



National Audit Office

OCTOBER 2010

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# Assessing the cost to public funds of animal diseases

Commentary on cost data provided by the Department for Environment,  
Food and Rural Affairs to the Advisory Group on Responsibility and Cost Sharing

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Department for Environment, Food and Rural  
Affairs to the Advisory Group on Responsibility  
and Cost Sharing

# Contents

Introduction **4**

Scope of National Audit Office  
support to the Advisory Group on  
Responsibility and Cost Sharing **5**

Summary **6**

Ensuring the consistency,  
completeness, reliability and  
relevance of cost data **9**

Using cost data as the basis for  
well-informed decision making **14**

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## Introduction

The Department for Environment, Food and Rural Affairs (the Department) has asked the Advisory Group on Responsibility and Cost Sharing, under the independent Chairmanship of Rosemary Radcliffe, CBE, to examine the current use of resources by the Department in meeting the challenges of animal health, and to consider the way in which they should be deployed and prioritised.

The Committee of Public Accounts has repeatedly recommended that the Department share with farmers more of the cost of dealing with animal diseases, and strengthen incentives to improve biosecurity.<sup>1</sup> The context of the Advisory Group's work is the proposal, first made by the previous administration, to put in place new arrangements for sharing the responsibility and cost of managing animal disease between government and farmers.

The Department reported to the Advisory Group that it spent some £357 million on animal health in 2009-10. To support robust financial management and sound decision making, the underlying data must be reliable, complete and relevant, and be reported on a consistent basis across the Department and its delivery bodies. In order to make sound judgements about prioritisation of resources, management teams in the Department responsible for oversight of expenditure will also need to look for evidence that expenditure represents good value for money.

<sup>1</sup> Committee of Public Accounts: *The 2001 Outbreak of Foot and Mouth Disease*, Fifth Report of Session 2002-03; *Foot and Mouth Disease: Applying the Lessons*, Ninth Report of Session 2005-06; *The Health of Livestock and Honeybees in England*, 36th Report of Session 2008-09.

## Scope of National Audit Office support to the Advisory Group on Responsibility and Cost Sharing

Rosemary Radcliffe, CBE, independent Chair of the Advisory Group on Responsibility and Cost Sharing, has asked the National Audit Office to support the Advisory Group's scrutiny of data relating to the cost of animal health provided by the Department for Environment, Food and Rural Affairs (the Department). This aspect of the Advisory Group's work aligns closely with the National Audit Office's objective to help strengthen financial management in central government. The National Audit Office is well placed, therefore, to offer an independent commentary on the robustness of the process that the Department has followed to collate figures presented to the Advisory Group, and advice on what we would expect to see as evidence that costs have been subject to adequate value for money scrutiny. In order to maintain the Comptroller and Auditor General's own independence, the National Audit Office has retained discretion over the detailed scope of the work and responsibility for publishing our commentary.

The National Audit Office reviewed the process the Department followed to collate financial data presented to the Advisory Group, examined underlying financial records and scrutinised any adjustments the Department made. We analysed trend data for major areas of expenditure for the five-year period 2005-06 to 2009-10. For an illustrative sample of ten areas of expenditure, we reviewed evidence documenting budget setting processes and financial oversight, and interviewed the relevant budget holders. We also interviewed finance staff in the Department, Animal Health Agency, and Veterinary Laboratories Agency.

This paper comments on the way in which the Department compiled data for the Advisory Group, and outlines further considerations that may be helpful to the Advisory Group in framing their own conclusions. We make no comment on responsibility and cost sharing policy, which is for government to decide.

Our annual accounts audits of the Department and its delivery bodies assess the systems and controls in place to ensure that the general ledger and financial statements are not materially misstated. Our work for the purposes of this commentary was not designed to provide assurance as to whether the cost data provided to the Advisory Group shows a true and fair view of the costs of animal health in the Department. The commentary has been prepared solely to support the work of the Advisory Group on Responsibility and Cost Sharing, and is not a Comptroller and Auditor General's report on accounts or value for money examination under the National Audit Act 1983.

## Summary

The Department provided the Advisory Group with breakdowns of actual net expenditure incurred by the Department and its key delivery agencies for animal health during 2009-10. The Department supplied this information to allow the Advisory Group to understand the scale and complexity of animal health expenditure as a first step to inform any subsequent decisions on sharing responsibility and costs.

To be a sound basis for decision making, financial information needs to be robust, with any constraints or limitations relating to the data transparent and clearly understood. Key good practice principles are the consistency, completeness, reliability and relevance of the figures. Measuring the current level of expenditure does not, however, show whether money is being spent well; nor is it necessarily a good indication of likely future costs. A more sophisticated analysis depends on evidence that expenditure is value for money, and some understanding of what causes costs to vary.

