and are ‘owned’ by the respective Departmental Heads or Project Leaders who report progress to Directors at regular intervals. This includes a process for escalation to the Strategic Risk Register.

Internal audit arrangements
The Government Internal Audit Agency is responsible for providing or sourcing Defra’s internal audit service and for VMD that service is outsourced to KPMG. KPMG carries out its work in line with the Annual Internal Audit Plan that is informed by our risk profile and approved by the Audit and Risk Assurance Committee on an annual basis. KPMG completes its Internal Audit responsibilities using a methodology that is aligned to Public Sector Internal Audit Standards. Regular reports are issued making recommendations for improvements where appropriate. These four reports were issued relating to 2017/18:

- alert handling process – overall rating “substantial”
- management of organisational knowledge – overall rating “substantial”
- IT systems business continuity – overall rating “moderate”
- EU exit governance and risk management – overall rating “moderate”

In their Annual Report, which offers their opinion on the adequacy and effectiveness of risk management, control and governance, the Head of Internal Audit Opinion is one of “Moderate Assurance”.

While no significant internal control problems have been identified during the year, we continually strive to build on the procedures and processes that we already have in place to manage risk.

Remuneration and Staff Report

Remuneration Policy

The remuneration of the Senior Civil Service (SCS) is set by the Prime Minister following independent advice from the Senior Salaries Review Body (SSRB). The Cabinet Office advises departments in March or April each year of the Government's response to the SSRB recommendations and produces guidance for departments and network bodies to follow.

Defra develops the SCS Reward Strategy within the Cabinet Office Framework, ensuring that the overall pay awards for the SCS are within the cost ceiling allowed.

Members of the SCS, excluding the Permanent Secretary, are eligible to be considered for individual levels of bonus as non-pensionable, non-consolidated variable pay (NCVP), based on their performance. NCVP is paid in the financial year after that in which it was earned. NCVP values, informed by each individual's appraisal grade, are paid within Cabinet Office guidelines.

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

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

Further information about the work of the Civil Service Commission can be found on the Civil Service Commission website.

Remuneration - salary, benefits-in-kind and pensions (audited)
The following sections provide details of the remuneration and pension interests of the VMD's Directors.

Single total figure of remuneration										
Officials	**Salary £'000**		**Bonus payments £'000**		**Benefits-in-kind to nearest £100**		**Pension benefits to nearest £1000(1)**		**Total £'000**	
	2017/18	2016/17	2017/18	2016/17	2017/18	2016/17	2017/18	2016/17	2017/18	2016/17
SP Borriello Chief Executive	115-120	115-120	-	10-15	-	-	46,000	46,000	165-170	175-180
M-O Hendrickx Director of Authorisations	30-35(2)	90-95	-	-	-	-	12,000	35,000	40-50	125-130
P Green Director of Operations	70-75	70-75	-	-	-	-	5,000	14,000	75-80	85-90

(1) The value of pension benefits accrued during the year is calculated as (the real increase in pension multiplied by 20) plus (the real increase in any lump sum) less (the contributions made by the individual). The real increases exclude increases due to inflation or any increase or decreases due to a transfer of pension rights.

(2) Figures quoted are for the period 1 April 2017 to 4 August 2017. The full year equivalent banding is £90,000 to £95,000.

Salary
'Salary' includes gross salary; overtime; reserved rights to London weighting or London allowances; recruitment and retention allowances; private office allowances, and any other allowance to the extent that it is subject to UK taxation. This report is based on accrued payments made by the Agency and thus recorded in these accounts.

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

Bonuses
Bonuses are based on performance levels attained and are made as part of the appraisal process. Bonuses paid in 2017/18 relate to performance in the prior financial year, comparative bonuses for 2016/17 relate to the 2015/16 performance.

Pay multiples (audited)
Reporting bodies are required to disclose the relationship between the remuneration of the highest paid Director in their organisation and the median remuneration of the organisation's workforce.

The full-time equivalent annualised total banded remuneration of the highest paid Director and the median member of staff excluding the highest paid Director are as shown in the following table:

Total remuneration	Highest paid Director £'000	Median of other staff £	Pay multiple ratio
2017/18	115-120	33,787	3.5
2016/17	130-135	30,777	4.3

In 2017/18, no employees received remuneration in excess of the highest paid Director (2016/17, nil). Remuneration ranged from £17,758 to £120,000 (2016/17: £15,753 to £133,000).

Total remuneration includes salary, non-consolidated performance-related pay and benefits-in-kind. It does not include severance payments, employer pension contributions and the cash equivalent transfer value of pensions.

A non-consolidated performance bonus was paid in 2016/17 to the highest paid Director (2017/18: £nil), this is the primary reason for the decrease in the pay multiple ratio.

There have been no ex gratia payments or amounts paid during the year in respect of compensation to former senior managers or to third parties for services of a senior manager.

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

No employer contributions were made to partnership pension accounts during 2017/18 or 2016/17 in respect of the VMD's Directors.

