Veterinary Medicines Directorate

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

Accounts 2005-06

Statement of Accounting Officer's Responsibilities

Under the Government Resources and Accounts Act 2000 HM Treasury has directed the Veterinary Medicines Directorate to prepare a statement of accounts for each financial year in the form and on the basis set out in the accounts direction on page 59 of these Annual Report and Accounts.

The accounts are prepared on an accruals basis and must give a true and fair view of the Agency's state of affairs at the year end and of its income and expenditure, total recognised gains and losses and cash flows for the financial year.

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

- observe the Accounts Direction issued by the 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;
- 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 Agency. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the Agency's assets, are set out in the Accounting Officers' Memorandum, issued by the Treasury and published in "Government Accounting".

Statement of Internal Control

1. Scope of responsibility

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

I am responsible for the day-to-day management of the VMD including the production of the Agency's resource accounts and resource accounting returns, and to the Secretary of State for the Department for Environment, Food and Rural Affairs (Defra) for the VMD's performance and operation. I am responsible for securing efficiency and the economical conduct of business and for the propriety and regularity of the public funds for which I am responsible.

The Secretary of State for Defra determines the overall policy and financial framework within which the VMD operates, but is not involved in the day-to-day management of the Agency. The Secretary of State exercises the ownership function in relation to the VMD and receives advice on the Agency's strategic direction and performance from the Regulatory Agencies Strategy Board (RASB). The role of the RASB includes assuring Ministers that the VMD has appropriate and effective mechanisms for financial control, audit and risk management.

Internal controls in the VMD are directed towards managing risks threatening the satisfactory discharge of these responsibilities. This Statement on Internal Control describes the arrangements in place within the VMD for risk management.

2. The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of departmental policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in the VMD for the year ended 31 March 2006 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

3. Capacity to handle risk

As Chairman of the VMD's Management Board, I have responsibility for providing the strategic leadership necessary to endorse the VMD's risk management procedures and to ensure that they are being implemented appropriately throughout the Agency. Information on the VMD's risk management procedures, together with copies of the Risk Register has been made available to all staff via a dedicated site on the VMD's Intranet. This site sets out the procedures through which risk management is integrated into the VMD's operating practices and business planning. In particular, it defines the management structures and the ownership of risk, as well as the audit systems that are in place to check on our risk management systems. These measures are directed towards ensuring a common understanding of the terminology used in relation to the management of risk as well as describing the procedures that have been put in place to manage risk within the Agency. The site also provides cross-links to a more extensive site on the Defra Intranet.

The VMD's Intranet has been subject to technical difficulties since the end of the financial year. This involved the loss of some functionality due to errors in the back-up restoration. As a result, there has been a temporary lapse in the availability of the information described in the above paragraph, although this information has been available by other means.

The continued use within the Agency of project management processes has increased the awareness of staff towards the management of risk and encouraged the use of good practice.

Taken together, the measures described above have met the proposals outlined in my Statement on Internal Control attached to the 2004-05 Annual Accounts to:

- Continue to develop systems for the identification and analysis of risks at all levels throughout the Agency.
- Continue to ensure that risk management procedures are fully embedded at an appropriate level throughout the Agency in its project driven work as well as within each business area.
- Continue to build upon the advice contained within the intranet site and reassess risk training and awareness processes.

4. The risk and control framework

As Accounting Officer, I have responsibility for reviewing the effectiveness of the systems for internal control to manage risk. The procedures in place at the VMD are designed to ensure a regular review of the risks facing the Agency linked with an active consideration of the possible options for managing that risk down to an acceptable level of residual exposure. The VMD's Risk Register, that contains the top ten risks facing the Agency, is reviewed monthly by myself and the VMD's Directors to consider the current status of those risks and to consider whether any new risks are emerging that would mitigate against the achievement of the Agency's objectives. A Change Summary document is completed to enable the date and reason for any changes made to a specific risk to be readily established. As indicated in the preceding section copies of both the Risk Register and the Change Summary document are placed on the VMD's Intranet site to inform staff.

Each high level risk has an identified owner responsible for the management of that risk. This enables the appetite for the risk to be determined and identifies the measures necessary to reduce the level of risk to the lowest possible level.

In addition to the identification and management of key high-level risks, the VMD seeks to identify risks that could affect the successful outcome of its project driven work. This enables the level of risk to be identified at the planning stage of the project and reviewed throughout the project's life and plays an important role in ensuring that project milestones are met and the desired outcome delivered.

5. Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the department who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Management Board, the Audit & Risk Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

Accountability: Risks contained within the VMD's Risk Register are 'owned' by either a Director or myself and are subject to monthly review. Risks are also being managed within individual policy and business areas of the Agency through the use of branch risk registers or business development plans. These are 'owned' by the respective Departmental Heads and progress against them is reported, at regular intervals, to Directors. In addition, risk registers are maintained for each project and the status of the risks within them are reported on at each Project Board meeting. These measures provide me with assurance that an appropriate level of risk identification, evaluation and control is being maintained within the Agency.

Audit: The effectiveness of the system of internal control is informed by the work of the internal and external auditors in the form of reports and management letters. I have also been advised on the effectiveness of the system of internal control by the Management Board and through the work of the Audit & Risk Committee.

Regular review: At each of its meetings the VMD's Audit & Risk Committee is given the opportunity to comment on the Risk Register. The Committee has also commenced an ongoing review of the VMD's business processes and this is providing me with further reassurance on the operation, governance and audit of the Agency's business functions. In addition, their advice and contributions continue to be valuable in assisting the Accounting Officer and senior staff in the development of risk management and control strategies. The VMD's Management Board receives reports from the Chairman of the Audit & Risk Committee at each of its meetings. The VMD has an Internal Audit Service provided by Defra's Internal Audit Division under a Service Level Agreement, which operates under Government Internal Audit Standards. It provides regular reports that include the Head of Internal Audit's independent opinion on the adequacy and effectiveness of the Agency's systems on internal control together with recommendations for improvements.

6. Significant internal control problems

No significant internal control problems have been identified during the course of the year in relation to the management of risk within the VMD. I recognise, however, that the VMD needs to continue to build on the procedures and processes that it already has in place.

Steve Dean
Chief Executive

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

I certify that I have audited the financial statements of the Veterinary Medicines Directorate for the year ended 31 March 2006 under the Government Resources and Accounts Act 2000. These comprise the Income and Expenditure Account and Statement of Total Recognised Gains and Losses, the Balance Sheet, the Cashflow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Agency, the Chief Executive and auditor

The Agency and Chief Executive are responsible for preparing the Annual Report and the financial statements in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Accounting Officer's Responsibilities.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and whether the part of the Remuneration Report to be audited has been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report to you if, in my opinion, the Annual Report is not consistent with the financial statements, if the Agency has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by relevant authorities regarding remuneration and other transactions is not disclosed.

I review whether the statement on pages 54 to 56 reflects the Agency's compliance with HM Treasury's guidance on the Statement on Internal Control, and I report if it does not. I am not required to consider whether the Accounting Officer's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Agency's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This information comprises only the sections entitled About Us, Preparation and Audit of the Accounts, Management Commentary, the unaudited parts of the Remuneration Report, Meeting Our Objectives and the Appendices. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Agency and Chief Executive in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Agency's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error and that in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

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

Opinions

In my opinion:

- the financial statements give a true and fair view, in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by HM Treasury, of the state of the Agency's affairs as at 31 March 2006 and of the surplus, total recognised gains and losses and cashflows for the year then ended;
- the part of the Remuneration Report to be audited has been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000; and
- in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I have no observations to make on these financial statements.

John Bourn
Comptroller and Auditor General
National Audit Office

157-197 Buckingham Palace Road
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London SW1W 9SP

31 May 2006

The maintenance and integrity of the Agency's website is the responsibility of the Accounting Officer; the work carried out by the auditors does not involve consideration of these matters and accordingly the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Veterinary Medicines Directorate

Accounts direction given by the Treasury in accordance with section 7(2) of the Government Resources and Accounts Act 2000

1. This direction applies to the Veterinary Medicines Directorate, an executive agency of the Department for Environment, Food & Rural Affairs.
2. This executive agency shall prepare accounts for the year ended 31 March 2006 in compliance with the accounting principles and disclosure requirements of the edition of the Government Financial Reporting Manual issued by H M Treasury (the "FReM") which is in force for 2005-06.
3. The accounts shall be prepared so as to:
   (a) give a true and fair view of the state of affairs as at 31 March 2006 and of the income and expenditure, total recognised gains and losses, and cash flows of the agency for the financial year then ended; and
   (b) provide disclosure of any material expenditure or income that has not been applied to the purposes intended by Parliament or material transactions that have not conformed to the authorities which govern them.
4. Compliance with the requirements of the FReM will, in all but exceptional circumstances, be necessary for the accounts to give a true and fair view. If, in these exceptional circumstances, compliance with the requirements of the FReM is inconsistent with the requirement to give a true and fair view the requirements of the FReM should be departed from only to the extent necessary to give a true and fair view. In such cases, informed and unbiased judgement should be used to devise an appropriate alternative treatment, which should be consistent with both the economic characteristics of the circumstances concerned and the spirit of the FReM. Any material departure from the FReM should be discussed in the first instance with the Treasury.