The Department's financial recording systems were not designed to measure the full costs of addressing specific disease risks in different farming sectors in the way needed by the Advisory Group, and were not set up to support a charging regime. Financial information is aligned to current policy objectives and systems supporting financial statement reporting. The data do not measure, with precision, the full costs, across all agencies, of addressing specific animal health risks or apportion these both to disease risks and farming sectors. In that context, the cost data the Department provided are sufficient to give the Advisory Group a good indication of the nature and relative volumes of expenditure by the Department and its key delivery bodies. However, this information as it stands is not of the quality that would be needed to implement a comprehensive cost sharing regime.

The extent of change that might be required would depend on the data requirements of any future responsibility and cost sharing arrangement that may be proposed. Although some costs are already measured in support of existing charging regimes operated, for example, by the Veterinary Laboratories Agency, for the Department to measure routinely the full cost of all activities would currently require substantial manual work. The Department is confident that it could generate sufficiently precise data to support a cost sharing regime, although the amount of manual work required would depend on the nature of any cost sharing regime which might be proposed. Manual calculations of costs would also need to be routinely validated to ensure they remain robust.

To be sustainable in the longer term, significant changes to financial recording systems would need to be introduced to routinely produce the necessary information to support any cost sharing arrangement that may be proposed. The systems would need to be designed, tested and then implemented to ensure they were fit for purpose, which would introduce a significant lead time before they could be operational.



## Key areas for attention

It is for the Advisory Group, drawing on all the evidence they have taken, to make specific recommendations for consideration by the Secretary of State for Environment, Food and Rural Affairs. On the basis of our own work, we have identified the following key issues the Advisory Group may wish to consider in framing their conclusions:

### Consistency, completeness, reliability and relevance of the data

- **It is good practice to set out clearly the scope and boundaries of financial data.** The data presented to the Advisory Group cover expenditure by the Department and key delivery bodies responsible for animal health. The full cost of managing animal health risk would also include expenditure incurred by the Department's other agencies and delivery partners with non-core animal health responsibilities. The Advisory Group may wish to consider which activities carried out by other agencies may be relevant, to ensure that the scope of the data is properly mapped out, and that all relevant costs are taken into account.
- **Financial data should be robust.** Compiling indicative cost data for the Advisory Group has required substantial manual analysis, and the Department recognises that the figures are not precise. In particular, much of the animal health activity carried out by the Department and its agencies impacts across Great Britain, and current systems do not apportion cost accurately to England, Wales and Scotland. Neither are systems in place to record staff time accurately enough to apportion cost to managing risks in specific industry sectors, or to allocate overhead costs in a precise way. The Advisory Group may wish to consider what the data requirements of alternative cost sharing models may be. The Advisory Group and the Department may wish to consider the implications of alternative ways of apportioning costs, what manual work or changes to financial systems may need to be made to generate reliable data in an efficient way, and the scale of work that this would entail.

### Using cost data as the basis for well-informed decision making

- **If costs are volatile, data for one year can potentially be misleading.** Data provided to the Advisory Group represent outturn expenditure for 2009-10, plus trend data for Bovine Tuberculosis and Transmissible Spongiform Encephalopathies (TSEs), which were the two areas of greatest spend in 2009-10. Our analysis of this and other Departmental data shows that some categories of expenditure appear to have varied substantially over the last five years. Without full trend data, it is difficult to fully understand the ongoing costs of managing animal health. The Advisory Group may wish to consider what further time series data or analysis of underlying cost drivers may be necessary in order to implement a credible cost sharing regime.