Civil service pensions

Pension benefits are provided through the Civil Service pension arrangements. From 1 April 2015 a new pension scheme for civil servants was introduced – the Civil Servants and Others Pension Scheme or **alpha**, which provides benefits on a career average basis with a normal pension age equal to the member's State Pension Age (or 65 if higher). From that date all newly appointed civil servants and the majority of those already in service, joined **alpha**. Prior to that date, civil servants participated in the Principal Civil Service Pension Scheme (PCSPS). The PCSPS has four sections: three providing benefits on a final salary basis (**classic**, **premium** or **classic plus**) with a normal pension age of 60; and one providing benefits on a whole career basis (**nuvos**) with a normal pension age of 65.

These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under **classic**, **premium**, **classic plus**, **nuvos** and **alpha** are increased annually in line with Pensions Increase legislation. Existing members of the PCSPS who were within 10 years of their normal pension age on 1 April 2012, remained in the PCSPS after 1 April 2015. Those who were between 10 years and 13 years and 5 months from their normal pension age on 1 April 2012 will switch into **alpha** sometime between 1 June 2015 and 1 February 2022. All members who switch to **alpha** have their PCSPS benefits 'banked', with those with earlier benefits in one of the final salary sections of the PCSPS having those benefits based on their final salary when they leave **alpha**. (The pension figures quoted for officials show pension earned in PCSPS or **alpha** – as appropriate. Where the official has benefits in both the PCSPS and **alpha** the figure quoted is the combined value of their benefits in the two schemes.) Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder pension with an employer contribution (**partnership** pension account).

Employee contributions are salary related and range between 4.60% and 8.05% of pensionable earnings for members of **classic** (and members of **alpha** who were members of **classic** immediately before joining **alpha**) and between 4.60% and 8.05% for members of **premium**, **classic plus**, **nuvos** and all other members of **alpha**. Benefits in **classic** accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years initial pension is payable on retirement. For **premium**, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike **classic**, there is no automatic lump sum. **Classic plus** is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per **classic** and benefits for service from October 2002 worked out as in **premium**. In **nuvos** a member builds up a pension based on their pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with Pensions Increase legislation. Benefits in **alpha** build up in a similar way to **nuvos**, except that the accrual rate is 2.32%. In all cases members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

The **partnership** pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 8% and 14.75% (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of providers. The employee does not have to contribute but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.5% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of **classic**, **premium** and **classic plus**, 65 for members of **nuvos**, and the higher of 65 or State Pension Age for members of **alpha**. (The pension figures quoted for officials show pension earned in PCSPS or alpha – as appropriate. Where the official has benefits in both the PCSPS and alpha the figure quoted is the combined value of their benefits in the two schemes but note that part of that pension may be payable from different ages.)

Further details about the Civil Service pension arrangements can be found at the website www.civilservicepensionscheme.org.uk.

Cash equivalent transfer values

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

The figures include the value of any pension benefit in another scheme or arrangement which the member has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their buying additional pension benefits at their own cost. CETVs are worked out in accordance with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008 and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

Real increase in CETV (audited)

This reflects the increase in CETV that is funded by the employer. It does not include the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

	Accrued pension at pension age as at 31/3/17 and related lump sum £'000	Real increase in pension and related sum at pension age £'000	CETV at 31/3/18 £'000	CETV at 31/3/17 £'000	Real Increase in CETV £'000
SP Borriello Chief Executive	25-30 plus lump sum of 0	2.5-5 plus lump sum of 0	498	432	41
M-O Hendrickx Director of Authorisations	0-5 plus lump sum of 0	0-2.5 plus lump sum of 0	58	49	7
P Green Director of Operations	20-25 plus lump sum of 60-65	0-2.5 plus lump sum of 0-2.5	438	406	4

External Management Board members (audited)

Membership details of the Management Board are detailed in the Governance Statement in this report. The Non-executive members also form the ARAC. The following salaries and benefits-in-kind were paid to the external members:

2017/18	**D Corner** £'000	**J Drown** £'000	**A Coulson** £'000
Salary (as defined above)	0-5	0-5	0-5
Benefits-in-kind	0-5	0-5	0-5
Total	**0-5**	**0-5**	**0-5**

2016/17	**D Corner** £'000	**J Drown** £'000	**A Coulson** £'000
Salary (as defined above)	0-5	0-5	0-5
Benefits-in-kind	0-5	0-5	0-5
Total	**0-5**	**0-5**	**0-5**

Staff Report

Staff numbers
At 31 March 2018 we employed 160 permanent staff (155.3 FTE) and seven temporary staff (6.4 FTE) supplied by local employment agencies. The average number of full-time equivalent permanent and temporary staff during the year and an analysis of staff-in-post (headcount) as at 31 March 2018 by gender are shown below.

We comply with equal opportunities legislation and departmental policy in relation to disabled employees, and Defra's policies on equal opportunities and health and safety at work.

Staff recruitment
Defra's Internal Auditors carried out an audit of our internal and external recruitment campaigns completed during 2017/18 against the Civil Service recruitment policy for open and fair competition. They concluded that these were of a good standard and noted good practice throughout the campaign material.

