

# ANNUAL REPORT & ACCOUNTS 2016





## What we do

As the UK's leading veterinary charity with 48 Pet Hospitals and Pet Clinics and 377 supporting Pet Practices providing vital lifesaving care, no other animal charity compares to PDSA – both in terms of scale and impact on pet wellbeing.

Our vision is: **A lifetime of wellbeing for every pet.**

This informs our mission: **Together we will improve the life of every pet.**

We achieve it by:

- **Preventing** illness, suffering and unnecessary death of pets.
- **Educating** people about the welfare needs and value of pets.
- **Treating** sick and injured pets needing our help within communities across the UK.

In 2016 our services reached 429,000 of the nation's much-loved pets. Pets are members of the family so we never turn away a sick or injured pet in an emergency.

Our free services are provided throughout the UK and are offered mainly to pet owners who receive either Housing Benefit or Council Tax Support/Reduction.

We receive no central Government funding for our veterinary services and so it is our supporters who make our work a reality.

We aim to maximise our impact on eligible households in the UK with the available resources through:

- 42 PDSA Pet Hospitals
- 6 PDSA Pet Clinics
- 377 PDSA Pet Practices
- PDSA Pet Treatment Fund

## Administrative details

The People's Dispensary for Sick Animals (PDSA)  
Founded in 1917 by Maria Dickin, CBE  
Incorporated by Acts of Parliament  
(PDSA Act 1949, 12 & 13 Geo. 6, Ch. xv)  
(PDSA Act 1956, 4 & 5 Eliz. 2, Ch.1xvii)  
(revised by a Parliamentary scheme in 2015)  
Registered charity nos. 208217 & SC037585

### Head Office

Telephone: 01952 290999

Website: [www.pdsa.org.uk](http://www.pdsa.org.uk)

### Patron

HRH Princess Alexandra, the Hon. Lady Ogilvy, KG, GCVO

# Trustees' Report

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## 1. Chair's letter

I am immensely proud of the work of our charity in improving the lives of pets and their owners, so I am very pleased to report that 2016 was a successful year for PDSA, in terms of the level of services provided, the impact we had in communities across the UK and the establishment of more diverse income streams.

Income exceeded £100 million for the first time and this included a strong year for legacies, our single most important income source, and funds generated by other sources such as support from players of the People's Postcode Lottery (PPL) and the launch of a new PDSA veterinary product range – Vet Care.

However, despite these successes, raising income remains a priority as the regulatory environment in which all charities operate continues to present new challenges. Expenditure still exceeded income by £3.6 million and, despite the many uncertainties which exist, our future goal is to bring our income and expenditure at least into balance.

Our veterinary services reached 429,000 pets during 2016, which highlights both the scale of and demand for our charitable work. This figure also brings into sharp focus the ongoing importance of raising vital funds to support the magnitude and need for our services, whether preventive, educational or treatment for sick and injured pets.

Our Centenary begins in November 2017 and it is appropriate therefore to pause and celebrate our past, but also to plan forward for the next 100 years, recognising all the foundations that have been put in place over recent years. Saving pets and changing lives is at the heart of what we do and continued evolution of the charity is critical to ensure that, in the future, we will deliver the best and most efficient charitable impact possible.

Ongoing cost control is an essential part of charity governance, not least during a period in which, in common with many other organisations, cash contributions to our pension scheme have increased, despite the many actions we have taken over recent years to limit our pension liabilities. So it is pleasing to confirm that we have reduced our costs substantially in support areas and have achieved further efficiencies in our fundraising activities. We also continue prudently to manage our investments in driving both income and brand awareness in order to deliver the best returns possible. This has been demonstrated in the fully integrated approach taken to our high profile 'Save a Star' Christmas campaign (2016), which achieved significant success in both income and awareness.

Fundraising practices across the sector have continued to have a high profile in the media and PDSA has not been immune. I would like to restate that we do not share personal data with other organisations; all telephone fundraising is undertaken in-house and is therefore directly under our control; we only work with companies and individuals of high repute and all communication with existing and potential supporters is undertaken with integrity and sensitivity.

We do not receive any Government funding and all of our funds come from you, the generous, animal-loving public. It is our utmost wish to continue to nurture the respect and goodwill of our supporters, whilst at the same time, seeking new ways to raise funds, which are essential to our future stability and development.

Finally, I would like to thank all those contributing to PDSA's continued success: our supporters, our employees, our volunteers, and our beneficiaries and partners. You have an invaluable role to play in helping us deliver our mission - together we will improve the life of every pet.



John Smith  
Chair

## 2. Achieving our vision and mission

### Goals and values

To deliver our vision and mission we have focused on nine strategic goals:

- Uptake of health and welfare
- Accessibility of veterinary services
- Expand our education range and reach
- Promote the role of pets to society
- Awareness and support for PDSA's work
- Deliver exceptional service
- Maximise income streams
- Inspire and enable our people
- Optimise our infrastructure, systems and processes

We discuss our achievements and plans in detail from page 6.

To achieve these goals we have three underpinning values:

- Head and Heart – we provide expertise with understanding in all we do
- Better Together – we can't do this alone; we can achieve more if we work in partnership with everyone who touches the life of a pet
- Passion with Purpose – we are driven in our dedication to ensure a world where no pet suffers

### Key results for 2016

- Income exceeded £100 million for the first time, driven by legacies and also exceptional income of £6.8 million from PPL. The net surplus from this specific activity was £2 million and currently it is uncertain whether this will be repeated in future years.
- 429,000 pets received a combination of Preventive, Educational interventions and Treatment procedures through PDSA Pet Hospitals, Clinics, Practices and the PDSA Pet Treatment Fund in 2016. The number of pets receiving Preventive and Educational interventions has increased by 7.1% and 5.1% respectively compared to 2015. This is in line with PDSA's aspirations to reduce reactive Treatments and increase Preventive and Education services. Concessionary services were also introduced in 20 Pet Hospitals during 2016, allowing more than 10,000 concessionary pets to be treated. Overall, total activities were 4.9% lower than 2015.
- We issued our sixth annual *PDSA Animal Wellbeing (PAW) Report*. This is the largest survey into the state of our nation's pets. We developed the next stage of our #PawsFirst campaign; a pre-purchase veterinary consultation framework called 'Which Pet?'
- Net expenditure reduced in 2016 to £3.6 million from £15.7 million mainly as a result of strong legacy income combined with exceptional income from PPL. However, legacy income levels are not guaranteed into future years.
- Increased profitability in our Retail activities and a sustained effort to reduce the costs of our support activities and elsewhere also contributed to the reduction in the net expenditure in 2016 compared to 2015.
- Following on from the success of concessionary services in the Margate Pet Clinic, The Frank and Ethel Fright Centre in 2015, we introduced these to a further 20 Pet Hospitals and Pet Clinics in 2016. We also launched a new PDSA Vet Care range of 12 products delivering an opportunity to sell good quality pet products with health benefits, which are available through several online vendors, as well as through our own channels.
- There was a large actuarial loss of £28.9 million for the pension scheme in 2016. The main reasons were assumptions relating to liabilities, which increased the reported provision of the pension scheme from £26.2 million as at 31 December 2015 to £57.7 million as at 31 December 2016.

### Important background issues

- There has been continued media coverage of some poor fundraising practices within the voluntary sector. PDSA has a strong commitment to transparency and respect in all our communications with

our donors and we are continually working to ensure we deliver over and above the requirements of the new Fundraising Regulator.

- In late 2015 PDSA was subject to an investigation by the Information Commissioners' Office (ICO) into our fundraising practices. This investigation was part of a wider review of the charity sector in general, after concerns were raised in the press about some charities use of high pressure fundraising techniques and the inappropriate sharing of supporters' personal data. Throughout 2016 PDSA cooperated fully with the ICO in their detailed investigations and we have agreed a number of actions with the ICO which will further improve our policies and working practices.

### 3. Public benefit – meeting the need

#### Our objects and mission

PDSA's governing documents are two Acts of Parliament (1949 and 1956) which were revised by a Parliamentary scheme in 2015.

The objects of the charity are:

- (a) the provision of free medical or surgical treatment, or such treatment at reduced charges, to animals belonging to persons who are unable to afford the services of a veterinary surgeon;
- (b) the prevention of suffering of animals by the provision of preventive treatment, care and advice (whether at free, at a reduced charge, or at full charge);
- (c) the education of the public in matters concerning animal health and welfare in general;
- (d) the advancement of animal welfare for the public benefit by any other means.

The changes to our objects allow the potential for greater future public benefit and impact where adequate resources are sufficient to enable us to deliver these. The first direct outcome of this change was the introduction of reduced-cost concessionary services enabling us to reach a broader client base in need of our help.

We summarise our mission with the acronym PET: prevent, educate and treat.

#### Eligibility and impact

We provide vital veterinary services for those communities in most need of support - without our work and the provision of our free veterinary care, many pet owners would have been in the distressing position of seeing their sick and injured pets suffer unnecessarily. We treat all popular domestic pets, for example, dogs, cats and those described as 'small furrries'.

Pet owners who receive Housing Benefit, Council Tax Support/Reduction or Universal Credit are eligible for our free veterinary treatment if they live within a defined catchment area around each PDSA Pet Hospital, PDSA Pet Clinic or PDSA Pet Practice. Eligible pet owners living outside these catchment areas may apply for PDSA support through our PDSA Pet Treatment Fund. We will monitor proposals by the Government for changes to the benefits structure that might affect the owner's eligibility for our services. In addition, we provide preventive healthcare services to eligible clients for an affordable fee. In 2016, in 20 of our Pet Hospitals and Pet Clinics, we introduced concessionary services (charged-for) veterinary care to also help pet owners on low income, with a wider eligibility criteria to help more people and their pets.

We spent £71.6 million on our mission in 2016 which is significantly greater than the net income raised by donations and legacies of £55.7 million. 429,000 of the nation's much-loved pets benefitted from PDSA's work across the UK. Our pet health work is expanding with a number of key projects to help educate and inform owners in providing for their pet's health and welfare needs.

Registration with the Charity Commission for Northern Ireland will be in stages and we understand that cross-border charities will be called upon by the Commission later in the process.

The Trustees consider that due regard has been paid to the public benefit guidance published by the Charity Commission in relation to section 4 of the Charities Act 2011.

#### Public benefit in Scotland

PDSA is registered as a charity in Scotland. Its activities there comprise a significant part of delivering its mission and fundraising. There are five PDSA Pet Hospitals located in Scotland and these, along with the private PDSA Pet Practices, cover 88% of eligible households – which remains the highest level achieved for any of the four constituent parts of the United Kingdom.

Gross income raised in 2016 from PDSA shops, fundraising groups and PDSA Pet Hospitals in Scotland amounted to £4.1 million (2015: £4.4 million).



## 4. Achieving our strategic goals

### Uptake of health & welfare

429,000 pets received a combination of Preventive, Educational interventions and Treatment procedures through PDSA Pet Hospitals, Clinics, Practices and the PDSA Pet Treatment Fund in 2016. The number of pets receiving Preventive and Educational interventions has increased by 7.1% and 5.1% respectively compared to 2015. This is in line with PDSA's aspirations to reduce reactive Treatments and increase Preventive and Education services. Concessionary services were also introduced in 20 Pet Hospitals during 2016, allowing more than 10,000 concessionary pets to be treated. Overall, total activities was 4.9% lower than 2015, this lower activity in both Pet Hospitals and Pet Practices arising from reductions in capacity due to available resources.

