Presented pursuant to the Government Resources and Accounts Act 2000 c.20, s.6

# Department for Environment, Food and Rural Affairs

# Resource Accounts 2005-06

LONDON: The Stationery Office
HC 1643

23 November 2006
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## (For the year ended 31 March 2006)

*Ordered by the House of Commons to be printed*
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# ANNUAL REPORT FOR THE YEAR ENDED 31 MARCH 2006

## MANAGEMENT REPORT

### Introduction

The Department for Environment, Food and Rural Affairs (Defra) works for the essentials of life - food, air, land, water, people, animals and plants. Our remit is the pursuit of sustainable development - weaving together economic, social and environmental concerns. Defra therefore:

- brings all aspects of the environment, rural matters, farming and food production together;
- is a focal point for all rural policy relating to people, the economy and the environment;
- has roles in both European Union (EU) and global policy making, so that its work has a strong international dimension.

### Basis of accounts

These accounts have been prepared to comply with the Government Resources and Accounts Act 2000 and the requirements of HM Treasury.

### Management Commentary

This year has been an especially important year for Defra. The Department played a key role in the successful UK Presidencies of the G8 and the EU, as well as making significant progress in delivering the commitments set out in the Five Year Strategy and the UK Sustainable Development Strategy (UKSDS). This commentary summarises the progress Defra has made in these two important areas and Defra's progress against the Public Service Agreement (PSA) targets agreed as part of the 2004 Spending Review.

For detailed information on the Department's progress in 2006 and information on other areas of activity, please consult Defra's Departmental Report 2006[1].

In addition to this, recent successes include:

- the establishment of a UK-South Africa Sustainable Development dialogue and the launch of the UK Action Plan to deliver the recommendations of the High Seas Task Force on Illegal, Unreported and Unregulated Fishing;
- for the first time at the United Nations (UN) there was broad consensus on key ecosystem concepts in oceans' management such as ecosystem integrity, adaptive management and the precautionary approach. In August 2006, the Global Environment Facility was replenished at a record level of $3.13 billion over the next 4 years for environmental projects (climate change, biodiversity, international waters, land degradation and persistent organic pollutants). The UK contributed £140m and is now the fourth biggest donor.

[1] *A copy of the Departmental Report is available from The Stationery Office (TSO) or can be downloaded at:* http://www.defra.gov.uk/corporate/deprep/2006/

**UK Presidencies of the G8 and the European Union**

Defra played a key role in the UK Presidencies of G8 and EU. The Presidencies featured several major successes:

- reform of the outdated EU sugar regime to bring it into line with other reforms to Common Agricultural Policy (CAP). This should lead to a more stable and sustainable market;

- agreement on a new EU chemicals regulation; Registration, Evaluation and Authorisation of Chemicals (REACH). REACH aims to protect people and the environment whilst safeguarding European competitiveness;

- Defra realises the urgency of putting climate change at the top of the political agenda. Events were held with energy and environment ministers to identify how to lower carbon emissions and encourage investment in lower carbon energy systems;

- Kyoto signatories approved a process for agreeing new targets for greenhouse gas emissions reductions beyond 2012 and agreed to consider how to strengthen the UN Framework Convention to encourage global efforts to tackle climate change.

## Development and performance of the Department

### Promoting sustainable development

**PSA target 1:** To promote sustainable development across government in the UK and internationally, as measured by:

- the achievement of positive trends in the Government's headline indicators of sustainable development;
- the UK's progress towards delivering the World Summit on Sustainable Development commitments, notably in the area of sustainable consumption and production, chemicals, biodiversity, oceans, fisheries and agriculture;
- progress towards internationally agreed commitments to tackle climate change.

The Government wants the public sector to be a leading exponent of sustainable development. This was a key reason for the launch of the Framework for Sustainable Development, which sets targets for departments and executive agencies in areas such as water, energy use and procurement. Reports of progress against these targets are published each year and they demonstrate that performance, although improving, is still patchy.

The Secretary of State launched the UKSDS, Securing the Future, which sets out a vision of sustainable development through to 2020, with Defra as the lead Department. Defra believes that successful delivery of the UKSDS commitments for action across the whole of government, will help to demonstrate significant progress.

Defra is on course to promote sustainable development domestically. This is based on targets measured at six-monthly intervals and agreed with HM Treasury. The target now includes promoting sustainable development and climate change commitments internationally. As yet, no assessment of progress for this new commitment has been made. A full assessment for all elements of the target will be available in late 2006.

For more detailed information, please refer to chapter 2 of Defra's Departmental Report 2006.

**PSA targets within five strategic priorities**

Defra has five strategic priorities which underpin its overarching aim of sustainable development:

- climate change and energy;
- sustainable consumption and production;
- protecting the countryside and natural resource protection;
- sustainable rural communities;
- sustainable farming and food sector including animal health and welfare.

For more detailed information, please refer to chapter 3 of Defra's Departmental Report 2006.

**Climate change and energy**

**PSA target 2:** To reduce greenhouse gas emissions to 12.5% below 1990 levels in line with our Kyoto commitment and move towards a 20% reduction in carbon dioxide emissions below 1990 levels by 2010, through measures including energy efficiency and renewables. This Department has agreed a joint target with the Department of Trade and Industry (DTI) and the Department for Transport (DfT).

Defra leads the UK's policy on climate change and co-ordinates action on behalf of the Government. Defra works with DTI and DfT to produce policies that contribute to lower emissions. Defra is on course to meet its Kyoto target for reducing carbon dioxide levels. This is despite estimates in March 2005 that showed emissions rose by 0.5% during 2003-04 because of increased gas and oil consumption.

Net emissions of carbon dioxide fell by 5.6% between 1990 and 2004. The Government expects emissions of carbon dioxide to fall by more than 10% by 2010 and that emissions of all greenhouse gases will be around 20% below taking account of projected energy prices, economic growth and the effect of policies currently in the climate change programme. The UK therefore remains on course to achieve the UK's Kyoto target. Additional policies are being considered to help put the UK back on track towards its 20% reduction goal.

As part of the Energy Review[2], a consultation sets out the energy challenges currently being faced by the UK and invites responses as to what should be done to secure clean, affordable energy.

For more detailed information, please refer to chapter 3 and appendix 2 of Defra's Departmental Report 2006.

**PSA target 7:** Eliminate fuel poverty in vulnerable households in England by 2010 in line with the Government's Fuel Poverty Strategy Objective.

The Government's main programme for tackling fuel poverty in England is Warm Front. Defra's performance to meet the target is currently facing some slippage. This is because of steep rises in energy prices.

Unprecedented price rises have increased the number of households in fuel poverty from 1 million to 2 million between 2003 and 2006. The Government has committed to additional funding of £250m for the scheme to assist households most in need between 2005 and 2008. Defra is calculating the resources required to meet its 2010 target.

In addition, the method of working out how to calculate households in fuel poverty has been reviewed to determine its robustness. Finally, Defra will work closely with DTI to monitor the impact of rising energy prices and assess how the impact can be lessened for those in need.

For more detailed information, please refer to chapter 3 and appendix 2 of Defra's Departmental Report 2006.

[2] http://www.dti.gov.uk/energy/index.html

**PSA target 8:** Improve air quality by meeting the Air Quality Strategy[3] targets for carbon monoxide, lead, nitrogen dioxide, particles, sulphur dioxide, benzene and 1,3 butadiene. Defra has agreed a joint target with DfT.

Defra continues to meet its targets for carbon monoxide, lead, nitrogen dioxide and particles. Defra is meeting objectives for all air pollutants in 99% of the UK. Defra is broadly on course to meet the remaining objectives but more work will be needed to achieve our targets for nitrogen dioxide and Particulate $Matter_{10}$ in all parts of the country.

Defra aims to provide a clear, long-term vision for air quality. This is why Defra issued a consultation document to review the Air Quality Strategy, setting out options to further improve the environment. These policies will benefit public health, reduce health inequalities and protect wildlife and ecosystems. Following consultations with stakeholders, the Strategy will be updated at the end of 2006 and will help Defra move closer to its air quality objectives and PSA target.

For more detailed information, please refer to chapter 3 and appendix 2 of Defra's Departmental Report 2006.

**Sustainable consumption and production**

**PSA target 6:** To enable at least 25% of household waste to be recycled or composted by 2005-06, with further improvement by 2008.

The Government's policy on waste is set out in Waste Strategy 2000. Defra works with local authorities to help them achieve their waste and recycling targets. A provisional assessment of the un-audited Best Value Performance Indicator figures for 2005-06 suggest that around 27% of household waste was recycled or composted in England in 2005-06, which implies that Defra has exceeded this target.

For 2003-04, the Municipal Waste Management Survey shows that 17.8% of household waste was recycled or composted. For 2004-05, estimates show that the figure has risen to 22.5%.

Defra is keen to propose more ambitious targets for household waste recycling and composting: 40% by 2010 and 50% by 2020[4]. To this end, Defra needs to carry out a broader approach with more emphasis on waste prevention and less reliance on landfill. Waste should be seen as material containing precious resources, to be recovered not buried.

For more detailed information, please refer to chapter 3 and appendix 2 of Defra's Departmental Report 2006.