The average FTE number of persons employed during the year was as follows (audited):

	2017/18			2016/17
	Permanently employed staff	**Temporary staff**	**Total**	**Total**
Scientific	57	4	61	57
Administrative	93	6	99	96
	150	**10**	**160**	**153**

The number of staff-in-post (headcount) by gender as at 31 March 2018 was as follows:

	2017/18			2016/17		
	Male	**Female**	**Total**	**Male**	**Female**	**Total**
Directors	2	-	2	2	1	3
Other staff - Scientific	24	37	61	24	39	63
Other staff - Administrative	39	58	97	38	62	100
	65	**95**	**160**	**64**	**102**	**166**

Early departure costs (audited)
Redundancy and other departure costs are paid in accordance with the provisions of the Civil Service Compensation Scheme, a statutory scheme made under the Superannuation Act 1972. Exit costs are accounted for in full in the year of departure or earlier where a demonstrable commitment exists.

For all staff, there were no early departures in 2017/18 (2016/17: nil).
For all staff, there were no compulsory exits in 2017/18 (2016/17: nil).

Staff costs (audited)

Staff costs consist of the following:	2017/18			2016/17
	Permanently employed staff	Temporary staff	Total	Total
	£'000	£'000	£'000	£'000
Wages and salaries	5,826	549	6,375	5,975
Social security costs	657	-	657	604
Other pension costs	1,214	-	1,214	1,175
Sub-total as reported in Statement of Comprehensive Net Expenditure	**7,697**	**549**	**8,246**	**7,754**
Less recoveries in respect of outward secondments	(218)	-	(218)	(80)
	7,479	**549**	**8,028**	**7,674**

Senior managers' remuneration

Details of the Chief Executive's and Directors' salaries and pension entitlements are shown in the Remuneration and Staff Report section.

Pensions

The PCSPS and the Civil Servant and Other Pension Scheme (CSOPS), also known as "alpha", are unfunded multi-employer defined benefit scheme but the VMD is unable to identify its share of the underlying assets and liabilities. The Scheme Actuary valued the scheme as at 31 March 2012. You can find details in the resource accounts of the Cabinet Office: Civil Superannuation, www.civilservicepensionscheme.org.uk.

For 2017/18, employers' contributions of £1,189,126 were payable to the PCSPS (2016/17 £1,155,819) at one of four rates in the range 20.0% to 24.5% of pensionable earnings, based on salary bands. The Scheme Actuary reviews employer contributions usually every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2017/18 to be paid when the member retires and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions of £19,037 (2016/17: £17,228) were paid to one or more of the panel of three appointed stakeholder pension providers. Employers' contributions are age-related and range from 8% to 14.75% of pensionable earnings. Employers also match employee contributions up to 3% of pensionable earnings.

In addition, employer contributions of £734, 0.5% of pensionable pay (2016/17: £668) were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service or ill-health retirement of these employees.

Contributions due to the partnership pension providers at the balance sheet date were £1,608 (2016/17: £1,699). Contributions prepaid at that date were nil.

No individuals retired early on ill-health grounds during the year and therefore no additional pension liabilities have been accrued for this purpose.

Sickness absence data

The total full-time equivalent days lost through staff sickness absence in the year was 816 compared to 562 in 2016/17. The average working days lost per employee during the year was 5.5 compared to 3.8 in 2016/17. Short term sickness absences of 10 days or less slightly rose from 1.7 days per FTE in 2016/17 to 1.8 days per FTE in 2017/18.

Tax arrangements of public sector appointees

As part of HM Treasury's review of tax arrangements of public sector appointees, departments and their arms-length bodies are required to publish information in relation to the number of off payroll engagements lasting more than six months and costing over £245 per day that were in place as at 31 March 2018.

Number of existing engagements as of 31 March 2018	1
Of which…	
Number that have existed for less than one year at time of reporting	1
Number that have existed for between one and two years at time of reporting	-
Number that have existed for between two and three years at time of reporting	-
Number that have existed for between three and four years at time of reporting	-
Number that have existed for four or more years at time of reporting	-

Number of new engagements, or those that reached six months in duration, between 1 April 2017 and 31 March 2018	1
Of which…	
Number assessed as caught by IR35	-
Number assessed as not caught by IR35	1
Number engaged directly (via a Personal Services Company contracted to the department) and are on the departmental payroll	-
Number of engagements reassessed for consistency/assurance purposes during the year	-
Number of engagements that saw a change to IR35 status following the consistency review	-

Off-payroll engagements of Board members and/or senior officials with significant financial responsibility between 1 April 2017 and 31 March 2018

Number of off-payroll engagements of Board members, and/or senior officials with significant financial responsibility, during the financial year	-
Total number of individuals on-payroll and off-payroll that have been deemed “board members, and/or senior officials with significant financial responsibility”, during the financial year.	Board members/senior officials x 3 (1 CEO, 2 Directors) 3 x Non-Executive Directors

Consultancy and temporary staff expenditure

	2017/18	**2016/17**
	£'000	£'000
Consultancy expenditure	61	53
Temporary staff expenditure	549	384
Total	**610**	**437**

Expenditure on temporary staff increased as a consequence of a backlog on recruitment into vacancies. Consultants are engaged when it is better value for money to do so on specific programme work and when specialised skills are required. Comparative to the prior year, additional specialised skills were required to support plans for EU exit and implementation of the new financial system.