During 2016, PDSA answered 68,953 enquiries through our dedicated support line and 5,092 emails. Almost 80% of the enquiries were from PDSA clients and these included enquiries related to providing help in understanding eligibility for PDSA services.

Following on from the success of concessionary services in the Margate Pet Clinic, The Frank and Ethel Fright Centre in 2015; concessionary services have been rolled-out to 20 Pet Hospitals and Pet Clinics in 2016. This has allowed 2,500 additional clients to register for support with PDSA and we have carried out over 7,000 consults, over 2,000 surgical procedures and provided over 14,000 preventive treatments for these clients during 2016. During 2017 the roll-out of concessionary services will continue across the remaining Pet Hospitals and Pet Clinics.

Preventive services are now a significant part of our activities and the income generated through this activity continues to grow. Our total activities increased by 13%. We carried out 157,000 preventive procedures and 547,000 preventive products were sold. We continue to promote preventive services as part of our responsible pet ownership message and in 2017 aim to increase preventive sales to £8.8 million, helping eligible owners to keep their pets healthy.

PetWise for Cats, our national feline education programme, generously funded by The Marchig Animal Welfare Trust, completed its second full year and continues to offer free microchipping and neutering with every PetWise MOT welfare check for all feline patients. We are into the final year of the three-year programme and have now neutered 51,352 cats, microchipped 69,189 cats and carried out 72,686 PetWise MOT welfare checks for cats. Through this partnership, we continue to see a reduction in cats not having any of their welfare needs met and an increase in those having all their welfare needs fully met as well. By educating owners and providing preventive services, we are improving the wellbeing of thousands of cats.

Through the PetCheck programme, the Community & Education Veterinary Nurse team provided 3,576 free Pet Wellbeing MOTs, provided 889 additional pieces of pet care advice and microchipped 517 dogs. The PetCheck vehicles, generously funded by Robert Breckman in memory of his late wife Julie Breckman, continue to be a real benefit in reaching people out in communities that need our help and advice.

### Accessibility of veterinary services

Through the expansion of our charitable objects, PDSA is able to provide veterinary treatment both at a reduced cost and at no charge for those who cannot afford some or all of the charges. The objects also allow PDSA to undertake preventive work directly (rather than via its trading subsidiary) and for PDSA to educate all pet owners and carry out any other animal welfare activities that are charitable.

PDSA currently has 48 PDSA Pet Hospitals and Pet Clinics, along with 185 locations served by 377 contracted PDSA Pet Practices and the PDSA Pet Treatment Fund. We aim to impact and support as many of the eligible households throughout the UK as possible, depending upon the resources available to PDSA.

### Expand education range and reach

We launched our sixth *PDSA Animal Wellbeing (PAW) Report* in November at the London Vet Show. As the root of many of the issues outlined in the *PAW Report* continues to be a lack of pre-purchase research, we developed the next stage of our #PawsFirst campaign; a pre-purchase veterinary consultation framework called 'Which Pet?'. This provides an online training session and consult model to help vets and vet nurses

not only in PDSA but also in private practice, engage clients who are thinking of getting a pet; tackling both low awareness of the five welfare needs, and guiding people to get pets from responsible sources. The Report and 'Which Pet?' initiative received an excellent reception from the sector, with leading features in all key veterinary publications and resulting in further opportunities to collaborate with other organisations on initiatives to tackle key issues.

The Policy and Campaigns team have continued to build on our work with key external groups focusing on areas that will have the greatest impact on the companion animal welfare issues identified in the *PAW Report*. Director of Veterinary Services, Richard Hooker is Vice Chair of the Canine and Feline Sector Group (CFSG), which drives sector strategy, and sets up working groups to deliver impact against issues, and PDSA is involved in collaborations such as the Pet Advertising Advisory Group (PAAG) and the All-Party Parliamentary Group for Animal Welfare (APGAW), as well as in groups that reflect the human-animal bond, such as the Links Group and the Animal Welfare Education Alliance (AWEA). We were awarded a Third Sector Excellence Award for our collaborative work as part of the Cat Population Control Group. We also worked with key animal welfare charities in Scotland to deliver a three-stage campaign called 'More for Scotland's Animals' raising awareness of animal welfare issues at the time of the Scottish election. This culminated in a well-attended hustings event with candidates representing each of the main political parties, and a reception at Holyrood for successful MSPs, giving us some ideal opportunities to raise issues from the *PAW Report*.

The Community & Education team have continued to build on their provision of educational workshops within UK primary schools. This means we have increased our topic offering for our school workshops based on the key findings raised by the *PAW Report* as well as delivering these face-to-face sessions to over 93,000 young people. This activity increases knowledge of the five welfare needs and drives behaviour change in pet owners of the future. A further 40,000 children engaged with our digital resources. We also expanded the range and reach of our education programme by attending 58 community events which enabled us to engage and educate adults as well as children. For the first time we delivered nine new PetWise MOT training courses across the UK to enable private veterinary practices and other veterinary charities to carry out PetWise MOT's and further the impact of these welfare assessments. We also developed and trialled a Pet First Aid course for corporate organisations. Our Community & Education Veterinary Nursing team were voted as finalists in the CEVA Animal Welfare Awards, Charity Team of the Year. The breadth of these activities has enabled us to reach and educate new audiences; from children to veterinary professionals and even corporate organisations.

PPL funding has enabled us to continue our work to deliver a dedicated focus on preventive pet wellbeing initiatives in our Pet Hospitals. Our Pet Wellbeing Taskforce, the central group responsible for consideration of animal ethics and welfare at PDSA, supported hospital teams through further development of our dedicated Pet Wellbeing Champions and lead Area Champions.

The third full year of sales of PDSA's first preventive bundles product offering called the 'Perfect Start' resulted in 16,900 bundle sales and significantly contributed to the performance in the uptake of preventive procedure and products. Throughout 2016, Perfect Plan, a monthly direct debit scheme for preventive service products has been trialled in our Margate Pet Clinic, The Frank and Ethel Fright Centre; this healthcare plan will now be refined and rolled-out more generally during 2017.

Collaboration with Cats Protection resulted in funding to undertake more than 21,400 cat neuters. A trial offering paid-for veterinary services to the Retired Greyhounds Trust through Pet Hospitals continued and work also continued with Kennel Club Breed Rescue to prepare for providing Pet Hospital veterinary services to their affiliated rescue societies. It is envisaged that wider service provision to these organisations will be linked to the completion of the roll-out of concessionary services.

## Maximise income streams

### Legacy income

Legacy income continues to be the largest single source of income for the charity, and was higher than the prior year. We achieved strong income of over £45 million in 2016, an increase of 14% year-on-year. Our pipeline of notified legacies remains healthy although there is no guarantee that this will continue at similar levels for future years.

### Client contributions

We ask our clients to make a voluntary contribution towards their pets' treatment. These contributions are an invaluable source of income, which remained static year-on-year at £9.6 million in 2016. The average amount

contributed per pet increased by 5%, reflecting both the added-value achieved through programmes such as PetWise for Cats and Wellbeing checks and the positive impact made by the Contribution Action Team in refining our approach to asking for contributions.

### Commercial veterinary income

In addition to supplying medication to our clients, our Central Dispensary continued to supply medication to Dogs Trust clients who care for foster dogs with chronic conditions. Although not material in the context of total activities this has provided a valuable income stream.

Additionally, the online trading platform 'MyVetStore' was a valuable source of income in 2016 and has now been incorporated into the PDSA e-commerce platform.

Further income was generated by providing an out-of-hours service for local private practice clients at the Basildon PDSA Pet Hospital, The Coco Markus Centre. This contributes towards the running cost of the charitable service.

2016 saw the launch of a new PDSA Vet Care range of 12 products delivering an opportunity to sell good quality pet products with health benefits. Packaging, Point-of-Sale and marketing packs have been developed to support the sales plan. This product range is now available on a number of e-commerce platforms, including Waitrose, Pet Supermarket, and independent Amazon shops, as well as the recently launched PDSA e-commerce platform alongside a comprehensive range of other vet and pet products and supplies. Products will be on sale in our PDSA shops in 2017. Sales of these products in our hospital network have performed strongly with sales over £130,000. Accounts have been opened with a number of independent retailers and the range is also listed at all three UK Veterinary wholesalers and a major pet wholesaler.

Pet tags and a range of Pet Accessories (Pet Face) have been tested and rolled-out to PDSA Hospitals and Clinics. Sale volumes are encouraging and these goods will enhance the trading income received through the PDSA network.

### PDSA Pet Insurance

Pet insurance income continues to grow and achieved a total income of £0.7 million, which is 32% higher than 2015 and the surplus achieved was £0.5 million, which is also 32% above prior year. We sold 7,733 new policies in 2016 with 19,763 policies renewing. The live policy count at year-end was 24,699.

### Retail

We continued to focus on turning around Retail performance in 2016. Return on investment grew from 4.1% in 2015 to 13.7% at the end of 2016. Cost-savings at the start of the year played a part but strong income growth towards the end of the year was a key factor in this improvement.

The retail management team was strengthened with a number of key appointments. Nine shops were closed across the retail estate as part of our consolidation activities.

### Fundraising income

Another difficult year for charities, both in the media, and within the regulatory landscape, contributed to continued challenges in driving income from traditional fundraising channels. However, the introduction of clearer supporter contact strategies and larger integrated appeals across the wider fundraising directorate throughout 2016 have contributed to uplifted response rates and both acquisition and reactivation of significant numbers of supporters.

### Trading

Despite continued decline to the database of active raffle players, profitability of the raffle programme increased throughout 2016 due to uplifts in both response rates and average transaction values. In 2017 we will seek to increase income levels by introducing new products into the Gaming portfolio and optimising the contact to transaction ratio.

In addition to income from PDSA's own raffles, we received support from PPL to raise a £2 million surplus via their lottery draws in December. Currently it is uncertain whether this will be repeated in future years. We experienced a significant increase (53%) in trading income from our corporate partners, achieved by securing new sponsorship partnerships and using new ways to market our affiliate partnerships.

## Promote the role of pets to society

PDSA runs the world's most distinguished and respected Animal Awards Programme. Through these awards we recognise acts of extraordinary animal bravery or exceptional devotion to duty by awarding three globally-recognised medals; the PDSA Dickin Medal, PDSA Gold Medal and PDSA Order of Merit; we also award the PDSA Commendation.

In 2016, international attention focused on our Animal Awards programme. A PDSA Gold Medal for K9 Killer – a South African tracker dog engaged in protecting endangered rhinos – was presented online by comedian Ricky Gervais, reaching a huge new audience. The video reached 1.4 million people on Facebook and Twitter secured 1.45 million impressions and nearly 14,000 engagements. We also honoured US Marines dog Lucca with a PDSA Dickin Medal, yielding 34 separate TV news items worldwide.

On 27 July 2016, Cleave & Company was the setting for the presentation by the Patron HRH Princess Alexandra, the Hon. Lady Ogilvy, KG, GCVO of the PDSA Dickin Medal, awarded posthumously to US Marine Horse Sergeant Reckless.

Our Awards Panel also agreed 19 PDSA Commendations.