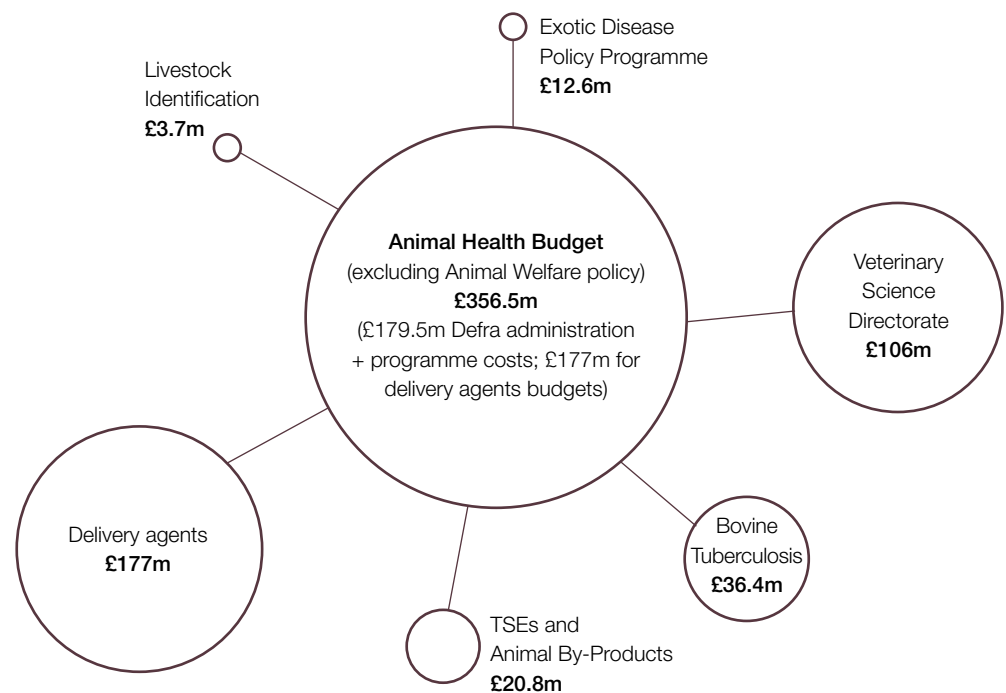
- **Good management information should link cost data to the risks programmes are designed to address and the outcomes they are intended to achieve.** The Department captures financial information in line with internal management structures. The data do not measure the full cost of addressing specific disease risks, particularly when several agencies are working together. To make informed decisions about resourcing and prioritisation of animal health activities, the Advisory Group and the Department need a clear overview of the portfolio of activities and the likely costs of each activity, matched to the scale and nature of risks activities aim to address. The Department has begun to make use of a prioritisation tool to help make well-informed animal health policy decisions, and this information could usefully be used more consistently to inform resourcing decisions. The Advisory Group may wish to consider what data would be needed to further demonstrate the link between costs, risk and outcomes, as part of a responsibility and cost sharing regime.
- **To help ensure that expenditure represents good value for money, scrutiny of budgets, both for ongoing work and for new projects, needs to be robust.** We found that scrutiny of budgets and evidence of value for money challenge for ongoing projects was less well evidenced than for new project proposals. The Department may wish to consider, drawing also on recommendations previously made by the National Audit Office, what more it can do to strengthen challenge and in-year monitoring of budgets.

## Ensuring the consistency, completeness, reliability and relevance of cost data

1 The Department reported to the Advisory Group a total of £356.5 million spent on animal health in 2009-10 (**Figure 1**). Within the total there were £179.5 million of administration and programme costs. A further £177 million was reported as funding for the Department's delivery agents: the Animal Health Agency; the Rural Payments Agency; and the Veterinary Medicines Directorate. Payments the Department made to the Veterinary Laboratories Agency to carry out research and test animals for disease were included in the Department's policy programme figures. The Department intended the figures to be sufficient to give the Advisory Group a broad indication of the key areas of animal health activity and expenditure across the Department and its agencies. In doing that, the Department recognised that presenting the data in alternative ways to inform the Advisory Group relied on a number of estimates and assumptions.

**Figure 1**

Total Departmental expenditure on animal health, 2009-10, as reported to the Advisory Group



**NOTES**

1 Unaudited data.

2 The Department also reported £2.09 million expenditure in 2009-10 on animal welfare.

Source: Figures provided by the Department for Environment, Food and Rural Affairs to the Finance and Resources Subgroup of the Advisory Group on Responsibility and Cost Sharing, September 2010.

**2** The Department presented total cost figures for the four animal health policy programmes (Bovine Tuberculosis; the Exotic Disease Policy Programme (EDPP); Livestock Identification; and Transmissible Spongiform Encephalopathies (TSEs) & Animal By-Products) and the Veterinary Science directorate. These costs were further broken down to project level, to give the Advisory Group an indication of the main areas of work within each programme. The Department provided total expenditure figures for all its agencies except the Veterinary Laboratories Agency, whose costs were included in the relevant Departmental programmes. Animal Health Agency data was further split down by staff costs, project costs and non-cash expenditure.

### **The scope of the data presented to the Advisory Group**

*Readers of any financial information need to understand what is, and is not, included in the data. This is to avoid drawing incorrect conclusions about the total public and private sector costs associated with that area of activity.*

**3** The figures presented to the Advisory Group cover expenditure by the Department and its key delivery bodies for animal health: the Animal Health Agency; Veterinary Laboratories Agency; Veterinary Medicines Directorate; and the Rural Payments Agency.