Employee involvement

We encourage staff involvement in our activities through a variety of channels including: a VMD intranet; topic meetings; day-to-day line management contacts; diverse membership of project teams, and regular meetings reviewing progress against the Business Plan and risk. Office Notices and the intranet are used to disseminate information. An annual staff meeting to review the work of the past year and expected key future issues is addressed by the CEO. We work with Defra on wellbeing activities and staff have access to both occupational health and employee assistance services. Trade Union membership and representation is in accordance with Defra's policies.

The VMD was re-accredited to the Investors in People Silver standard in June 2015.

Health and safety

Due to mainly low risk activities and the size of the organisation we continue to use the policies and advice services from Defra's Safety, Health and Wellbeing team. Only two minor work-related incidents were reported by employees during 2017/18 and changes have been made to address the cause of one case and the other is under examination.

Parliamentary Accountability and Audit Report (Audited)

Regularity of expenditure

We have considered all of our activities during the year and confirm that they are in accordance with the legislation authorising them.

Sources of funding and associated costs

2017/18	Income/ Funding	Operating Expenditure	Net Operating Expenditure
Industry and other external income			
Veterinary pharmaceutical industry	7,841	7,703	
Food industry	3,506	3,506	
Other recoveries of cost [(1)]	218	218	
EU grant [(2)]	63	63	
Sub total - Industry funded activities	**11,628**	**11,490**	
Government funding			
Core Defra: Services for Government [(3)]	3,039	3,039	
Core Defra: Research and Development	1,001	1,001	
Devolved Administrations [(4)]	81	81	
Sub total - Government funded activities	**4,121**	**4,121**	
Total Income and Expenditure	**15,749**	**15,611**	
Reconciliation to Statement of Comprehensive Net Expenditure (SoCNE)			
Less: Cost of Capital Charge [(5)]	-	(242)	
Less: Defra funding [(6 & 7)]	(3,920)	-	
Income/Expenditure per the SoCNE	**11,829**	**15,369**	**(3,540)**

(1) Other recoveries of cost relate to staff seconded from the VMD
(2) An EU grant was received in 2017/18, contributing to the cost of the AMR programme
(3) Services for Government include: Policy; enforcement; AMR programmes; and preparation for EU exit;
(4) The devolved administrations make an annual contribution to the AMR programme
(5) The VMD is required to include a notional cost of capital charge in the calculation of fees and charges. In line with HM Treasury guidance, this figure is excluded from the results presented in the Annual Accounts
(6) From the 1 April 2016, the VMD converted its financial reporting status from Net Controlled Agency to a Gross Controlled Agency. This resulting accounting policy change means that the VMD's work for Defra is no longer reported as income within the SoCNE, rather the VMD receives an allocated expenditure budget. The approved Core Defra budget to fund both cash and non-cash costs for 2017-18 was £4.54m of which £4.04m was utilised
(7) Funding utilised comprises £0.12m invoiced and received by cash transfer from Core Defra and £3.92m funding recognised under the gross control arrangements
(8) Cash drawn down from Defra of £2.00m (as shown in the Statement of Changes in Taxpayers' Equity) was to ensure sufficient liquid funds to meet the expected obligations in the financial year

Fees and charges

Our fees and charges are set in statute. Our objective for charging is to ensure that we recover our costs for delivering the service. In assessing performance against this target a notional cost of capital charge is recorded in addition to the costs included in the Statement of Comprehensive Net Expenditure. The table below sets out the amount of income we have received and associated costs for the different areas of service which we provide to industry.

2017/18	**Income £000**	**Cost £000**	**Net Income £000**	**Cost Recovery %**
Veterinary pharmaceutical industry	7,841	7,703	138	102%
Food industry	3,506	3,506	-	100%
Total	**11,347**	**11,209**	**138**	**101%**

2016/17	**Income £000**	**Cost £000**	**Net Income £000**	**Cost Recovery %**
Veterinary pharmaceutical industry	7,502	7,376	126	102%
Food industry	3,494	3,494	-	100%
Total	**10,996**	**10,870**	**126**	**101%**

Losses and special payments

Managing Public Money requires a statement showing losses and special payments by value and type to be shown where they exceed £300,000 in total, and those individually that exceed £300,000.

Losses may relate to: cash and stores losses; book-keeping losses; losses arising from failure to make adequate charge for the use of public property or services; fruitless payments, and claims abandoned as well as frauds. Special payments may relate to extra contractual, extra statutory, and ex gratia payments and compensation.

There were no losses or special payments that need to be reported in accordance with Managing Public Money.

Contingent liabilities

There were no contingent liabilities as at 31 March 2018 (31 March 2017: nil).

S. P. Borriello

Professor SP Borriello
Chief Executive
22 June 2018

The Certificate and Report of the Comptroller and Auditor General to the House of Commons

Opinion on financial statements
I certify that I have audited the financial statements of the Veterinary Medicines Directorate for the year ended 31 March 2018 under the Government Resources and Accounts Act 2000. The financial statements comprise: the Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes including the significant accounting policies. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Accountability Report that is described in that report as having been audited.