We plan to continue to promote the role that pets play in society and highlight the strength of the human-animal bond through our Animal Awards Programme. We will seek to broaden the reach of our Animal Awards Programme by using a wider range of channels to celebrate worthy recipients of our awards.

## Awareness and support for PDSA's work

During 2016 we ran two integrated campaigns, the first in spring which comprised Direct Response TV (DRTV) and Brand TV (BRTV). We also produced two adverts promoting PDSA Pet Insurance and a standalone donation ask; this campaign was supported by press and digital activity with the National Press, PR and social media campaigns.

The second burst of integrated activity was our Christmas 'Save a Star' campaign which featured a real-life case study and appeared on DRTV, BRTV, radio, direct mail, digital and out of home (train and tube activity, street graffiti and building projections). The wider impact of these two campaigns was also felt across other fundraising activities and campaigns.

The work of PDSA was featured in a BBC1 (Scotland) documentary, giving an honest and moving view of our vital service, and demonstrating the precious pet/human bond we strive to protect.

As momentum builds towards our Centenary, we have had unprecedented proactive contact with television production companies and broadcasters as part of our PR strategy to continue to secure high profile and cost effective TV exposure. This has resulted in the aforementioned Scottish BBC documentary, screened in November, plus extensive taster-filming leading to offers and ongoing discussions for national documentary series' to be filmed and aired during 2017/18.

During 2016, PDSA's social media audience grew by 8%, with our total audience size across Facebook and Twitter increasing significantly. Our content is performing better than in 2015, both through to the PDSA website (up 28% on 2015) and delivering an estimated total of 27,419,000 impressions.

## Deliver exceptional service

PDSA continues to channel all fundraising calls via our National Customer Service Centre in Sunderland, rather than outsource to a third-party agency, as part of our ongoing commitment to transparency and best practice. We believe that this provides a better service to our donors, as we are able to talk to them directly about how their support is helping to fund our work, to provide a lifetime of wellbeing for every pet.

Our Central Dispensary continues to fulfil repeat prescriptions that previously would have been undertaken in PDSA Pet Hospitals, allowing better use of resources and our veterinary teams and providing an improved customer service level.

## Inspire and enable our people

As part of our ongoing commitment to optimise our resources, we introduced a number of cost-saving measures, some of which affected our people. We increased the focus on employee engagement to mitigate the impact of these changes and continued to develop our leaders.

Externally high employment levels and a skills shortage within the veterinary profession made recruitment challenging. We have implemented a range of actions to address this and they are proving successful.

## Optimise infrastructure, systems and processes

### Hospitals and Clinics

We have secured land in the northwest of England to replace and relocate our service provision in the Manchester area. Construction should begin, subject to funding, in late 2018. We continue to search for land which would be suitable to replace our Nottingham Pet Hospital.

### Veterinary Services

We spent £71.6 million across all of our veterinary services on delivering much-needed pet care treatment, education and information to disadvantaged communities across the UK. These services are delivered in a range of different ways to ensure effective use of our financial resources.

We have effective tendering processes, notably for pharmaceuticals, out-of-hours services and laboratory services, which mitigate the effects of cost inflation in these areas. Our focus on the range of consumable veterinary products available in PDSA Pet Hospitals resulted in reduced treatment costs allowing our resources to be used to help more pets.

### Financial management

In 2016 we worked hard to reduce our cost base, with particular successes in the area of travel and related expenses (a 46% reduction year-on-year), restructuring our support teams to provide services at lower cost and reduced the costs of our banking services.

We have also benefitted from an increase to our VAT recovery levels, and we are continuing a dialogue with HMRC to confirm future processes.

In 2017 we will commence a three-year programme to improve the effectiveness of our purchasing activities, which will involve a comprehensive review of our large supply base and buying needs. We will introduce new 'purchase to pay' software to simplify administration and control of procurement and expenses.

### Information systems

During 2016 we stabilised the IS Department after a number of management changes and focused specifically on driving further compliance with Payment Card Industry Data Security Standards and delivering robust and expanded infrastructure hardware/software to accommodate the continuing data capacity needs of PDSA.

We doubled the storage capacity across our server infrastructure and moved all live systems on to new infrastructure allowing us to decommission aging hardware.

Rollout of the VetSpace Clinical System across all sites was completed mid-year and various updates/enhancements have been applied to the system since to improve performance and functionality.

Additionally, we have significantly improved communication links between data centres and remote sites, facilitating a more reliable and swifter process of data exchange within the organisation.

## 5. About PDSA

### Structure and governance

#### Governing documents and registration

The charity is incorporated under The People's Dispensary for Sick Animals Acts 1949 and 1956 as amended by a Parliamentary Scheme in May 2015. Its constitution comprises the detailed clauses of these two Acts of Parliament plus supplementary Byelaws, which have been subsequently revised by the governing body. The charity is registered with both the Charity Commission in England and the Office of the Scottish Charity Regulator.

#### Governing body – Council

The Trustees form the governing body of the charity, known collectively as 'Council', and are legally responsible for the overall management and control of PDSA. Council sets the strategic direction, shapes policies and approves major expenditure programmes but delegates certain decisions to subcommittees.

The total number of Trustees is currently 11 and they are listed below along with their committee membership.

<b>Chairman</b> Mr John Smith, FCA	F R	
<b>Deputy Chairman</b> Mr Richard Clowes, BSc MI Mech E	F R	
Ms Catherine Dixon, LLB (Hons), MBA, Solicitor	A	
Professor Gary England, BVetMed PhD DVetMed CertVA DVR DVRRep DipECAR DipACT FHEA FRCVS	A	
Mr Noel Guilford, BA, FCA	F A	
Mr Roger Hills	F	Retired 16 June 2016
Ms Laurie Mayers, BA, MA	F R	
Mr John Miller, BSc, MCIPD, AFBPsS	R	
Mrs Carole Pomfret MA ACA	A	
Mrs Alison Tattersall BA (Hons), Postgrad Diploma in Marketing	A	Elected 16 June 2016
Mr Andy Tinlin BEng (Hons), Postgrad Diploma in Management	F	Elected 16 June 2016
Mrs Mary Reilly BA (Hons), FCA		Elected 16 June 2016

- F - Member of the Finance & Investment Committee
- A - Member of the Audit & Risk Committee
- R - Member of the Remuneration Committee

Trustees are experienced leaders from diverse backgrounds who provide valuable experience to guide the charity.

#### Committees

There are four committees and each has specific terms of reference. The Finance & Investment Committee reviews the Fund Managers' performance, the budget and most other financial matters. The Special Purposes Committee approves legal agreements [for members see executive staff on page 14]. The Audit & Risk Committee considers risk and internal and external audit matters, health and safety management and, at a strategic level, all aspects of our clinical governance framework, thereby giving a holistic view as to the quality assurance of the veterinary service. It also receives regular updates on compliance in respect of our fundraising governance framework. The Remuneration Committee's role is to determine the remuneration policy for the whole organisation and in particular the total remuneration packages of senior executives and to recommend these to Council.

The Constitution Working Party completed its objectives in 2016. It considered the Byelaws of PDSA, given the amendment to the Acts 1949 and 1956, but also brought them up-to-date with current charity legislation. It considered governance and inter-relationship between all subcommittees of Council to ensure that appropriate levels of authority exist, whilst balancing the fiduciary responsibility of Council and the need to be flexible in the fast-moving world of the charitable sector in which we operate.

During the year working parties were established to review our Veterinary strategy and our Marketing and Income Generation strategy, which will continue into 2017.

### Remuneration Statement

PDSA is a large organisation with over 2,000 employees and the support of over 4,000 volunteers. Working together, it is the combined effort of all our people that delivers the impact of our mission for the communities within which we work.

PDSA'S Remuneration Committee is a subcommittee of Council. Its role is to determine the remuneration policy for the whole organisation and in particular the total remuneration packages of senior executives and to recommend these to Council.

The nature of our public benefit means that we are one of the UK's largest employers of veterinary professionals and, as a complex and diverse organisation, we compete in different job markets for a wide range of skills and experience. Our pay policy must therefore be sufficiently flexible to ensure we can attract and retain the right people with the right skills to be able to deliver our vital services whilst meeting our supporters' expectations that the money they entrust to us will be used wisely.

The Remuneration Committee has established the following guiding principles that underpin our approach to reward and recognition:

- We aim to have understandable, equitable and transparent reward policies that reflect the strategy and ethos of PDSA
- We apply a common framework for managing reward decisions, whilst providing flexibility to meet differing organisational needs within PDSA
- We aim to provide a competitive and market responsive total reward package that enables PDSA to attract and retain employees from the not-for-profit or private sector, as appropriate to the employee group
- We apply a robust system for comparing jobs internally, which can be used to clarify career paths and support career development discussions
- We value the contribution that an individual makes in their job and recognise the link between performance and reward
- We provide a comprehensive core set of benefits for all employees whilst giving some flexibility within the total reward package to enable employees to meet their differing personal needs and preferences

In determining overall pay levels for all our employees including senior executives we take account of pay practice in other similarly sized charities and, where appropriate, private sector organisations. Benchmarking activity takes place on an annual basis. Annual pay reviews take into consideration affordability, economic trends and external market movement.

It is the view of the Remuneration Committee supported by Council, that, given the size, complexity and substantial public benefit provided by PDSA on a national scale, the remuneration of its senior executives (which currently number four including the Director General) represents good value for money when compared to other similar organisations.

### Trustee recruitment and training

Council appoints Trustees and all Trustee recruitment is subject to a rigorous and transparent process. Qualifications for trusteeship include a commitment to animal welfare plus specialist expertise or knowledge considered to be of benefit to PDSA. It is Council's policy for the governing body to consist of ten to twelve Trustees. However, Council may plan to increase this number to take account of planned retirements while maintaining an appropriate range of skills and expertise. Trustees normally serve three terms of four years which may be extended at the request of Council.

We familiarise new Trustees with the workings of PDSA, Council Policies & Procedures and Governance, through a comprehensive induction programme consisting of visits to Head Office, PDSA Pet Hospitals and our retail shops, together with in-depth meetings with directors and key members of staff. We provide ongoing training and support. PDSA Trustees also follow an ongoing, formal programme of visits to Pet Hospitals and shops, ensuring good coverage of all our locations. We select third parties to provide specialist seminars and lectures, which Trustees attend as appropriate, covering subjects such as charity law and governance, pension law and administration, and investment practice.

## Group structure

PDSA undertakes charitable service delivery and fundraising. Trading activities are carried out through three wholly owned subsidiary companies: PDSA Trading Limited, PDSA PetAid Enterprises Limited and PDSA Property Services Limited. In 2016 a number of veterinary activities previously undertaken by PDSA PetAid Enterprises Limited became activities of the charity, as a result of the changes to our Charitable Objects.

## Trustees' responsibilities

The Trustees are responsible for preparing the Trustees' Annual Report and the financial statements in accordance with applicable law and regulations.

Charity law requires the Trustees to prepare financial statements for each financial year in accordance with United Kingdom Generally Accepted Accounting Practice. Under charity law the Trustees must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and charity and of the incoming resources and application of resources, including the income and expenditure, of the group and charity for that period.

In preparing these financial statements, the Trustees are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the charity will continue in business.