David Cruden FCA
Head of the Central Accountancy Team, Her Majesty's Treasury

13 January 2006

Veterinary Medicines Directorate

Income and expenditure account for the year ended 31 March 2006

Notes		2006 £'000	2006 £'000	2005 £'000	2005 £'000
	Income				
2	Income from activities	**13,184**		12,470	
3	Less – Direct subcontracting costs	**(4,434)**		(4,160)	
	Net Income		**8,750**		8,310
	Operating Unit expenditure				
4	Staff costs	**(5,667)**		(5,344)	
8 & 9	Depreciation and revaluation losses	**(365)**		(397)	
5	Other operating costs	**(1,448)**		(1,413)	
	VMD operating costs for year		**(7,480)**		(7,154)
	Operating result before departmental charges and other costs		**1,270**		1,156
	Departmental charges and other costs				
	Defra service recharges	**(565)**		(770)	
	Independent Expert Committees	**(166)**		(182)	
			(731)		(952)
	Operating surplus before interest on capital		**539**		204
7	Interest on capital		**(196)**		(198)
	Operating surplus for the year		**343**		6
	Operating surplus brought forward		**388**		382
	Operating surplus for the year		**343**		6
14	**Operating surplus carried forward**		**731**		388

Statement of total recognised gains and losses

Notes		2006 £'000	2005 £'000
	Operating surplus for the year	**343**	6
13	Fixed asset revaluations not reported in the operating surplus/deficit	**235**	(335)
	Total gains/(losses) recognised since the last annual report	**578**	(329)

All activities arise from continuing operations.
The notes on pages 63 to 73 form part of these accounts.

Balance Sheet as at 31 March 2006

Notes		2006		2005	
		£'000	£'000	£'000	£'000
	Fixed assets				
8	Intangible assets	**148**		127	
9	Tangible assets	**5,301**		5,150	
			5,449		5,277
	Current assets				
10	Debtors and prepayments	**2,600**		1,357	
11	Cash at bank	**3,611**		3,909	
		6,211		5,266	
	Creditors: amounts falling due within one year				
12	Creditors and deferred income	**(1,804)**		(1,026)	
	Net current assets		**4,407**		4,240
	Total assets less current liabilities		**9,856**		9,517
	Financed by				
13	Revaluation Reserve		**1,805**		1,570
14	General fund		**8,051**		7,947
			9,856		9,517

S P Dean

S P Dean
Chief Executive and Agency Accounting Officer
25 May 2006

The notes on pages 63 to 73 form part of these accounts.

Cash flow statement for the year ended 31 March 2006

Notes		2006 £'000	2005 £'000
19(i)	**Net cash inflow from operating activities**	**1,054**	1,070
	Capital expenditure and financial investment:		
	– Payments to acquire intangible fixed assets	**(68)**	(94)
	– Payments to acquire tangible fixed assets	**(261)**	(230)
	Cash inflow before management of liquid resources and financing	**725**	746
	Financing:		
	Repayment of Defra operational funding	**(1,023)**	(539)
19 (ii)	**(Decrease)/increase in cash in the year**	**(298)**	207

The notes on pages 63 to 73 form part of these accounts.

Notes to the accounts

1. Statement of accounting policies

The financial statements have been prepared in accordance with the 2005-06 Financial Reporting Manual (FReM) issued by HM Treasury. Where the FReM permits a choice of accounting policy, the accounting policy which has been judged to be most appropriate to the particular circumstances of the agency for the purpose of giving a true and fair view has been selected. The agency's accounting policies have been applied consistently in dealing with items considered material in relation to the accounts.

1.1 Accounting Convention

These accounts have been prepared under the historical cost convention modified to account for the revaluation of fixed assets at their value to the business by reference to their current costs.

