ASSURING THE SAFETY, QUALITY AND EFFICACY OF VETERINARY MEDICINES

Veterinary Medicines Directorate Annual Report & Accounts

2013/14

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

HC57

Veterinary Medicines Directorate

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

Annual Report and Accounts 2013/14

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

Ordered by the House of Commons to be printed 11 June 2014

HC57

This publication is available at www.gov.uk/government/publications

Any enquiries regarding this publication should be sent to us at postmaster@vmd.defra.gsi.gov.uk

Print ISBN 9781474102353
Web ISBN 9781474102360

Printed in the UK by the Williams Lea Group on behalf of the Controller of Her Majesty's Stationery Office

ID 22041401 06/04

Printed on paper containing 75% recycled fibre content minimum

Contents

Chief Executive's Foreword

The Veterinary Medicines Directorate (VMD) is a multi-disciplinary organisation fully responsible for both policy and delivery on veterinary medicines for the UK. Highly trained VMD staff seek to ensure maximum availability of safe and effective medicines for prevention and treatment of diseases and improved welfare in all animal species. We emphasise the importance of responsible medicine use and consider human health and environmental impacts in addition to animal need. We are also mindful of the importance of veterinary medicines to the livestock and fish-farming industry, and continue to deal with all applications for a marketing authorisation for veterinary medicines to specified timelines and urgency of need prioritisation; in this regard farmers in the UK were the first in Europe to have access to an authorised vaccine for Schmallenberg virus infection. We also continued to seek opportunities to reduce regulatory burden, and to detect improper medicines sales and associated unfair competition to the industry, whilst seeking and introducing efficiencies to keep costs to industry to a minimum.

The VMD had a very successful year, fully delivering the business plan, with in-year savings and reduced costs to industry and the taxpayer, while maintaining pharmaceutical industry services independently assessed as excellent, decreased sickness absence, and the 6th highest staff engagement index out of 98 bodies in the Civil Service.

There have been significant achievements in independently assessed quality systems and customer satisfaction. The VMD was awarded whole business ISO9001 certification, with no non-conformities identified, renewal of ISO27001 for IT security standards, a mean of 86% of the highest possible scores from the independent Benchmarking of European Medicines Agencies, and rated as first/equal first by our customers for 9/10 European function parameters and second in one.

The European Commission (EC) reviews of Directives for Veterinary Medicinal Products, Residues and Veterinary Checks, and Medicated Feedingstuffs remained the major policy issue this year. We have maintained consultation with Government, Devolved Administrations, relevant professions and Industry in order to develop a UK position, and utilise appropriate EC Committees and direct interactions to present that view. Related to these policy issues is the current high profile of antibiotic resistance, and in response the VMD has reviewed practices and actions in the UK, prepared a joint National strategy with the Department of Health and Food Standards Agency, and is leading on the issue across Member States by chairing the Heads of Medicines Agency Taskforce on veterinary antimicrobials. The results of a European wide survey designed to identify what influences veterinary choices on antibiotic use has been published, and the results of antibiotic choices made by veterinarians in Europe for different animal infections are in press. These data will help inform the development of a European surveillance programme for monitoring resistance trends in veterinary pathogens.

In support of the Government's action plan to reduce the use of animals for scientific purposes, we have analysed the use of animals for the routine release of veterinary medicines for the six year period 2007 to 2012. The analysis highlights areas where research needs to be focused to have maximum impact on further reducing animal use.

Our intent for the coming year is to ensure that new ways of working are fully embedded, further efficiencies and improvements are identified, partnership working is expanded, and regulatory burden is further reduced.

Professor SP Borriello
Chief Executive
30 May 2014

Management Commentary

Preparation and Audit of the Accounts

The Accounts have been prepared under a direction issued on 20 December 2013 by HM Treasury under Section 7(2) of the Government Resources and Accounts Act 2000 and are audited by the Comptroller and Auditor General.

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

So far as the Accounting Officer is aware, there is no relevant audit information which has not been shared with 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.

About Us

Aim

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

Vision

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

Operating Framework

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

We operate within an overall policy and financial framework determined by the Secretary of State for Defra, through the Parliamentary Under Secretary for farming, food and marine environment. Our day-to-day management within this framework, and our performance against our key targets, is the responsibility of our Chief Executive Officer (CEO), supported by Directors of Authorisations and Operations. Our policy, legal and resources framework is set out in our Framework Document.

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

Veterinary Pharmaceutical Industry: the assessment of applications; issuing and maintenance of Marketing Authorisations including pharmacovigilance; the licensing of manufacturers and wholesale dealers of veterinary medicines; and inspection of manufacturers, wholesale dealers and retailers of veterinary medicines. The main customers are Marketing Authorisation holders; manufacturers and importers of veterinary medicines; manufacturers of medicated animal feedingstuffs; retailers of veterinary medicines and medicated animal feedingstuffs; the veterinary profession; other stakeholders including farmers and keepers of animals; the European Medicines Agency[1] (EMA); Department of Health[2] (DH); Food Standards Agency[3] (FSA) and consumers.

[1] You can find out more about the EMA via www.ema.europa.eu
[2] You can find out more about the DH via www.gov.uk/government/organisations/department-of-health
[3] You can find out more about the work of the FSA via www.food.gov.uk

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. The VMD has contracts with other agencies and companies who carry out work on our behalf at abattoirs and other first processing industries and on farms. We also work with other stakeholders including consumer representative groups, the European Commission and the FSA[3] who are responsible for food safety follow-up action.

Government: servicing, developing and implementing new policy/legislation on all aspects of veterinary medicines; providing support to Ministers through briefing and advice on replies to correspondence and Parliamentary Questions; surveillance for residues of veterinary medicines and banned substances in imported animal products; and day-to-day management of the veterinary medicines Research and Development (R&D) programme on behalf of Defra. The VMD works closely with Ministers and officials of Defra and other Government Departments and Agencies including the FSA[3], the general public, industry, consumer representative groups, the European Commission, embassies and other representatives of foreign governments.

Responsibilities

The VMD's main responsibilities are:

- the assessment, issue and maintenance of all national Marketing Authorisations (MAs) for veterinary medicines in accordance with EC and UK legislation;
- acting as Reference Member State (RMS), Rapporteur, Co-Rapporteur or Concerned Member State (CMS) for designated European applications for centralised, decentralised or mutual recognition authorisations;
- controls on the manufacture and distribution of veterinary medicinal products including inspections;
- enforcement of the Veterinary Medicines Regulations;
- pharmacovigilance through the surveillance of Suspected Adverse Reactions (SARs);
- surveillance for residues of veterinary medicines and illegal substances in animals and animal products;
- the provision and implementation of policy advice on these matters to Ministers;
- the management of the Research and Development programme linked to veterinary medicine issues; and
- the co-ordination of Defra's work on antimicrobial resistance via the Defra Antimicrobial Resistance Coordination (DARC) Group[4].

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

Risk, Future Developments and Performance

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

The key challenges to the VMD throughout 2013/14 and its plans for meeting them have been outlined in the VMD's Business Plan which is available on our website www.vmd.defra.gov.uk.

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

- economic climate affecting the veterinary pharmaceutical industry and the volume of Authorisation applications the VMD receives;
- European Commission's work to review the EU legislation on veterinary medicines, medicated feeds and residues surveillance;
- implementation of the European Commission's action plan on antimicrobial resistance and the UK strategy on antimicrobial resistance;
- review of the VMD Business model, linked to any wider review in Defra of the delivery body network.

Financial Review

The VMD’s total expenditure for the financial year was £14m an increase of 1.8% against 2012/13.

The Statement of Comprehensive Net Expenditure shows “Net Operating Income” (income less expenditure) of £0.309m. However, the adjusted cost recovery result after including a cost of capital charge (see below) is £0.082m, equivalent to 101% cost recovery. The cost recovery results for the VMD’s operating segments are shown in Note 5 to the Accounts, summarised as follows:

	Income £m	Expenditure £m	Net Income £m
Veterinary Pharmaceutical Industry	7.5	7.5	0.0
Food Industry	3.7	3.7	0.0
Government	3.1	3.0	0.1
Total VMD	**14.3**	**14.2**	**0.1**

Income collected from the Veterinary Pharmaceutical Industry increased by 2% on 2012/13 due to increases in application volumes relating to marketing authorisations and higher than anticipated industry turnover growth. Fees to this industry were not increased during the year.

Income collected from the Food Industry reduced by 1% due to fluctuations in the Food Industry activity. Charges to the Food Industry were not increased during the year.

Total Defra funding remained at £3.19m, a nil change to the funding provided in 2012/13. From the total funding of £3.19m the VMD was able to surrender a surplus of £0.06m in 2013/14, due to costs awarded on legal cases, charged in a prior year.

From 1 April 2010, in line with HM Treasury advice, the agency no longer records a Cost of Capital charge in its Accounts but continues to include a notional Cost of Capital charge in the calculation of fees and charges. The Cost of Capital charge applies to the average net assets in the Statement of Financial Position, with the exception of cash balances, to the extent that these are funded by fees and charges. The VMD’s measure of Cost Recovery against its Business Plan target therefore includes a Cost of Capital Charge. A reconciliation between Net Operating Income and Cost Recovery is provided at Note 5 to the Accounts.