The Trustees are responsible for keeping adequate accounting records that are sufficient to show and explain the charity's transactions and disclose them with reasonable accuracy, and at any time the financial position of the charity, and enable them to ensure that the financial statements comply with the Charities Act 2011, the Charity (Accounts and Reports) Regulations 2008, the Charities and Trustee Investment (Scotland) Act 2005, the Charities Accounts (Scotland) Regulations 2006 (as amended) and the provisions of The People's Dispensary for Sick Animals Acts 1949 and 1956. They are also responsible for safeguarding the assets of the charity and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Trustees are responsible to ensure that the financial statements are published on the charity's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the charity's website is the responsibility of the Trustees. The Trustees' responsibility also extends to the ongoing integrity of the financial statements contained therein.

## Executive Staff

Council delegates policy implementation to the Director General. The Director General manages PDSA through the Senior Management Team based at Head Office in Telford; most day-to-day management takes place at a local level. The Director General and Directors together constitute the Special Purposes Committee.

Director General	Jan McLoughlin, MSc, CBiol, MSB, FIoD
Director of Veterinary Services	Richard Hooker, BVMS (Hons) , MRCVS
Director of Finance	Michael Pell, FCA
Director of Human & Corporate Resources	Karen Hailes, FCIPD
Director of Fundraising	Lindsey Rennard, BA (Hons) Dip DM (until 5 August 2016)

## Risk

We have established management processes to mitigate risks that would prevent us from fulfilling our strategic goals and also to manage risk within projects. Particularly, the Trustees seek to ensure that:

- Risks are identified, assessed and controls established to mitigate them.
- The risk exposure profile is acceptable at all levels.
- The risk management process is embedded in operational and management procedures.



The Audit & Risk Committee, assisted by the Senior Management Team and Internal Audit department, considers risk in detail. A formal review of the charity's risk management processes is undertaken annually. Council considers its key risk factors to be those identified below:

- **Legacy income** – this represents approximately 44% of our total income and there is a risk that reductions in this income source could materially affect our financial position.
- **Unique Animals** – demand for our services can fluctuate over short periods of time that can result in significant cost increases.
- **Service infrastructure** – PDSA is a large and complex service operation over a wide geographical area. Risk factors include cost increases due to service growth and inflation, the PDSA Pet Hospital replacement programme, the national distribution of services and retaining/recruiting qualified veterinary staff. Service provision would need a long turnaround period in order to downsize operations should financial constraints require and this ought to be reflected in the level of free reserves.
- **Fundraising** – changes to the regulatory environment, continued economic uncertainty, negative publicity around charity activities and the activities of other charities can all impact on our ability to raise the funds we need to continue our work or can lead to increased costs.
- **Pensions** – although we have closed our defined benefit scheme to new members and allow future accrual for a limited period only, the requirement to fund pension promises could impact our financial position.
- **IT security** – we depend upon the integrity of our systems and the accuracy of our databases to operate the charity effectively. We recognise this is a complex and rapidly changing environment.

Council is satisfied that controls and actions have been put in place to mitigate the major risks identified. However, it recognises that systems can only provide reasonable but not absolute assurance that major risks have been adequately managed.

## People

Our people are vital to the success of PDSA. We aim to recruit and retain high-calibre, dedicated people, engaging and enabling them to fulfil their potential to improve organisational performance.

Our processes link individual objectives to corporate objectives, to monitor performance and plan individual development. In 2016 we continued to develop our leaders in line with our leadership principles which have been aligned to our values.

Our values articulate how we will deliver PDSA's mission through our behaviours and interactions with the general public and each other. These values are:

- **Head and Heart** – we combine expertise with understanding to help deliver a happier and healthier future for pets and their owners
- **Better Together** – we can achieve more if we work in partnership with everyone who touches the life of a pet
- **Passion with Purpose** – our dedication to creating a world where no pet suffers, drives us continually to deliver more for every pound we're given.

We have established 'Our Forum', which provides an opportunity for the Director General, Directors, senior leaders and, through elected representatives, all employees to explore and discuss strategic matters using proactive communication and consultation as part of the decision making process. It also has an important role to play in statutory consultation and has specific rights and responsibilities afforded through legislation.

At the end of 2016 PDSA had 3,686 volunteers throughout the UK who help support us in the Pet Hospitals, shops, fundraising groups and offices. Our last 'Volunteer Investment and Value Audit' showed that PDSA's volunteers donated 1.3 million hours, saving the charity £12.7 million in employment costs. Furthermore, for every £1 that PDSA invests in volunteering, we receive £21 back in value – or a 2,100% return on investment.

## Principal professional advisors

Bankers	Lloyds Bank plc, 125 Colmore Row, Birmingham B3 3SF
Investment Managers	Newton Investment Management Limited, Mellon Financial Centre, 160 Queen Victoria Street, London EC4V 4LA  Standard Life Investments, 1 George Street, Edinburgh EH2 2LL
External Auditor	BDO LLP, 2 City Place, Beehive Ring Road, Gatwick, West Sussex RH6 0PA
Actuaries	KPMG LLP, One Snowhill, Snow Hill, Queensway, Birmingham B4 6GH
Solicitors	Gowling WLG (previously known as Wragge Lawrence Graham LLP (WLG)), 55 Colmore Row, Birmingham B3 2AS

## 6. Financial review

### Overview

The UK economy was in an overall growth phase in 2016, although the outcome of the UK referendum on EU membership may generate longer-term uncertainty and risks. The challenges for fundraising in the sector and retail commercial conditions remained difficult.

Despite this, income exceeded the £100 million threshold for the first time. Our income grew by 11% to £102.1 million (2015: £91.7 million), driven by two key factors: support from PPL, which added gross income of £6.8 million (net £2 million) in our trading results (currently it is uncertain whether this will be repeated in future years); and strong legacy income, which cannot be guaranteed in future years.

We spent £71.6 million on public benefit, slightly less than in 2015 (£72.9 million) and this expenditure is significantly greater than net income raised by donations and legacy income (£55.7 million). We continued to invest in our strategy to grow awareness of PDSA, through an integrated marketing campaign, including TV advertising to promote higher levels of awareness and generate further income.

Overall, there was significant improvement in our net expenditure, at £3.6 million compared to £15.7 million net expenditure in 2015. This included a small loss from our listed investment portfolio of £0.6 million (2015: a gain of £0.3 million). To achieve this result there has been much activity to reduce costs, especially in support areas (decreased by 9%) and by a new approach to investing money to raise funds. However, expenditure still exceeded income by £3.6 million and combined with the increase required to the pension provision of £31.5 million, it is important to maintain a responsible approach to expenditure and activities.

### Income and costs

We receive no central Government or National Lottery funding for our veterinary services and therefore we rely on generating our income from our supporters by voluntary and trading activities. In the table below, we present the financial results in a different way, which we believe gives more clarity on the sources of net income.

	2016		2015	
	£ million	cost/£	£ million	cost/£
Donations and legacy net income	55.7	0.19	48.6	0.24
Other trading net income	3.4	0.86	(0.5)	1.02
Asset-related net income	1.7	0.04	1.9	0.03
Charitable trading gross income	7.7		6.9	
<b>Net income available for charitable activities</b>	<b>68.5</b>	<b>0.39</b>	<b>56.9</b>	<b>0.44</b>

Other trading net income includes gaming products, sales from our retail network (donated and new goods) and miscellaneous sales, commissions and licensing income. Asset-related income is investment income and gains on disposals of fixed assets. PDSA Trading Limited provides the bulk of trading income, excluding donated goods, which are sold by the charity; this subsidiary's full results can be seen on page 34.

The income we receive from donations and legacies is critical and so we spend appropriate monies marketing and managing in this area, investing carefully to generate awareness and income both in the short and long-term. The table above shows that the cost of raising donations and legacy income overall from our supporters decreased from 24p per pound (£) in 2015 to 19p in 2016, which reflects the exceptional legacy income this year and increased cost control.

Legacy income in 2016 of £45.1 million was 14% higher than 2015. It delivered around 63% of net income (2015: 67%). However, it remains our longer-term aim to reduce our reliance on legacies by growing other income streams. We aim to do this by growing our supporter base, through promotion and using innovative approaches to generate donations, as well as maintaining and growing trading income in Retail, Direct Marketing and from veterinary commercial activities.

We have continued to grow charitable trading income firstly by the introduction of concessionary services and secondly in preventive services. In total this grew by 11% to £7.7 million. In addition, clients who use our Pet Services gave voluntary contributions of £9.6 million, an invaluable source of income, which remained consistent with the prior year.

Our Retail division's net results improved due to cost saving, improved new goods margins and Gift Aid growth. However, donated and new goods sales decreased by 11% and 10% respectively, compared to 2015, in part due to the planned reduction in our retail estate.

Our trading results were augmented year-on-year due to our support from PPL. The gross proceeds of £6.8 million are included in our income, though there are high operational costs and prizes to generate this income. The net surplus was £2 million. Currently it is uncertain whether this will be repeated in future years.

There was a very large actuarial loss of £28.9 million (2015: £1.9 million gain) for the defined benefit pension scheme. The main reasons behind the large movement were assumptions relating to liabilities, with the discount rate decreasing by approximately 1.5% over 2015, and inflation increasing by approximately 0.35% over 2015.

### Investments, reserves and pensions

At the end of 2016 our investments totalled £57.6 million (2015: £63.3 million) and this is primarily an investment portfolio of externally managed investment funds, along with some investment properties managed by the charity, and a small interest-bearing deposit account.

We delegate day-to-day management of the investment portfolio to two professional fund managers, with the consent of the Charity Commission. We have an ethical investment policy that precludes investing directly in those organisations involved in testing on animals for cosmetic and other non-medical purposes. Our investment objective is to preserve capital and is subject to the charity's ethical investment policy. Performance is measured on a total return basis and the Finance & Investment Committee regularly reviews the managers' performance.

Our two investment managers are Newton Investment Management and Standard Life Investments and they use their pooled funds, the Newton Real Return Fund and Standard Life Global Absolute Return Strategies Fund, rather than direct investments. These funds provide greater stability than direct market investments and are sufficiently liquid to meet any short-term operational cash needs as well as supporting the Business Plan to maintain and expand the delivery of our charitable services. We aim to keep the portfolio equally divided between the two funds.

Investment markets continued the turbulence seen in recent years, reflecting the many uncertain conditions: the vote to exit the European Union by the UK; the US election and currency fluctuations. Overall there was a small total return on investment funds of £0.3 million (2015: £1.5 million) of these, the Standard Life fund produced a loss of 2% gross of fees, whereas the Newton fund returned a gain of 4.8% gross of fees. During the year we withdrew £5.5 million from the investment portfolio to support operating cash requirements, which was in line with our planning.

Investment properties are re-valued each year. The value at 31 December 2016 was £1.8 million (2015: £2.3 million). We sold three properties during the year.

### Reserves and going concern

Council reviews its Reserves Policy regularly as part of its business planning process. It seeks to ensure that sufficient reserves are available to fund planned activity agreed in the Business Plan, to be responsive to unforeseen and unplanned activity and to protect PDSA from unexpected events, such as fluctuations in income and costs not anticipated in the Business Plan.

The total funds of the group at the end of 2016 were £40.8 million (2015: £73.4 million). Of these funds, £2.6 million were restricted income funds or endowments (2015: £2.8 million), and the value of designated funds was £39.5 million (2015: £39.5 million).