**Protecting the countryside and natural resource protection**

**PSA target 3:** Care for our natural heritage, make the countryside attractive and enjoyable for all and preserve biological diversity by:

- reversing the long-term decline in the number of farmland birds by 2020, as measured annually against underlying trends;
- bringing into favourable condition by 2010, 95% of all nationally important wildlife sites.

The Biodiversity Strategy represents the bringing together of England's key contributions to achieving the EU Gothenburg target to halt the loss of biodiversity by 2010. Defra is seeking to integrate wildlife considerations into all sectors and policies which have a significant impact on biodiversity[5].

[3] *Air Quality Strategy for England, Scotland, Wales and N Ireland (Cm4548:Jan 2000) http://www.defra.gov.uk/environment/airquality/strategy/*

[4] *The consultation document on the Review of England's Waste Strategy can be found at: http://www.defra.gov.uk/corporate/consult/wastestratreview/index.htm*

[5] *www.defra.gov.uk/wildlife-countryside/biodiversity/index.htm*

Reversing the decline of farmland birds is important, as it is a measurable indicator of ecological health of the wider countryside. Defra is currently on course to meet its target. The target is a long-term programme to increase biodiversity and many factors will influence its achievement.

Two factors may assist Defra to meet its target, reform of the CAP and the new requirements of the Single Payment Scheme (SPS). Together, these should reduce some of the negative environmental impacts of agriculture. Also making an impact will be Environmental Stewardship, launched in 2005. This scheme rewards good land management with payments on a sliding scale, helping to reduce pollution, soil erosion and conserve farmland birds. Systems are in place to monitor the effects of all these developments.

Defra is also on course to meet its target for Sites of Special Scientific Interest (SSSIs), since 72.3% of the area covered is in a favourable or recovering condition.

For more detailed information, please refer to chapter 3 and appendix 2 of Defra's Departmental Report 2006.

**Sustainable rural communities**

**PSA target 4:** Reduce the gap in productivity between the least well performing quartile of rural areas and the English median by 2008, demonstrating progress by 2006, and improve the accessibility of services for people in rural areas.

Although some rural areas are thriving, others are lagging behind, with rural earnings per head on a par with the most deprived urban areas. Despite living in prosperous countryside areas, many people have poor access to services and affordable housing.

Defra is working to address this. The Government in 2005 reaffirmed the commitment made in the Rural Strategy 2004 towards social justice, priorities for rural communities and for enhancing the natural environment. The Affordable Rural Housing Commission, launched in July 2005, aims to identify how to improve access to affordable homes in rural areas and reported to Defra Ministers in May 2006.

As for reducing the gap in productivity, this is not yet assessed. Defra will be able to assess progress on rural productivity by the end of 2006. This will be for the period April 2003 – March 2005. By Spring 2007, Defra will be able to report on progress on access to services in rural areas.

For more detailed information, please refer to chapter 3 and appendix 2 of Defra's Departmental Report 2006.

**Sustainable farming and food sector including animal health and welfare**

**PSA target 5:** Deliver more customer-focussed, competitive and sustainable farming and food industries and secure further progress via CAP and World Trade Organisation negotiations in reducing CAP trade-distorting support.

The Strategy for Sustainable Farming and Food: Facing the Future sets out how government, industry and consumers can work together to boost food and farming industries, while improving health and the environment. It is the principal means by which Defra will deliver PSA target 5. Overall Defra's performance is on course. However, success is heavily dependent on being able to change behaviour in the food and farming industries and to demonstrate when its outcomes have been achieved.

Two factors may help Defra reach the target. Reform of the CAP is well underway and the new Environmental Stewardship Scheme[6] was launched in Spring 2005. First payments have been made to farmers and landowners under this scheme to encourage better environmental management. A number of other initiatives aim to help Defra achieve the target, including the launch of the 10 year Animal Health and Welfare Strategy in October 2005 and phase 2 of the Whole Farm Appraisal pilot.

For more detailed information, please refer to chapter 3 and appendix 2 of Defra's Departmental Report 2006.

[6] *See www.defra.gov.uk/erdp/schemes/es/default.htm*

**PSA target 9:** To improve the health and welfare of kept animals, and protect society from the impact of animal diseases, through sharing the management of risk with industry, including:

- a reduction of 40% in the prevalence of Scrapie infection (from 0.33% to 0.20%) by 2010;
- a reduction in the number of cases of Bovine Spongiform Encephalopathy (BSE), detected by both passive and active surveillance, to less than 60 in 2006, with the disease being eradicated by 2010;
- a reduction in the spread of Bovine Tuberculosis (TB) to 'new' parishes to below the incremental trend of 17.5 confirmed new incidents per annum by the end of 2008.

The 2005 Animal Health and Welfare Bill sets the long-term direction for the work of government, farmers, vets and others to improve animal health and welfare. For the first time, there will be powers to act before animals suffer, with increases in penalties for serious offences.

The National Scrapie Plan aims to reduce and eradicate scrapie in sheep and increase genetic resistance to Transmissible Spongiform Encephalopathies. UK plans to introduce a compulsory genotyping scheme for rams in 2006 have been put off while discussions take place in Brussels about a Euro-wide scheme. Our target has therefore experienced slippage.

BSE continues to decline but may not reach the 60 case threshold during 2006. There will be some slippage because the number of cases detected in 2006 are linked to older cattle, including those born before August 1996. This is the date when the reinforced feed ban was fully effective.

However, Defra is on course to reduce Bovine TB in 'new' parishes (parishes where there had been no confirmed new incidents in the previous 4 years).

For more detailed information, please refer to chapter 3 and appendix 2 of Defra's Departmental Report 2006.

### Preparing for emergencies

The main areas of Defra's responsibilities for emergencies are set out in the Capabilities Programme of the Cabinet Office[7]. In all cases, emergency plans have been recently reviewed. These have all either been tested in real emergencies or subject to exercises that have happened or are being planned.

Defra's actions in 2006 to control and manage any future outbreak of avian influenza[8] and other animal diseases have included new disease control legislation[9] and development of a national contingency plan. Internationally, Defra encouraged its partners to focus on combating avian influenza at source and work with key multilateral organisations who lead on this issue. Within the EU, Defra developed a Presidency Plan to focus on preparedness for human pandemic and avian influenza.

To increase preparedness in other areas, Defra has devised a new Flood Emergencies Capabilities Programme to improve protection against threat of floods, revised the water emergency response plan in case of water supply problems and prompted the food industry to draw up emergency plans in the event of national emergency.

Defra has a wide-ranging role in terms of chemical, biological, radiological and nuclear incidents and accidents. The Department co-ordinates government response or supports other lead departments in their response to a nuclear accident overseas. Defra is working to ensure that the Radioactive Incident Monitoring Network Business Continuity Plan provides maximum resilience.

For more detailed information, please refer to chapter 4 of Defra's Departmental Report 2006.

[7] *See the UK Resilience website: www.ukresilience.info/index.shtm*

[8] *www.defra.gov.uk/animalh/diseases/notifiable/disease/ai/index.htm*

[9] *http://www.defra.gov.uk/animalh/animindx.htm*

### A department fit for purpose

Defra is continuing a programme of major internal reform in order to be well placed to deliver its Five Year Strategy.

The Departmental Reform Programme unifies a number of other strategies and reviews into one co-ordinated approach. Defra aims to become smaller, more efficient and better able to concentrate on priorities. At the same time, the aim is to make partners (including the Defra family) more effective at delivery. There are three parts to this, in order to drive change:

- the Delivery Strategy framework is being developed to include guidance on devolving delivery to regional and local government. Recent key developments included the State Veterinary Service (SVS) becoming an Executive Agency and the Countryside Agency, English Nature and Defra's Rural Development Service merging as Natural England;

- the Policy Centre Review Programme is creating a Core Policy Department, a reduction of 250 jobs and the release of £10m cash saving by 2007-08, contributing to Defra's efficiency target;

- Defra's Corporate Centre Programme has made significant progress. Human Resources has been transformed and one directorate has been disbanded. A number of senior management posts have been rescoped. Back office services are beginning to be shared between Defra and the wider family. A number of other projects are underway to improve efficiency[10].

For more detailed information, please refer to chapter 7 of Defra's Departmental Report 2006.

#### Defra's Executive Agencies

The following provides a brief overview of the performance of Defra's nine Executive Agencies against targets for 2005-06. For more detailed information, please refer to chapter 5 of Defra's Departmental Report 2006 or consult their individual Annual Report and Accounts.

#### Rural Payments Agency (RPA)

Key services are making rural payments, carrying out rural inspections and tracing livestock.

RPA has focussed on the delivery of the new SPS introduced in 2005. The delays in completing the bulk of payments by the end of March 2006 has been the key event in the last year. A number of steps have been taken to improve performance. Partial payments were made to eligible applicants in May 2006, for claims over 1,000 euros. Further partial payments were made in June 2006. Problems experienced with the administration of the Scheme are referred to in the Statement on Internal Control. In addition, arrangements put in place give rise to a risk that the European Commission (EC) will not refund the full amount of the payments made. Further information is included in notes 21.1.2 and 31.1 of these Accounts.

A 20-month window is needed to stabilise the RPA and begin to improve performance. Performance for paying other Pillar 1 schemes meets Ministerial and Commission guidelines. RPA is succeeding in recording births, deaths and movements of cattle. RPA is on course to take account of its new customer base for customer satisfaction tracking and to deliver the SPS Communications Strategy.