Capital expenditure in the year was £0.14m, a 38% decrease on 2012/13. Land & Buildings are carried in the Statement of Financial Position at “Depreciated Replacement Cost” applying to specialist buildings. Depreciated Replacement Cost is defined as “the current cost of replacing an asset with its modern equivalent asset less deductions for physical deterioration and all relevant forms of obsolescence and optimisation”. The 31 March 2014 desktop valuation recorded a downward revaluation of £0.47m.

The VMD is partly funded by Defra and the position is shown in the ‘Taxpayers’ Equity’ section of the Statement of Financial Position. The General Fund represents the value of the VMD’s net current assets as at 1 April 1991, which is the date from which the first Accounts Direction became effective, plus subsequent external funding movements, plus the accumulated net operating result transferred from the Statement of Comprehensive Net Expenditure. The Revaluation Reserve represents the unrealised cumulative balance of indexation and revaluation adjustments to non-current assets.

Payment policy and performance

The VMD's policy is to settle all creditors' accounts within creditors' own payment terms. During the year, the VMD paid 100% of valid invoices by the due date (2012/13: 100%). In March 2010 the Government introduced a target to pay 80% of undisputed invoices within five working days. The VMD supports this initiative and during the year paid 95% (2012/13: 97%) of undisputed invoices within five working days. The trade payables balance at 31 March 2014, as a proportion of the total undisputed amount invoiced by suppliers in the year, equates to 7 days (2012/13: 6 days).

Events after the reporting period

Up to the date of issue, there have been no events since 31 March 2014 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.

Targets

The Secretary of State for Defra announced our targets to Parliament on 2 July 2013. These provide a framework of actions in which the VMD can provide the best possible service to all its customers.

Business Priority 1 – Delivery

Business Priority 1A

The VMD seeks to enable the availability of veterinary medicines for which the benefits outweigh the risks arising from their use. As a regulator, the VMD's role is to authorise veterinary medicines, and on a risk basis inspect premises at which they are manufactured, distributed and supplied and monitor their impact. This will be achieved by ensuring that veterinary medicines are ***authorised*** *according to legislative requirements and based on sound science. The VMD will ensure that the on-going benefit:risk assessment of veterinary medicines remains positive by* ***monitoring*** *the effect of their use, and* ***responding*** *to adverse reactions by taking proportionate action on quality, safety and efficacy as necessary.*

The expectations for the VMD's performance (time and quality) in terms of handling applications, inspections and pharmacovigilance matters are set out in the published standards. The overall performance against published standards corresponded to 95% so meeting the criteria defined as effective. Of 75 individual parameters 68 of these met the "excellent" performance standard. The independent Veterinary Products Committee (VPC) rated the quality of the VMD initial assessments for Marketing Authorisation applications as level 1, the highest level, confirming that the VMD properly identified potentially serious risks to human and animal health and the environment and that questions were comprehensive, clear and justified. Success is shown by the continuing absence of significant product-related adverse reactions to veterinary medicines.

Business Priority 1B

Evidence of actions that influence the responsible, safe and effective use of veterinary medicines according to the legislative requirements through proportionate surveillance and inspection activities. Where necessary, use enforcement action to detect and deter illegal manufacture, distribution, advertising or use of products.

Work went to plan for this target and success is shown by the continuing low number of positive residue samples found and the absence of significant product-related adverse reactions to veterinary medicines.

We were responsible for three successful prosecutions.

Business Priority 1C

Work to ensure as far as possible that UK policy principles influence EU legislative change, further the principles of market harmonisation and the development of efficient and effective procedures and guidance within the European Medicines Regulatory Network (EMRN).

We continued to work closely with colleagues across the EU by taking an active role in the Heads of Medicines Agencies Group and its various task forces. The UK continues to lead the task force on antimicrobial resistance and to chair the Committee for Medicinal Products for Veterinary Use (CVMP) Working Party on Antimicrobials.

We have continued to work with the Commission to help develop its thinking on revising legislation on veterinary medicines, medicated feeds and residues surveillance. We have continued to provide additional practical support in the form of a national expert in the Directorate General for Health and Consumers in the European Commission (DG SANCO).

Business Priority 2 – Customers and Interest Groups

Business Priority 2A

Ensure that the veterinary pharmaceutical industry consider the level of service provided by the VMD to be good or excellent and that the VMD act on areas identified requiring improvement within the confines of the available resources.

The VMD conducted a web based survey of the veterinary pharmaceutical industry in February 2014. The results showed that for the eight VMD teams where feedback was sought on their overall service, seven of these were rated as good or excellent by at least 70% of customers. Five of the teams were rated as good or excellent by at least 90% of customers.

Feedback on company meetings was one of the sources of customer information gathered in 2013/14. A total of 63 company meetings were held from which 34 returns were submitted. An overall score of four or five (top marks) was given on all 34 occasions (27 scored five, 7 scored four). Five meetings were held during the final two weeks of March and as yet the companies have not submitted a return.

Business Priority 2B

Policy customers in Defra and OGDs considering the level of service provided by the VMD to be satisfactory.

The VMD carried out a survey of its Policy customers during April and May 2014. It scored a median overall rating of 4 meaning the service our policy teams provide was judged as 'good with minor changes needed'. The median score was 5 for the overarching question "how do you rate your satisfaction with the way the VMD provides policy services". The purpose of this annual survey is to get a high level assessment of the policy services we provide, as part of our drive for continuous improvement. The survey complements the formal and regular in-year assessment of the delivery of specific policy services. We repeat the survey annually.

Business Priority 2C

Communications to customers and interest groups.

In 2013/14, the VMD did a significant amount of work on its annual communications priorities and business as usual activities in line with its Communications and Engagement Strategy.

Highlights included:

- promotion of the Accredited Internet Retailers Scheme on its first anniversary;
- monthly updates to vets in the Veterinary Record and quarterly updates to the pharmaceutical industry through the VMD's MAVIS newsletter;
- attendance at industry and public events with our publicity stand to promote awareness of the work of the VMD as well as our web-based systems and items of interest to the specific stakeholder group;

- working closely with veterinary, animal welfare groups and others to give out important messages on the responsible use of antibiotics including publicising the European Antibiotic Awareness Day;
- running sector specific engagement fora (ruminant, pig, poultry, fish and companion animal) with a wide range of representatives to facilitate open communication and discussion around the issues of antibiotic resistance;
- updating and publicising of key messages for vets on prescribing medicines for horses;
- handling an increasing number of media enquiries (e.g. on high-profile enforcement actions) and using media opportunities successfully (e.g. positive media coverage of the VMD's authorisation of a Schmallenberg vaccine); and
- running effective education and outreach programmes with lectures given to second/third year students at five of the eight UK vet schools.

Business Priority 3 – Value for Money

Achieve cost recovery and demonstrate progress in the three elements of Value for Money (Economy, Efficiency and Effectiveness) whilst maintaining appropriate work and delivery standards.

Note 5 to the Accounts shows that the VMD recovered 101% of its total costs (including Cost of Capital).

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

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

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

- reducing the annual fees charged to the pharmaceutical industry by £1.1 million and fees to the food industry by £0.1 million;
- announcing a significant reduction in fees for national variations to be implemented from 1 April 2014, amounting to an annual saving to the pharmaceutical industry of £300k;
- introducing electronic invoicing in some areas and starting to roll this out to all customers; and
- completing the scanning of historical data submitted in support of Marketing Authorisations leading to an overall annual saving on storage costs of £78k

Business Priority 4 – Capacity and Capability

Ensuring the VMD utilises its funding streams efficiently to maintain capability and capacity to deliver its business objectives and is fit for purpose.

The VMD continued to invest in the training and development of new staff. On average members of staff undertook 7 days of learning and development.

VMD achieved ISO 9001 certification in November 2013 for the whole business, with no non-conformities identified during the inspection. The VMD also retained its ISO 27001 security certification of its Information Technology (IT) systems.

VMD was subject to a BEMA (Benchmarking of European Medicines Agencies) audit in March 2014, with the visiting team rating the VMD highly and congratulating the organisation on having so many good examples of best practice in the network.

Throughout the year we continued to develop our IT systems to keep them fit for purpose. Examples of significant activities include: development of a new modular system to support our research and development programme, and an enhancement to the database system used to manage enforcement issues. The IT team continue to extend the support for our finance systems working towards integration between relevant systems to improve the efficiency of processes.

People Strategy

Staff Numbers

At 31 March 2014 we employed 156 permanent staff (152 full-time equivalent) and 10 temporary staff (9 full-time equivalent) 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 by gender are shown in Note 2 to the Accounts. The VMD complies with Equal Opportunities legislation and Departmental policy in relation to disabled employees. The VMD applies the Department's policies on equal opportunities and health and safety at work.

