

**Department for Environment, Food and Rural Affairs
(Defra)**

**Accounting Officer's
Accountability Systems Statement**

July 2013

1. Introduction

As Permanent Secretary, I am appointed by HM Treasury¹ as the **Principal Accounting Officer** for the **Department for Environment, Food and Rural Affairs** (Defra) with responsibility for all funding covered by the Defra Estimate approved by Parliament. I also receive direct from HM Treasury a set of delegated spending authorities which specify the circumstances when I must seek separate additional Treasury approval to commit resources.

As **Principal Accounting Officer** for Defra, I am accountable:

- to Parliament for the proper stewardship of the resources allocated to my Department. Key responsibilities are set out in the HM Treasury Guidance *Managing Public Money*, particularly Chapter 3;
- to HM Treasury for ensuring that Defra will spend its resources in a manner which ensures regularity, propriety and value for money; and
- for the system of governance and reporting through which the Department operates. Should it fail to provide me with the necessary assurances, I would make the appropriate recommendations for change.

This document summarises the systems I have in place to assure HM Treasury (HMT) that I can provide this accountability.

A significant percentage (61%) of Defra's Exchequer funding is distributed to the **Defra Network**, which includes Executive Agencies, Non-Departmental Public Bodies (NDPBs), Public Corporations, Advisory Boards, Tribunals, National Park Authorities, Levy bodies, and non-Ministerial Departments (**Network Bodies**).

This document describes how I, as Principal Accounting Officer, hold the Accounting Officers of Defra's Network Bodies to account.

It should be noted that these bodies also have their own systems of accountability which specify how each individual Accounting Officer oversees the use of their organisation's resources. In addition, I am the Accounting Officer, along with the Rural Payments Agency Chief Executive (who is responsible for the Single Payment Scheme element), for the funding which Defra receives from the European Union. In 2012-13 this amounted to £2.1bn, of which £1.7bn relates to the Single Payment Scheme.

¹ This appointment is made under the terms of the Government Resources and Accounts Act 2000 Section 5(6) and gives me the authority to commit the resources covered by the Estimate.

This document outlines how the **accountability** system works in relation to all of Defra's funding, including:

- [the core Department and its Network Bodies](#) (section 2);
- [distribution of funding](#), and how decisions are made (section 3);
- funds to [Local Authorities](#) from core Defra or Network Bodies (section 4);
- funds to [other organisations](#) from core Defra or Network Bodies (section 5);
- arrangements for dealing with [underperformance and failure](#) (section 6).

The availability of high quality **management information** within the Department is essential to maintaining accountability.

- Internally (section 2), this is secured through the core Defra's scrutiny and challenge of management information from the Network Bodies.
- Externally (sections 4 and 5), more information is now available through public data systems, such as data.gov.uk, which includes information from Local Authorities and other organisations.

2. The Core Department and the Network Bodies

Accountability for Defra and its Network Bodies is enforced through a clear, evidence-based business planning process, supported by governance, monitoring, **audit and assurance** and risk processes.

2.1 Accountability

- I delegate to Defra **Directors** the authority to commit resources within predefined limits, together with the responsibility for proper stewardship of these resources and compliance with the requirements of HM Treasury's *Managing Public Money*. Directors' accountability is formalised through **Delegated Authority Documents** (DADs). These are received at the start of the financial year and confirm budgets and objectives for the year, for which Directors are personally held to account.
- I confirm the appointment the **Chief Executive Officers** (CEOs) of the Department's **Executive Agencies** and **Executive Non-Departmental Public Bodies** (NDPBs) as the Accounting Officers for these bodies. As with Directors, I delegate to them, through a formal DAD, the authority to commit resources within budget limits, and the responsibility for their proper stewardship. CEOs are held to account for performance issues and failures that may occur.
- **Directors and CEOs** are responsible to the Defra Board for delivery of the objectives set out in their Business Plans and for maintaining a robust forecast position within budgets limits. Where relevant, they are responsible for ensuring that their activities have been through an Internal Assurance process and/or Major Projects Authority Gateway process.