1.2 Tangible fixed assets

Tangible fixed assets are capitalised if the purchase cost equals or exceeds £500 and where there is an expected useful economic life of more than one year. All tangible fixed assets are stated at the lower of replacement cost and recoverable amount. On initial recognition they are measured at cost including any costs such as installation directly attributable to bringing them into working condition. Fixed assets are restated to current value each year. Land and buildings are restated to current value using professional valuations in accordance with FRS 15 every five years and in the intervening years by the use of published indices appropriate to the type of land or building. Non-property operational assets are restated to current value using published indices.

1.3 Depreciation

Tangible fixed assets are depreciated at rates calculated to write them down to estimated residual value on a straight-line basis over their estimated useful lives. Depreciation is charged in the month of disposal but not in the month of purchase. Asset lives are normally in the following ranges:

Freehold land	Not depreciated
Freehold buildings	40 years
IT equipment	3-4 years
Computer software licences	2-20 years
Furniture and fittings	10 years
Office equipment	10 years

1.4 Intangible fixed assets

Purchased computer software licences are capitalised as intangible fixed assets where expenditure of £500 or more is incurred. Such assets are revalued only where it is possible to obtain a reliable estimate of their market value. Software licences are amortised over the shorter of the term of the licence and the useful economic life. The useful economic life of software licences is normally estimated to be three years.

1.5 Income from activities

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

1.6 Value Added Tax (VAT)

Most of the activities of the agency are outside the scope of VAT and, in general output tax does not apply and input tax on purchases is not recoverable. Irrecoverable VAT is charged to the relevant expenditure category or included in the capitalised purchase cost of fixed assets. Where output tax is charged or input VAT is recoverable, the amounts are stated net of VAT.

1.7 Defra service recharges

Central Department for Environment, Food and Rural Affairs (Defra) overheads are charged on a notional basis and included in the accounts. The charges cover central services such as Establishments, Human Resources, Legal Services and IT.

1.8 Deferred income

Deferred income represents the portion of fees and charges that are invoiced in advance of the provision of services to which they relate.

Notes to the accounts (continued)

1.9 Recovery from Government Funds

From 1 April 1991 the VMD took over responsibility for managing the research and development programme on veterinary medicines. These costs do not form part of the cost recovery targets and are not borne by industry.

1.10 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 4(a). The defined benefit schemes are unfunded and are non-contributory except in respect of dependants' benefits. The department 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.

1.11 Leases

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

2 Income

(a) Income from activities

Income was earned from the following main business activities:

	2006 £'000	2005 £'000
Licensing	**5,387**	4,943
Residues – Statutory scheme	**3,874**	3,748
– Non-statutory scheme	**978**	982
Policy	**2,831**	2,797
Animal Medicines Inspectorate	**114**	–
	13,184	12,470

(b) Key Performance Target

The VMD had been set one key financial performance target in 2005-06:
to achieve cost recovery for the VMD as a whole.

Results:

An overall cost recovery of 102.7% was achieved. Cost recovery performance within each of the VMD principal business areas was as follows:

Licensing	2006 £'000	2005 £'000
Income	**5,387**	4,943
Staff costs	**(3,449)**	(3,350)
Depreciation and revaluation losses	**(222)**	(249)
Subcontracting costs	**(150)**	(117)
Other costs	**(1,146)**	(1,161)
Total income less costs (cost recovery) = 108.5%	**420**	66

Residues – statutory scheme	2006 £'000	2005 £'000
Income	**3,874**	3,748
Staff costs	**(366)**	(378)
Depreciation and revaluation losses	**(24)**	(28)
Subcontracting costs – testing and collection	**(3,430)**	(3,251)
Other costs	**(176)**	(207)
Total income less costs (cost recovery) = 96.9%	**(122)**	(116)

Residues – non-statutory scheme:	2006 £'000	2005 £'000
Income	**978**	982
Staff costs	**(82)**	(94)
Depreciation and revaluation losses	**(5)**	(7)
Subcontracting costs – testing and collection	**(839)**	(792)
Other costs	**(41)**	(52)
Total income less costs (cost recovery) = 101.1%	**11**	37
Total residues result (cost recovery) = 97.8%	**(111)**	(79)

Notes to the accounts (continued)

Policy	2006 £'000	2005 £'000
Income	**2,831**	2,797
Staff costs	**(1,674)**	(1,522)
Depreciation and revaluation losses	**(108)**	(113)
Other costs	**(968)**	(1,143)
Total income less costs (cost recovery) = 102.9%	**81**	19

Animal Medicines Inspectorate	2006 £'000	2005 £'000
Income	**114**	–
Staff costs	**(96)**	–
Depreciation and revaluation losses	**(6)**	–
Subcontracting costs – testing and collection	**(15)**	–
Other costs	**(44)**	–
Total income less costs (cost recovery) = 70.8%	**(47)**	–

The information in Note 2 is provided for fees and charges purposes, not for SSAP25 purposes.