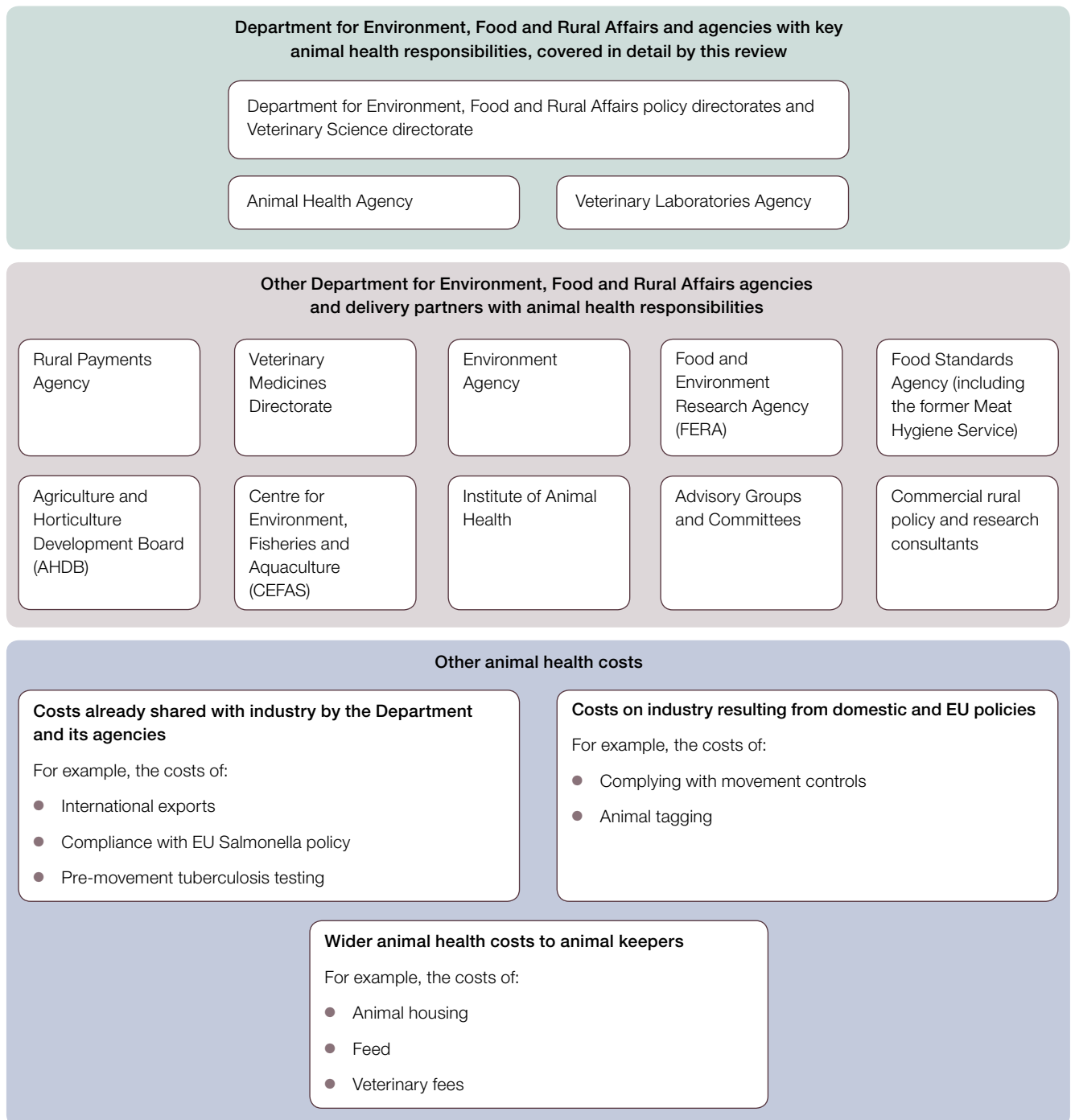
**4** Other bodies in both the public and private sector contribute to managing animal health and welfare in England (**Figure 2**). The figures provided to the Advisory Group do not include expenditure on animal health by bodies that the Department does not fund such as, for example, commercial organisations. The elements of shared costs that are already paid by industry are not included. The figures also exclude the Department's funding to bodies it sponsors that have indirect responsibilities relating to animal health, such as the Environment Agency. Our commentary is limited to the data provided by the Department to the Advisory Group.