Employee Involvement

The VMD encourages staff involvement in its activities through a variety of channels including a VMD intranet, topic meetings, day-to-day line management contacts and diverse membership of project teams. Regular meetings review progress against the Business Plan and review risk. Office notices and the intranet are used to disseminate information. An annual staff meeting to review the work of the past year is addressed by the CEO. The VMD works 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 Departmental policies.

The VMD was re-accredited as an Investor in People (IiP) in 2012 and was awarded 'silver' status in recognition of the continuing efforts in the development and training of its staff.

The VMD took part in the EU Benchmarking process led by the Heads of Medicines Agencies in March 2014.

The results of benchmarking, IiP assessment and Civil Service wide employee engagement surveys have been used to inform continuous improvement throughout the year.

Health and Safety

Due to mainly low risk activities and size of the organisation the VMD continues to use the policies and advice services from Defra's Safety, Health & Wellbeing team. Only two minor work-related incidents were reported by employees during 2013/14.

Sickness Absence

The total full-time-equivalent days lost through staff sickness absence in the year was 581 compared to 827 in 2012/13. The average working days lost per employee during the year was 3.7 compared to 5.5 in 2012/13.

Pensions

Future pensions provision is made for all permanent staff through the provisions of either the Principal Civil Service Pension Scheme or a stakeholder pension scheme with employer contributions. Details of how pension liabilities are treated in the Accounts are provided in Note 2 to the Accounts and the Remuneration Report.

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 that were in place on 31 January 2012 or entered into subsequently. The VMD have nil engagements to report.

Environmental Matters and Social and Community Issues

Sustainability Report for the calendar year 2013

For more information please see Defra's Annual Report and Accounts – Section headed: "Sustainability in Defra", which covers the VMD.

Defra's Built Environment Sustainable Development Team provides the VMD with quarterly figures on each of the following categories. Due to the availability of data this report is based on data from Quarter 4 of 12/13 and Quarter 1 to 3 of 13/14. This is the same basis as used for the figures in the 2012/13 report.

GREENHOUSE GAS EMISSIONS		2013
Non-Financial Indicators (1,000 tCO2e)	Total gross emissions	0.27
	Total net emissions	-
	Gross emissions Scope 1 (direct)	-
	Gross emissions Scope 2 & 3 (indirect)	-
Related Energy Consumption (million KWh)	Electricity: Non-Renewable	0.36
	Electricity: Renewable	-
	Gas	0.43
	LPG	-
	Other	-
Financial Indicators (£ million)	Expenditure on Energy	0.034
	CRC License Expenditure (2012/13)*	0.003
	Expenditure on accredited offsets (e.g. GCOF)	0
	Expenditure on official business travel	0.154

*Carbon Reduction Commitment in the financial year 2012/13 £2,973 were submitted by the Department for Environment, Food and Rural Affairs on behalf of the VMD.

Greenhouse Gas Emissions – Performance Commentary (including measures)

Under the Greening Government Commitments the VMD has a commitment to reduce carbon emissions by 25% from the estate and business related travel from a 2009/10 baseline (of 254 tCO_2) by 2015. For the purposes of ongoing monitoring and assessment throughout the reporting period, Defra's Built Environment Sustainable Development Team developed annual indicative milestones based on a 5% reduction per annum which we will struggle to meet due to the constraints of the building.

Indicative Annual Milestone (tCO_2)

2011/12 – 228.6
2012/13 – 215.9
2013/14 – 203.2

2014/15 target – 190.5

Greenhouse Gas Emissions – Controllable Impacts Commentary

The main direct impacts for the VMD are in its electricity and gas consumption and significant changes to consumption cannot be made without considerable capital investment to introduce more energy efficient heat sources, reduce solar gain and the like. It should however be noted that we had a PowerStar voltage regulator fitted to the building and the strip lighting changed to the latest energy saving standard before the targets were set.

Greenhouse Gas Emissions – Overview of Influenced Impacts

Greening Government Commitment: To cut domestic business travel flights by 20% by 2015 from a 2009/10 baseline. Organisation Level Target: Currently recorded as having a zero indicative baseline. Staff undertake nearly all domestic business travel using the train.

WASTE			**2012**
Non-Financial Indicators (tonnes)	Total Waste		68.1
	Hazardous Waste	Total	0
	Non Hazardous Waste	Landfill	0
		Reused/recycled	0
		Composted	0
		Incinerated with energy recovery	68.1
		Incinerated without energy recovery	0
Financial Indicators (£k)	Total Disposal Cost		*
	Hazardous Waste		0
	Non Hazardous Waste	Landfill	0
		Reused/recycled	0
		Composted	0
		Incinerated with energy recovery	*
		Incinerated without energy recovery	0
The VMD does not have these figures. They are part of the overall estate costs and are not billed separately.			

Waste – Performance Commentary (including measures)

The figures are total waste production from the VMD building. All waste on the Weybridge site the VMD shares with Defra's Animal Health and Veterinary Laboratories Agency (AHVLA) goes into one stream to help the site incinerator burn less flammable waste such as animal bedding, carcasses etc. The Incineration Team extract glass and metals which are flash heat treated (to ensure biosecurity).

Under the Greening Government Commitments the VMD has a commitment to reduce the amount of waste generated by 25%, from a 2009/10 baseline, by 2015. For the purposes of ongoing monitoring and assessment throughout the reporting period, Defra's Built Environment Sustainable Development Team developed annual indicative milestones based on a 5% reduction per annum. Defra's Built Environment Sustainable Development Team re-baselined for the VMD when the Facilities Management contractor started to weigh waste from the VMD separately from the remainder of the site. The targets below have been revised as a consequence.

Indicative Annual Milestone (tonnes)

2011/12 – 43.7 (revised baseline based on 2011 calendar year)
2012/13 – 40.2
2013/14 – 36.7

2015 target – 33.2

Waste – Controllable Impacts Commentary

The main direct impacts of waste for the VMD are in relation to paper and other office related waste. There has been higher than normal levels of waste in the period reported because of the VMD's data cleansing, scanning and disposal project. The main scanning project is due to end during April 2014, and a review will then be undertaken to consider the practicalities of a further reduction in paper based files and other information. Waste is expected to decrease significantly when the work ends and as a result of electronic information sharing and filing.

We continue to work to reduce the Agency's paper usage and hence potential waste creation. We ordered 377 boxes of paper in 2010, 320 boxes in 2011 and 289 boxes in 2012. This figure reduced to 165 boxes in 2013. We are committed to meeting the Governmental target further to reduce paper consumption by 10% in the coming year through e-working in particular.

Waste – Overview of Influenced Impacts

The VMD introduced electronic submissions of applications data from the pharmaceutical industry and this has already led to a significant reduction in the amount of paper dossiers handled, stored and disposed of by the VMD.

<table>
<tr><th colspan="3">FINITE RESOURCE CONSUMPTION</th><th>2012</th></tr>
<tr><td rowspan="5">Non-Financial Indicators ('000 m^3)</td><td rowspan="3">Water Consumption (Office Estate)</td><td>Supplied</td><td>0.866</td></tr>
<tr><td>Abstracted</td><td>-</td></tr>
<tr><td>Per FTE</td><td>0.005</td></tr>
<tr><td rowspan="2">Water Consumption (Non-Office Estate)</td><td>Supplied</td><td>-</td></tr>
<tr><td>Abstracted</td><td>-</td></tr>
<tr><td rowspan="2">Financial Indicators (£k)</td><td colspan="2">Water Supply Costs (Office Estate)</td><td>1</td></tr>
<tr><td colspan="2">Water Supply Costs (Non-Office Estate)</td><td>-</td></tr>
</table>

Finite Resource: Water Consumption – Performance Commentary (including measures)

Under the Greening Government Commitments the VMD has a commitment to an overall reduction in water consumption by 2015, from a 2009/10 baseline and to improve site level water consumption per FTE. Based on an average of 160.24 FTEs our annual consumption would be 5.4 m^3 per head which just falls into the good performance level of consumption.

Finite Resource: Water Consumption – Controllable Impacts Commentary

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.

Finite Resource: Water Consumption – Overview of Influenced Impacts

We influence staff to use only the water they need.

Remuneration Report

Remuneration Policy

The remuneration of senior civil servants is set by the Prime Minister following independent advice from the Review Body on Senior Salaries. In reaching its recommendations, the Review Body has regard to the following considerations:

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

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

Service Contracts

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

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

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

Salaries and Pension Benefits (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 (£'000)[1]		Total (£'000)	
	2013-14	2012-13	2013-14	2012-13	2013-14	2012-13	2013-14	2012-13	2013-14	2012-13
SP Borriello Chief Executive	115-120	115-120	-	-	-	-	46,000	42,000	160-165	155-160
J Atkinson Director of Authorisations	70-75	70-75	5-10	5-10	-	-	1,000	37,000	80-85	110-115
P Green Director of Operations	65-70	65-70	-	-	-	-	9,000	9,000	75-80	75-80

[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.

'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.