[10] http://www.hm-treasury.gov.uk/spending_review/spend_sr04/associated_documents/spending_sr04_efficiency.cfm

**Veterinary Laboratories Agency (VLA)**

VLA provides Defra and other government customers with specialist veterinary research, consultancy, surveillance and laboratory services, including a key role in preparing for an outbreak of animal disease.

VLA is on target to recover the full costs of its operation for the year, as well as deliver its target of 2.5% efficiency savings. In terms of service delivery, the Agency will meet 85% of its research milestones and has already achieved its target score of 75% satisfaction in customer surveys. ISO9001 certification across the entire network of laboratories has been achieved, again on target.

**Central Science Laboratory (CSL)**

CSL provides scientific support, research and advice to Defra to meet statutory and policy objectives and PSA's.

CSL is on target to recover the full costs of its operation for the year, as well as deliver its efficiency targets. Its expected total income is £47m, of which £32m is Defra-related. It is on target to implement the Agency Review, deliver project milestones and reach the required level for customer satisfaction.

**Centre for Environment, Fisheries and Aquaculture Science (CEFAS)**

CEFAS provides scientific services for government that involve conserving and enhancing the aquatic environment, promoting rational management of its natural resources and protecting the public from aquatic contaminants.

In 2005-06, about 78% of income was Defra-related and a further 13% from other public bodies in the UK, such as the Food Standards Agency. The Agency is on track to meet all of its performance targets for the year, including efficiency savings, increasing customer satisfaction to 82% and delivery of research and development milestones (exceeding 90%).

In June 2006, Defra Ministers decided on a sustainable future for CEFAS. The Agency will continue to be a strategic public sector partner of the Department and will take forward plans to consolidate most of its activities onto a new fit for purpose site, as well as to grow its non-Defra business and make further efficiencies. In addition, the Department will explore further a possible change of status fully within the public sector.

**Pesticides Safety Directorate (PSD)**

PSD works to ensure the safe use of pesticides and detergents for people and the environment, to harmonise pesticide regulation and crop protection within Europe and, as part of the Strategy for Sustainable Food and Farming, to reduce negative impacts of pesticides on the environment.

In 2005-06, about 54% of PSD's costs were met by industry, with most of the remainder funded by Defra. There has been a modest shift back in funding from fee-paid work to levy funded activity. PSD is on track to meet all of its objectives for the year, with the exception of two policy targets. Progress on these is dependent on external bodies. Otherwise, PSD continues to deliver against its targets.

**Veterinary Medicines Directorate (VMD)**

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

In 2005-06, around 70% of VMD's costs were met by industry, with the balance funded by Defra. VMD is on track to meet all of its performance targets for the year.

### State Veterinary Service (SVS)

SVS helps to deliver a sustainable food and farming sector, protects the health and welfare of farmed animals and minimises the impact of animal health issues on public health. It has a key role to play in preparing for and managing an outbreak of animal disease.

SVS became an Executive Agency in April 2005. As a result, the first year has seen a restructuring of the organisation. SVS has also managed two incidents of exotic disease, including the outbreak of H5N1 in quarantine premises. SVS is generally on track to meet all of its objectives for the year, with the exception of one target for animal welfare.

### Marine Fisheries Agency (MFA)

MFA's work includes the delivery of services such as inspections and enforcement, marine environmental work, vessel licensing, quota management and grants and statistics. MFA also co-ordinates government claims for EC Aid, money used in order to enforce EU Fisheries Regulations.

MFA became an Executive Agency in October 2005. The Agency is on track to meet all of its objectives for the year, with the exception of one for biological sampling. The target was to achieve 90% sampling of fish but 70% was achieved. The shortfall is largely due to fish species not being available for testing, primarily because of reduced fishing activity.

As referred to in the Statement on Internal Control, the Comptroller and Auditor General had to provide a qualified opinion on the MFA's accounts.

### Government Decontamination Service (GDS)

The purpose of GDS is to increase the nation's resilience to the consequences of terrorist or major accidental incidents, involving the release of chemical, biological or radiological (CBR) materials. The service is to be the UK's national centre, providing access to expertise on dealing with the decontamination of the environment following such incidents.

GDS became an Executive Agency in October 2005, on time and within budget. Key developments for 2005-06 include the fact that GDS successfully completed its framework of decontamination contractors, which represents a major strengthening of the UK's ability to recover from a CBR event.

## Working with others: Defra's delivery partners

This summarises the achievements of Defra's larger delivery partners during 2005-06[11].

### Forestry Commission (FC)

Key achievements include publication of an updated UK Forestry Standard and a UK Science and Innovation Strategy. In England, the Forestry Commission has agreed with Defra on its role in delivering the Government's Rural Strategy.

### Environment Agency (EA)

Key achievements for the first two quarters of 2005-06 include the fact that serious pollution incidents have declined by 9% from the same period the year before and that more homes were protected from flooding in this period than for the whole of 2004-05, for about half the cost.

[11] *Details of Defra's other public bodies can be found at: http://www.defra.gov.uk/corporate/delivery/landscape/bodies/index.htm*

**Countryside Agency (CA)**

Key achievements of the year have included the fact that the Agency has been working with English Nature and the Rural Development Service to prepare for the launch of Natural England. The Commission for Rural Communities was established in April 2005 to act as rural advocate, expert adviser and independent watchdog for rural communities. Most socio-economic delivery functions have been transferred.

**English Nature (EN)**

Highlights include the fact that 72.3% by area of SSSIs are in favourable or recovering condition, as are 86.4% of National Nature Reserves. Outside of SSSIs, 4,000 hectares (ha) of chalk grassland have been restored or created, as well as 2,000ha of freshwater habitats and 500ha of coastal habitats. 46 species (52%) in the English Nature lead Biodiversity Action Plan are stable or increasing.

**British Waterways (BW)**

Some key achievements include the implementation of a new procedure to improve the organisation's openness and accountability. A Public-Private Partnership has been created to develop a large site in London's Docklands. British Waterways is on target to eliminate statutory maintenance arrears by 2012 as well as to progress the recommendations of the 2004 Review of British Waterways.

**Rural Development Service (RDS)**

In 2005, Environmental Stewardship was launched and RDS negotiated 13,000 Entry Level Scheme Agreements, covering over 15%(1.6 million ha) of England's agricultural land. RDS is now responsible for managing and co-ordinating Defra-funded farm advice programmes. RDS is playing a key part in the Natural England Confederation[12].

For more detailed information, please refer to chapter 6 of Defra's Departmental Report 2006.

## Better regulation and the Hampton Review

The Hampton Review recommended a number of changes in order to create better focussed and more forward thinking organisations, able to take strategic decisions, prioritise work and use resources more effectively. Reforms will ensure Defra meets its statutory obligations.

The Better Regulation and Hampton Review Implementation Programme will enable change across the whole regulatory process and support the mergers recommended in the Review. In particular, the Programme aims to facilitate collaborative working, including data sharing, legislation and the merger process.

Some mergers have already been decided and are taking place, including:

- The Wine Standards Board became part of the Food Standards Agency on 1 July 2006;
- Horticultural Marketing Inspectorate merged with RPA on 1 April 2006;
- The Dairy Hygiene Inspectorate merged with SVS on 1 October 2006;
- Natural England, one of the thematic regulators highlighted by Hampton, was vested on the 1 October 2006, implementing the Haskins Review. Natural England was created from the Rural Development Service, English Nature and the Countryside Agency;
- On 1 April 2007, the Wildlife Licensing and Registration Service (including CITES licensing, bird registration and the Wildlife Inspectorate) and the Egg Marketing Inspectorate will merge with SVS.

[12] *Examples of confederation work can be found at http://www.defra.gov.uk/rds/towardsne.htm*

Defra has committed to make all the changes needed by April 2009. The work is significant and far-reaching and offers an exciting opportunity to deliver benefits to customers and allow Defra's inspection and enforcement work to become more targeted and risk-based.

For more detailed information, please refer to chapter 8 of Defra's Departmental Report 2006 and the Simplification Plan, due to be published in November 2006.

## Defra's future priorities

In June 2006, Defra celebrated its fifth birthday. The Department is now building on a track record of achievement in a review of its mission, priorities and finances. In a letter to the Prime Minister in July 2006, David Miliband outlined four immediate priorities: to engage swiftly on the Single Payment Scheme to farmers; to build public confidence in the Government's ability to handle animal health crises whilst sharing responsibility for animal health and welfare with the farming industry; to manage the major risk of floods; and to maintain the trust of people in rural areas.

At the same time there will be new focus on addressing environmental challenges. The UK is consuming three times its fair share of the Earth's resources. David Miliband sees Defra's mission as enabling a move towards what World Wildlife Fund has called 'one planet living'. He has set out energy, water, waste, food and farming, land and the marine environment as issues that must be prioritised to achieve this.

An environmental contract needs to be developed which sets out the rights and responsibilities of citizens, business and government to achieve environmental goals. Government support to business needs to encourage innovation in environmentally beneficial technologies and greater resource productivity.

Action will be necessary at european and international level to reach a post Kyoto climate change agreement, further CAP reform, a successful outcome to the Doha Development Round and to embed better regulation.
The tight fiscal climate facing all government departments means that Defra must achieve more with less. It will find new ways of working, starting with a new Office for Climate Change, which came into being in September 2006 and will be truly cross-government.