We used the Charity Commission's guidance on Reserves Policies in their publication CC19 to set our Reserves Policy. The Policy is supported by contingency planning to determine the potential impact on the level of minimum reserves by defined risk factors. Our contingency planning determines the minimum level of reserves that we consider necessary to protect us from any prolonged financial risks and considers any measures that may need to be addressed should reserves fall below agreed levels.

On this basis, the minimum level of reserves is set at £48 million. At 31 December 2016 the charity had calculated reserves of £55 million (2015: £57 million); in addition there is a contingent asset of the legacy 'pipeline' which is valued at £11.6 million. Furthermore, our investment funds have sufficient liquidity to provide the flexibility to manage any potential downturn in income and the charity also has a £5 million unsecured overdraft facility with Lloyds Bank plc.

Council regularly reviews financial forecasts and projections, taking account of the potential impact on future public benefit. To assist this review, cash forecasting is an important element of group financial management. Each year, the Trustees formally review financial plans for the current and following four years. In 2017 Trustees will review the suitability of the Reserves Policy alongside revised business planning processes.

No matters have come to the attention of the Trustees which might suggest that the charity will not be able to maintain its current activities for the foreseeable future and they therefore consider that it is appropriate for the financial statements to be prepared on the going concern basis.

### Pension Plans

PDSA operates a defined benefit pension scheme The People's Dispensary for Sick Animals Retirement Benefits Plan (1978) (RBP) and a Group Personal Pension (GPP) Plan. The GPP Plan was opened in January 2008 for new employees. The charity is committed to ensuring it will continue to offer attractive pension benefits for employees.

The defined benefit pension scheme has been closed to new employees since 2006 and had a deficit, as calculated under the provisions of FRS 102, of £57.7 million at 31 December 2016 (2015: £26.2 million). The latest triennial actuarial valuation was carried out as at 31 December 2014 and this showed a deficit of £35 million. In February 2016 the charity announced proposals regarding the future of the Retirement Benefits Plan and entered in to a consultation period with active members; members were offered options about continuing to generate future benefit accrual until 5 April 2019 when the plan will close, or to become members of the GPP Plan.

Existing members of the defined benefit pension scheme can transfer to this plan at their request.

Approved by Council and signed on its behalf by:



John Smith  
Chair  
27 April 2017

## Independent auditor's report to the Council of The People's Dispensary for Sick Animals

We have audited the financial statements of The People's Dispensary for Sick Animals for the year ended 31 December 2016, which comprise the Group Statement of Financial Activities, the Group and Parent Charity Balance Sheets, the Group Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the charity's Trustees, as a body, in accordance with the Charities Act 2011 and the Charities and Trustee Investment (Scotland) Act 2005. Our audit work has been undertaken so that we might state to the charity's Trustees those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the charity and the charity's trustees as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of Trustees and auditor

As explained more fully in the Statement of Trustees' Responsibilities, the Trustees are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

We have been appointed as auditor under section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005 and under section 144 of the Charities Act 2011 and report in accordance with regulations made under those Acts. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's (FRC's) Ethical Standards for Auditors.

### Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the FRC's website at [www.frc.org.uk/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate).

### Opinion on financial statements

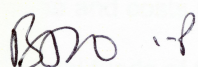
In our opinion the financial statements:

- give a true and fair view of the state of the group's and parent charity's affairs as at 31 December 2016 and of the group's and parent charity's incoming resources and application of resources, including the income and expenditure, for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Charities Act 2011, the Charities and Trustee Investment (Scotland) Act 2005 regulations 6 and 8 of the Charities Accounts (Scotland) Regulations 2006 (as amended) and The People's Dispensary for Sick Animals Acts 1949 and 1956.

### Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Charities Act 2011 and the Charities Accounts (Scotland) Regulations 2006 (as amended) requires us to report to you if, in our opinion:

- the information given in the Trustees' Annual Report is inconsistent in any material respect with the financial statements; or
- proper and sufficient accounting records have not been kept; or
- the parent charity financial statements are not in agreement with the accounting records or returns; or
- we have not received all the information and explanations we require for our audit.



**BDO LLP**  
Statutory Auditor  
Gatwick  
United Kingdom

Date: 22 May 2017

BDO LLP is eligible to act as an auditor in terms of section 1212 of the Companies Act 2006.

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

## Consolidated Statement of Financial Activities (incorporating an income and expenditure account)

For the years ended 31 December	Note	£'000		£'000			
		Unrestricted funds	Restricted funds and endowments	Total 2016	Unrestricted funds	Restricted funds and endowments	Total 2015
<b>Income and endowments from:</b>							
Donations and legacies	1,2	64,135	4,363	68,498	58,102	5,867	63,969
Other trading activities	2	24,158	-	24,158	18,883	-	18,883
Charitable trading activities	2	7,672	-	7,672	6,887	-	6,887
Investments	2	1,517	-	1,517	1,796	-	1,796
Net gain on disposal of fixed assets		300	-	300	137	-	137
<b>Total income</b>		97,782	4,363	102,145	85,805	5,867	91,672
<b>Expenditure on:</b>							
<b>Raising funds</b>							
Donations and legacies	3	12,821	-	12,821	15,396	-	15,396
Other trading activities	3	20,707	-	20,707	19,352	-	19,352
Investments	3	72	-	72	65	-	65
<b>Total expenditure on raising funds</b>		33,600	-	33,600	34,813	-	34,813
<b>Net income available for charitable activities</b>		64,182	4,363	68,545	50,992	5,867	56,859
<b>Charitable activities:</b>							
Treatment at Pet Hospitals and by contracted services	3	59,270	3,792	63,062	60,449	3,427	63,876
Education: responsible pet ownership	3	2,098	684	2,782	2,471	914	3,385
Preventive services	3	5,742	-	5,742	5,615	-	5,615
<b>Total expenditure on charitable activities</b>		67,110	4,476	71,586	68,535	4,341	72,876
<b>Total expenditure</b>		100,710	4,476	105,186	103,348	4,341	107,689
Net (losses)/gains on investments	7	(597)	-	(597)	291	-	291
<b>Net expenditure</b>		(3,525)	(113)	(3,638)	(17,252)	1,526	(15,726)
Transfers between funds	14	52	(52)	-	1,644	(1,644)	-
Actuarial (loss)/gain on defined benefit pension scheme	19	(28,900)	-	(28,900)	1,900	-	1,900
<b>Net movement in funds</b>		(32,373)	(165)	(32,538)	(13,708)	(118)	(13,826)
<b>Reconciliation of funds</b>							
Total funds brought forward		70,569	2,793	73,362	84,277	2,911	87,188
<b>Total funds carried forward</b>	14	38,196	2,628	40,824	70,569	2,793	73,362

All of the above results are derived from continuing activities. All gains and losses recognised in the year are included above.

## Balance Sheets

£'000

At 31 December 2016

		Group		Charity	
	Note	Total 2016	Total 2015	Total 2016	Total 2015
<b>Fixed assets</b>					
Tangible assets	6	25,310	27,855	26,422	29,006
Investments	7	57,627	63,335	57,627	63,335
<b>Total fixed assets</b>		<b>82,937</b>	91,190	<b>84,049</b>	92,341
<b>Current assets</b>					
Stocks – finished goods and goods for resale		1,574	1,610	1,380	1,157
Debtors	8	20,412	19,035	22,714	19,988
Investments	9	19	19	19	19
Cash at bank and in hand		1,620	29	90	25
<b>Total current assets</b>		<b>23,625</b>	20,693	<b>24,203</b>	21,189
Creditors – amounts falling due within one year	10	(7,400)	(11,705)	(7,581)	(11,830)
<b>Net current assets</b>		<b>16,225</b>	8,988	<b>16,622</b>	9,359
<b>Total assets less current liabilities</b>		<b>99,162</b>	100,178	<b>100,671</b>	101,700
Creditors – amounts falling due after more than one year	11	(16)	(20)	(16)	(20)
Provisions for liabilities	12	(622)	(577)	(622)	(577)
<b>Net assets excluding pension liability</b>		<b>98,524</b>	99,581	<b>100,033</b>	101,103
<b>Defined benefit pension scheme liability</b>	19	<b>(57,700)</b>	(26,219)	<b>(57,700)</b>	(26,219)
<b>Total net assets</b>		<b>40,824</b>	73,362	<b>42,333</b>	74,884
<b>The funds of the charity:</b>					
<b>Endowment funds</b>	14	<b>933</b>	863	<b>933</b>	863
<b>Restricted income funds</b>	14	<b>1,695</b>	1,930	<b>1,695</b>	1,930
<b>Unrestricted income funds</b>					
Unrestricted income funds	14	56,404	57,296	57,913	58,818
Designated funds	14	39,492	39,492	39,492	39,492
<b>Unrestricted funds</b>		<b>95,896</b>	96,788	<b>97,405</b>	98,310
<b>Pension reserve</b>	14	<b>(57,700)</b>	(26,219)	<b>(57,700)</b>	(26,219)
<b>Total unrestricted funds</b>		<b>38,196</b>	70,569	<b>39,705</b>	72,091
<b>Total charity funds</b>		<b>40,824</b>	73,362	<b>42,333</b>	74,884

Approved by Council and signed on its behalf on 27 April 2017

John Smith

Chair



## Consolidated Statement of Cash Flows

£'000

For the year ended 31 December 2016		2016	2015
	Note		
<b>Cash flows from operating activities</b>	a	<b>(884)</b>	<b>(13,705)</b>
<b>Cash flows from investing activities</b>			
Dividends, interest and rents from investments		1,517	1,796
Purchase of property plant and equipment		(368)	(1,589)
Proceeds from the sale of property, plant and equipment		436	1,429
Purchase of investments		(1,109)	(1,288)
Pension deficit contributions		(2,000)	(1,285)
Proceeds from the sale of investments		6,220	12,585
<b>Net cash provided by investing activities</b>		<b>4,696</b>	<b>11,648</b>
<b>Cash flows from financing activities</b>			
Receipt of endowment		70	763
<b>Change in cash and cash equivalents in the reporting period</b>		<b>3,882</b>	<b>(1,294)</b>
<b>Cash and cash equivalents at the beginning of the reporting period</b>	b	<b>(2,243)</b>	<b>(949)</b>
<b>Cash and cash equivalents at the end of the reporting period</b>	b	<b>1,639</b>	<b>(2,243)</b>

### Note a. Reconciliation of net expenditure to net cash from operating activities

	2016	2015
Net expenditure for the reporting period	(3,638)	(15,726)
Adjustments for:		
Investment income	(1,517)	(1,796)
Net gain on disposal of tangible fixed assets	(300)	(137)
Endowments received	(70)	(763)
Depreciation	2,777	2,381
Movements on investments	597	(291)
Decrease in pension provision excluding actuarial loss	4,581	1,886
Decrease in stocks	36	227
(Increase)/decrease in debtors	(1,377)	814
(Decrease) in creditors	(2,018)	(234)
Increase/(decrease) in provisions	45	(66)
<b>Net cash used in operating activities</b>	<b>(884)</b>	<b>(13,705)</b>

### Note b. Analysis of cash and cash equivalents and changes in net funds

	2015	Cash flow	2016
Current asset investments	19	-	19
Cash at bank and in hand	29	1,591	1,620
Overdraft	(2,291)	2,291	
<b>Total</b>	<b>(2,243)</b>	<b>3,882</b>	<b>1,639</b>

## Notes to the financial statements for the year ended 31 December 2016

### 1. Accounting policies

#### Accounting basis

The financial statements have been prepared under the historical cost convention, with the exception of investments that are included at market value. The financial statements have been prepared in accordance with the Charities Act 2011, the Charities and Trustees Investment (Scotland) Act 2005, the Charities SORP (FRS 102) - Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102), effective 1 January 2016.