Directors are appraised annually against a set of competencies and individually targeted objectives. Bonuses are the only form of remuneration subject to performance conditions. Bonuses paid in 2013/14 relate to performance in 2012/13 and bonuses paid in 2012/13 relate to performance in 2011/12.

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

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

No employer contributions were made to partnership pension accounts during 2012/13 or 2011/12 in respect of the VMD's Directors.

Pay Multiples

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 remuneration of the highest paid Director and the median member of staff excluding the highest paid Director were as shown in the following table:

Total remuneration	Highest paid Director £000	Median of other staff £	Pay multiple (ratio)
2013/14	115 - 120	30,656	3.9
2012/13	115 - 120	29,563	4.0

The banded remuneration of the highest paid Director in the VMD in the financial year 2013/14 was £115,000 to £120,000 (2012/13, £115,000 to £120,000). This was 3.9 times (2012/13, 4.0 times) the median remuneration of the workforce, which was £30,656 (2012/13, £29,563).

In 2013/14, no employees received remuneration in excess of the highest paid Director (2012/13: nil). Remuneration ranged from £13,127 to £118,587 (2012/13, £13,172 to £117,648).

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.

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.

Civil Service Pensions

Pension benefits are provided through the Civil Service pension arrangements. From 30 July 2007, civil servants may be in one of four defined benefit schemes; either a final salary scheme **(classic, premium or classic plus);** or a whole career scheme **(nuvos)**. These statutory arrangements are unfunded with the cost of benefits met by monies voted by

Parliament each year. Pensions payable under **classic, premium, classic plus** and **nuvos** are increased annually in line with Pensions Increase legislation. Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder pension with an employer contribution (**partnership** pension account).

Employee contributions are salary related and range between 1.5% and 6.25% of pensionable earnings for **classic** and 3.5% and 8.25% for **premium, classic plus and nuvos**. Increases to employee contributions will apply from 1 April 2014. Benefits in **classic** accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years initial pension is payable on retirement. For **premium**, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike **classic**, there is no automatic lump sum. **Classic plus** is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per **classic** and benefits for service from October 2002 worked out as in **premium**. In **nuvos** a member builds up a pension based on his pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with Pensions Increase legislation. In all cases members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

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

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

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

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

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 31/3/14 and related lump sum £000	Real Increase in pension and related sum at pension age £000	CETV at 31/3/14 £000	CETV at 31/3/13 £000	Real increase in CETV £000
SP Borriello Chief Executive	15-20 plus lump sum of 0	2.5-5 plus lump sum of 0	230	180	30
J Atkinson Director of Authorisations	25-30 plus lump sum of 30-35	0-2.5 plus lump sum decrease of (2.5)-0	405	376	(2)
P Green Director of Operations	15-20 plus lump sum of 50-55	0-2.5 plus lump sum of 0-2.5	300	274	5

External Management Board Members

Membership details of the Management Board are shown on page 29. The two external non-executive members also attend the Audit and Risk Committee (ARC). J Preston chairs the meeting. The following salaries and benefits-in-kind were paid to the external members:

2013/14	**J Preston £000**	**B Morris £000**
Salary (as defined above)	5-10	0-5
Benefits-in-kind	0-5	0-5
Total	**5-10**	**0-5**

2012/13	**J Preston £000**	**B Morris £000**
Salary (as defined above)	5-10	0-5
Benefits-in-kind	0-5	0-5
Total	**5-10**	**0-5**

Quarterly Performance Reporting Board (QPRB)

Membership details of the Quarterly Performance Reporting Board (QPRB) are shown on page 29. With the exception of the VMD, the QPRB members served only in their capacity as senior managers of the parent or other government department. Defra bears the cost of their representatives and the external members and details of these members' salaries, pensions, company directorships or other significant interests are included in their departments' Annual Report and Accounts. There are no external members of the QPRB.

Professor SP Borriello
Chief Executive
30 May 2014

The above signature covers pages 2 to19 and the content required by the FReM of the Directors Report, Strategic Report and Remuneration Report.

Statement of Accounting Officer's Responsibilities

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

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

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

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

Governance Statement

Governance Philosophy

The Veterinary Medicines Directorate (VMD), as a regulatory body, works on the principle that optimum governance and prevention of realisation of risk are only possible if the key tenets of governance are embedded as part of the working culture. In particular, our working ethos is of independence, integrity and impartiality, with awareness of conflicts of interest, probity, quality, continuous improvement and ongoing efficiency. This is facilitated and informed by active engagement with staff, stakeholders and customers, and a broad based recognition of the value of key elements of governance and an aspiration to do it well.

Improvements implemented during the year include further enhancement of performance management and management of sickness absence, designation of the Head of Finance as Fraud Officer, and achievement of whole agency ISO 9001 certification. We also retained ISO 27001 certification for our IT systems, and improved our staff engagement score to joint 6th highest in the civil service.

During the year the Soil Association (a charity primarily for the promotion of organic principles) suggested that as the VMD charges fees to businesses, the income from these may make us partial in our decisions. We are confident that this does not occur but we nevertheless identified this as a reputational risk. In response, we have now codified all of the mitigations in place to prevent conflicts of interest and made the Statement of Objectivity and Impartiality publicly available (see http://www.vmd.defra.gov.uk/pdf/VMD_Objectivity.pdf).

The Governance Framework

The VMD is an Executive Agency of the Department for Environment, Food and Rural Affairs (Defra). The Agency is the UK policy lead on veterinary medicines and, as the national competent authority, is responsible for the implementation of all aspects of the Veterinary Medicines Directive and related EU legislation.

The Secretary of State for Defra determines the overall policy and financial framework within which the VMD operates and the Defra ownership function is exercised by the Defra Chief Operating Officer (COO). The COO receives advice and challenge on the Agency’s strategic direction and performance from the VMD Management and VMD Corporate customer.

The Agency is led by the Chief Executive Officer, who is accountable to the Secretary of State for Defra for the performance and operation of the VMD and for the achievement of its business priorities in accordance with its Business Plan.

Quarterly performance reports, risk assessments and other management information flow from VMD to Defra, and are appropriately reported to the Quarterly Performance Review Board (QPRB), which is chaired by the COO. The QPRB concentrates on key performance indicators and underlying operational indicators (such as staff numbers and health and safety) at a high, “dashboard” level. The VMD Management Board and Audit and Risk Committee (ARC) are independently chaired by a Non-executive Director and between them also consider all the VMD’s business. These arrangements were agreed by the Secretary of State in December 2012. There are also numerous informal links and Non-executive Directors are engaged in a more flexible way and are consulted between Management Board meetings.

The overall governance structure and associated assurance as well as advice and challenge is enriched by independent advisory committees (see Annex A), regular fixed discussions between the Chief Executive and the Chief Veterinary Officer and Deputy Veterinary Officer, and being party to an external benchmarking process for our medicines functions and holding external certification for our IT functions. Our quality assurance is further strengthened by the whole organisation ISO 9001 certification, which covers all our operational processes.

Boards and Committees

Membership of Boards and Committees is shown at Annex B

VMD Quarterly Performance Review Board (QPRB)

The QPRB is the main governance board for the VMD, and usually meets quarterly. It provides assurance to the Minister through the Defra COO that the VMD has appropriate and effective mechanisms for financial control, audit and risk management.

The QPRB agrees the VMD's strategic direction, and provides the CEO with specific advice, support and challenge on:

- ensuring the alignment of the VMD's capacity and capability to deliver on behalf of Defra and Devolved Administrations;
- Ministerial targets and performance indicators to ensure they remain challenging;
- continuous review of 'shared' risks to the business and Defra;
- ensuring delivery against Ministerial and corporate performance targets taking account of the level of risk within the Business Plan;
- ensuring that Defra funding is sufficient to meet the requirements of the VMD's strategy;
- value for money improvements; and
- ensuring that contingency arrangements are in place.

During the year the QPRB considered the following governance and business documents:

- Annual Report & Accounts;
- Annual Business Plan, including Ministerial targets; and
- Terms of Reference for the Board and Committees.

Supporting the work of the QPRB are three additional governance bodies: the VMD Management Board (MB), the Audit and Risk Committee (ARC) and the Executive Management Board (EMB).

VMD Management Board

The VMD MB, chaired by a Non-executive Director (NED), is the internal governance board for the VMD and consists of the Chief Executive, the two Directors, other Defra attendees and two NEDs (one retiring in May 2013). In the interim period, pending appointment of additional NEDs, external challenge, assurance and governance was supplemented through independent members from the Defra network. For 2014/15 there will be three NEDs, who have already been appointed.

The Board met four times in the year. Each meeting is also attended by selected Heads of Teams as appropriate and applicable to the tabled Agenda.

The Board provides the Chief Executive with specific advice, support and challenge on:

- the delivery of key objectives agreed annually with the Minister and published in the VMD Business Plan;

- achieving value for money; and
- regularity and propriety in the administration and operation of the VMD.

  All Board members meet formally and informally with other senior managers, and engage closely with the business, to help give strong assurance and governance.