2.2 Business Planning

- Defra has a business planning process which sets out for each business area a clear, consistent picture of what will be done over a given period (activities) with their available resources (inputs) and how these are expected to deliver the department's strategic priorities (outputs and outcomes). This was developed in 2012-13 for full implementation in 2013-14.
- Running parallel to this, Defra's Business Plan for 2012-15 sets out the Department's priorities and objectives in meeting the Coalition Government's Programme for Government commitments. Progress against the Structural Reform Plan (SRP) actions and indicators in the Business Plan, which are

incorporated into Directors' business plans, is reported in the Annual Report and Accounts and published online.

- All Executive Agencies and Non Departmental Public Bodies have a business plan, which is measured by key performance indicators and in the context of framework agreements.
- Progress against core Defra business plans is reported to the Defra Board via Directors' Update reports. Network Bodies report quarterly to the Board. Reporting is by exception, identifying significant risks or issues, and setting out performance against budget forecasts.

2.3 Governance and monitoring

- The **Defra Board** has oversight of the performance of the core Department, Network Bodies and the work of its sub-committees. It regularly scrutinises and challenges financial and performance data relating to core Defra and Network Bodies, and maintains a strategic oversight of the Department's significant activities and risks. The Board meets 6 times a year and brings together the Ministerial Team, the Permanent Secretary, four Director Generals, the Finance Director, and four Non Executive Directors (NEDs).
- The **Executive Committee** comprises the Permanent Secretary and four Directors General. Its main focus is on the operation and performance of the Department, and provides a further layer of assurance and challenge with regard to the Department's effective use of resources. The Executive Committee is supported by four Panels (from 2013): focussing on Risk, Operations, People and Finance.
- The **Audit and Risk Committee** (ARC, sub-committee of the Defra Board) advises me and the Board on issues of risk, control and governance. It meets approximately 5 times each year and is chaired by a Non-Executive Director, with 3 other Non-Executive members.
- The **Nominations Committee** (sub-committee of the Defra Board) ensures that there are satisfactory systems for identifying and developing leadership, and scrutinises incentives and succession planning for the Board and the senior leadership of the Department. It is chaired by the Lead Non-Executive Director.
- Each **Executive Agency** has an Agency Management Board (AMB), which is chaired by a NED and on which other NEDs and the Agency senior team sit. The **Director General Chief Operating Officer** (DG COO) is the single Corporate Owner for the Department's five **Executive Agencies**, providing line management for the Chief Executives, holding them to account for

performance measured against targets and Agency internal processes, and taking a strategic view of the Agencies' interaction with Defra.

- Governance arrangements for all Executive Agencies comprise **Quarterly Performance Reviews** between the DG COO, the Agency CEO and a Defra Director with a policy interest in a particular Agency's business who takes on the role of Corporate Customer. The output of this review is reported to the Defra Board.
- Each **Executive NDPB** has been established through legislation, which specifies its purpose and functions, what powers are invested in it, and how it should be financed. Each has its own independent Board, Chairman and Executive Management Team, with the Chief Executive Officer (CEO) designated as the Accounting Officer for that organisation. In practice, NDPBs operate with some independence and are not under day-to-day ministerial control, but Ministers agree funding and key objectives for each NDPB and, together with Defra's Board, hold them to account. NDPBs provide quarterly performance reports to the Defra Board.

2.4 Audit and Assurances

- **Internal Audit & Assurance** undertakes a programme of risk-based internal audits and advisory work to provide assurance to me and the ARC on the overall adequacy and effectiveness of the Department's framework of governance, risk management and control.
- **External Audit** is provided by the National Audit Office (NAO, staff of the Comptroller & Auditor General) which is responsible on behalf of Parliament for holding Defra to account for the way it uses public money, thereby safeguarding the interests of taxpayers. This is achieved through the independent audit of Defra's annual financial statements on behalf of Parliament and through its programme of value for money reviews.
- The **Governance Statement** in Defra's Annual Report and Accounts provides an assessment of the way in which these controls and processes operate in practice. Each Network Body must provide the Department with a copy of its own Governance Statement which has been approved by their ARC. The draft Governance Statement is subject to the scrutiny of the ARC, with NAO and internal audit representatives, and the Defra Board, before it is published in the Department's Annual Report and Accounts. The Governance Statement provides important evidence on the effective operation of internal controls, accountability and governance, including the following.
 - A high-level commentary and assurance on risk management and internal controls throughout Core Defra and Network Bodies.