## Significant variances against Estimate

### Explanation of the variation between Estimate and Outturn (net total resources)

The net resource outturn shows an underspend of £251m against the Spring Supplementary Estimate (SSE), which is equivalent to 4.2% of the voted Request for Resources (RfR). This was due to a £145m underspend in CAP market support by other paying agencies, an underspend of £72m by RPA, £39m net planned underspend on Environmental Protection, £33m underspend on Grant-in-Aid, an overspend of £24m on Food, Farming and Fisheries and £14m net overspend in other areas.

The underspend of £145m was caused by lower than expected expenditure by the other paying agencies (other than RPA) because the SSE figures are on a resource accounts basis but the actuals are on a funded certificate basis per RPA's accounting policy. As the corresponding EU income is a Consolidated Fund Extra Receipt, there is no matching income reduction.

The underspend of £72m by RPA relates to lower than expected expenditure on CAP programmes.

The net planned underspend of £39m relates to waste, research and development, community energy and frontline services.

The underspend of £33m on Grant-in-Aid could not be returned as it would have caused a negative SSE.

The overspend of £24m was caused by additional expenditure on research and development.

Detailed explanations of these variances are given in note 2.

### Explanation of variances between Estimate and Outturn (net cash requirement)

The main reason for the variance in the net cash requirement of £2,011m (see note 4) was late SPS payments giving rise to cash savings of £1,270m. In addition, non SPS balances due to RPA from the EU reduced by £356m, RPA milk powder stock reduced by £18m and other working capital improvements generated a further £23m in cash savings.

Resource outturn includes new provisions and other non-cash items and the actual outturn included £59m more of these non-cash items than were included in the SSE, mainly due to the impact of the SPS disallowance provision.

Cash was also required to fund expenditure (£84m) that had been provided for in prior years. £23m of this was for early departure costs, £29m for foot and mouth expenditure and the balance against other provisions. This was £31m less than planned for in the SSE.

Fixed asset acquisitions were £16m less than budgeted, mainly against IT projects in the Core-Department, offset by £8m less asset disposals at RPA.

## Contingency planning

Details on Defra's contingency planning can be found in the 'Statement on Internal Control'.

## Managing principal risks and uncertainties

Details on managing Defra's principal risks and uncertainties can be found in the 'Statement on Internal Control'.

## Investment Strategy

Defra's Departmental Investment Strategy 2005-08 describes the investment programmes planned for the 2004 Spending Review, and outlines the outcome of previous investment activity.

The Department plans to invest at least £339m in both 2006-07 and 2007-08 to maintain and upgrade its assets. This will also include funding to be given to local authorities to invest, for example, in waste recycling and flood management.

Where assets are no longer required for the Department's business, they are sold either to other departments or to private businesses.

## Estates Strategy

The Department's drive on estate rationalisation is influenced by the outcome of a comprehensive internal review linked to both the outcomes of the Gershon and Lyons reports. A comprehensive Estates Strategy is being prepared.

The Department is committed to making the best use of its available estate. For example, the London estate is being improved to make the best use of the available space by open plan working, which will help to further more flexible ways of working. This approach is also being adopted in the regional estate.

The Department is committed to exploring opportunities with other departments and the wider public sector regarding sharing accommodation and ensuring that utilisation of its sites is maximised.

## Public interest

### Employee policy and achievements

Defra’s Departmental Reform Programme has set a challenging people agenda which must deliver organisational change and efficiency savings, while also building workforce sustainability through strong transformational leadership and skills development, talent management and succession planning, redeployment and resourcing, effective performance management, pay and reward strategies and improved processes and ways of working.

Defra’s recruitment policy is to ensure that the Department attracts and retains high quality staff to build a diverse, highly skilled and highly motivated workforce which will be capable of delivering on the Department’s complex agenda now and in the foreseeable future.

During 2005, the Department has conducted the first skills audit of the Senior Civil Service (SCS). Plans are now being implemented to ensure Defra can meet the Government’s target that 75% of SCS members demonstrate competence in all six core skill areas by September 2007. Professional Skills for Government aims to roll out to all staff as quickly as possible.

On 1 April 2005, a new performance appraisal system, which is focused on the achievement of delivering outcomes, was introduced.

### Employee consultation

Defra recognises and values people's individual contribution to the organisation. Managers lead, manage and develop their staff, and all staff are encouraged to actively seek better ways to develop personally and to deliver Defra's outputs. Recent notable achievements and initiatives include:

- the Core-Department ran a full census staff survey in July 2005. An action plan addressing four priority areas is soon to be launched and implemented. The first two waves of the Pulse mini-surveys, which are sent to one fifth of Core-Defra staff, took place in October 2005 and January 2006 and will allow senior managers to monitor progress in the priority areas and feed into the various Balanced Scorecards, which exist in Defra. Three more pulse waves took place in April, July and October 2006, before the next full census staff survey in January 2007;

- Defra is devoting considerable resources to retain its Investors in People accreditation, requiring managers to demonstrate how they value people's contributions and providing staff with the opportunity to describe how they feel. An Investors in People planning day was organised in January 2006, attended by managers from across the Core-Department;

- senior management and trade union side representatives continue to meet regularly in a number of fora to discuss a range of issues;

- Defra continues to promote, support and listen to a range of staff networks including the Ethnic Minority Network and Lesbian, Gay, Bisexual and Transgender Network (LGBT). The LGBT has just launched its own website on Defra's intranet.

### Employment of disabled persons

Defra follows the Civil Service Code of Practice on the Employment of Disabled People which aims to ensure that there is no discrimination on the grounds of disability and that access to employment and career advancement within the Department is based solely on ability, qualifications and suitability for the work. In addition, the Department also operates the 'Two Ticks' scheme whereby job applicants with disabilities are guaranteed an interview if they meet the minimum criteria for that job. At 31 March 2006, 6% (31 March 2005 – 6%) of the staff in Defra and its Agencies were disabled. This may be an under-estimate because not everyone declares their disability.

### Diversity

The Department has developed an overarching Diversity Strategy, agreed at Management Board level, supported by a Delivery Plan which demonstrates how the Department will meet the targets identified in the Cabinet Office 10 point plan for Delivering a Diverse SCS. This is designed to take Defra into the next stage of developing and embedding stronger diversity management into the fabric and culture of the Department. A key element of this is achieving greater representation of minority groups in the SCS and at Grades 6 and 7.

The Champions' Group and Staff Networks will help take forward work currently underway to develop a new equality scheme to address the legal requirements arising from the Disability Discrimination Act 2005 and the Race Relations (Amendment) Act 2000.

Diversity and equality awareness training has been updated to reflect a similar business focused approach. The Department continues to work with other government departments through a variety of diversity networks, to share best practice and ensure a cohesive approach.

## Departmental reporting cycle

### Departmental Report

This report presents a succinct overview and assessment of Defra's performance over the past year. It includes progress against Defra's outstanding PSA targets from the 1998 Comprehensive Spending Review and the 2000, 2002 and 2004 Spending Reviews. It sets out expenditure plans for the Department. Throughout the report, frequent references are made to relevant publications and websites where more detailed information is available. The report is usually published at the end of April each year.

### Autumn Performance Report

This report runs in conjunction with the Departmental Report and is a six-monthly update of progress against Defra's live PSA targets. The report is usually published at the end of November each year.

The latest versions of the Departmental Report and Autumn Performance Report are published on the Defra website[13].

### Estimates

The Estimate Reporting Cycle is detailed in the 'Statement of Parliamentary Supply'.

## Entities within the Departmental boundary

The entities within the Departmental accounting boundary during 2005-06 comprise the Core-Department, its Executive Agencies and NDPBs as shown in note 37 to the Accounts. The term 'Core-Department' is used to refer to the Department alone, excluding Agencies, NDPBs and other bodies.

## Bodies outside the Departmental boundary

These comprise public sector bodies which have not been consolidated in these accounts, but for which the Department had lead responsibility during the year. They are listed in note 38 to the Accounts.

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[13] http://www.defra.gov.uk/corporate/deprep/default.htm

## Remote contingent liabilities

Defra has entered into a number of remote contingent liabilities that are disclosed in note 32 under parliamentary reporting requirements. These are outside the meaning of Financial Reporting Standard (FRS) 12 since the possibility of a transfer of economic benefit in settlement is too remote. Details on Defra's significant remote contingent liabilities are as follows:

- Defra has entered into guarantees for the Carbon Trust and Energy Savings Trust to ensure funding is available to honour programmes, where grant offer letters have been issued. Defra's remote liability could be as much as £57m. The Department minimises its risk by seeking legal advice on the drafting of the guarantee to prevent Directors from being exposed to any liabilities;

- Defra has an indemnity to maintain an offshore works, built in the 1970s to assess the feasibility of offshore reservoirs, and ensure that no danger, nuisance or annoyance is caused. To reduce the risk of a liability crystallising, Defra pays for the works to be marked with a beacon and a navigation buoy and for a lifebuoy station to be maintained;

- Defra indemnifies the Royal Society against legal costs and damages, should they arise, following publication of their report on 'Infectious Diseases in Livestock'. The risk of a liability crystallising is remote as the report has been in the public domain since 2002, with no adverse claims made;

- Defra also indemnifies the UK Chemical Stakeholders Forum against legal action by companies affected by Forum decisions or announcements on chemicals. To minimise the risk of the liability crystallising, Defra seeks legal advice on the wording of Forum announcements;

- Defra has a remote liability of £100m from legal action taken by importers of seed potatoes, alleging that the potatoes were diseased on arrival in Argentina. The Argentinean authorities destroyed the potatoes. The court of appeal gave a judgement in favour of HM Government and the claimants are unlikely to lodge a final appeal. Defra's Legal Department is in regular contact with the Foreign and Commonwealth Office and British Embassy in Argentina to maintain a watching brief on the case.