Audit and Risk Committee

The Audit and Risk Committee (ARC) meets quarterly and is the main oversight committee for the organisation. The Committee is chaired by a Non-executive Director. The Committee met five times during the year to advise the CEO on the adequacy and effectiveness of the VMD's governance and risk management frameworks. It was attended by, and received reports from, a number of senior staff, internal auditors Baker Tilly (formerly RSM Tenon) and external auditors (National Audit Office).

In July 2013, RSM Tenon Ltd and subsidiaries announced a merger with Baker Tilly. This did not change the contracted service arrangements between RSM Tenon and the Agency.

Highlights of Board and Committee Reports

The MB and ARC have a rolling agenda. Standard items are:

- Business Plan and Budget;
- Monthly financial and quarterly performance reporting;
- Key projects e.g. Efficiencies and Partnership Programme;
- Strategic risk management;
- New corporate policies, for example, considering the VMD's assessment of business prospects and potential opportunities and the methods of communication with stakeholders;
- Audit Reports.

The emphasis of consideration of these core items between the two committees differ, with risk implications and mitigations, audit programmes and audit findings being of key consideration for the ARC; and response, implementation and strategy being of key consideration for the MB.

Reports and updates received in 2013/14 were:

- Annual Budget and a three year plan
- Draft Annual Report and Accounts
- Draft Governance Statement
- Risk Register
- National Audit Office Management Letter
- Head of Internal Audit reports
- Internal Audit strategy and work plan
- Reports and recommendations from internal audits and progress on implementation of recommendations
- Focus topics: in-year these covered Antibiotic Resistance; VMD Business – Present & Future; Enforcement and Intelligence Sharing

Executive Management Board

The Chief Executive, Directors and Head of Finance meet on a weekly basis as the VMD's Executive Management Board (EMB). There is a standing Agenda to:

- Consider and respond to current business issues;
- Control the VMD's financial position on a monthly basis;

- Detailed assessment of all staff issues (e.g. training, sickness, performance) on a monthly basis;
- Agree on the handling of key operational issues on a monthly basis;
- Consider potential new risks/emerging risks;
- Review strategic risks to the organisation on a monthly basis; and
- Allocate human and financial resources in alignment with the strategic direction and business plan.

Effectiveness of the Boards' and Committees' performance

All committees and boards are required to keep full attendance records and minutes of each meeting and are disclosed as required and protected as necessary (See Annex B).

The MB and ARC assess their effectiveness at each meeting. A more formal assessment, as recommended by the Cabinet Office, of ARC and MB performance was carried out at the March 2014 meeting. This involved the use of a questionnaire developed by Core Defra which was adapted and issued to Committee members and regular attendees to complete where they had attended three or more meetings in the year. Against a bank of eight questions for ARC 97% of responses were positive, 1.5% neutral and 1.5% negative based on eight responses. For MB 79% of responses were positive, 19% neutral and 2% negative based on six responses. The Committees are content with the way that they are operating and that effective challenge is provided by the Non-executive Director and other Board members. This will be further strengthened when three new NEDs take up their posts in May 2014.

The minutes and action table provide evidence against which effectiveness of the EMB can be judged.

The MB and ARC routinely reviews the quality of the Management Information, performance data and operational indicators which align with VMD's strategic objectives. The Board considered the data presented to be of an appropriate quality.

Corporate Governance

The focus of HM Treasury's Corporate Governance Code is on ministerial departments and sets out the protocol, accountabilities and role of departmental boards. The VMD applies 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 EMB has formally assessed its compliance with the Corporate Governance Code to the extent that it relates to an Executive Agency and has assessed its effectiveness. It concluded that the Agency has complied with the principles and spirit of the Code during the year.

The EMB had been effective in the discharge of its responsibilities as evidenced by the full delivery of the 2013/14 Business Plan; the results of the 2013 annual staff survey (joint 6th highest score for engagement index out of 98 bodies for staff engagement); and the results of a survey, by Defra, of the VMD's policy customers. The outcomes of the EMB are reported to staff through the weekly Chief Executive's Newsletter.

Managing our risks

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

Risks facing the VMD fall under the following headings: a) Operational, b) Reputational, c) International, d) Financial, e) Legal. The degree of risk is measured by considering the likelihood and impact.

The strategic risk register is regularly reviewed by the EMB, MB and ARC. The risks are updated as necessary.

The strategic risks identified in 2013/14 were:

- Reduced confidence in veterinary medicines
- Reduced confidence in food safety
- Reduced confidence in the VMD
- Staffing levels/skill mix
- Quality of centralised support services
- Failure to balance the budget
- Inadequate disaster recovery procedures
- Risk of fraud
- Risk of litigation
- International process/regulation changes
- Inadequate quality external IT services
- Negative impacts of revised legislation
- Staff morale
- Security of location

During the year all of the risks that arose on the VMD's strategic risk register were recorded as being managed appropriately. In year, three key 'red risks' for the organisation were identified. Firstly, having appropriate resources to meet new initiatives, with increasing number of cross-government and Defra initiatives requiring VMD representation, which had presented a key challenge to the VMD as a small organisation. Secondly, the effect of imposed change including the effect of moving our web presence to Gov.UK and imposed support service changes, and thirdly the ability of partners to deliver elements of our work on behalf of the VMD. Bar these risks, by the last ARC meeting, all other risks had been managed down to levels deemed acceptable.

Some key actions we implemented and progressed to help control risks included more intelligent choice of representatives and selection of what we must contribute to Government/Defra initiatives, and 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, with the Chief Operating Officer and with the Corporate Customer.

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.

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

Effectiveness of risk management

Internal Audit Service

The Internal Audit Service:

- operates under the requirements set out in Government Internal Audit Standards and the IIA-UK's International Standards for the Professional Practice of Internal Auditing;
- complies with the Public Sector Internal Audit Standards, which were effective from 1 April; and
- provides regular reports following review and evaluation of the Agency's risk management, control and governance arrangements, making recommendations for improvements where appropriate.

In their Annual Report, which offers their annual opinion on the adequacy and effectiveness of risk management, control and governance, the Head of Internal Audit gave a Green assurance on the effectiveness and efficiency of the VMD's arrangements. The Board can take reasonable assurance that the controls upon which the organisation relies to manage risk are suitably designed, consistently applied and effective. Evidence was seen that the control environment was improving in a large number of areas. The implementation of recommendations raised and agreed by management for those issues identified in Internal Audit work will reduce the likelihood of risks materialising.

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

Quality Management System

The Quality Management System was introduced across all teams in the VMD in 2010. The Quality Management System ensures processes and procedures are documented. A series of audits are performed each year, using VMD staff drawn from across the organisation and trained in auditing. The audits whilst initially team based are now largely process based and provide assurance that the documented processes and procedures are followed, with opportunities for improvements being identified and recorded. The VMD has external certification of its systems to ISO 9001.

Business Critical Models and Quality Assurance

An appropriate quality assurance framework is in place to assess business models relevant to the Agency. Through the ARC and MB, the Agency obtains 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.

Business continuity and security

The VMD operates a Business Continuity Management system to ensure the operation of key activities in the event of a serious incident. This includes the IT disaster recovery site.

Data security remains critical and is assured by the VMD's maintenance of the Cabinet Office Security Standards, certification to ISO 27001 and Government Security Intranet (GSI) accreditation.

All staff are made explicitly aware of their responsibilities regarding the information of the Agency. In year, there was a 100% successful completion of the Responsible for Information online training.

Lapses in data security

There were no data security lapses that were deemed to be significant or critical during 2013/14.

Reporting of personal data related incidents

There were nil personal data-related incidents in the VMD in 2013/14. 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.

Significant issues

Good progress continued against our plans in 2013/14, however the significant issues being managed through the year and in the future are:

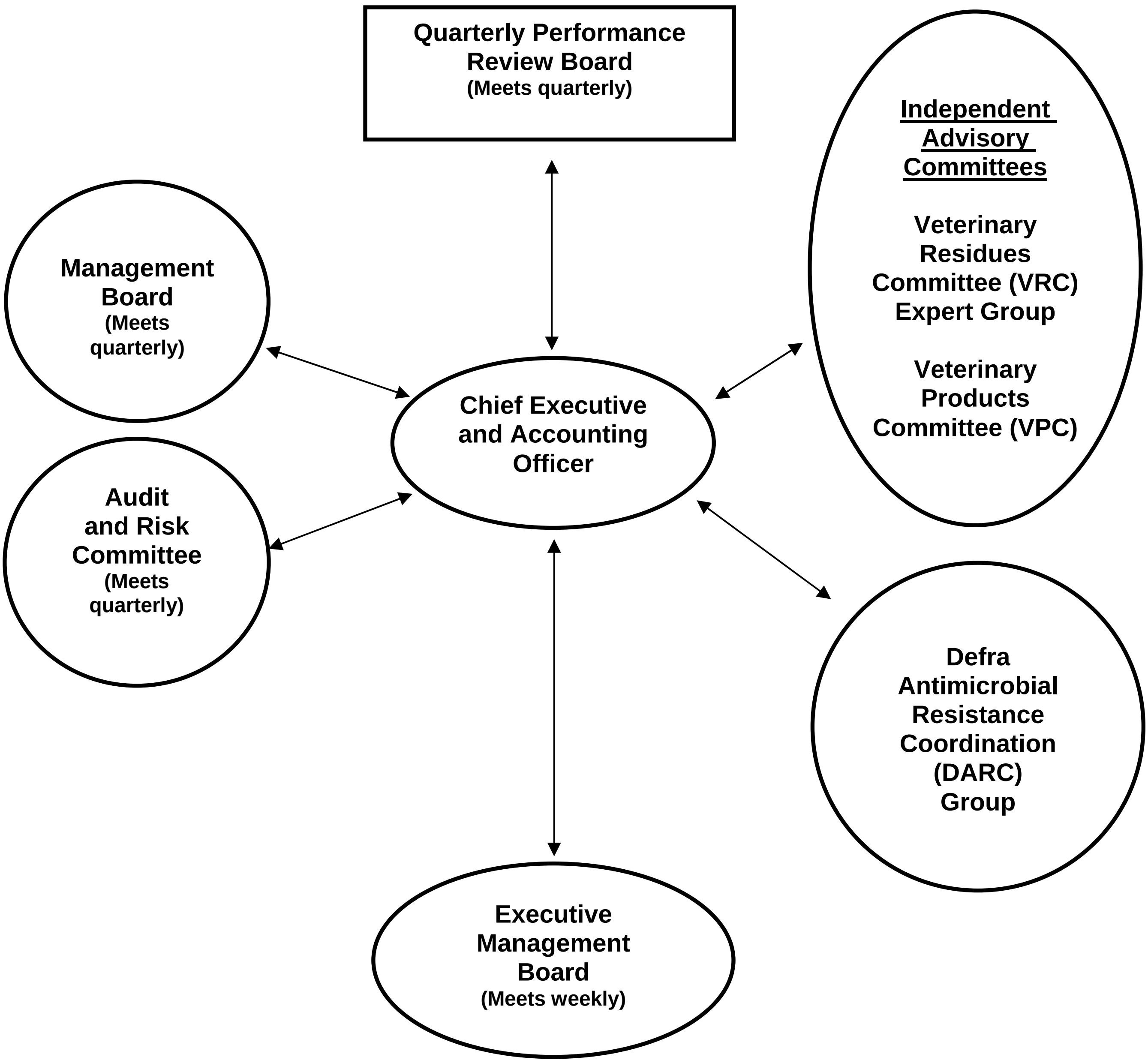
- the ability to attract or retain experienced professional staff, and the associated reward strategies in a climate of continued austerity, particularly in a buoyant veterinary medicines sector where demand for scarce experience and talent is high. Delivery pressures due to extended recruitment timings also need careful management, with flexible mechanisms being required to balance delivery needs and to respond to dynamic customer requirements.
- Access to capital and the increasing cost of centralised processes and contracts and estates investment.

S.P. Borriello

Professor SP Borriello
Chief Executive
30 May 2014

Annex A

The Veterinary Medicines Directorates' Governance Structure



Annex B

Attendance of Meetings

Quarterly Performance Reporting Board

The members who served during the year (in person or by teleconference) at the four meetings were:

Ian Trenholm	Director General, Chief Operating Officer, Corporate Owner (Chair)	3
Martin Hurst	Director of Commercial Directorate (Deputy Chair)	1
Alick Simmons	Deputy Chief Veterinary Officer, Corporate Customer	2
Richard Drummond	Deputy Corporate Customer (Deputising for Alick Simmons)	2
Peter Borriello	Chief Executive Officer, VMD	4

The Management Board

The Management Board members who served during the year and attendance at the four meetings were:

John Preston	External member (Chair)	4
Nigel Gibbens	Defra Chief Veterinary Officer	1
Neil Thornton	Defra member (member MB only)	2
Peter Borriello	Chief Executive and Agency Accounting Officer	4
Paul Green	Director of Operations	3
Jackie Atkinson	Director of Authorisations	4
Linda Simmons	Head of Finance	4
David Rayner	Head of Core Services, Quality and Communications	4
Alex Wood	Defra Network Bodies Oversight Team	2

Audit and Risk Committee

The Audit & Risk Committee members who served during the year and attendance at the five meetings were:

Members

John Preston	External member (Chair)	5
Brian Morris	External member (retired at May 2013 meeting)	1

Other Attendees

Peter Borriello	Chief Executive and Agency Accounting Officer	5
Paul Green	Director of Operations	4
Jackie Atkinson	Director of Authorisations	4
Linda Simmons	Head of Finance	5
David Rayner	Head of Core Services	5
Nigel Gibbens	Defra Chief Veterinary Officer	1
Neil Thornton	Defra	3
Phillip Hall	Defra Network Bodies Oversight Team	2
Alex Wood	Defra Network Bodies Oversight Team	2
Simon Helps	NAO	5
Hannah Moffat	NAO	1
Michelle Edmands	NAO	3

Beth Davey	Baker Tilly	1
Luke Thornley	Baker Tilly	1
Mark Jones	Baker Tilly	4
Helen Morris	Defra Internal Audit	1
Nathan Paget	Defra Internal Audit	1

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

I certify that I have audited the financial statements of the Veterinary Medicines Directorate (VMD) for the year ended 31 March 2014 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. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Accounting Officer and auditor

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

Scope of the audit of the financial statements

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

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.

Opinion on regularity

In my opinion, in all material respects 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.

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of VMD's affairs as at 31 March 2014 and of the net operating income for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

Opinion on other matters

In my opinion:

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

Matters on which I report by exception

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

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the part of the Remuneration 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.

Amyas C E Morse

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

5 June 2014

Statement of Comprehensive Net Expenditure

for the year ended 31 March 2014

	Note	2013/14 Staff costs £000	2013/14 Other costs £000	2013/14 Income £000	2012/13 £000
Administration costs:					
Staff costs	*2*	(7,804)			(7,300)
Other administrative costs	*3*		(6,224)		(6,479)
Operating Income	*4*			14,337	14,004
Totals		**(7,804)**	**(6,224)**	**14,337**	**225**
Net operating income				**309**	**225**
Other comprehensive net expenditure					
Items that will not be reclassified to net operating costs					
Net (loss)/gain on revaluation of Property, Plant and Equipment				(269)	(542)
Total comprehensive net income/(expenditure) for the year ended 31 March				**40**	**(317)**

All income and expenditure is derived from continuing operations.

All of the above income and expenditure is classified as "Administration".

The notes on pages 37 to 51 form part of these accounts.

Statement of Financial Position

as at 31 March 2014

	Note	**2013/14**		**2012/13**	
		£000	**£000**	**£000**	**£000**
Non-current assets:					
Property, plant and equipment	*6*	4,953		5,395	
Intangible assets	*7*	160		164	
Long term receivables	*8*	13		16	
Total non-current assets			**5,126**		**5,575**
Current assets:					
Trade and other receivables	*8*	2,438		2,913	
Cash and cash equivalents	*9*	5,486		3,997	
Total current assets			**7,924**		**6,910**
Total assets			**13,050**		**12,485**
Current liabilities:					
Trade and other payables	*10*	(2,542)		(2,311)	
Total current liabilities			**(2,542)**		**(2,311)**
Total assets less liabilities			**10,508**		**10,174**
Taxpayers' equity					
General fund			7,787		7,184
Revaluation Reserve			2,721		2,990
Total taxpayers' equity			**10,508**		**10,174**

S. P. Borriello

Professor SP Borriello
Chief Executive and Agency Accounting Officer
30 May 2014

The notes on pages 37 to 51 form part of these accounts.

Statement of Cash Flows

for the year ended 31 March 2014

	Note	2013/14 £000	2012/13 £000
Cash flows from operating activities:			
Net operating income		**309**	**225**
Adjustments for non-cash transactions:			
Depreciation, amortisation and revaluation losses	*3*	322	337
Defra Investigation Services - charged to General Fund	*3*	258	147
Auditors' remuneration - charged to General Fund	*3*	36	36
Decrease in trade and other receivables		478	343
Increase/(decrease) in trade and other payables		231	(388)
of which: (Increase) in accruals for non-current assets		(6)	(2)
Net cash inflow from operating activities		**1,628**	**698**
Cash flows from investing activities:			
Purchase of property, plant and equipment		(103)	(180)
Purchase of intangible assets		(36)	(50)
Net cash outflow from investing activities:		**(139)**	**(230)**
Net increase in cash and cash equivalents		**1,489**	**468**
Cash at the beginning of the year		**3,997**	**3,529**
Cash at the end of the year	*9*	**5,486**	**3,997**

The notes on pages 37 to 51 form part of these accounts.