In my opinion:
- the financial statements give a true and fair view of the state of the Veterinary Medicines Directorate's affairs as at 31 March 2018 and of the net operating expenditure 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 regularity
In my opinion, in all material respects the income and expenditure recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Basis of opinions
I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK) and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my certificate. Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2016. I am independent of the Veterinary Medicines Directorate in accordance with the ethical requirements that are relevant to my audit and the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of the Accounting Officer for the financial statements
As explained more fully in the Statement of Accounting Officer's Responsibilities, the Chief Executive as Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Auditor's responsibilities for the audit of the financial statements
My responsibility is to audit, certify and report on the financial statements in accordance with the Government Resources and Accounts Act 2000.

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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Veterinary Medicines Directorate's internal control
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Veterinary Medicines Directorate's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

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

Other Information

The Chief Executive as Accounting Officer is responsible for the other information. The other information comprises information included in the annual report, other than the parts of the Accountability Report described in that report as having been audited, the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Opinion on other matters

In my opinion:

- the parts of the Accountability Report to be audited have been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000;
- in the light of the knowledge and understanding of the entity and its environment obtained in the course of the audit, I have not identified any material misstatements in the Performance Report and Accountability Report; and
- the information given in the Performance Report and Accountability Report for the financial year for which the financial statements are prepared is consistent with the financial statements and have been prepared in accordance with the applicable legal requirements

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 returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the parts of the Accountability Report to be audited are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Sir Amyas C E Morse **Date: 28 June 2018**
Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria, London
SW1W 9SP

Financial Statements

Statement of Comprehensive Net Expenditure

for the year ended 31 March 2018

	Note	2017/18	2016/17
		£'000	£'000
Income from the provision of services	*2*	11,829	11,147
Total operating income		**11,829**	**11,147**
Staff costs	*3*	(8,246)	(7,754)
Purchase of services	*4*	(4,852)	(5,146)
Non-cash costs	*4*	(1,006)	(1,026)
Other operating expenditure	*4*	(1,265)	(1,085)
Total operating expenditure		**(15,369)**	**(15,011)**
Net operating expenditure		**(3,540)**	**(3,864)**
Other comprehensive expenditure:			
Items that will not be reclassified to net operating costs:			
Net gain on revaluation of property, plant and equipment		458	374
Comprehensive net expenditure for the year ended 31 March 2018		**(3,082)**	**(3,490)**

All income and expenditure is derived from continuing operations.
All of the above income and expenditure is classified as "Programme" (See Note 1.14).

The notes on pages 40 to 50 form part of these accounts.

Statement of Financial Position

as at 31 March 2018

	Note	31 March 2018		31 March 2017	
		£'000	£'000	£'000	£'000
Non-current assets:					
Property, plant and equipment	*5*	6,165		6,030	
Intangible assets	*6*	70		104	
Total non-current assets			**6,235**		**6,134**
Current assets:					
Trade and other receivables	*7*	2,527		4,024	
Cash and cash equivalents	*8*	5,635		4,184	
Total current assets			**8,162**		**8,208**
Total assets			**14,397**		**14,342**
Current liabilities:					
Trade and other payables	*9*	(2,934)		(2,446)	
Total current liabilities			**(2,934)**		**(2,446)**
Total assets less liabilities			**11,463**		**11,896**
Taxpayers' equity and other reserves					
General fund			6,457		7,348
Revaluation Reserve			5,006		4,548
Total equity			**11,463**		**11,896**

The notes on pages 40 to 50 form part of these accounts.

S. P. Borriello

Professor SP Borriello
Chief Executive and Agency Accounting Officer
22 June 2018

Statement of Cash Flow

for the year ended 31 March 2018

	Note	2017/18	2016/17
		£'000	£'000
Cash flows from operating activities:			
Net operating expenditure		**(3,540)**	**(3,864)**
Adjustments for non-cash transactions arising in the year	*4*	1,006	1,026
Decrease/(increase) in trade and other receivables	*7*	1,497	(504)
Increase in trade and other payables	*9*	488	53
Net cash inflow from operating activities:		**(549)**	**(3,289)**
Cash flows from investing activities:			
Purchase of property, plant and equipment	*5*	-	(106)
Purchase of intangible assets	*6*	-	(80)
Net cash outflow from investing activities:		**-**	**(186)**
Cash flows from financing activities:			
Supply current year		2,000	3,000
Net financing:		**2,000**	**3,000**
Net increase/(decrease) in cash and cash equivalents:		**1,451**	**(475)**
Cash at the beginning of the year	*8*	**4,184**	**4,659**
Cash at the end of the year	*8*	**5,635**	**4,184**

The notes on pages 40 to 50 form part of these accounts.