Results: (continued)

The VMD's AMI business commenced on 1 January 2006 when the function and staff were transferred from the RPSGB. The results shown for the AMI in 2005-06 therefore represent three months' activity and no corresponding figures for 2004-05 are shown. AMI income and expenditure relate to the approval of:

- premises for the retail supply of veterinary medicinal products by "suitably qualified persons"; and
- the manufacture and distribution of feedingstuffs.

Subcontracting costs for the Statutory Residues business include £311,000 payable to the State Veterinary Service (SVS) and £76,000 payable to Defra. The amount payable to the SVS represents sample collection costs for the financial year. The amount payable to Defra is a charge for sample collection costs for the period January to March 2005 not previously recorded.

In arriving at the cost recovery result for each business area some costs, such as salaries and training, have been apportioned on the basis of the VMD's work recording system. The results of this exercise during 2005-06 show that staff time was utilised as follows:

	2006	2005
	%	%
Licensing	**61**	63
Policy	**30**	28
Residues – statutory scheme	**6**	7
– non-statutory scheme	**1**	2
Animal Medicines Inspectorate (from 1 January 2006)	**2**	–
Total	**100**	100

Some costs, such as residues testing costs, have been allocated specifically. Other costs, such as legal services, have been allocated on the basis of usage.

For 2005-06, as required by the HM Treasury Financial Reporting Manual, notional insurance costs have not been charged. Notional insurance is however still charged in arriving at costs recovered from industry under statute, as required by HM Treasury. This cost amounted to £10,000 in 2005-06 (2004-05: £10,000).

3 Direct subcontracting costs

Amounts charged in the Income & Expenditure Account for subcontractors' costs:	**2006**	2005
	£'000	£'000
Costs of licensing and inspection activities payable to the Medicines and Healthcare products Regulatory Agency	**(150)**	(117)
Costs of non-statutory residues surveillance, including sample collections, and analysis work performed by the Central Science Laboratory	**(839)**	(792)
Costs of statutory residues surveillance, including sample collections, and analysis work performed by LGC Limited	**(3,430)**	(3,251)
Costs of Animal Medicines Inspectorate sample analysis	**(15)**	–
	(4,434)	(4,160)

4 Staff costs

(a) Staff costs consist of:

	2006			2005
	Permanently employed staff	**Others**	**Total**	Total
	£'000	**£'000**	**£'000**	£'000
Wages and salaries	**(4,221)**	**(262)**	**(4,483)**	(4,421)
Social security costs	**(362)**	**–**	**(362)**	(342)
Other pension costs	**(822)**	**–**	**(822)**	(581)
Sub-total as reported in income and expenditure account	**(5,405)**	**(262)**	**(5,667)**	(5,344)
Less recoveries in respect of outward secondments	**4**	**–**	**4**	66
Total net costs	**(5,401)**	**(262)**	**(5,663)**	(5,278)

The salary and pension entitlements of the senior managers of the agency, and an explanation of pension benefits is included in the Remuneration Report.

The PCSPS is an unfunded multi-employer defined benefit scheme but the VMD is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out at 31 March 2003 and details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

The Agency Chief Executive's total remuneration including non-pensionable performance bonus in 2005-06 was £88,848 (2004-05: £86,937).

For 2005-06, employer contributions of £812,000 were payable to the PCSPS (2004-05: £575,000) at one of the four rates in the range 16.2% to 24.6% of pensionable pay, based on salary bands (the rates in 2004-05 were between 12.0% and 18.5%). Rates will remain the same next year, subject to revalorisation of the salary bands. Employer contribution rates are to be reviewed every four years following a scheme valuation by the Government Actuary. Contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

Employer's contributions of £10,000 (2004-05: £6,000) were paid to one or more of a panel of four appointed stakeholder pension providers. Employer contributions are age-related and range from 3 to 12.5 per cent of pensionable pay. No employer contributions (2004-05: £nil) were payable to PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees. Contributions due to the partnership pension providers at the balance sheet date were £nil (2004-05: £nil). Contributions prepaid at that date were £nil (2004-05: £nil).