### **The robustness of the data presented to the Advisory Group**

*For cost data to be a sound basis for effective financial management and decision making, key good practice principles are the consistency, completeness, reliability and relevance of the figures.*

**5** To ensure that financial data is consistent and comparable, it should be reported on the same basis, drawing (where available) on figures for actual expenditure. Financial information is often presented in alternative ways to make it more useful to the intended reader, but to ensure completeness and reliability it should always be possible to reconcile the figures with underlying financial records. To ensure all relevant expenditure is included, the full costs of any activity should incorporate a share of overhead costs and non-cash items, calculated in a consistent way and with a reasonable basis for apportionment.

**Figure 2**  
Responsibilities for managing animal health in England



**6** The cost figures for different teams within the Department and for different agencies were collated and presented to the Advisory Group in different ways. We analysed the various datasets, and the processes used to collate them, to check for consistency and comparability. We drew on good practice guidance to assess whether all relevant items of expenditure, such as overhead costs, were included. We performed a reconciliation of the cost data back to the Department's accounts to confirm that the cost data were reliably drawn from financial records, to confirm whether the data included were relevant, and to check whether expenditure had been double counted. Our review of the process used to compile figures also allowed us to form a view on the extent to which manual adjustments were necessary to generate data from the underlying financial records.

**7** The Department's financial recording systems were not designed to readily provide data on the full costs of individual animal health projects. Some items of expenditure or income recorded in the Department's accounts are not relevant to animal health. As a result, the Department had to perform a substantial and time consuming manual exercise to provide analyses of animal health cost data to the Advisory Group. The Department considers that the figures are sufficient to give the Advisory Group a broad overview of the type and relative volumes of expenditure, and recognise that more robust figures may be required for the purposes of a cost sharing regime. The Department has indicated that it could provide data to a higher level of precision if required. **Figure 3** lists key issues we identified that would need to be addressed to provide more robust data. Some of these are relatively minor issues that could be addressed through more careful checking of the data, but others would need substantially more time and investment to resolve.

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### Figure 3

Issues which would need to be addressed to provide more robust cost data in the short and longer term

**We identified some issues which could be resolved using existing data sources, but which would require substantial manual work:**

- There were differences in the way in which the figures provided to the Advisory Group were collated and presented by the Department's different expenditure teams and agencies. For example, some data were presented net of income and some gross. In addition, the Department reported overhead costs separately, whereas figures for the Animal Health Agency and Veterinary Laboratories Agency were apportioned to activities. To provide data on an equivalent basis would require the Department and its agencies to adopt a consistent method of collecting and analysing data.
  - Making reliable year-on-year comparisons is difficult because over the past five years the Department has changed how it categorises expenditure. Collecting data which are wholly consistent year-on-year requires a large amount of manual work. Identifying the expenditure proper to different animal health activities in a consistent way would require each account cost code to be manually broken down and analysed for each programme in respect of each year's data.
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### Figure 3

Issues which would need to be addressed to provide more robust cost data in the short and longer term continued

**We identified some issues which would be likely to require changes to the Department's financial recording systems in order to generate data reliably and efficiently:**

- The Department's chart of accounts (the way it categorises and records different types of expenditure) is structured to analyse cost by function, and is not designed to analyse costs in the way presented to the Advisory Group. If routine alternative analyses were required, for example by risk, disease, or industry sector, substantial manual work or, alternatively, amendments to the chart of accounts structure, would be needed.
- For some Departmental policy programmes, administration and overhead costs are separately recorded, but may also cover some activity not relevant to animal health. The Department has estimated the overhead costs relevant to animal health activity, and provided this information to the Advisory Group. To provide more robust data the Department would need to apportion all indirect costs in a more systematic way based, for example, on work recording systems or payroll data. Elements such as depreciation of capital items would be included, for example, in a fees regime, but would depend on introduction of a consistent policy across all the agencies involved. The Department is not yet in a position to calculate the full costs of interventions in a reliable way.
- The majority of the Animal Health Agency's funding from the Department is provided in a single block. The Department may provide smaller, one-off funds to the Animal Health Agency, directly through the Department's policy directorates. This expenditure cannot be readily traced to individual programmes of activity, as smaller amounts can be moved between programmes without this change being recorded in the Department's accounts. The Department is currently unable to identify the extent of this issue, but considers it likely to be small.
- Most animal diseases have the potential to affect Great Britain as a whole, and the Department does not currently record the costs of managing animal health in England separately from those relating to other parts of Great Britain. A large proportion of the Department and its agencies' work impacts in different ways on all three devolved administrations, and agency resources can be shared between countries, particularly in times of disease outbreak. The Department has been unable to isolate costs relevant only to England, and to do so reliably would require substantial changes to the way in which the Department and its agencies record expenditure.
- The Department fully funds the running costs of the Animal Health and Veterinary Laboratories Agencies. These agencies both carry out work for organisations other than the Department, such as the Welsh Assembly Government, or commercial organisations. Both agencies have relatively high fixed costs that must be paid irrespective of the amount of work carried out for organisations other than the Department. Fully excluding the costs relevant to the devolved administrations and commercial organisations would require either a substantial apportionment exercise or a change in the way the agencies' running costs are recorded.