Statement of Changes in Taxpayers' Equity

for the year ended 31 March 2018

	Note	General Fund	Revaluation Reserve	Total Reserves
		£'000	£'000	£'000
Balance at 1 April 2016		**7,526**	**4,174**	**11,700**
Changes in taxpayers' equity for 2016/17:				
Net Parliamentary Funding		3,000	-	3,000
Comprehensive net expenditure for the year		(3,864)	-	(3,864)
Non-Cash adjustments:				
Defra Investigation Services	*4*	102	-	102
Defra corporate recharges	*4*	548		548
Auditors' remuneration	*4*	36	-	36
Movements in Reserves:				
Net gain on revaluation of property, plant and equipment		-	374	374
Total recognised income and expense for 2016/17		**(178)**	**374**	**196**
Balance at 31 March 2017		**7,348**	**4,548**	**11,896**
Changes in taxpayers' equity for 2017/18:				
Net Parliamentary Funding		2,000	-	2,000
Net operating expenditure for the year		(3,540)	-	(3,540)
Non-Cash adjustments:				
Defra Investigation Services	*4*	107	-	107
Defra corporate recharges	*4*	506	-	506
Auditors' remuneration	*4*	36	-	36
Movements in Reserves:				
Net gain on revaluation of property, plant and equipment		-	458	458
Total recognised income and expense for 2017/18		**(891)**	**458**	**(433)**
Balance at 31 March 2018		**6,457**	**5,006**	**11,463**

The notes on pages 40 to 50 form part of these accounts.

Notes to the Accounts

1. Statement of accounting policies

The financial statements have been prepared in accordance with the 2017/18 Government Financial Reporting Manual (FReM) and the Accounts Direction issued by HM Treasury.

The accounting policies contained in the FReM apply IFRS (International Financial Reporting Standards) as adapted or interpreted for the public sector context and comply with the guidelines issued by the International Financial Reporting Interpretations Committee.

Where the FReM permits a choice of accounting policy, a judgement has been made to select the most appropriate policy to suit the particular circumstances of the Agency, for the purpose of giving a true and fair view. The Agency's accounting policies have been applied consistently in dealing with items which are considered material in relation to the Accounts.

1.1 Judgements and key sources of estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities and the reported amount of income and expenditure. All estimates are based on knowledge of current facts and circumstances, assumptions concerning past events, and forecast of future events and actions. Where appropriate, the relevant notes to the Accounts provide further detail on estimation techniques.

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

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

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

1.2 Accounting convention

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

1.3 Property, plant and equipment and intangible assets

Land and Buildings are subject to professional valuation at five yearly intervals and stated at fair value, which is valued at Depreciated Replacement Cost applying to specialist buildings. Depreciated Replacement Cost is defined as “the current cost of replacing an asset with its modern equivalent asset less deductions for physical deterioration and all relevant forms of obsolescence and optimisation”. Between professional valuations, annual desk top revaluations are conducted, which have regard for prevailing local and national conditions.

Non-property assets costing £10,000 or more, where there is an expected useful economic life of more than one year, are carried in the Statement of Financial Position at fair value, using appropriate indices provided by the Office for National Statistics.

Intangible non-current assets comprise software licences.

Losses on revaluation are charged to the Revaluation Reserve to the extent that gains have been recorded previously and otherwise to the Statement of Comprehensive Net Expenditure.

1.4 Depreciation and amortisation

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

Asset lives are normally within the following ranges:

Freehold land	Not depreciated
Freehold buildings	39 years (residual life)
Furniture, fittings and office equipment	15 years
IT hardware	5 years
IT software	5-10 years
Software licences	5-10 years

1.5 Impairment reviews

Impairments are recognised when the recoverable amount of non-current assets falls below their carrying amount. An impairment review is carried out on an annual basis.

Any permanent diminution in the value of an asset due to clear consumption of economic benefit or service potential is recognised in full as an impairment loss in the Statement of Comprehensive Net Expenditure (SoCNE). An amount up to the value of the impairment is transferred from the revaluation reserve (to the extent that a balance exists) to the General Fund for the individual asset concerned.

Downward revaluations, resulting from changes in market value, only result in 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 SoCNE.

1.6 Operating income

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

1.7 Revenue recognition

Revenue is recognised in line with IAS 18. Income is recognised when the revenue can be reliably measured and the future economic benefits pertaining to the VMD are probable. Income received in advance of work done is deferred to future periods to the extent necessary to cover the work estimated to be outstanding at the year end. Income receivable for work done in the year is accrued to the extent necessary to cover the work estimated to be complete at the year end.

1.8 Defra service recharges

Defra corporate services recharges, comprising charges to the VMD for legal, human resources, estates, investigation and enforcement services, are recognised as notional charges in the SoCNE and charged to General Fund, with Core Defra recording the associated credit.

1.9 Value Added Tax (VAT)

Most of the VMD's activities are outside the scope of VAT and, in general, output tax does not apply. Input VAT can be recovered on certain contracted-out services. Irrecoverable VAT is charged to the relevant expenditure category or, if appropriate, capitalised with additions to non-current assets. Where output tax is charged or input tax is recoverable, the amounts are stated net of VAT.

1.10 Financial instruments

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

1.11 Research and development

The VMD is responsible for the management of Defra's Veterinary Medicines Research and Development programme. The programme costs are included in the financial results.

1.12 Pensions

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

Although the PCSPS and the CSOPS, known as alpha, are unfunded defined benefit schemes, in accordance with explicit requirements in the FReM, the VMD account for the schemes as if they were defined contribution plans. Costs of the elements are recognised on a systematic and rational basis over the period during which it benefits from employees' services by payment to the schemes of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the schemes. The PCSPS and alpha pension schemes undergo a reassessment of the contribution rates by the Government Actuary at four-yearly intervals. In respect of defined contribution schemes, the VMD recognises the contributions payable for the year.