## Research and Development

Defra spends around one-third of a billion pounds annually on science, including research and development. Types of science include scientific advice, field trials, knowledge transfer, surveillance and monitoring.

Science (including the social, economic and statistical sciences) is at the heart of good policy-making in Defra. Scientific work is developing at an accelerating rate, and the science within Defra's remit can often be contentious or uncertain. There is an increasingly important public dimension to the use of science in policy-making. These trends place growing demands on Defra's scientific capabilities and performance.

## Payment of suppliers

Standard contractual terms of payment require that valid invoices be paid within 30 days of satisfactory receipt of goods and services or an agreed invoice, if that is later. Where determined by supplier contract, the contractual terms will take precedence. The Core-Department has implemented a 'No Purchase Order No Pay' policy in line with its continuous development of the 'Procure 2 Pay' process. This policy will enable improvement of the payment performance. Defra continues to maintain its commitment to the Better Payment Practice Code and is determined to honour these commitments. The current payment performance target for the Core-Department is 100% for all valid payments to be made by the due date. Defra's performance for the year, excluding RPA, was 94.19% (2004-05 92.97%). The total number of supplier invoices paid during the year was 157,574 (2004-05 152,377), with 148,423 (2004-05 142,040) paid on time. For RPA, the largest agency, 82.78% (2004-05 83.35%) of all invoices relating to administration expenditure were paid within 30 days. No interest was payable under the Late Payment of Commercial Debts (Interest) Act 1998 (2004-05 £Nil).

## Going Concern

The balance sheet at 31 March 2006 shows negative Taxpayers Equity of £2,109,928,000 (2004-05 £334,753,000). This reflects the inclusion of liabilities falling due in future years, which are to be financed mainly by drawings from the UK Consolidated Fund. Such drawings will be from grants of Supply, approved annually by Parliament, to meet Defra's net cash requirement. Under the Government Resources and Accounts Act 2000, no money may be drawn from the Fund other than required for the service of the specified year or retained in excess of that need. All unspent moneys, including those derived from the Department's income, are surrenderable to the Fund.

In common with other government departments, the future financing of Defra's liabilities is accordingly to be met by future grants of Supply and the application of future income, both to be approved annually by Parliament. Such approval for amounts required for 2005-06 has already been given and there is no reason to believe that future approvals will not be forthcoming. It has accordingly been considered appropriate to adopt a going concern basis for the preparation of these financial statements.

### Events since the balance sheet date

Details of the events since the balance sheet date are included within note 35, see page 89.

## Pension liabilities

Details of the treatment of Pensions liabilities can be found in note 1.14 and pension entitlements of Ministers and senior officials are detailed in the Remuneration Report.

## Auditor

The Comptroller and Auditor General is the auditor for the Department's Accounts. All remuneration is for audit work undertaken.

As far as the Accounting Officer is aware, there is no relevant audit information of which Defra's auditors are unaware, and the Accounting Officer has taken all the steps that she ought to have taken to make herself aware of any relevant audit information and to establish that Defra's auditors are aware of that information.

## MANAGEMENT

### Ministers

The Ministers who had responsibility for the Department during the year prior and post General Election were:

Secretary of State[14] - Rt Hon Margaret Beckett MP

*Prior to General Election*
Minister of State for Rural Affairs and Local Environmental Quality – Rt Hon Alun Michael MP
*Post General Election*
Parliamentary Under-Secretary (Commons) for Rural Affairs, Landscape & Biodiversity – Jim Knight MP

*Prior to General Election*
Minister of State for Environment and Agri-Environment - Elliot Morley MP
*Post General Election*
Minister of State for Climate Change & Environment - Elliot Morley MP

*Prior to General Election*
Minister for Farming, Food and Sustainable Energy – Lord Whitty of Camberwell
*Post General Election*
Parliamentary Under-Secretary (Lords) for Sustainable Farming and Food – Lord Bach of Lutterworth

*Prior to General Election*
Minister for Nature Conservation and Fisheries – Ben Bradshaw MP
*Post General Election*
Parliamentary Under-Secretary (Commons) for Local Environment, Marine and Animal Welfare – Ben Bradshaw MP

[14] *David Miliband was appointed as Secretary of State on the 5 May 2006, along with a new ministerial team.*

## Management Board members

The Management Board comprised the following members of staff during 2005-06:

| | |
|---|---|
| Permanent Secretary | Helen Ghosh (from 7 November 2005)<br>Mark Addison (acting temporary from 1 October until 7 November 2005)<br>Sir Brian Bender (until 30 September 2005) |
| Director General: Environment | Bill Stow |
| Director General: Sustainable Farming, Food and Fisheries | Andy Lebrecht |
| Director General: Natural Resources and Rural Affairs | Ursula Brennan |
| Solicitor and Director General: Legal Services | Donald Macrae |
| Director General: Operations and Service Delivery<br>Chief Operating Officer and Director General: Operations and Service Delivery | Mark Addison (until 30 September 2005)<br>Andrew Burchell (from 31 October 2005) |
| Chief Scientific Advisor and Director General: Science, Economics and Statistics<br>Science Head of Profession | Professor Howard Dalton |
| Chief Veterinary Officer and Director General: Animal Health and Welfare<br>Veterinary Head of Profession | Dr Debby Reynolds |
| Director: Finance, Planning and Resources Directorate | Ian Grattidge (acting from 31 October 2005)<br>Andrew Burchell (until 30 October 2005) |
| Director: Improvement and Delivery Group | Francesca Okosi (until 15 December 2005) |

### Non-executive members of the Management Board

Bill Griffiths
Elizabeth Ransom
Johnston McNeill – RPA (until 15 March 2006)

### Management Board directorships and other significant interests

Any potential conflict of interest is handled in line with the Civil Service Code.

Debby Reynolds is a member of the Governing Board of the Institute of Animal Health (see note 34).

**Helen Ghosh**
**Accounting Officer for the Department for Environment, Food and Rural Affairs** **26 October 2006**

## CORPORATE GOVERNANCE

### Requirements of the Code

The Department is required to give a clear account of how far it has complied with key aspects of the Code for the year ended 31 March 2006 in accordance with DAO (GEN) 09/05[15] - Corporate Governance in Central Government Departments.

Defra has introduced many of the elements of the Code, and seeks to use the Code to guide both the day-to-day business of the Management Board (the Board) and future development.

The Accounting Officer believes that in most areas Defra complies with the Code, and we continue to follow our action plan which will ensure full compliance by the 31 March 2007.

The Department is required to address the specific reporting requirements attached to provisions[16] 2.14, 4.2, 5.3 and 6.6 of the Code.

### Operation and decision making practice (2.14)

The Board's[17] duties are:

- providing strategic leadership to the Department;
- developing Corporate Strategy, taking account of and incorporating cross-government objectives;
- leading and driving change in the Department, to enhance capacity to deliver;
- allocating and monitoring the use of financial and human resources in the Department;
- overseeing the performance and delivery of the Department;
- setting standards and values for the Department;
- ensuring a proper framework of prudent and effective controls in the Department which allows risk to be assessed and managed.

Where appropriate, Ministers may provide guidance to assist the Board in their discussion and decision making.

In order to best achieve the objective of allocating and monitoring the use of financial and human resources in the Department, the Finance Director is a member of the Management Board, and the Human Resource Director advises on specific matters.

The Permanent Secretary chairs Management Board meetings. She ensures that the Management Board makes effective decisions which are communicated to the Department and provides direction to the implementation of decisions.

The Management Board meets regularly (monthly excluding August) and receives monthly written updates from sub-groups.

[15] *DAO (Dear Accounting Officer) (GEN) 09/05 is online at: http://www.hm-treasury.gov.uk/media/71D/32/dao0905.pdf*

[16] *These principles can be viewed on the Corporate Governance Report online at: http://www.hm-treasury.gov.uk/media/71D/48/daocorpgovernancecode.pdf*

[17] *Members of the Board attend Board meetings in a corporate capacity, not to represent their areas of work. Substitutes are not normally allowed to attend, although may do so at the discretion of the Chair.*

Sub-groups report directly to the Management Board, and are chaired by members of the Management Board. They include:

- Corporate Resources Group;
- Audit and Risk Committee;
- The Strategy Group;
- Departmental Reform Group;
- Defra Collaboration Group.

**Corporate Resources Group**

The Corporate Resources Group agree on and oversee the implementation of the key principles to guide the development and transformation of the corporate centre, by ensuring the strategies for corporate functions are aligned and consistent with the principles, and advise the Management Board as appropriate. Where appropriate the Corporate Resources Group will take decisions on a range of management issues on behalf of the Management Board.