Statement of Changes in Taxpayers' Equity

for the year ended 31 March 2014

	Note	**General Fund £000**	**Revaluation Reserve £000**	**Total Reserves £000**
Balance at 1 April 2012		**6,776**	**3,532**	**10,308**
Changes in taxpayers' equity for 2012/13:				
Net operating income for the year		225	-	225
Non-Cash adjustments:				
Defra Investigation Services - charged to General Fund	*3*	147	-	147
Auditors' remuneration - charged to General Fund	*3*	36	-	36
Movements in Reserves				
Net loss on revaluation of property, plant and equipment		-	(542)	(542)
Total recognised income and expense for 2012/13		**408**	**(542)**	**(134)**
Balance at 31 March 2013		**7,184**	**2,990**	**10,174**
Changes in taxpayers' equity for 2013/14:				
Net operating income for the year		309	-	309
Non-Cash adjustments:				
Defra Investigation Services - charged to General Fund	*3*	258	-	258
Auditors' remuneration - charged to General Fund	*3*	36	-	36
Movements in Reserves:				
Net loss on revaluation of property, plant and equipment		-	(269)	(269)
Total recognised income and expense for 2013/14		**603**	**(269)**	**334**
Balance at 31 March 2014		**7,787**	**2,721**	**10,508**

The notes on pages 37 to 51 form part of these accounts.

Notes to the Accounts

1. Statement of accounting policies

The financial statements have been prepared in accordance with the 2013/14 *Government Financial Reporting Manual (FReM)* and the Accounts Direction issued by HM Treasury.

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

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

1.1 Judgements and key sources of estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities 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.

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 £2,000 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 spread the valuation of property, plant and equipment and software licences by the straight-line method over the estimated useful life of the asset. Componentisation has been adopted for the Agency's freehold building asset, with each component capitalised and depreciated separately. Estimated useful lives, component values and residual values are revised annually.

Asset lives are normally within the following ranges:

Freehold land	Not depreciated
Freehold buildings	43 years (residual life)
Furniture, fittings and office equipment	10 years
IT hardware	5 years
IT software	5-10 years
Software licences	5-10 years

1.5 Impairment reviews

Property, plant and equipment and intangible assets are subject to an annual impairment review. Any impairment will be recognised as required by IAS 36 Impairment of Assets and accounted for as set out in *FReM*.

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 service recharges are charged to the Statement of Comprehensive Net Expenditure where invoiced. Where Defra service recharges are not invoiced they are charged to the General Fund. Defra services recharges relate to Investigation and Enforcement, Estates Maintenance and Human Resources.

1.9 Value Added Tax (VAT)

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

1.10 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. However the programme costs are borne by Defra and not by the VMD. Therefore only the costs of administering the programme are recognised in the VMD accounts.

1.12 Pensions

Past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS) which are described in the Remuneration Report and Note 2.3. The defined benefit schemes are unfunded and are non-contributory except in respect of dependants' benefits. The Agency recognises the expected cost of these elements on a systematic and rational basis over the period during which it benefits from employees' services by payment to the PCSPS of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS. In respect of the defined contribution schemes, the Agency recognises the contributions payable for the year.

1.13 Leases

All payments under operating leases are charged to the Statement of Comprehensive Net Expenditure. 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 "Administration". The classification of income or expenditure as administration or programme follows the definition of administration costs as set out in HM Treasury's Consolidation and Budgeting Guidance 2013/14.

1.15 General Fund

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

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

The VMD provides disclosure in Note 17 that it has not yet applied a new accounting standard and known and reasonable estimable information relevant to assessing the possible impact that initial application of the new standard will have on the VMD's financial statements.

2. Staff costs

2.1 Staff cost summary

Staff costs consist of the following:

	2013/14			2012/13
	Permanently employed staff	Temporary staff	Total	Total
	£000	£000	£000	£000
Wages and salaries	5,700	496	6,196	5,804
Social security costs	499	-	499	462
Other pension costs	1,109	-	1,109	1,034
Sub-total as reported in Statement of Comprehensive Net Expenditure	**7,308**	**496**	**7,804**	**7,300**
Less recoveries in respect of outward secondments	(2)	-	(2)	(57)
	7,306	**496**	**7,802**	**7,243**

Included in the permanently-employed staff costs is an accrual for untaken annual leave of £232,000, (2012/13: £182,000). This comprises of £181,000 (2012/13: £143,000) wages and salaries, £14,000 (2012/13: £11,000) social security costs and £37,000 (2012/13: £28,000) other pension costs.

2.2 Senior managers' remuneration

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

2.3 Pensions

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

For 2013/14, employers' contributions of £1,090,058 were payable to the PCSPS (2012/13: £1,015,000) at one of four rates in the range 16.7% to 24.3% of pensionable pay, based on salary bands (the rates in 2012/13 were between 17.1% and 25.5%). 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 2013-14 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 £7,030 (2012/13: £9,000) were paid to one or more of the panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3% to 12.5% of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay. In addition, employer contributions of £606, 0.8% of pensionable pay, 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.

At the balance sheet date, £472 in contributions were payable to the partnership pension providers (2012/13: £nil) and no contributions were prepaid (2012/13: £nil).

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

2.4 Early departure costs

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

	2013/14	2012/13
Exit package cost band	Number	Number
Up to £10,000	-	-
£10,001 – £25,000	1	-
£25,001 - £50,000	-	1
£50,001 - £100,000	-	-
Total number of exit packages in cost band	**1**	**1**

There were no compulsory exits in 2013/14 (2012/13: nil).

There were no senior manager exits in 2013/14 (2012/13: nil).

2.5 Staff numbers

The average number of persons employed during the year was as follows.

	2013/14			2012/13
	Permanently employed staff Number	Temporary staff Number	Total Number	Total Number
Scientific	49	4	53	45
Administrative	106	7	113	111
	155	**11**	**166**	**156**

The number of staff-in-post (headcount) by gender as at 31 March 2014 was as follows.

	2013/14		
	Male	Female	Total Number
Directors	2	1	3
Senior Management	-	-	-
Other staff	63	90	153
	65	**91**	**156**

3. Other administrative costs

	Note	2013/14 £000	2012/13 £000
(i) Direct subcontracting costs			
Services provided by Industry		32	33
Services provided by Other Government Departments:			
Food and Environment Research Agency		2,566	2,599
Food Standards Agency		515	460
Animal Health and Veterinary Laboratories Agency		813	812
Treasury Solicitors Department		98	185
Marine Scotland		86	106
Medicines and Healthcare products Regulatory Agency		15	12
Centre for Environment, Fisheries and Aquaculture Science		8	7
		4,133	**4,214**
(ii) Other costs			
IT systems maintenance		300	272
Travel and subsistence		174	176
Communications		87	111
Training		111	97
Stationery and publications		47	87
Independent expert committees		50	94
Professional programme and technical services		41	84
Document storage		23	39
Office related goods and services		17	34
Internal Audit		29	33
Operating leases		32	33
Movement on provision for bad debts		17	3
Other costs		73	85
		1,001	**1,148**
(iii) Departmental recharges			
Defra service recharges:			
Estates maintenance		347	391
Human Resources		127	88
Statutory Residues programme		-	118
Defra Investigation Service - charged to the General Fund		258	147
Auditors' remuneration – charged to the General Fund		36	36
		768	**780**
(iv) Depreciation, amortisation and revaluation losses			
Depreciation of property, plant and equipment	*6*	276	296
Amortisation of intangible assets	*7*	46	39
Losses on disposal of non-current assets		-	2
		322	**337**
Total other administrative costs		**6,224**	**6,479**

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

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

4. Operating income and costs

4.1 Operating Income

Income was earned from the following business segments:

	2013/14			2012/13
	External	**Defra**	**Total**	**Total**
	£000	**£000**	**£000**	**£000**
Veterinary Pharmaceutical Industry	7,451	17	7,468	7,334
Food Industry	3,689	46	3,735	3,766
Government	46	3,088	3,134	2,904
	11,186	**3,151**	**14,337**	**14,004**

4.2 Operating Costs

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

	2013/14	2012/13
	%	**%**
Veterinary Pharmaceutical Industry	77	77
Food Industry	3	4
Government	20	19
	100	**100**

5. Key Performance Target

The agency's 2013/14 Business Plan includes one key financial performance target: to achieve +/-2% cost recovery for the VMD as a whole. In assessing performance against this target, a notional Cost of Capital is recorded in addition to the costs included in the Statement of Comprehensive Net Expenditure. For 2013/14 an overall cost recovery of 101% was achieved. However the VMD seeks to achieve cost recovery for each of its three operating segments and for 2013/14 the results were as follows:

	2013/14			
	Veterinary Pharmaceutical Industry £000	**Food Industry £000**	**Government £000**	**Total £000**
Income	7,468	3,735	3,134	**14,337**
Expenditure	(7,265)	(3,724)	(3,039)	**(14,028)**
Net Operating Income per Statement of Comprehensive Net Expenditure	203	11	95	**309**
Less: cost of capital charge	(218)	(9)	-	**(227)**
Cost recovery surplus/(deficit)	(15)	2	95	**82**
Cost recovery performance	100%	100%	103%	**101%**

	2012/13			
	Veterinary Pharmaceutical Industry £000	**Food Industry £000**	**Government £000**	**Total £000**
Income	7,334	3,766	2,904	**14,004**
Expenditure	(7,126)	(3,836)	(2,817)	**(13,779)**
Net Operating Income per Statement of Comprehensive Net Expenditure	208	(70)	87	**225**
Less: cost of capital charge	(197)	(10)	-	**(207)**
Cost recovery surplus/(deficit)	11	(80)	87	**18**
Cost recovery performance	100%	98%	103%	**100%**

The information in Notes 4.2 and 5 is provided for fees and charges purposes and not for IFRS 8 (Segmental Reporting) purposes.