1.13 Leases

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

1.14 Administration and programme expenditure

All of the VMD's income and expenditure is classified as "Programme". The classification of income or expenditure as administration or programme follows the definition of programme costs as set out in HM Treasury's Consolidation and Budgeting Guidance 2017/18.

1.15 General Fund

The net operating result for each year is transferred from the SoCNE to the General Fund. The General Fund represents the value of the VMD's net assets less liabilities as at 1 April 1991, which is the date from which the first Accounts Direction became effective, plus subsequent external funding movements, plus the accumulated net operating result transferred from the SoCNE.

1.16 Revaluation Reserve

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

1.17 Impending application of newly issued standards not yet effective

IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors, requires disclosures in respect of new IFRSs, amendments and interpretations that are, or will be applicable after the reporting period. There are a number of IFRSs, amendments and interpretations that have been issued by the International Accounting Standards Board that are effective for future reporting periods. Those with relevance to the Agency are outlined below. The Agency has not adopted any new IFRS standards early.

IFRS 9 – Financial Instruments. This is effective from 1 January 2018. This standard brings together all three phases of the financial instruments project: Classification and Measurement; Impairment; and Hedge Accounting.

IFRS 15 – Revenue from Contracts with Customers. This is effective from accounting periods after 1 January 2018. This standard replaces all existing IFRS guidance on revenue recognition.

IFRS 16 – Leases. This standard is effective from accounting periods after 1 January 2019. It will supersede all existing IFRS standards on leases. It is likely to result in a uniform accounting treatment for all leases, with the distinction between operating and finance leases removed.

The Agency will apply the standards upon formal adoption in the FReM. A review of these new standards was carried out with reference to the Her Majesty's Treasury Application Guide: issued in December 2017. It is not anticipated that material adjustments to the financial statements will be required following the introduction of these standards

2. Operating income

	2017/18	2016/17
	£'000	£'000
Income from the provision of services:		
Veterinary pharmaceutical industry	7,841	7,502
Food industry	3,506	3,494
Government(1)	264	71
Other recovery of costs(2)	218	80
	11,829	**11,147**

(1) Income for work undertaken for Government comprise of: contributions from Devolved Administrations; an EU grant paid in support of the AMR programme, and Defra funding to develop the AMR reference centre.
(2) Other recovery of costs relates to staff seconded from the VMD.

3. Staff costs

Staff costs

Staff costs consist of the following:	2017/18			2016/17
	Permanently employed staff	**Temporary staff**	**Total**	**Total**
	£'000	£'000	£'000	£'000
Wages and salaries	5,826	549	6,375	5,975
Social security costs	657	-	657	604
Other pension costs	1,214	-	1,214	1,175
Sub-total as reported in Statement of Comprehensive Net Expenditure	**7,697**	**549**	**8,246**	**7,754**
Less recoveries in respect of outward secondments	(218)	-	(218)	(80)
	7,479	**549**	**8,028**	**7,674**

Included in the permanently-employed staff costs is an accrual for untaken annual leave of £287,000, (2016/17: £249,000). This comprises of £225,000 (2016/17: £196,000) wages and salaries, £17,000 (2016/17: £14,000) social security costs and £45,000 (2016/17: £39,000) other pension costs.

4. Other non-staff operating expenditure

	Note	2017/18 £'000	2016/17 £'000
(i) Purchase of services			
Statutory Residues Surveillance		3,139	3,139
Research and Development Programme		958	1,380
Antimicrobial Resistance Programme and Surveillance		717	608
Other direct sub-contracted services		38	19
		4,852	**5,146**
(ii) Non-cash items			
Depreciation of property, plant and equipment	*5*	323	300
Amortisation of intangible assets	*6*	34	36
Losses on disposal of non-current assets	*5&6*	-	4
Defra service recharges:			
Estates maintenance		334	360
Human resources		117	133
Defra Investigation Services		107	102
Legal services		55	55
Auditors' remuneration		36	36
		1,006	**1,026**
(iii) Other operational expenditure			
IT systems maintenance		446	377
Travel and subsistence		224	169
Training		84	87
Communications		67	84
Office related goods and services		28	60
Professional programme and technical services		61	53
Operating leases		48	39
Internal Audit		27	38
Stationery and publications		35	31
Independent expert committees		30	22
Movement on provision for bad debts		59	19
Other costs		156	106
		1,265	**1,085**
Total non-staff operating expenditure		**7,123**	**7,257**

No remuneration was paid to the auditors in respect of non-audit work.