- An overview of financial management and internal controls and processes, built up from a body of evidence and subject to audit scrutiny. This evidence includes an Assurance Statement signed by each Director or CEO of an Agency confirming the proper operation of internal controls and governance, including financial controls, in their areas of responsibility for the year in question.
 - Findings from Key Control Audits and other evidence such as the Head of Internal Audit's annual 'Opinion'.
- All Network Bodies produce a set of **annual accounts** which are externally audited by the National Audit Office.

2.5 Risk

- Defra's Board is responsible for the Department's approach to risk and for the overall level of risk borne by Defra. The Board reviews the status of the top risks to the Department's priorities at each meeting. A central strategic **risk register** is maintained, drawing on risk registers from Network Bodies, and is discussed as part of performance management information at Board meetings.
- The Risk Panel (established in 2013) supports Defra's Executive Committee in its oversight of the Department's handling of risk, with a particular focus on strategic risk, risk appetite and risk processes. The Panel, as part of the executive, has no formal governance relationship with Defra's ARC, which provides independent, non-executive scrutiny. The ARC reviews the work programme of the Risk Panel and its effectiveness, as part of its assurance role for the Board and Accounting Officer.

3. The Distribution of Funding

For the period 2010-11 to 2014-15, funding has been agreed by Parliament and issued to the Department by HMT. I hold the accountability for maintaining the established control totals on an annual basis.

The control totals comprise Admin, Resource and Capital budgets. On an annual basis, HMT issues the Main Estimate, providing the annual breakdown of the Settlement. There is an opportunity to redistribute funds between control totals once a year through the Supplementary Estimate if agreed by HMT. Beyond this allocations process, it is my responsibility as Principal Accounting Officer for the Department to delegate the authority to commit these resources, together with the responsibility for proper stewardship of these resources and compliance with the requirements of *Managing Public Money*.

There are different processes in place for Resource and Capital allocations.

- **Resource budget - Core Department**

Within Core Defra, authority is delegated to Directors to commit the Resource allocation of the Main Estimate, together with the responsibility for proper stewardship of these resources and compliance with the requirements of *Managing Public Money*. Directors' accountability is formalised through DADs as set out in Section 2.

Directors' business plans align allocations of resources to reflect the prioritised outcomes of the Department. The **Finance Panel** will:

- approve the allocation of budgets, including the outcomes of prioritisation exercises, annual business planning and Spending Review exercises;
- scrutinize the forecast expenditure position and performance against business plans;
- challenge business cases for new funding as required (ahead of a recommendation to Ministers) and approve revised budgets where warranted; and
- consider material matters of a financial or commercial nature ahead of submission to the Executive Committee, as required.

- **Resource Budget - Network Bodies**

As described in Section 2, I confirm the appointments of the Accounting Officers of Defra's Executive Agencies and NDPBs. Each Network Body Accounting Officer receives a DAD outlining expectations and areas of responsibility and accountability.

Network Body Accounting Officers are accountable for their overall budgets whether they receive funding from Defra buying services (in the case of net control agencies) or as grant-in-aid from Defra (in the case of NDPBs and gross control agencies).

For Executive Agencies, the majority of funding is allocated through Directors (in addition to the external funding that they receive). Directors are held accountable for their own outcomes, including the direct spend with agencies to deliver their outcomes. The process for distributing funding and the basis for the distribution decisions therefore relate back to Directors' business plans. The DG Chief Operating Officer provides overall accountability for budgets of the five Executive Agencies and therefore a clear reporting line between the Agency Accounting Officers and me.

For NDPBs, the majority of funding is provided through a Defra Director (the "sponsor" Director), who sub-delegates to the NDPB.

- **Capital Budget – Core Department and the Network Bodies**

With the exception of Environment Agency flood defences and some other small Capital budgets determined by Ministers, Capital allocation is controlled carefully by the Heads of Profession/Function (HoP/F) Capital Panel, on behalf of the Finance Panel, and is delegated for specific Capital projects. Business cases for projects and conditions of funding are scrutinised by the Panel through heads of function for Estates, Information Services and Scientific Equipment.