(b) The average number of whole-time equivalent persons employed during the year was as follows:

	2006			2005		
	Total	**Permanently employed staff**	**Others**	Total	Permanently employed staff	Others
Scientific	**37**	**36**	**1**	38	38	–
Administrative	**105**	**94**	**11**	105	90	15
	142	**130**	**12**	143	128	15

"Others" shown above comprises agency staff.

Notes to the accounts (continued)

5 Other operating costs

These are made up as follows:

	2006 £'000	2005 £'000
Travel and subsistence	**(120)**	(135)
Training	**(110)**	(159)
Provision for bad debts	**(55)**	(29)
IT systems maintenance costs	**(235)**	(244)
Communications	**(68)**	(66)
Audit fees (notional)	**(23)**	(22)
Accommodation utility charges	**(97)**	(111)
Other costs	**(740)**	(647)
	(1,448)	(1,413)

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

6 Research and development

From 1 April 1991 the VMD took over responsibility for the management of the Research and Development programme on veterinary medicines on behalf of the Defra policy customer. These costs do not form part of the VMD cost recovery targets, are not reported in the VMD's Income & Expenditure Account, and are not borne by industry.

The work is currently commissioned with several providers and amounts to £2.0m (2004-05: £2.0m).

7 Interest on capital

In accordance with the HM Treasury Financial Reporting Manual, the interest on capital charge is notional and applies to all assets and liabilities in the balance sheet, with liabilities attracting a negative charge (ie a credit). The charge is at a rate set by HM Treasury of 3.5% (2004-05: 3.5%), with the exception of cash balances with the Office of HM Paymaster General where the charge is at a nil rate.

8 Intangible fixed assets

Computer Software Licences

	£'000
Cost or Valuation:	
At 1 April 2005	514
Additions	77
At 31 March 2006	591
Amortisation:	
At 1 April 2005	(387)
Provided during year	(56)
At 31 March 2006	(443)
Net Book Value:	
At 31 March 2006	**148**
At 31 March 2005	127

Notes to the accounts (continued)

9 Tangible fixed assets

	Freehold Property £'000	IT Equipment £'000	Office Equipment £'000	Furniture & Fittings £'000	Total £'000
Cost or Valuation:					
At 1 April 2005	4,750	905	54	236	5,945
Additions	79	131	–	15	225
Disposals	–	(84)	–	(9)	(93)
Revaluation	237	(36)	–	5	206
At 31 March 2006	5,066	916	54	247	6,283
Depreciation:					
At 1 April 2005	–	(619)	(27)	(149)	(795)
Provided during year	(114)	(156)	(5)	(23)	(298)
Disposals	–	83	–	7	90
Revaluation	(4)	28	–	(3)	21
At 31 March 2006	(118)	(664)	(32)	(168)	(982)
Net Book Value:					
At 31 March 2006	**4,948**	**252**	**22**	**79**	**5,301**
At 31 March 2005	4,750	286	27	87	5,150

Revaluation movements result from the indexation and/or the revaluation of fixed assets.

The depreciation and revalution losses figure of £365,000 shown in the Income & Expenditure Account includes £8,000 indexation losses (2004-05: £32,000) and £3,000 losses on disposal (2004-05: £3,000).

Freehold property was valued at 1 April 2005 by the Valuation Office Agency at existing use value, in accordance with guidance issued by the Royal Institution of Chartered Surveyors.

10 Debtors and prepayments

Amounts falling due within one year:	**2006**	2005
	£'000	£'000
Trade debtors – Licensing	**263**	147
– Residues	**1,111**	1,043
Balances with other central government bodies	**961**	–
Other debtors	**3**	12
VAT recoverable	**188**	82
Prepayments	**74**	73
	2,600	1,357

Debtors are shown net of a provision of £459,000 (2004-05: £404,000) for bad and doubtful debts.
Included in debtors there are no balances with local authorities, NHS Trusts, public corporations or trading funds (2004-05: £nil).

11 Cash at bank

	2006	2005
	£'000	£'000
At Office of HM Paymaster General	**3,570**	3,897
At commercial banks and cash in hand	**41**	12
	3,611	3,909

The VMD pays amounts collected from its customers into a commercial bank account. As soon as the funds are cleared by the bank, they are transferred to VMD's Paymaster account. The balance at commercial banks and cash in hand represents deposits that have not been cleared by the year end plus a petty cash balance.