6. Property, plant and equipment

	Land £000	Buildings £000	IT Equipment £000	Furniture Fittings & Equipment £000	Total £000
Cost or Valuation:					
At 1 April 2013	430	7,421	1,163	328	9,342
Additions	-	-	103	-	103
Disposals	-	-	(101)	(15)	(116)
Revaluation	30	(496)	(97)	(14)	(577)
At 31 March 2014	**460**	**6,925**	**1,068**	**299**	**8,752**
Depreciation:					
At 1 April 2013	-	(2,725)	(944)	(278)	(3,947)
Charged in year	-	(214)	(51)	(11)	(276)
Disposals	-	-	101	15	116
Revaluation	-	215	80	13	308
At 31 March 2014	**-**	**(2,724)**	**(814)**	**(261)**	**(3,799)**
Net Book Value:					
At 31 March 2014	**460**	**4,201**	**254**	**38**	**4,953**
At 31 March 2013	430	4,696	219	50	5,395
Cost or Valuation:					
At 1 April 2012	470	8,250	936	366	10,022
Additions	-	-	180	-	180
Disposals	-	-	(83)	(44)	(127)
Revaluation	(40)	(829)	130	6	(733)
At 31 March 2013	**430**	**7,421**	**1,163**	**328**	**9,342**
Depreciation:					
At 1 April 2012	-	(2,805)	(857)	(305)	(3,967)
Charged in year	-	(235)	(49)	(12)	(296)
Disposals	-	-	81	44	125
Revaluation	-	315	(119)	(5)	191
At 31 March 2013	**-**	**(2,725)**	**(944)**	**(278)**	**(3,947)**
Net Book Value:					
At 31 March 2013	**430**	**4,696**	**219**	**50**	**5,395**
At 31 March 2012	470	5,445	79	61	6,055

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

The Land and Buildings were valued at 31 March 2014 by an independent valuer (DTZ) 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”.

7. Intangible assets

	£000
Cost or valuation:	
At 1 April 2013	892
Additions	42
Disposals	(3)
At 31 March 2014	**931**
Amortisation:	
At 1 April 2013	(728)
Charged in year	(46)
Disposals	3
At 31 March 2014	**(771)**
Net Book Value:	
At 31 March 2014	**160**
At 31 March 2012	164
Cost or valuation:	
At 1 April 2012	840
Additions	52
Disposals	-
At 31 March 2013	**892**
Amortisation:	
At 1 April 2012	(689)
Charged in year	(39)
Disposals	-
At 31 March 2013	**(728)**
Net Book Value:	
At 31 March 2013	**164**
At 31 March 2012	151

Intangible assets comprise software licences.

8. Trade receivables and other current assets

	2013/14	Reclassified 2012/13
	£000	**£000**
Amounts falling due within one year:		
Trade receivables	1,312	1,171
Balances with other central government bodies	2	510
Other receivables	7	6
VAT recoverable	56	49
Prepayments	118	119
Accrued Income	943	1,058
	2,438	**2,913**
Amounts falling due after more than one year:		
Other receivables	13	16
Total trade receivables and other current assets	**2,451**	**2,929**

Trade receivables are shown net of a provision of £24,000 (2012/13: £45,000) for bad and doubtful debts. The provision is calculated according to the age and status of the debt and recent sector-specific debt-recovery information.

Included in receivables there are no balances with local authorities, NHS bodies, public corporations or trading funds (2012/13: £nil).

Balances with other central government bodies at the year-end includes £2,000 with Defra and its agencies (2012/13: £510,000).

9. Cash and cash equivalents

	2013/14	2012/13
	£000	**£000**
Balance at 1 April	3,997	3,529
Net change in cash and cash equivalents	1,489	468
Balance at 31 March	**5,486**	**3,997**

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

10. Trade payables and other current liabilities

	2013/14	Reclassified 2012/13
	£000	£000
Amounts falling due within one year:		
Trade payables	75	22
Balances with other central government bodies	522	389
Balances with public corporations and trading funds	-	-
Other taxation and social security	151	169
Accruals	318	297
Deferred Income	1,476	1,434
Total trade payables and other current liabilities	**2,542**	**2,311**

Included in payables there are no balances with local authorities or NHS bodies (2012/13: £nil).

Balances with other central government bodies at the year-end includes £294,000 owing to Defra and its agencies (2012/13: £214,000).

At the year end the VMD had no payables falling due after more than one year (2012/13: £nil).

11. Capital commitments

There were no contracted commitments at 31 March 2014 (2012/13: £nil).

12. 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:

	2013/14	2012/13
	£000	£000
Contract Hire cars		
Not later than one year	25	27
Later than one year not later than five years	3	28
Total	**28**	**55**

13. Other financial commitments

Defra has entered into a non-cancellable contract (which is not a lease or PFI contract) for Estate Maintenance and Facilities Management services associated with buildings that are either leased by Defra or held on the Agency's Statement of Financial Position. The Agency incurs a charge proportionate to the benefit it receives from this contract. 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.

	2013/14	2012/13
	£000	£000
Not later than 1 year	173	172
Later than 1 year but not later than 5 years	693	687
Later than 5 years but not later than 10 years	867	1,031
Later than 10 years but not later than 15 years	-	-
Total	**1,733**	**1,890**

14. Losses statement

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*.

15. Related party transactions

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

The VMD has transacted with various other central government bodies. Most of these transactions have been with the Medicines and Healthcare products Regulatory Agency (MHRA), Food Standards Agency (FSA), Treasury Solicitors Department (TSol) and Marine Scotland. None of the board members, key managerial staff or other related parties has undertaken any material transactions with the VMD during the year other than reimbursement for travel and subsistence in the normal course of business.

16. Financial instruments

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

17. Impending application of newly issued standards not yet effective

The VMD has reviewed the IFRSs in issue but not yet effective to determine if it needs to make any disclosures in respect of those new IFRSs that are or will be applicable. References to 'new IFRSs' includes new interpretations and any new amendments to IFRSs and Interpretations. It has been determined that the following new standards relevant to the VMD were issued but not yet effective.

IFRS 13 Fair Value Measurement

This standard has not been adopted by the VMD ahead of its implementation date. The future impact of this is not considered to be significant.

The VMD has also reviewed the changes in the *FReM* and determined that there will be no significant impact on the accounts from 2013/14.

18. Events after the reporting period

The VMD's financial statements are laid before the House of Parliament by the Secretary of State for Defra. In accordance with the requirements of IAS10, 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. There are none to report.

Glossary

AHVLA	Animal Health and Veterinary Laboratories Agency
ARC	Audit and Risk Committee
CEO	Chief Executive Officer
COO	Chief Operating Officer
CEFAS	Centre for Environment, Fisheries and Aquaculture Science
CETV	Cash Equivalent Transfer Value
CMS	Concerned Member State
CVMP	Committee for Medicinal Products for Veterinary Use
DARC	Defra Antimicrobial Resistance Coordination Group
Defra	Department for Environment, Food & Rural Affairs
DG SANCO	Directorate General for Health and Consumers – European Commission
DH	Department of Health
EC	European Commission
EFQM	European Foundation for Quality Management
EMA	European Medicines Agency
EMB	Executive Management Board
EMRN	European Medicines Regulatory Network
EU	European Union
EFQM	European Foundation for Quality Management
Fera	Food and Environment Research Agency
FReM	Financial Reporting Manual
FSA	Food Standards Agency
FTE	Full Time Equivalent
GSi	Government Secure Intranet
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
IiP	Investors in People
IT	Information Technology
KPI	Key Performance Indictors
MA	Marketing Authorisation
MAFF	Ministry of Agriculture, Fisheries and Food
MB	Management Board
MHRA	Medicines and Healthcare products Regulatory Agency
NAO	National Audit Office
NED	Non-Executive Director
PCSPS	Principal Civil Service Pension Scheme
PFI	Public Finance Initiative
QPRB	Quarterly Performance Review Board
R&D	Research and Development
RMS	Reference Member State
SARs	Suspected Adverse Reactions
TSol	Treasury Solicitors Department
VMD	Veterinary Medicines Directorate
VMP	Veterinary Medicinal Product
VPC	Veterinary Products Committee

ASSURING THE SAFETY, QUALITY & EFFICACY OF VETERINARY MEDICINES

The Veterinary Medicines Directorate
Woodham Lane, Addlestone, Surrey, KT15 3LS
Telephone: +44 (0)1932 336911 Fax: +44 (0)1932 336618
Web: www.vmd.defra.gov.uk

Department for Environment Food & Rural Affairs

ISBN 978-1-4741-0235-3
9 781474 102353