Above £100m HMT approval is required (e.g. for major projects - CAP(D), floods), or above £5m for ICT projects.

- **Re-distribution of allocations in year**

Re-distribution of allocations is subject to the following controls.

- Directorate re-allocations: if affordable within the Director's budget and no material effect on Ministerial priorities, or strategic decisions (e.g. EIS), at the Director's discretion;
- Affordable but would affect Ministerial Priorities or wider strategy, consultation with the Finance Director and relevant Director General is required. In these cases there is the opportunity for challenge by the Defra Board through management reporting.

- If there is a material effect on ministerial priorities and the change is unaffordable within the Director's budget allocation, a proposal has to be made to the Finance Panel, with a business case.
- For reallocations between directorates, approval is required from the Director-General and the finance Deputy Director.
- Bids for additional in-year funding require approval by the Finance Panel; or in the case of ICT, estates capital to the HoP/F Capital Panel.
- In all cases where there will be a variance from the accountability delegated within the DAD issued at the beginning of the financial year. The DAD is not re-issued, but a robust audit trail of movements is maintained by finance business partners, who are responsible for reconciling changes in financial management systems.
- Changes to overall control totals require HMT approval.

4. Local Authority Funding and Accountability

The Department provides a number of grants to local authorities, for example for waste recycling work. In accordance with the Coalition Government's policy, these grants are not ring-fenced. However, there is a robust audit process in place for such funds through the accountability requirements placed on local authorities.

For local authority services in which Defra has a policy interest, central Government funding is generally provided either through the Revenue Support Grant (RSG, from the local government budget) or through specific Defra revenue grants (from the Defra budget). Funds provided through RSG are several orders of magnitude greater than through specific Defra grants (billions versus millions). Defra and the Environment Agency also provide some minor capital grants to local authorities and local authorities fund some services and capital investments of policy interest to Defra from council tax or other receipts. The Department of Communities & Local Government's Accounting Officer, as lead Accounting Officer across central government with respect to local government, provides the assurance that a core framework is in place that requires local authorities to act with regularity, propriety and value for money in the use of all of these resources.

Within this core framework, local authorities are responsible and accountable for the legal use of funds, and every local authority has a responsibility to make arrangements for the proper administration of their financial affairs and to ensure that one of their officers is accountable for the administration of those affairs. A system of legal duties requires councillors to spend money with regularity and propriety. Local authorities are required to have an annual external audit, and the certification of authorities' annual accounts by the auditor provides general assurance that the totality of their expenditure is within their legal powers. Local authority auditors also assess whether authorities have used their resources effectively as part of their annual audit of accounts.

As well as the accountability provided through this core framework, specific Defra grants, for example for flood prevention or waste recycling are often provided in recognition of a statutory obligation on local authorities to perform a function or provide a service. Other Defra grants may be made to address a specific need, for example for a time-limited programme or project and can be demand-led, reimbursing expenditure in areas where it is difficult to forecast, or 'pump priming', or piloting new approaches or policies. In such cases, value for money is scrutinised in the relevant approvals process and outcomes are specified explicitly in the agreement and claim processes. These arrangements are established in a way that allows local authorities the flexibility to respond to local priorities, pursue balanced

outcomes and choose their own methods of achieving desired outcomes, whilst taking into account the policy intentions of Defra. Annex 1 contains additional details on specific Defra grants for 2013-14.

5. Other Areas of Accountability

There are other areas where Defra funding is allocated, for example to voluntary organisations, private companies and charities.

As I am not Accounting Officer for all of these organisations, Defra ensures that a contract, or a Memorandum of Understanding, or a Service Level Agreement is in place to ensure that funds are controlled effectively and services are delivered.

An example of how this operates is the Waste & Resources Action Programme (WRAP), a not for profit private company limited by guarantee.