The charity's activities, together with factors likely to affect its future development, performance and financial position and commentary on its financial results and its cash flows, are set out in the Trustees' Report on pages 2 to 19 and elsewhere in the financial statements. The Trustees have concluded that no matters have come to their attention that would prevent the charity from being able to maintain its current charitable activities and trade with customers and suppliers and they therefore consider that it is appropriate for the financial statements to be prepared on the going concern basis.

The statement of financial activities (SOFA) and balance sheet consolidate the financial statements of the charity and its subsidiary undertakings. The results of the subsidiaries are consolidated on a line-by-line basis. All entities concerned prepared financial statements to 31 December 2016.

#### Fund accounting

General funds are unrestricted funds that are available for use at the discretion of Council in furtherance of the general objectives of the charity, which have not been designated for other purposes.

Designated funds are unrestricted funds that have been set aside by Council for particular purposes. The aim and use are set out in Note 14 to the financial statements.

Restricted funds are funds that are used in accordance with specific restrictions imposed by donors. The aim and use of each restricted fund is set out in Note 14 to the financial statements. Income received less than £15,000, unless part of a larger project, is reported in aggregate.

Investment income and gains are allocated to the appropriate fund.

#### Incoming resources

All incoming resources are included in the SOFA when the charity is legally entitled to the income and the amount can be quantified with reasonable accuracy.

Pecuniary legacies are recognised as receivable once probate has been granted and notification has been received. Reversionary interests involving a life tenant are not recognised. In our estimate and judgement, residuary legacies are recognised when the charity is advised by the personal representative of an estate that payment will be made or assets transferred and in the opinion of management the amount can be quantified with reasonable accuracy and will probably be received. This estimate includes a reduction to reflect the proportion of the prior year debtors not received in subsequent years and so allows for the potential variation in settlement values and the risk of a will being contested.

Donated goods are included in income when received.

Donation income is credited when received, except where fundraising campaigns are based around a specific event date, in which case the accruals basis is used.

Grants and donations in respect of capital expenditure are credited to restricted funds at the point of recognition, and are released to unrestricted funds on the later date of completion of the fixed asset, or the obligation being met.

The gross proceeds from PPL are recorded as income in the SOFA.

### Resources expended

All expenditure is accounted for on an accruals basis and has been listed under the headings that aggregate all costs related to the category. Where costs cannot be directly attributed they have been allocated to activities on a basis consistent with the use of the resources. Overheads in support areas have been allocated to activities as outlined in Note 3 to the financial statements.

Costs for future property dilapidations, in our estimate and judgement: are estimated based on the number of properties rented subject to dilapidation clauses, each having an expected future cost based on the actual average spends per property incurred in earlier years.

Donations and gifts costs are those incurred in seeking voluntary contributions for the charity. Governance costs are those incurred by Trustees, internal audit and fees charged by external auditors. Irrecoverable VAT is charged as a cost to the individual activity.

### Tangible fixed assets and depreciation

Tangible fixed assets costing more than £5,000 are capitalised and accounted for at cost, inclusive of any incidental expenses of acquisition.

Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost on a straight-line basis over their expected useful economic lives as follows:

Assets under course of construction	nil
Freehold land	nil
Freehold buildings	25–50 years
Long leasehold buildings	25 years
Short leasehold buildings	remainder of lease
Pet Hospital buildings, freehold and leasehold	25 years
Furniture, fittings and equipment	3–8 years
Motor vehicles	5 years

The charity has a policy to conduct impairment reviews in accordance with the requirements of FRS 102.

### Investment properties

In accordance with FRS 102 these properties are revalued. Revaluations are undertaken periodically by professionally qualified surveyors on the basis of open market value. In our estimate and judgement: these are revised in subsequent years by reference to published indices or comparative evidence and assessment of the circumstances of each property by PDSA's professional qualified surveyors.

### Investments

Listed investments are stated at market value at the balance sheet date. The SOFA includes the net gains and losses arising on revaluation and disposals throughout the year.

Investments in subsidiaries are shown at cost, less provision for impairment.

### Stocks

Stocks are stated at the lower of cost and net realisable value. Donated goods are included at fair value on receipt. The stock represents the amount of goods donated by the general public which we hold at our shops at year end. In our estimate and judgement, the value is calculated by applying an average sales value, adjusted for Gift Aided sales, to the volume of goods we have unsold at year end.

### Financial instruments

The PDSA group only holds basic financial instruments. Investments are measured at fair value and shown in Note 7 to the accounts. Financial instruments held within current assets and current liabilities are measured at the cash expected to be paid or received which is considered to be amortised cost and is shown in Notes 8, 9 and 10. The bank overdraft is measured as the amount drawn down.

The group balances included in the accounts are as follows:

	2016 £'000	2015 £'000
Fixed Asset Investments	57,627	63,335
Debtors	20,412	19,035
Current Asset Investments	19	19
Creditors: amounts falling due within one year (excluding bank overdraft)	7,400	9,414
Bank overdraft	nil	2,291

### Taxation

As a registered charity PDSA is exempt from taxation of income and gains falling within Chapter Three of Part II to the Corporation Tax Act 2010 or Section 256 Taxation of Chargeable Gains Act 1992 to the extent that these are applied to its charitable objects. No tax charge has arisen in the year. No tax charge has arisen in any of its subsidiaries since they gift all taxable profits to PDSA.

### Pension costs

For the defined benefit pension scheme, the amounts charged in resources expended are the current service costs and gains and losses on settlements and curtailments; these are included as part of staff costs. Past service costs are recognised immediately if the benefits have vested. If the benefits have not vested immediately, the costs are recognised over the period until vesting occurs. The interest cost and the expected return on assets are shown as a net amount of other finance costs or credits adjacent to interest. Actuarial gains and losses are recognised immediately and are shown separately in the SOFA. Defined benefit pension schemes are funded, with the assets of the scheme held separately from those of the group, in trustee-administered funds. These assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high-quality corporate bond of equivalent currency and term to the scheme liabilities. The valuation is obtained triennially but is updated each year and the resulting asset or liability is shown on the balance sheet.

The contributions paid by the employer relating to the Group Personal Pension (GPP) Plan vary according to individual employee contributions. The assets are held separately from those of the group. The amounts charged in resources expended are the cost of the contributions in the year they arise.

### Finance and operating leases

Rentals paid under operating leases are charged to the SOFA on a straight-line basis over the lease-term, even if the payments are not made on such a basis. Benefits received and receivable as an incentive to sign an operating lease are credited to the SOFA over the period of the lease.

Rentals receivable under operating leases are credited to the SOFA in the periods in which they become receivable.

### Basis of consolidation

PDSA's group's financial statements consolidate the financial statements of the charity and its subsidiary undertakings drawn up to 31 December each year. The results of subsidiaries acquired or sold are consolidated on a line-by-line basis for the periods from or to the date on which control passed.

PDSA Trading Limited, PDSA PetAid Enterprises Limited and PDSA Property Services Limited are consolidated within these accounts as PDSA holds 100% of the issued share capital of each company.

£'000

	2016	2015
<b>2. Income and endowments</b>		
<b>Donations and legacies</b>		
Legacies receivable	45,135	39,514
Donations and gifts	23,363	24,455
	<b>68,498</b>	<b>63,969</b>
<b>Other trading activities</b>		
Lottery and similar income*	8,836	2,444
Sale of donated goods**	12,388	13,628
Sale of new goods	1,350	1,470
Other sales income	1,584	1,341
	<b>24,158</b>	<b>18,883</b>
<b>Charitable trading activities</b>		
Preventive services	7,390	6,887
Concessionary services	282	-
	<b>7,672</b>	<b>6,887</b>
<b>Investments</b>		
Listed securities – dividends	1,068	1,300
Bank and other interest	2	3
Rents receivable	447	493
	<b>1,517</b>	<b>1,796</b>

\*The figure for lottery income includes £6,771,000 received from players of the People's Postcode Lottery for lotteries drawn in 2016

\*\* 2016 includes income of £3,453,000 of donations from supporters resulting from sale of their goods through PDSA's Retail Gift Aid programme (2015: £3,996,000).

	Activities undertaken directly	Support costs allocated	2016 Total	2015 Total
<b>3. Expenditure</b>				
<b>Expenditure raising funds</b>				
Legacies receivable	2,086	168	2,254	2,485
Donations and gifts	6,432	273	6,705	7,447
Raising public perception and awareness	3,702	160	3,862	5,464
	<b>12,220</b>	<b>601</b>	<b>12,821</b>	<b>15,396</b>
<b>Expenditure on other trading activities</b>				
Merchandising and charity shop operating costs	13,701	1,404	15,105	18,154
Lottery ticket sales	5,433	169	5,602	1,198
	<b>19,134</b>	<b>1,573</b>	<b>20,707</b>	<b>19,352</b>
<b>Expenditure on investments</b>	62	10	72	65
<b>Expenditure on charitable activities:</b>				
Treatment at Pet Hospitals and by contracted services	56,970	6,092	63,062	63,876
Education: responsible pet ownership	2,579	203	2,782	3,385
Preventive services	5,465	277	5,742	5,615
	<b>65,014</b>	<b>6,572</b>	<b>71,586</b>	<b>72,876</b>
	<b>96,430</b>	<b>8,756</b>	<b>105,186</b>	<b>107,689</b>

£'000

<b>Support costs breakdown by activity</b>	<b>Human Resources</b>	<b>Property Services</b>	<b>Finance and Management</b>	<b>Information Technology</b>	<b>2016</b>	<b>2015</b>
Expenditure raising funds						
Legacies receivable	42	-	64	62	<b>168</b>	187
Donations and gifts	32	-	197	44	<b>273</b>	324
Raising public perception and awareness	29	-	113	18	<b>160</b>	213
Expenditure on other trading activities						
Merchandising and charity shop operating costs	304	300	418	382	<b>1,404</b>	1,748
Lottery ticket sales	2	-	167	-	<b>169</b>	38
Expenditure on Investments	-	8	2	-	<b>10</b>	12
Expenditure on charitable activities:						
Treatment at Pet Hospitals and by contracted services	1,951	377	1,745	2,019	<b>6,092</b>	6,560
Education: responsible pet ownership	67	-	79	57	<b>203</b>	231
Preventive services	110	-	167	-	<b>277</b>	319
<b>Total support costs</b>	<b>2,537</b>	<b>685</b>	<b>2,952</b>	<b>2,582</b>	<b>8,756</b>	9,632

Governance costs in the year of £215,000 (2015: £200,000) are included within Finance and Management support costs

#### Bases of allocation

Human Resources	staff costs
Property Services	property costs, excluding rent
Information Technology	number of IT devices
Finance and Management	expenditure

<b>4. Net outgoing resources before other recognised gains and losses</b>				<b>2016</b>	<b>2015</b>
These are stated after charging:					
Auditor's remuneration	audit fees charity			<b>44</b>	41
	audit fees subsidiaries			<b>5</b>	7
	non-audit fees charity	- tax services		-	-
		- other consultancy services		<b>3</b>	12
	non-audit fees subsidiaries	- tax services		<b>4</b>	4

<b>5. Employees</b>				<b>2016</b>	<b>2015</b>
<b>Employment costs</b>					
Salaries				<b>42,453</b>	45,693
Social security costs				<b>3,823</b>	3,949
Defined benefit pension costs				<b>7,214</b>	4,879
Other employer pension costs				<b>1,950</b>	1,617
Redundancy payments				<b>170</b>	205
Other staff costs				<b>242</b>	263
				<b>55,852</b>	56,606

During 2016, 58 employees were made redundant, (47 in 2015). In 2016 this was a result of widespread restructuring of support areas and closure of selected shops.