**We identified a number of errors and corrections which, although not likely to have impacted on the Advisory Group's use of the data, should be taken into account:**

- Due to the way figures have been rounded, there are differences of between some £10,000 and £57,000 in each of the policy programme expenditure figures provided to the Advisory Group and those recorded in the Department's underlying accounting records.
- The Department has to date identified known double-counting of expenditure totalling some £40,000. This does not include unquantified double-counting of expenditure provided by the Department's policy programmes to the Animal Health Agency, as described above.
- The costs provided to the Advisory Group for some individual projects are different from those recorded in the Department's accounting records. Although the majority of variances are small, less than £1,000, as part of our work we identified some differences as large as £90,000.

Source: National Audit Office

## Using cost data as the basis for well-informed decision making

**8** The Advisory Group has been asked to comment on the use of resources and how they might be prioritised to maximise efficiency. Reliable reporting of current spending is not, by itself, evidence that the resources directed to any particular government activity are being used in the most efficient way. Management teams in the Department responsible for oversight of expenditure will therefore seek assurance that data are complete, and that activities represent good value for money when deciding how to use resources to best effect.

**9** This part of the paper highlights some additional issues arising from our review that may be helpful to the Advisory Group. Our comments draw on HM Treasury's guidance on *Managing Public Money*<sup>2</sup>, and *Appraisal and Evaluation in Central Government*<sup>3</sup> ('*The Green Book*'). The National Audit Office has raised some of the issues outlined here in previously published reports on the Department.

### **If costs are volatile, data for one year can potentially be misleading**

*To understand the pattern of spending on a service or programme, the full costs should be modelled based on past trends and forecast future consumption patterns.<sup>4</sup> To do this effectively requires an organisation to recognise the extent to which costs are predictable, and understand what factors are driving cost variations.*

**10** The Department has provided the Advisory Group with outturn expenditure data for the last financial year (2009-10), and trend data for Bovine Tuberculosis and Transmissible Spongiform Encephalopathies (TSEs), the two areas on which most was spent in 2009-10. We analysed the Department's policy programme expenditure over a five-year period, to assess the extent to which 2009-10 expenditure could be relied on to draw conclusions on likely future costs. Looking at these data shows that expenditure in some areas has been fairly stable, although without performing a full analysis of cost drivers, it is difficult to tell whether this is a consequence of the Department's use of incremental budgeting, or whether it reflects genuinely stable levels of activity. In other areas, such as the Transmissible Spongiform Encephalopathy (TSE) programme, there have been considerable variations in expenditure (**Figure 4**).

<sup>2</sup> *Managing Public Money*, HM Treasury, October 2007.