- Before the start of the financial year, Defra issues a 'Strategic Steer' document to WRAP, setting out the resource efficiency priorities to be delivered in the next financial year. In response WRAP prepares a set of programme proposals on how it would deliver these priorities. These proposals are discussed amended as necessary and agreed between both parties before any work commences in the new financial year.
- Defra and WRAP agree a detailed Grant Agreement (GA) on a financial year basis, cleared by both Defra Legal and Procurement teams. The GA sets out the precise conditions on how the funding can be used (and not used), financial risks and issues, along with mitigating measures and adjustments to programmes of work as necessary.
- WRAP draws down funds on a monthly basis by submitting an invoice and provides Defra with quarterly progress reports against programme and expenditure plans.
- WRAP operates according to the principles of Corporate Governance as set out in the Combined Code on Corporate Governance. WRAP has an Audit Committee that considers the integrity of financial statements, the internal financial controls and risk management systems. The Committee reports to the WRAP Board, which has a Defra representative as a Non-Executive Director.
- WRAP is subject to the provisions of the Companies Act and is audited within the provisions of that Act. WRAP delivers some of its work through third parties. For larger areas of work, contracts are awarded according to EU procurement rules.

6. Underperformance and Failure

In core Defra a clear line of accountability has been established, giving Directors more responsibility and therefore holding them to account. Business plans are the baseline against which performance measures can be based.

- Monthly Director Update Reports are produced by each business area through the co-ordination of finance business partners with Directors. These are assessed by the Finance and Performance Value Management team and consolidated to form part of the Management Information Pack, which is scrutinised by the Defra Board. Performance and finance reporting has been aligned to ensure that they are considered collectively, with performance reporting being produced on an exceptions basis so that the Management Information received provides a summary incorporating risks and opportunities for each Director. In this case the accountability is retained by each Director with appropriate control processes in place to provide assurance.
- The quarterly forecasting process is being strengthened to ensure a stronger forecast of under-spends. Forecasts are analysed and reported to Directors prior to a Quarterly Review with Directors General (DGs). The Quarterly Reviews between the DG and Finance Director are a key control process as recognised by the NAO. They provide the opportunity for challenge and enable both the DG and the Finance Director to agree a forecast position for Defra and provide a clear line of accountability from Director to DG level. These reviews are part of the system which enables Defra to make effective strategic decisions about its funding.
- Measures in place to deal with underperformance and failure in Defra's Network Bodies are covered in Section 2. For Executive Agencies, it is worth noting that Defra's Chief Operating Officer (COO) has a clearly defined relationship with each. As the single corporate owner of Defra's five Executive Agencies, the DG COO provides a clear reporting line between myself and each Executive Agency's Accounting Officer.

7. Conclusion

Defra has in place a robust system of accountability for the use of public funds which I can rely on as Accounting Officer. This system allows me to provide the assurance that Defra and its Network Bodies spend public money in line with regularity, propriety and value for money (the principles set out in *Managing Public Money*). The key elements are legal and financial controls underpinned by a set of clearly-defined governance structures. Together these ensure that spending is allocated and used to generate value for the public, transparently and with appropriate accountability to Parliament.

Bronwyn Hill

Permanent Secretary, Defra

Table: Defra Local Authority Grants

	2013-14
	£m
Revenue	
Lead Local Flood Authorities ²	15
Inshore Fisheries Conservation Authorities	3
Waste Infrastructure PFI grant	85.1
Waste Support to Incentives Pilots (Household Waste Reward and Recognition Scheme)	0.230
Waste Efficiencies and Partnership	0.774
Commons Registration Authorities	0.022
Isles of Scilly Waste	4
Sustainable Urban Drainage approving body set-up costs	3
Areas of Outstanding Natural Beauty grant (payable via local authorities) ³	5.74
Bathing Water Regulations 2013 Grant Determination	0.061
Natural England: Nature Improvement Areas	0.25
Natural England: Access to nature	0.091
Natural England: National Trails	1.5
Natural England: Wildlife / Conservation Enhancement Scheme	0.25
Capital	
Air Quality Management	1
Environment Agency: Contaminated Land	2
Environment Agency flood management capital grant ⁴	72

² Additionally, £21m for each year is payable by DCLG as part of the business rates retention scheme.

³ The Area of Outstanding Natural Beauty (AONB) grant is paid to AONB areas via local authorities, however expenditure responsibility rests solely with the third party that receives the grant (i.e. it sits outside an authority's 'Aggregate External Finance')

⁴ Including £11m additional funding as per Section 31 agreement relating to Autumn 2012 statement announcing £120m additional flood risk funding to the end of March 2015