#### Average number of employees, calculated on a full-time equivalent basis

Veterinary		<b>1,068</b>	1,098
Retail		<b>250</b>	297
Marketing and fundraising		<b>106</b>	124
Other		<b>169</b>	180
<b>Total</b>		<b>1,593</b>	<b>1,699</b>

	2016	2015
<b>Employment costs</b>		
The number of higher-paid employees whose emoluments were within the following scales was as follows:		
£60,001–£70,000	17	31
£70,001–£80,000	5	8
£80,001–£90,000	4	3
£90,001–£100,000	1	1
£100,001–£110,000	2	1
£110,001–£120,000	1	1
£140,001–£150,000	1	-
£150,001–£160,000	-	1
£160,001–£170,000	-	1

Nine (2015: twenty-five) of the higher-paid staff are members of the charity's defined benefit pension scheme. Twenty-one are members of the Group Personal Pension (GPP) Plan (2015: eighteen). Six of these staff members contribute to the GPP under Auto Enrolment guidelines (2015: thirteen). Fifteen of the staff members contribute to the GPP by paying contributions in excess of the Auto Enrolment minimum rates (2015: five). Eighteen of the higher paid employees are employed in our Veterinary Services team (58%).

The total remuneration of the Executive team in 2016 was £655,000. The highest paid employee was the Director General. The total remuneration of the Executive team in 2015 was £808,000. Total remuneration includes pension contributions.

The charity's defined pension scheme will close to future accrual with effect from 5 April 2019 following a transition period which commenced on 1 July 2016 following consultation.

Members of Council do not receive any remuneration. They made donations to PDSA in 2016 totalling £7,631 including Gift Aid (2015: £4,512).

Travel, accommodation, telecommunications, entertainment and training costs incurred by Council members on charity business are reimbursed or are paid directly by the charity. This amounted to £6,566 during the year for twelve Council members (2015: £9,582 for ten).

## 6. Fixed assets

								£'000	
	Assets under course of construction	Freehold land and buildings	Leasehold buildings		Pet Hospital land and buildings		Furniture fittings and equipment	Motor vehicles	Total
			Long lease	Short lease	Freehold	Long lease			
<b>Cost</b>									
At 1 January 2016	366	4,084	402	5,797	33,129	5,253	14,771	337	64,139
Additions	26	-	-	5	13	-	324	-	368
Disposals	-	(231)	-	-	-	-	(81)	(161)	(724)
<b>At 31 December 2016</b>	<b>392</b>	<b>3,853</b>	<b>402</b>	<b>5,551</b>	<b>33,142</b>	<b>5,253</b>	<b>15,014</b>	<b>176</b>	<b>63,783</b>
<b>Depreciation</b>									
At 1 January 2016		1,347	97	4,931	15,345	2,476	11,783	305	36,284
Charge for the year		87	14	233	1,082	183	1,166	12	2,777
Disposals		(137)	-	(209)	-	-	(81)	(161)	(588)
<b>At 31 December 2016</b>	<b>-</b>	<b>1,297</b>	<b>111</b>	<b>4,955</b>	<b>16,427</b>	<b>2,659</b>	<b>12,868</b>	<b>156</b>	<b>38,473</b>
<b>Net book value</b>									
<b>At 31 December 2016</b>	<b>392</b>	<b>2,556</b>	<b>291</b>	<b>596</b>	<b>16,715</b>	<b>2,594</b>	<b>2,146</b>	<b>20</b>	<b>25,310</b>
At 31 December 2015	366	2,737	305	866	17,784	2,777	2,988	32	27,855

The difference between the Group and charity fixed assets is cost of assets in the course of construction held in PDSA PetAid Enterprises Limited of £392,000 and the exclusion of the intra-group profit of £1,504,000. The intra-group profit arose from the construction and sale of PDSA Pet Hospital buildings by subsidiaries of the charity.

During the year certain freehold assets were charged to provide security against specific liabilities. The NBV of these assets at 31 December 2016 is £8,377,000

Within furniture, fittings and equipment the depreciation charge for the year includes an impairment of £325,000 relating to PDSA's website, which is planned to have its underlying technology replaced in 2017. Within Pet Hospital long lease there is an impairment of £25,000 for Newcastle-Under-Lyme Clinic which will close in 2017.

## 7. Fixed asset investments

### Group and charity

	Investment properties				Total
	Listed	Unlisted	Long		
	investments	investments	Freehold	leasehold	
At 1 January 2016	61,072	-	2,048	215	63,335
Additions/transfers in	1,068	-	41	-	1,109
Withdrawals/transfers out	(5,500)	-	(454)	(266)	(6,220)
Net gains/(losses) on revaluations and disposals	(769)	-	121	51	(597)
<b>At 31 December 2016</b>	<b>55,871</b>	<b>-</b>	<b>1,756</b>	<b>-</b>	<b>57,627</b>

At 31 December 2016 and 2015 the charity had the following holdings constituting more than 5% of the portfolio market value:

	2016	2015
Newton Real Return Fund	28,584	29,428
Standard Life Global Absolute Return Strategies Fund	27,287	31,644
The total of UK listed investments	55,871	61,072

The charity is not aware of any material restrictions that might affect the realisation of any of its listed securities.

Within fixed asset investments, investment properties include a valuation as at 31 December 2016 of £1,756,000.

Specific properties were valued as at 31 December 2012 by qualified professional valuers working for the company of DTZ Debenham Tie Leung, Chartered Surveyors, acting in the capacity of Independent Valuers. All such valuers are Chartered Surveyors, being members of the Royal Institution of Chartered Surveyors (RICS). All properties were valued on the basis of Market Value. Their opinion of the Market Value of each of the properties was primarily derived using comparable recent market transactions on arm's length terms. All valuations were carried out in accordance with the RICS Valuation Standards. Their valuation report is dated 21 January 2013 (the 'Valuation Report').

Five properties were reclassified from fixed assets to investments during 2014. Of these, one was valued at 31 December 2014 by external valuer, Jeremy Symons BSc MRICS of Cooke and Arkwright Chartered Surveyors. The valuation was in accordance with the requirements of the RICS Valuation Professional Standards January 2014. The valuation was to market value, assuming that the property would be sold subject to any existing leases. The remaining four properties were valued by PDSA RICS-qualified staff using market data.

All of the investment property valuations have been updated at the end of 2016 by management's judgement.

## 8. Debtors

	Group		Charity	
	2016	2015	2016	2015
Accrued legacies	18,167	17,022	18,167	17,022
Amounts due from subsidiary undertakings	-	-	2,467	1,136
Income tax recoverable	501	545	501	545
Sundry debtors	616	184	456	3
Prepayments	1,128	1,284	1,123	1,282
<b>Total</b>	<b>20,412</b>	<b>19,035</b>	<b>22,714</b>	<b>19,988</b>

The charity has received notification of legacies amounting to approximately £11,595,000 (2015: £11,292,000).

This total has not been recognised as income at 31 December 2016, but represents a contingent asset that will be recognised in future years.



£'000

**9. Current asset investments****Group and charity**Interest  
bearing  
deposit  
accounts

At 1 January 2016		19
Increase		-
<b>At 31 December 2016</b>		<b>19</b>

**10. Creditors: amounts falling due within one year**

	Group		Charity	
	2016	2015	2016	2015
Bank overdraft	-	2,291	471	3,435
Trade creditors	2,791	4,161	2,773	3,803
Taxation and social security	937	1,065	937	1,065
Sundry creditors	738	915	526	404
Accruals	2,934	3,273	2,874	3,123
	<b>7,400</b>	<b>11,705</b>	<b>7,581</b>	<b>11,830</b>

**11. Creditors: amounts falling due after more than one year****Group and charity**

Sundry creditors	16	20
	<b>16</b>	<b>20</b>

**12. Provisions for liabilities****Group and charity**

Obligations for dilapidations in respect of rented properties the leases of which expire by 2026:

At the beginning of the year	577	643
Change in the year resulting from the number of properties and average projected cost per property	45	(66)
At the end of the year	<b>622</b>	<b>577</b>

**13. Analysis of Group net assets between funds**

Fund balances at 31 December 2016 are represented by:

	Restricted	Designated	General	Total
Tangible fixed assets	426	-	24,884	25,310
Investments	-	39,492	18,135	57,627
Current assets	2,202	-	21,423	23,625
Creditors – amounts falling due within one year	-	-	(7,400)	(7,400)
Creditors – amounts falling due after more than one year	-	-	(16)	(16)
Provisions for liabilities	-	-	(622)	(622)
Net assets excluding pension liability	<b>2,628</b>	<b>39,492</b>	<b>56,404</b>	<b>98,524</b>
Defined benefit pension scheme liability	-	-	(57,700)	(57,700)
Net assets including pension liability	<b>2,628</b>	<b>39,492</b>	<b>(1,296)</b>	<b>40,824</b>

14. Statement of funds	At 1 January 2016	Income	Expenditure	Actuarial/ investment gains	Transfers	At 31 December 2016
<b>General fund</b>	57,296	97,782	(100,710)	(29,497)	31,533	56,404
<b>Designated fund</b>						
PDSA Pet Hospital replacement	39,492	-	-	-	-	39,492
	39,492	-	-	-	-	39,492
<b>Unrestricted funds excluding pension reserve</b>	96,788	97,782	(100,710)	(29,497)	31,533	95,896
<b>Pension reserve</b>	(26,219)	-	-		(31,481)	(57,700)
<b>Total unrestricted funds</b>	70,569	97,782	(100,710)	(29,497)	52	38,196
<b>Restricted funds</b>						
<b>Permanent endowment</b>						
A.W. Blackwell bequest	863	70	21	-	(21)	933
<b>Total permanent endowment funds</b>	863	70	21	-	(21)	933
<b>Income funds</b>						
Restricted legacies	428	3,315	(3,351)	-	-	392
Digital x-ray – appeal	81	25	-	-	-	106
Birmingham (Oldbury) PDSA Pet Hospital – capital appeal	-	6	-	-	(6)	-
Replacement clinical system - Rolled out mid-2016	151	-	(151)	-	-	-
PetWise for Cats programme	943	610	(684)	-	-	869
Manchester PDSA Pet Hospital – capital appeal	249	18	-	-	-	267
Manchester PDSA Pet Hospital – capital appeal equipment	53	-	-	-	-	53
Impact reporting	25	-	-	-	(25)	-
Newcastle PDSA Pet Hospital	-	20	(20)	-	-	-
Bournemouth PDSA Pet Hospital	-	20	(20)	-	-	-
Romford PDSA Pet Hospital	-	30	(30)	-	-	-
Miscellaneous restricted donations less than £15,000	-	249	(241)	-	-	8
<b>Total restricted income funds</b>	1,930	4,293	(4,497)	-	(31)	1,695
<b>Total restricted funds</b>	2,793	4,363	(4,476)	-	(52)	2,628
<b>Total funds excluding pension reserve</b>	99,581	102,145	(105,186)	(29,497)	31,481	98,524
<b>Total funds</b>	73,362	102,145	(105,186)	(29,497)	-	40,824

The General fund represents the free funds of the charity that are not designated for particular purposes.