It ensures the wider governance structures in the corporate centre are fit for purpose, i.e. clear, empowered, efficient and effective.

**Audit and Risk Committee**

The Accounting Officer has established the Audit and Risk Committee (ARC) to support and advise on issues of risk, control, governance and other related matters. The Committee will also provide advice to the Management Board on these matters. The Committee supports both the audit (internal and external) and risk management roles and status within the Department.

The Audit and Risk Committee includes three non-executive members, one of whom is elected as Chairman. The Accounting Officer confirms all appointments for a fixed term, after which the appointment will end or become eligible for renewal up to a maximum of 5 years. Internal Audit Division (IAD) provided the Audit and Risk Committee with a secretariat function. From 1 July 2006, this function was provided by the Financial Strategy Division.

The Audit and Risk Committee meets at least five times a year. Meetings are scheduled at key points in the accounts timetable. The Chair of the Audit and Risk Committee may convene additional meetings when he or she considers it necessary, or at the request of other members.

The Chairman provides the Management Board with an Annual Report of the Audit and Risk Committee activities at the end of each financial year.

**The Strategy Group**

The Strategy Group advises the Board and Ministers on Defra's Strategy, with particular reference to policy and delivery priorities, the evidence base, strategic communications and stakeholder relations, by keeping matters under review and assuring the Board and Ministers of the overall coherence and relevance of Defra's Strategy.

**Departmental Reform Group**

The Departmental Reform Group is the forum for strategic decisions on Departmental Reform, IT and business design, innovation and investment, focusing on the Core-Department. It works in parallel with the Defra Collaboration Group, providing a forum for joint forward planning and escalation of major joint investment decisions with the Defra Collaboration Group. The Departmental Reform Group takes Programme Board responsibility for the Departmental Reform Programme, providing strategic direction, guidance and support to the constituent programmes to achieve their aims and deliver the Departmental Reform Programme benefits in the expected timescale. It helps build the capacity of the Department and its delivery agents to deliver its strategic objectives within the Five Year Strategy and reports progress to the Management Board.

## Defra Collaboration Group

The Defra Collaboration Group is the forum for strategic decisions on cross-cutting Defra family business and IT design and investment issues. It works in parallel with the Departmental Reform Group. It brings together Chief Executive Officers from across the Defra family to improve collaborative working, in order to improve the customer experience, and to make best use of our collective capacity and investments. Its aim is to add value, not to cut across existing structures.

Its role includes:

- to provide the Defra family input into decisions on business and IT design and investment that will have cross-cutting impacts across the delivery landscape;
- to agree a Defra family IT Strategy and align it to the Government IT Strategy;
- to provide a forum for joint forward planning and escalation of major joint investment decisions with the Departmental Reform Group.

## Non-executive members of the Management Board (4.2)

The Non-executive members of the Management Board[18] are detailed on page 20.

## Audit Committees Terms of Reference made publicly available and its work annually reported (5.3)

Defra's Audit Committee's Terms of Reference can be found on the Internet[19].

**Responsibilities**

The ARC will consider and advise the Accounting Officer and the Management Board on the following:

- IAD matters that include the appointment of the Head of Internal Audit, terms of reference for Internal Audit, prioritisation and planning of audit work, resources required, reports on audit activity including scrutiny of recommendations not accepted or implemented by managers and the Head of Internal Audit's Annual Report;

- Defra's Annual Resource Accounts, the accounting policies and the External Audit Management Letter;

- the strategic processes for risk management, control and governance and the Statement on Internal Control;

- the risk appetite of the organisation, i.e. the balance between opportunity or innovation and risk. The committee shall also maintain oversight of the management processes for risk, including top threat identification and assessment, risk management policy, prioritisation of action, top threat ownership, review and reporting processes and audit risk management;

- consideration of the National Audit Office (NAO) plans for Financial and Value for Money audits, the results of their work, their reports and follow-up action;

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[18] *The Board considers that all Non-Executive members are independent for the purposes of the Code and to ensure an appropriate balance of power and authority.*

[19] *http://www.defra.gov.uk/corporate/manboard/audit.htm*

- arrangements for combating fraud, i.e. policy on fraud, reports on fraud activity (e.g. annual fraud return) and effectiveness of controls over fraud;

- awareness of external impacts on Defra's control environment to include auditing and accounting standards, Government and Parliament, the EU and other stakeholders;

- Agency/NDPB/Public Corporation issues. The Audit and Risk Committee will engage with Defra's Executive Agencies, NDPBs and Public Corporations to provide assurance and advice to the Accounting Officer on control, risk and governance issues as they impact on Defra as a whole.

### Arrangements in place for promoting sound working relationships with arms length bodies (6.6)

The Department has in place arrangements and procedures for dealing with Arms Length Bodies (ALBs). The overarching governance arrangements are contained in Defra's Delivery Strategy which describes how Defra will achieve its outcomes through more effective partnerships between policy and delivery. This means an organisational separation between the two functions, but one underpinned by consistent and well-understood principles which are published on Defra's public website.

The ALBs have clear governance and accountability arrangements, and their roles and responsibilities are, and will be, strategically aligned to the Department's objectives. Where possible, delivery bodies will share core information and systems, and provide customers with one-stop entry points.

Defra has a central Delivery Strategy Team that promotes best practice in working with ALBs and is producing web-based sponsorship guidance. The Department holds risk management workshops with ALBs as part of its programme of embedding risk management in business processes.

The effectiveness of the relationship between Defra and its ALBs is measured and reported on regularly within the Departmental Corporate Balanced Scorecard.

Examples of other activities aimed at building better relationships are regular ALB Chief Executive conferences, hosted by the Defra Permanent Secretary and joint 'awaydays' for senior staff of Defra and of the Environment Agency.

## REMUNERATION REPORT

### Remuneration Policy

The remuneration of senior civil servants is set by the Prime Minister following independent advice from the Review Body on Senior Salaries. The Cabinet Office advises the Department in March or April each year of the Government's response to the Senior Salaries Review Body's (SSRB) recommendations and produces guidance for departments to follow.

Defra's Remuneration Committee is made up as follows:

| | |
|---|---|
| Chair | Brian Bender (until 30 September 2005)<br>Helen Ghosh (from 7 November 2005) |
| Members | Mark Addison (until 7 November 2005)<br>Andrew Burchell (from 1 December 2005)<br>Ursula Brennan<br>Howard Dalton<br>Andy Lebrecht<br>Donald Macrae<br>Debby Reynolds<br>Bill Stow<br>Bill Griffiths |

Defra developed its Senior Civil Service (SCS) Pay Strategy within the Cabinet Office framework and has contained individual awards within the set range, ensuring that the overall pay awards for the SCS are within the cost ceiling allowed. Defra's SCS Pay Strategy sets out the circumstances which govern the basis for line managers making pay recommendations, based on Cabinet Office guidance. The Remuneration Committee takes the final decisions on relative assessments of staff performance. The Human Resource team carries out the calculations to make individual payments based on a matrix. Individual performance for the majority in the SCS is assessed relative to all others in their peer group. Consolidated pay awards and unconsolidated bonuses are calculated entirely on the basis of their achievements. Each consolidated award is different depending on their position on the pay range and their level of performance.

Directors, excluding the Permanent Secretary, are eligible to be considered for individual levels of non pensionable, discretionary bonus up to a maximum of 20% of their salary which is performance related and approved by the Remuneration Committee. In 2006, bonuses were paid from a bonus pot of 6.5% (5% in 2005) of the total salary bill and paid to about 75% of the SCS in Defra and its Agencies (80% in 2005). The Permanent Secretary is eligible to be considered for a non pensionable, non-consolidated bonus award calibrated against achievement of objectives, subject to a maximum of 15% of salary. Such awards are made by the Permanent Secretaries' Remuneration Committee which comprises the Chairman of the SSRB (who acts as Chair), two other members of the SSRB, the Cabinet Secretary and the Permanent Secretary of HM Treasury. All bonuses are paid in arrears in the financial year after that in which they were earned.

Ministerial salaries are determined by the Cabinet Office, under the Ministerial and Other Salaries Act 1997.

## Service Contracts

The permanent head of a department is appointed by the Prime Minister on the recommendation of the Head of the Home Civil Service and with the agreement of the Ministerial Head of the Department. The appointment is for an indefinite period under the terms of the SCS contract. The rules for termination are set out in Chapter 11 of the Civil Service Management Code.

The Permanent Secretary appoints other members of the Management Board. Again, these appointments are made in accordance with the Civil Service Management Code, including the rules for terminating the contract, which are set out in Chapter 11. Under standard SCS contracts, individuals have to give 3 months notice on resignation. On dismissal for inefficiency, the Department would have to give 5 weeks for less than 4 years service, 1 week plus 1 week for every year of continuous service up to a maximum of 13 weeks, for 4 years and over, or if terminated compulsorily 6 months notice. The Civil Service compensation scheme would apply in the case of redundancy, early departure or severance. All Defra Management Board members are on permanent Civil Service contracts except for Howard Dalton, who is on a secondment contract until 31 March 2007.

## Salary and pension entitlements

The following sections provide details of the remuneration and pension interests of the Ministers and Management Board members of the Department.