5. Property, plant and equipment

	Land	Buildings	Information Technology	Furniture & Fittings	Total
	£'000	£'000	£'000	£'000	£'000
Cost or Valuation:					
At 1 April 2017	291	5,550	778	262	6,881
Additions	-	-	-	-	-
Disposals	-	-	(2)	(4)	(6)
Revaluation	25	178	15	1	219
At 31 March 2018	**316**	**5,728**	**791**	**259**	**7,094**
Depreciation:					
At 1 April 2017	-	-	(607)	(244)	(851)
Charged in year	-	(252)	(68)	(3)	(323)
Disposals	-	-	2	4	6
Revaluation	-	252	(12)	(1)	239
At 31 March 2018	**-**	**-**	**(685)**	**(244)**	**(929)**
Carrying Value					
At 31 March 2018	**316**	**5,728**	**106**	**15**	**6,165**
Cost or Valuation:					
At 1 April 2016	291	5,415	836	281	6,823
Additions	-	-	106	-	106
Disposals	-	-	(202)	(19)	(221)
Revaluation	-	135	38	-	173
At 31 March 2017	**291**	**5,550**	**778**	**262**	**6,881**
Depreciation:					
At 1 April 2016	-	-	(714)	(255)	(969)
Charged in year	-	(233)	(63)	(4)	(300)
Disposals	-	-	202	15	217
Revaluation	-	233	(32)	-	201
At 31 March 2017	**-**	**-**	**(607)**	**(244)**	**(851)**
Carrying Value					
At 31 March 2017	**291**	**5,550**	**171**	**18**	**6,030**
At 31 March 2016	291	5,415	122	26	5,854

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

The Land and Buildings were valued at 31 March 2018 by an independent valuer (Montagu Evans) in accordance with guidance issued by the Royal Institution of Chartered Surveyors. Buildings were valued at Depreciated Replacement Cost applying to specialist buildings in accordance with IAS 16, defined as "the current cost of replacing an asset with its modern equivalent asset less deductions for physical deterioration and all relevant forms of obsolescence and optimisation".

6. Intangible assets

	Software Licences
	£'000
Cost or valuation:	
At 1 April 2017	678
Additions	-
Disposals	-
At 31 March 2018	678
Amortisation:	
At 1 April 2017	(574)
Charged in year	(34)
Disposals	-
At 31 March 2018	(608)
Carrying Value	
At 31 March 2018	**70**
Cost or valuation:	
At 1 April 2016	927
Additions	80
Disposals	(329)
At 31 March 2017	678
Amortisation:	
At 1 April 2016	(867)
Charged in year	(36)
Disposals	329
At 31 March 2017	(574)
Carrying Value	
At 31 March 2017	**104**
At 31 March 2016	60

7. Trade receivables and other current assets

	31 March 2018	31 March 2017
	£'000	£'000
Amounts falling due within one year:		
Trade receivables	1,784	2,705
Balances with other central government bodies	-	5
Other receivables	7	14
VAT recoverable	102	170
Prepayments	133	166
Accrued Income	501	964
Total trade receivables and other current assets	**2,527**	**4,024**

Trade receivables are shown net of a provision of £52,000 (2016/17: £56,000) for bad and doubtful debts. The provision is calculated according to the age and status of the debt and recent sector-specific debt-recovery information.

8. Cash and cash equivalents

	2017/18	2016/17
	£'000	£'000
Balance at 1 April	4,184	4,659
Net change in cash and cash equivalents	1,451	(475)
Balance at 31 March	**5,635**	**4,184**

All balances were held in accounts administered by Government Banking Services.

9. Trade payables and other current liabilities

	31 March 2018	31 March 2017
	£'000	£'000
Amounts falling due within one year:		
Trade payables	180	239
Balances with other central government bodies	498	404
Balances with public corporations and trading funds	-	-
Other taxation and social security	201	156
Accruals	691	513
Deferred Income	1,364	1,134
Total trade payables and other current liabilities	**2,934**	**2,446**

At the year end the VMD had no payables falling due after more than one year (2016/17: nil).

10. Capital commitments

There were no contracted commitments at 31 March 2018 (2016/17: nil).

11. Commitments under operating leases

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

Obligations under operating leases comprise:

	2017/18	2016/17
	£'000	£'000
Contract hire cars		
Not later than one year	22	29
Later than one year not later than five years	12	11
Total	34	40

12. Other financial commitments

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

	2017/18	2016/17
	£'000	£'000
Not later than one year	183	168
Later than one year but not later than five years	731	672
Later than five years but not later than ten years	183	337
Total	**1,097**	**1,177**

13. Related party transactions

As the VMD is an Executive Agency of Defra, Defra is regarded as a related party. During the year, the VMD has had significant transactions with Defra and a number of its agencies, including APHA.

The VMD has transacted with various other central government bodies. Most of these transactions have been with the Medicines and Healthcare products Regulatory Agency, FSA and The Scottish Government.

None of the Board members, key managerial staff or other related parties has undertaken any material transactions with the VMD during the year other than salaries and reimbursement for travel and subsistence in the normal course of business.

14. Financial instruments

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

15. Events after the reporting period

The VMD's financial statements are laid before the House of Parliament by the Secretary of State for Defra. In accordance with the requirements of IAS 10, events after the reporting period are considered up to the date on which the Accounts are authorised for issue. This is interpreted as the date of the Certificate and Report of the Comptroller and Auditor General.

Up to the date of issue, there have been no other events since 31 March 2018 that would have a significant impact on the Annual Report and Accounts or would be likely to have a significant impact on the future performance of the VMD.

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