12 Creditors and deferred income

	2006	2005
Amounts falling due within one year:	£'000	£'000
Trade creditors	**(809)**	(532)
Balances with other central government bodies	**(268)**	(112)
Balances with public corporations and trading funds	**(81)**	–
Other taxation and social security	**(166)**	(160)
Deferred income	**(480)**	(222)
	(1,804)	(1,026)

Included in creditors there are no balances with local authorities or NHS Trusts (2004-05: £nil).
Balances with other central government bodies in 2004-05 includes £49,000 owing to Defra and its agencies.

13 Revaluation reserve

	2006	2005
	£'000	£'000
At 1 April 2005	**1,570**	1,905
Arising on revaluation during the year:		
– on revaluation of land and buildings	**–**	(341)
– on indexation	**235**	6
	235	(335)
At 31 March 2006	**1,805**	1,570

14 General Fund

The VMD is funded by the Department for Environment, Food and Rural Affairs and the position is shown in the "Financed by" section of the Balance Sheet by means of the General Fund. Within this Fund there are two distinct parts:

(a) The General Account 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. This reserve will not be distributable.

(b) The Operating Account represents the accumulated operating cost recovery surplus or deficit transferred from the Income and Expenditure Account.

	General Account £'000	Operating Account £'000	General Fund £'000
Balance at 1 April 2005	7,559	388	7,947
Non-cash charges:			
Notional Interest cost	196	–	196
Audit Fee	23	–	23
Defra Service Charges	565	–	565
Repayment of Defra Operational Funding	(1,023)	–	(1,023)
Surplus for the year	–	343	343
Balance at 31 March 2006	7,320	731	8,051

15 Capital commitments

	2006 £'000	2005 £'000
Contracted commitments at 31 March for which no provision has been made in the accounts.	–	–

16 Commitments under operating leases

Commitments under operating leases to pay annual rentals during the year following the year of these accounts are given in the table below, analysed according to the period in which the lease expires.

	2006 £'000	2005 £'000
Obligations under operating leases comprise:		
Contract Hire cars		
Expiry after 1 year but not more than 5 years	20	–

17. Related party transactions

As the VMD is an Executive Agency of the Department for Environment, Food & Rural Affairs and is sponsored by them, the Department is regarded as a related party. During the year, the VMD has had significant material transactions with the Department and a number of its agencies, including Veterinary Laboratories Agency, Central Science Laboratory, State Veterinary Service and Centre for Environment, Fisheries and Aquaculture Science.

In addition, the VMD has had various material transactions with other central Government bodies. Most of these transactions have been with the Medicines and Healthcare products Regulatory Agency and the Meat Hygiene Service. 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.

18. Financial instruments

The Agency is required to disclose the role financial instruments had during the period, in creating or changing the risks faced in undertaking its activities. The non-trading nature of the Agency's activities and the way Government departments are financed, means the Agency is not exposed to the degree of financial risk faced by business entities. The VMD has no powers to borrow or invest surplus funds. Financial assets and liabilities generated by day to day operational activities are not held to change the risks facing the Agency in undertaking its activities.

Liquidity Risk: There is no significant exposure to this, given that the Agency's net resource requirement is financed through resources voted annually by Parliament.

Interest Rate Risk: There is no exposure to this, as the Agency's main financial assets and liabilities have either nil or fixed rates of interest.

Foreign Currency Risk: This is not significant, as there is negligible income and expenditure in foreign currencies.

19. Notes to the cash flow statement

(i) Reconciliation of operating surplus to net cash inflow from operating activities

	2006	2005
	£'000	£'000
Operating surplus for the year	**343**	6
Depreciation and revaluation losses	**365**	397
Defra service charges	**565**	770
Other notional charges added back	**219**	220
Adjustment for increase in fixed asset accruals	**27**	82
Increase in debtors and prepayments	**(1,243)**	(25)
Increase/(decrease) in creditors	**778**	(380)
Net cash inflow from operating activities	**1,054**	1,070

(ii) Reconciliation of net cash flow to movement in cash at bank

	2006	2005
	£'000	£'000
(Decrease)/increase in cash in the year	**(298)**	207
Cash at bank at 1 April 2005	**3,909**	3,702
Cash at bank at 31 March 2006 (Note 11)	**3,611**	3,909

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