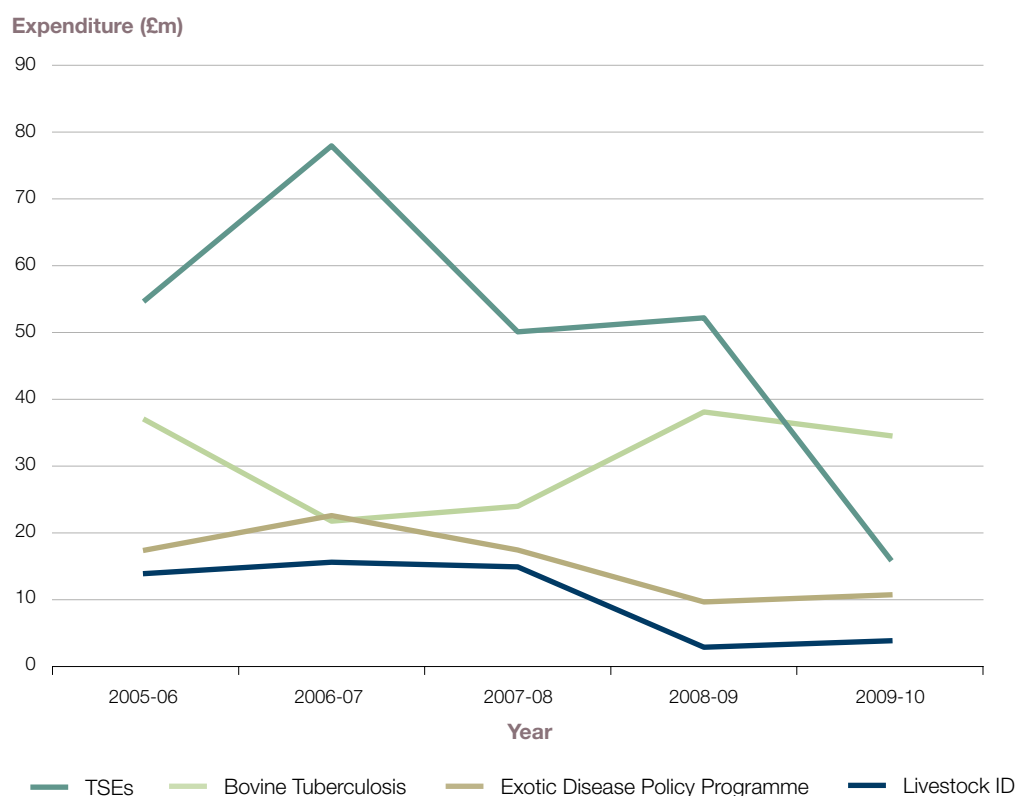
<sup>3</sup> *The Green Book: Appraisal and Evaluation in Central Government*, HM Treasury.

<sup>4</sup> *Managing Public Money*, HM Treasury, October 2007.



**Figure 4**

Elements of the Department's animal health policy programme expenditure, 2005-06 to 2009-10

**NOTES**

- 1 The analysis is based on unaudited data.
- 2 Where projects have moved between policy programmes, they are included in the data for their current programme.
- 3 The data used in the chart are extracted from the Department's financial ledger. They do not account for any manual adjustments necessary year on year to exclude irrelevant data, and do not include manual adjustments for inclusions such as European Union income.

Source: Department for Environment, Food and Rural Affairs accounting records, 2005-06 to 2009-10

**11** Animal health activity and expenditure within the Department and its agencies is heavily driven by European Union legislation. The United Kingdom is subject to financial penalties if European Union requirements are not met, and many of the requirements are incorporated in domestic legislation. The Department has scope to forecast likely future expenditure using unit costs based on, for example, the number of tests required and the staff time needed to carry out those tests. Our review found evidence that some animal health teams already use trend information to profile and forecast budgets, although this practice is not at present adopted consistently.

**12** Disease outbreaks are a key cost driver that can impact on expenditure in other parts of the business. Other than in exceptional cases, the Department expects to meet the costs of managing an outbreak by reallocating funds drawn from elsewhere in the animal health programme, reprioritising the resources available for routine activity. Substantial differences in the type, size and frequency of outbreaks mean that the costs of managing outbreaks in the future are extremely difficult to predict.

**13** To allow the Advisory Group to gain a full understanding of animal health expenditure would require the Department to provide figures across a number of years, with an explanation of how and why expenditure has changed over time. To appreciate how costs may change in the future, a helpful presentation of the data would distinguish between relatively stable costs, such as the cost of maintaining laboratories, and more variable elements, such as the costs of managing disease outbreaks, or testing different numbers of animals for disease.

### **Good management information should link cost data to the risks programmes are designed to address and the outcomes they are intended to achieve**

*Understanding how expenditure contributes to tackling different animal health diseases and risks is essential to a well-informed debate about how resources should be prioritised. Good management information should link cost data to the activities carried out and the intended outcomes of each activity.*

**14** We reported in 2009<sup>5</sup> that the Department's financial information was focused upon reporting within internal management structures, and could not readily be used to calculate accurate figures for the full cost of managing the risks presented by specific animal diseases. Many of the Department's animal health activities affect more than one species or industry sector, and the Department's recorded costs do not distinguish between the different species or sectors affected.

**15** To make informed decisions on the prioritisation of animal health activities, the Advisory Group need a good understanding of the relationships between activities, the cost of those activities, and the scale, nature and impact of the risks being addressed. The Advisory Group had the opportunity to discuss the risks relating to the Department's animal health activity. Some, but not all, animal diseases present a risk to human health. Financial losses may extend beyond the individual farmers affected, and impact on the UK economy as a whole if, for example, import or export bans are imposed to restrict spread of disease. A clearer explanation of how expenditure across the Department and its agencies is balanced against specific risks to animal and human health would better support the Advisory Group and the Department in considering how expenditure should be prioritised. An assessment of how the benefits of each activity are measured, for example, through providing an additional service, or avoiding a potential risk to animal health, would also be helpful.