A designated fund has been established for the following purpose:

- PDSA Pet Hospital replacement fund, to replace Pet Hospitals at the end of their economic lives; this is a long-term fund with an indefinite life.

The movement on the pension reserve represents the difference between the payments in the year by the employer towards the liabilities and the the actuarial calculations of liabilities under FRS102.

We would also like to provide further information about the nature of some of the other restricted funds above.

- The A.W. Blackwell endowment reduced interest expense by £21,000 by reducing PDSA's overdraft; the income is unrestricted and so is transferred.
- Legators have specified restrictions for use within a specific geographical location or application. The balance carried forward comprises:
  - at Bristol £4,000, Helmsley/Kirbymoorside £338,000, £25,000 for a veterinary vehicle in the West Midlands and £25,000 for the Stourbridge area.

	£'000	
<b>15. Related parties</b>	<b>2016</b>	2015
<b>Sales from PDSA to PDSA Trading Limited</b>		
Allocation of shared staff and overhead costs	4,902	6,244
	<b>4,902</b>	6,244
<b>Sales from PDSA to PDSA PetAid Enterprises Limited</b>		
Allocation of shared staff and overhead costs	247	3,197
	<b>247</b>	3,197
<b>Sales from PDSA Trading Limited to PDSA</b>		
Acquisition of donors and administration of the Retail Gift Aid sales scheme	3,744	4,832
	<b>3,744</b>	4,832
<b>Sales from PDSA PetAid Enterprises Limited to PDSA</b>		
Provision of preventive services and drugs	-	548
Building of new Pet Hospitals	-	1,199
	-	1,747
<b>Amounts owed to PDSA by Subsidiary undertakings</b>		
PDSA Trading Limited	804	489
PDSA PetAid Enterprises Limited	1,637	621
PDSA Property Services Limited	26	26
	<b>2,467</b>	1,136
<b>16. Capital commitments</b>	<b>2016</b>	2015
<b>Group and charity</b>		
<b>Purchase of tangible fixed assets authorised but not contracted</b>	<b>706</b>	1,851
<b>17. Operating lease commitments</b>	<b>2016</b>	2015
<b>Group and charity</b>		
Total commitments not provided for in these financial statements under non-cancellable operating leases are as follows:		
Amounts payable:		
Within one year	2,825	2,960
Within two to five years	6,302	6,789
After more than five years	2,081	2,901
	<b>11,208</b>	12,650

### 18. Charity and subsidiary undertakings

The charity holds 100% of the issued share capital of each of the following companies, all of which are registered in England:

	Company number	
<b>PDSA Trading Limited</b>	1595637	Principal activities: operation of lotteries, mail order catalogues, sale of financial services and new goods through PDSA's chain of shops.
<b>PDSA Property Services Limited</b>	2340793	The company is currently not trading.
<b>PDSA PetAid Enterprises Limited</b>	4374375	Principal activities: the construction of new PDSA Pet Hospitals for the charity and commercial veterinary activities

The total taxable profit is gifted to the charity. No loans are advanced by the charity to its subsidiaries.

#### A Statement of Financial Activities for the charity only (presented in summary form to aid the understanding of the reader).

	Unrestricted funds	Restricted funds and endowments	Total 2016	Unrestricted funds	Restricted funds and endowments	Total 2015
Total income	90,032	4,251	94,283	77,390	5,867	83,257
Total expenditure	92,878	4,459	97,337	94,778	4,341	99,119
Net gains on investments	(597)	-	(597)	291	-	291
<b>Net expenditure</b>	<b>(3,443)</b>	<b>(208)</b>	<b>(3,651)</b>	<b>(17,097)</b>	<b>1,526</b>	<b>(15,571)</b>
Transfers between funds	52	(52)	-	1,644	(1,644)	-
Actuarial gain/(loss) on defined benefit pension scheme	(28,900)	-	(28,900)	1,900	-	1,900
<b>Net movement in funds</b>	<b>(32,291)</b>	<b>(260)</b>	<b>(32,551)</b>	<b>(13,553)</b>	<b>(118)</b>	<b>(13,671)</b>
<b>Reconciliation of funds</b>						
Total funds brought forward	72,091	2,793	74,884	85,644	2,911	88,555
<b>Total funds carried forward</b>	<b>39,800</b>	<b>2,533</b>	<b>42,333</b>	<b>72,091</b>	<b>2,793</b>	<b>74,884</b>

#### A summary of the results of the subsidiaries:

For the year ended 31 December	PDSA Trading Limited		PDSA Property Services Limited		PDSA PetAid Enterprises Limited	
	2016	2015	2016	2015	2016	2015
Income	14,780	9,431	-	-	725	9,270
Expenditure	(11,092)	(8,028)	(1)	(1)	(533)	(7,149)
Profit/(loss) for the year	3,688	1,403	(1)	(1)	192	2,121
Gifted to The People's Dispensary for Sick Animals	(3,688)	(1,403)	-	-	(192)	(2,121)
Retained loss	-	-	(1)	(1)	-	-

£'000

Aggregate of the assets and liabilities:

	PDSA Trading Limited		PDSA Property Services Limited		PDSA PetAid Enterprises Limited	
	2016	2015	2016	2015	2016	2015
<b>Assets</b>	872	641	15	16	1,864	1,642
<b>Liabilities</b>	(865)	(634)	(27)	(27)	(1,864)	(1,642)
<b>Net assets/(liabilities)</b>	<b>7</b>	<b>7</b>	<b>(12)</b>	<b>(11)</b>	<b>-</b>	<b>-</b>

£ millions

### 19. Defined benefit pension scheme

The Society operates a defined benefit pension scheme that pays out pensions at retirement based on service and final pay. It has applied Section 28 of FRS102 and the following disclosures relate to this standard. It recognises any gains and losses in each period within the Consolidated Statement of Financial Activities under the heading of 'Actuarial gains/(losses) on defined benefit pension scheme'. The funding policy is agreed between the Retirement Benefit Plan (1978) (RBP) Trustees and the Society and is formally set out in a Statement of Funding Principles, Schedule of Contributions and Recovery Plan following each full actuarial valuation. The latest such valuation was carried out as at 31 December 2014 and showed a deficit of £35.3 million. A future funding schedule has been agreed with the Trustees of the RBP to eliminate the deficit by 31 December 2031. An independent qualified actuary has calculated the RBP liabilities from data provided by the RBP administrators as at 31 December 2014.

Following a period of consultation with the active members over proposals to close the RBP Scheme to future accrual, we can confirm that the proposals were accepted on 30 June 2016 and the Scheme will be closed to future accrual with effect from 5 April 2019.

In respect of the deficit arising from the 31 December 2014 Triennial Valuation of the RBP Scheme, we have entered into security arrangements with the RBP Trustees to support the deficit recovery plan agreed from the 2014 Triennial Valuation.

#### The amounts recognised in the balance sheet are as follows:

	2016	2015
Present value of funded obligations	(168.6)	(121.6)
Fair value of scheme assets	110.9	95.4
Net defined benefit liability	(57.7)	(26.2)

#### The amounts recognised in the Consolidated Statement of Financial Activities as income and expenditure are as follows:

	2016	2015
Current service cost	1.8	2.9
Losses on curtailments and settlements	2.9	-
Scheme administration expenses	0.7	0.6
Net interest on the defined benefit liability	1.1	1.0
Total	6.5	4.5

#### The amounts recognised in the Consolidated Statement of Financial Activities as actuarial (losses) and gains are as follows:

	2016	2015
Actuarial (losses)/gains - changes in the present value of the defined benefit obligation	(40.7)	3.2
Return on scheme assets excluding interest income	11.8	(1.3)
Total	(28.9)	1.9

	2016	2015
Return on the scheme assets	15.5	2.1

**Changes in the present value of the defined benefit obligation are as follows:**

	2016
Opening defined benefit obligation	121.6
Current service cost	1.8
Interest expense	4.8
Actuarial losses	40.7
Losses on curtailments	2.9
Benefits paid	(3.2)
<b>Closing defined benefit obligation</b>	<b>168.6</b>

**Changes in the fair value of scheme assets**

	2016
Opening fair value of the scheme assets	95.4
Interest income	3.7
Return on scheme assets excluding interest income	11.8
Scheme administration expenses	(0.7)
Contributions by employer	3.9
Benefits paid	(3.2)
<b>Closing fair value of the scheme assets</b>	<b>110.9</b>

The £3.9 million of contributions by the Society to the RBP were broken down as follows: £1.3 million of standard accrual contributions, £2.0 million of employer deficit recovery contributions, £0.4 million of employer SMART contributions and £0.2m in administration expenses contributions.

The society expects to pay approximately £5.5 million accrual (including SMART contributions paid by the Society on the members' behalf), administration expenses and deficit contributions to the People's Dispensary for Sick Animas Retirement Benefits Plan (1978). This assumes that there are no changes to the membership or benefits over the year.

**The major categories of scheme assets as a percentage of total scheme assets are as follows:**

	2016	2015
Equities and property	45.1%	46.7%
Corporate bonds	7.6%	8.0%
Gilts	17.8%	16.2%
Insurance policy	27.5%	27.6%
Cash	2.1%	1.5%

**Principal actuarial assumptions at the balance sheet date (expressed as weighted averages)**

	2016		2015	
	Pensioner	Non Pensioner	Pensioner	Non Pensioner
Discount rate (pre-retirement)		2.55%		3.95%
Discount rate (post-retirement)	2.45%	2.55%	3.70%	3.95%
Price inflation	RPI	3.30%	3.25%	2.95%
	CPI	2.30%	2.25%	1.95%
Future salary increases		0.00%		3.00%
Future pension increases	RPI max 5%	3.15%	3.10%	2.85%
	RPI max 2.5%	2.10%	2.10%	2.00%
Cash commutation	All members are assumed to commute the maximum cash amount			
Mortality tables used	<b>S2PA year of birth tables with CMI 2015 projections and 1.25% long-term trend rate</b>		S2PA year of birth tables with CMI 2015 projections and 1.25% long-term trend rate	
Mortality - current pensioners, male life expectancy at age 65	22.2 years		22.1 years	
Mortality - future pensioners, male life expectancy at age 65,(current age 50)	23.9 years		23.8 years	



## A healthy life for all our pets

To find out more about leaving a gift in your will to PDSA, visit [pdsa.org.uk/how-you-can-help](https://pdsa.org.uk/how-you-can-help)

To find out if you qualify for PDSA veterinary care, freephone **0800 731 2502**

For more information on the charity and its work, freephone **0800 917 2509** visit [pdsa.org.uk](https://pdsa.org.uk)

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