## Ministers

The salary and pension entitlements of Ministers and senior officials during the year were:

| Name and title | Column 1 Salary as defined below | Column 2 Prior year salary as defined below | Column 3 Real increase in pension at age 65 | Column 4 Total accrued pension at age 65 as at 31 March 2006 | Restated Column 5 CETV at 31 March 2005 | Column 6 CETV at 31 March 2006 | Column 7 Real increase in CETV * |
|---|---|---|---|---|---|---|---|
| | £ | £ | £000 | £000 | £000 | £000 | £000 |
| **Ministers** | | | | | | | |
| Rt Hon Margaret Beckett MP | 74,902 | 72,862 | 0-2.5 | 15-20 | 216 | 243 | 20 |
| Ben Bradshaw MP | 29,491 | 28,688 | 0-2.5 | 0-5 | 21 | 28 | 3 |
| Elliot Morley MP | 38,854 | 37,796 | 0-2.5 | 5-10 | 68 | 90 | 14 |
| Lord Bach (from 9 May 2005) | 85,775 | - | 0-2.5 | 10-15 | 103 | 124 | 12 |
| Jim Knight MP (from 10 May 2005) | 26,320 | - | 0-2.5 | 0-5 | - | 5 | 2 |
| **Ministers who have served during 2005-06, but are not in post as at 31 March 2006 were:** | | | | | | | |
| Rt Hon Alun Michael MP (until 9 May 2005) | 6,476 | 37,796 | 0-2.5 | 5-10 | 84 | 86 | 2 |
| Lord Whitty of Camberwell (until 9 May 2005) | 28,989 ** | 101,768 | 0-2.5 | 10-15 | 141 | 144 | 2 |
| **Full year equivalents for part year officials for 2005-06 were:** | | | | | | | |
| Lord Bach | 102,798 | | | | | | |
| Jim Knight MP | 29,491 | | | | | | |
| Rt Hon Alun Michael MP | 44,854 | | | | | | |
| Lord Whitty of Camberwell | 120,144 ** | | | | | | |

* after adjustment for inflation and changes in market investment factors
** includes payment of compensation for loss of office under the terms of an approved Compensation Scheme

| Officials | Column 1 Salary as defined below | Column 2 Prior year salary as defined below | Column 3 Real increase in pension and related lump sum at age 60 | Column 4 Total accrued pension at age 60 at 31 March 2006 and related lump sum | Restated Column 5 CETV at 31 March 2005 | Column 6 CETV at 31 March 2006 | Column 7 Real increase in CETV * |
|---|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| Helen Ghosh<br>(from 7 November 2005)<br>*Permanent Secretary* | 40-45 | - | 2.5-5<br>plus 7.5-10<br>lump sum | 35-40<br>plus 115-120<br>lump sum | 600 | 730 | 55 |
| Bill Stow<br>*Director General* | 125-130 | 115-120 | 2.5-5<br>plus 7.5-10<br>lump sum | 65-70<br>plus 200-205<br>lump sum | 1,169 | 1,646 | 47 |
| Andy Lebrecht<br>*Director General* | 110-115 | 105-110 | 0-2.5<br>plus 5-7.5<br>lump sum | 35-40<br>plus 115-120<br>lump sum | 605 | 814 | 35 |
| Donald Macrae<br>*Solicitor & Director General* | 120-125 | 115-120 | 0-2.5<br>plus 5-7.5<br>lump sum | 40-45<br>plus 125-130<br>lump sum | 696 | 931 | 36 |
| Andrew Burchell<br>*Director* | 110-115 | 105-110 | 2.5-5<br>plus 10-12.5<br>lump sum | 35-40<br>plus 115-120<br>lump sum | 544 | 756 | 74 |
| Dr Debby Reynolds<br>*Chief Veterinary Officer & Director General* | 110-115 | 105-110 | 0-2.5<br>plus 5-7.5<br>lump sum | 40-45<br>plus 120-125<br>lump sum | 632 | 845 | 34 |
| Ursula Brennan<br>(from 19 April 2004)<br>*Director General* | 135-140 | 115-120 | 2.5-5<br>plus 10-12.5<br>lump sum | 50-55<br>plus 155-160<br>lump sum | 746 | 1,043 | 70 |
| Ian Grattidge<br>(from 31 October 2005)<br>*Director* | 25-30 | - | 0-2.5<br>plus 2.5-5<br>lump sum | 15-20<br>plus 45-50<br>lump sum | 255 | 295 | 17 |
| Professor Howard Dalton**<br>*Chief Scientific Officer* | 150-155 | 145-150 | | | | | |
| **Management Board members who have served during 2005-06, but are not in post as at 31 March 2006 were:** | | | | | | | |
| Sir Brian Bender<br>(until 30 September 2005)<br>*Permanent Secretary* | 100-105 | 155-160 | 0-2.5<br>plus 5-7.5<br>lump sum | 60-65<br>plus 180-185<br>lump sum | 1,036 | 1,290 | 39 |
| Mark Addison<br>(until 7 November 2005)<br>*Director General* | 85-90 | 130-135 | 2.5-5<br>plus 7.5-10<br>lump sum | 50-55<br>plus 160-165<br>lump sum | 860 | 1,076 | 58 |
| Francesca Okosi<br>(until 15 December 2005)<br>*Director* | 70-75 | 95-100 | 0-2.5 | 0-5 | 33 | 51 | 11 |

### Full year equivalents for part year officials were:

| | 2005-06 | 2004-05 |
|---|---|---|
| Helen Ghosh<br>(part time - 32 hours per week) | 100-105 | - |
| Ursula Brennan | - | 125-130 |
| Ian Grattidge | 90-95 | - |
| Sir Brian Bender | 165-170 | - |
| Mark Addison | 130-135 | - |
| Francesca Okosi | 100-105 | - |

* after adjustment for inflation and changes in market investment factors
** Professor Dalton does not receive a pension from Defra

### Salary

'Salary' includes gross salary, performance pay or bonuses, overtime, reserved rights to London weighting or London allowances, recruitment and retention allowances, private office allowances and any other allowance to the extent that it is subject to UK taxation.

This presentation is based on payments made by the Department and thus recorded in these accounts. In respect of Ministers in the House of Commons, departments bear only the cost of the additional ministerial remuneration, the salary for their services as a Member of Parliament (MP) £59,095 (2004-05 £57,485) and various allowances to which they are entitled are borne centrally. However, the arrangement for Ministers in the House of Lords is different in that they do not receive a salary but rather an additional remuneration, which can not be quantified separately from their ministerial salaries. This total remuneration, as well as the allowances to which they are entitled, is paid by the Department and is therefore shown in full in the figures above.

In addition to the above, Elizabeth Ransom and Bill Griffiths were paid a total of £23,513 for their services and expenses as Non-Executive Board Members.

The information given above relates to the Permanent Secretary and senior managers of the Department. Equivalent information relating to the Agencies consolidated into the Departmental Resource Accounts is given in their separate accounts.

### Benefits in kind

The monetary value of benefits in kind covers any benefits provided by the employer and treated by HM Revenue and Customs as a taxable emolument. No Management Board members were in receipt of any benefits in kind during 2005-06 (2004-05 £Nil).

## Pension benefits

### Ministerial pensions

Pension benefits for Ministers are provided by the Parliamentary Contributory Pension Fund (PCPF). The scheme is statutory based (made under Statutory Instrument 1993 No 3253, as amended). Those Ministers who are MPs are also entitled to an MP's pension under the PCPF. The arrangements for Ministers provide benefits on an 'average salary' basis with either a 1/50$^{th}$ or 1/40$^{th}$ accrual rate, taking account of all service as a Minister (the accrual rate has been 1/40$^{th}$ since 15 July 2002 but Ministers, in common with all other members of the PCPF, can opt to increase their accrual rate from 5 July 2001, or retain the former 1/50$^{th}$ accrual rate and the lower rate of employee contribution).

Benefits for Ministers are payable at the same time as MPs' benefits become payable under the PCPF or, for those who are not MPs, on retirement from ministerial office on or after age 65. Pensions are increased annually in line with changes in the Retail Prices Index. Members pay contributions of 6% of their ministerial salary if they have opted for the 1/50$^{th}$ accrual rate. Those members who have opted for the 1/40$^{th}$ accrual rate are required to pay an increased contribution. The rate was increased from 9% to 10% from 1 April 2004. There is also an employer contribution paid by the Exchequer representing the balance of cost. This is currently 24% of the ministerial salary.

### Civil Service Pensions

Pension benefits are provided through the Civil Service Pension (CSP) arrangements. From 1 October 2002, civil servants may be in one of three statutory based 'final salary' defined benefit schemes (Classic, Premium and Classic Plus). The Schemes are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under Classic, Premium and Classic Plus are increased annually in line with changes in the Retail Prices Index. New employees joining after 1 October 2002 may choose between membership of Premium or joining a good quality 'money purchase' stakeholder arrangement with a significant employer contribution (partnership pension account).

Employee contributions are set at the rate of 1.5% of pensionable earnings for Classic and 3.5% for Premium and Classic Plus. Benefits in Classic accrue at the rate of 1/80th of pensionable salary for each year of service. In addition, a lump sum equivalent to three year's pension is payable on retirement. For Premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike Classic, there is no automatic lump sum but members may give up (commute) some of their pension to provide a lump sum. Classic Plus is essentially a variation of Premium, but with benefits in respect of service before 1 October 2002 calculated broadly as per Classic.