<sup>5</sup> *The health of livestock and honeybees in England*, Report by the Comptroller and Auditor General, March 2009. HC 288, Session 2008-2009.

**16** There are various ways in which animal health costs could be apportioned to different species or sectors: for example, using the quantity of livestock in England, or the number of animals of different species culled or tested for different diseases each year. Using current data, apportioning costs by species, sector or disease would require a large amount of manual work. Different methods of apportionment would provide different cost figures, and would only be indicative of the actual costs incurred.

**17** The Animal Health Agency has so far attempted to apportion costs by five groups (cattle, poultry, pigs, sheep and 'other'), but these calculations provide only a rough estimate; the apportionment calculation assumes an equal split between the different animal groups affected, rather than using, for example, the quantity of livestock in the country as an indicator. The Department has not, as yet, apportioned all its costs by species.

**18** To provide more detailed data would require the Department to manually map out each policy area's processes, showing which organisations are involved in which stages of each activity, and the costs associated with those activities. Should the Department need to produce apportioned costs on a regular basis, its financial recording systems may need to be changed so that cost information for different species, sectors or types of disease could be more readily extracted.

### **To help ensure that expenditure represents good value for money, scrutiny of budgets both for ongoing work and for new projects needs to be robust**

*To get the best value for money from spending, an organisation needs to fully understand the reasons for carrying out an activity, and how that fits with the organisation's strategic objectives. Resources should be focused on delivering the activities that have the most impact, based on an accurate, realistic assessment of the costs, benefits and risks of different options.*

**19** It is the Department's responsibility to make sure there is a clear rationale for any activity carried out by its animal health directorates, or by its agencies. The Department's policy is that each new animal health activity, or change in required budget, is supported by a business case stating why the proposed activity or change is needed, and what it aims to achieve. The policy framework requires these business cases to be submitted to approvals panels of senior staff, responsible for ensuring there is a clear rationale for carrying out the activity, that the costs and benefits are well understood and evidenced, and that sufficient governance and assurance processes are in place to deliver the activity successfully. The Department's internal guidance states that the benefits and risks of carrying out new activities should be recorded, together with an explanation of how performance will be monitored, and how the work fits with the Department's strategic objectives. Teams are encouraged to provide a number of options for delivery, and use evidence to explain why their recommended option represents the best value for money. Approvals panels are expected to use this information to decide whether or not to invest in the proposal. We reviewed a sample of cases and in most instances there was a clear, evidence-based rationale for carrying out new work. The rationale for setting budgets at a particular level was, however, not demonstrated so clearly.

**20** The Department's process for challenging ongoing expenditure appears to be less structured than the process for assessing new projects. Outside the departmental spending review process, regular review of all business cases for existing animal health work is not well evidenced. Taking a frequent strategic view of work, and prioritising activity based on accurate assessments of costs, benefits and risks, can allow an organisation to reduce its costs more effectively.<sup>6</sup> Some animal health teams within the Department already regularly consider how their activities could be delivered more efficiently, and use this information to inform budgeting. The recently announced Taskforce on Farming Regulation is looking to reduce cost by reducing regulatory burdens on farmers, and this too might include some animal health related issues.

**21** Budgets for the Department's animal health programmes are set annually, often on the same basis as the prior year plus or minus any overall percentage change in the funding available. In the National Audit Office's 2008 report into the Department's management of expenditure<sup>7</sup> we concluded that the Department's use of this approach makes it difficult to see whether the funding is being used in the most effective and efficient way. Our review found evidence that some animal health teams use data from previous years to profile and forecast their budget. Other areas set budgets incrementally, which is less reliable as an indicator of likely future expenditure.

**22** The budgets allocated to activities carried out by the Animal Health and Veterinary Laboratories Agencies are negotiated on an annual basis between the Department and the agencies, based on the agencies' estimates of likely expenditure. The methods of costing activity vary between the agencies but budgets are based on current levels of activity, taking into account how these levels may change, and multiplied by charge-out rates to calculate an estimate. Negotiating funds based on unit costs gives the Department more control over the scope of activities, and provides some assurance that budgets are viable.

<sup>6</sup> *A short guide to structured cost reduction*, National Audit Office, 2010.

<sup>7</sup> *Department for Environment, Food and Rural Affairs: Management of Expenditure*, Report by the Comptroller and Auditor General, March 2008. HC 309, Session 2007-2008.

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