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

Further details about the CSP arrangements can be found on the Internet.[20]

**Cash Equivalent Transfer Values**

Columns 5 and 6 of the tables on pages 26 and 27, regarding the pension details for Ministers and Officials, show the Cash Equivalent Transfer Value (CETV) of the member's pension benefits accrued at the beginning and the end of the reporting period. A CETV is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. It is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the pension benefits they have accrued in their former scheme. The pension figures shown for Management Board Members relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. Similarly for Ministers, the pension figures shown relate to the benefits that the individual has accrued as a consequence of their total ministerial service, not just their current appointment as a Minister. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

Regarding the Management Board, the CETV figures include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Civil Service Scheme and for which the Scheme has received a transfer payment commensurate to the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the Scheme at their own cost.

Please note that the factors used to calculate the CETV were revised on 1 April 2005 on the advice of the Scheme Actuary. The CETV figure for 31 March 2005 has been restated using the new factors so that it is calculated on the same basis as the CETV figure for 31 March 2006.

**Real Increase in CETV**

Column 7 of the tables, on pages 26 and 27, reflects the real increase in CETV effectively funded by the employer. It takes account of the increase in accrued pension due to inflation, contributions paid by the employee or Minister (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

**Helen Ghosh**
**Accounting Officer for the Department for Environment, Food and Rural Affairs** **26 October 2006**

[20] www.civilservice-pensions.gov.uk

## STATEMENT OF ACCOUNTING OFFICER'S RESPONSIBILITIES

Under the Government Resources and Accounts Act 2000, HM Treasury has directed the Department for Environment, Food and Rural Affairs to prepare, for each financial year, resource accounts detailing the resources acquired, held or disposed of during the year and the use of resources by the Department during the year. The Accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the Department and of its net resource outturn, resources applied to objectives, recognised gains and losses and cash flows for the financial year.

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

- observe the Accounts Direction issued by HM Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;

- make judgements and estimates on a reasonable basis;

- state whether applicable accounting standards, as set out in the *Government Financial Reporting Manual* have been followed, and disclose and explain any material departures in the Accounts;

- prepare the Accounts on a going concern basis.

HM Treasury has appointed the Permanent Head of the Department as Accounting Officer of the Department for Environment, Food and Rural Affairs. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the Department's assets, are set out in the Accounting Officer's Memorandum, issued by HM Treasury and published in *Government Accounting*.

## STATEMENT ON INTERNAL CONTROL

### Scope of responsibility and accountability arrangements

As Principal Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of Defra's policies, aim and objectives, whilst safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in *Government Accounting*. I was appointed as Defra's Accounting Officer from 7 November 2005 in succession to Sir Brian Bender who was Accounting Officer until 30 September 2005. Mark Addison acted as temporary Accounting Officer from 1 October 2005 until 7 November 2005.

Defra delivers its aims and objectives in partnership with its Agencies, NDPBs, and Public Corporations (the Defra 'family'). It also works with other bodies, some of which receive funds from the Department. The delegated authorities and accountabilities that apply to Defra's relationship with all these bodies are described in Accounting Officer letters, Framework documents, Management Statements, Financial Memoranda, Offer of Grant letters and other documents. Accounting Officers for Defra's Agencies and sponsored public bodies are appointed in accordance with the requirements of *Government Accounting.* Each Accounting Officer, Chief Executive and Board is responsible for the maintenance and operation of a system of internal control relevant to the body and where appropriate is required to sign a statement on internal control which is reproduced in the body's accounts. These statements contribute to the assurances supporting my Statement on Internal Control (SIC).

As Accounting Officer I work with Ministers and senior managers through the Management Board and other meetings and correspondence to achieve the Department's aims. I involve Ministers in the management of risks at a strategic level, considering major factors that could prevent Defra's objectives being achieved.

### The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level, rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of departmental policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised and to manage them efficiently, effectively and economically. The system of internal control has continued to change and develop during the year, up to the date of approval of the Annual Report and Accounts, and accords with HM Treasury guidance.

### The system of internal control

Defra's system of internal control consists of a framework of corporate governance and management processes which is summarised below.

## Governance, strategy and planning

The Management Board provides strategic leadership for the Department and is responsible for ensuring effective performance, risk management and control. It is chaired by me and comprises the senior staff of the Department and three non-executive members (see Corporate Governance report for more details of the role of the Management Board and its sub groups). Defra's accountability arrangements with its delivery bodies are based around the formal responsibilities of Accounting Officers and Boards and the application of performance management processes (see Corporate Governance report for more details). Our Departmental Reform Programme includes the development of effective governance arrangements for the new delivery landscape. As part of this, the Defra Collaboration Group reports to the Management Board and acts as a forum for strategic decisions on cross-cutting issues for the Defra family.

Our Five Year Strategy, Delivering the Essentials of Life, forms the basis of annual Business Plans for each area of the business which drive the allocation of resources and performance management.

## Risk management and emergency preparedness

The Management Board reviews strategic-level risk through the corporate Balanced Scorecard, and by monitoring the status of our mission-critical programmes and Top Threats. The latter are strategic, cross-cutting risks (not picked up by the other two areas) which, if realised, would have a major impact on our ability to meet one or more of Defra's strategic outcomes and on the Department's reputation. At operational level, our general approach to risk management is set out in Defra's Risk Management Strategy (April 2002). Information on risk is captured locally, reviewed by managers (through such mechanisms as project boards, team meetings, and business case and scorecard reviews) and escalated as appropriate up the management chain. A risk management site on the Department's intranet acts as the focal point for written advice, guidance, tools and good practice. Ongoing monitoring via staff survey feedback shows a gradually increasing number who feel encouraged to identify and address risks locally, free from the fear of blame.

The Department's preparedness for dealing effectively with emergencies is based on our Contingency Planning Strategy. The aims of the strategy are that: we deal quickly and efficiently with emergencies and our related Lead Department responsibilities; we are able to deliver critical business activities in the face of serious disruption and recover quickly from such disruption; we regularly test and update all plans using risk analysis, lessons from previous experience, and regular exercises. Page 38 provides more details of our key emergency planning work. Additionally, we have conducted five business continuity exercises this year and the Management Board has participated in tests and workshops to embed disaster recovery procedures. Our Strategy is overseen by the Contingency Planning Board and is owned by Directors General in their policy areas. The Management Board receives quarterly reports on progress in implementing our Strategy by the target of March 2007.

**Management of delivery and change**

Delivery of our Strategy and our Public Service Agreement (PSA) targets is underpinned by risk assessment and the application of Programme and Project Management (PPM) methodologies. I have appointed a Senior Responsible Officer (SRO) for each PSA target who is accountable to the Management Board for delivery. The Management Board receives a quarterly update on progress for each PSA target. The Department also reports PSA performance to HM Treasury on a six-monthly basis, including an overall assessment of the likelihood of delivery. These reports are scrutinised at Board level before they are assessed and challenged by HM Treasury. The governance and challenge arrangements for our other mission critical programmes are similar, though with a review by the Management Board every three months, and a monthly update for those programmes and projects at risk of not delivering.

Our PPM unit acts as a centre of excellence to provide best practice guidance, health checks on mission-critical programmes and projects and progress reports to the Management Board. In addition, the Office of Government Commerce examines some of our programmes at critical stages in their lifecycles (‘gateways’) to provide assurance that they can progress successfully to the next stage.

Under the Departmental Reform and Efficiency Programmes Defra is continuing to implement changes to improve the delivery of outcomes, reduce the regulatory burden and meet our efficiency commitments. Our Strategy is to establish more effective partnerships between policy and delivery by organisational separation between the two functions, underpinned by clear governance and accountability arrangements. The policy function in the Core-Department is being restructured to better provide the skills and expertise needed, and our corporate support services are being reorganised to make them more efficient and joined up. In addition, under the Better Regulation and Hampton Review Programmes, the Department is seeking to improve collaborative working in the delivery bodies and become a more effective regulator. Reform is being managed by use of PPM disciplines and the oversight of the Departmental Reform Group which reports to the Management Board (more details of the Departmental Reform and Efficiency Programmes are shown on page 22).

**Performance and resource management**

The Balanced Scorecard is a key tool for the Board and Ministers in overseeing the Department's performance and in reviewing our effectiveness. It tracks our progress against strategic priorities and key programmes and projects, highlights risks which may influence our future success, and identifies actions to improve performance. Scorecards are also in use at lower levels, in a range of Directorates General and Directorates, and a number are in development.

Our management of resources is based on a formal system of delegated authority supported by regular monitoring of financial management information, and compliance with financial regulations and procedures. I delegate budgets to executive Management Board members who then sub-delegate to Directors, and in turn to Heads of Division who have principal responsibility for managing budgets. A letter formally delegating budgets to budget holders sets out their responsibilities for effective financial management. Budgets delegated by the Management Board are integrated with business plans for delivery of the Department’s PSAs and objectives.

Budget holders report regularly in-year on actual and forecast spend relative to budget, and update their fixed asset records twice yearly. They also have to report formally to the Management Board on reasons for significant variance of outturn against budget. The Management Board reviews spend against original budgets and revised forecasts quarterly during the year and decides on any adjustments to funding in line with delivery priorities agreed with Ministers.

**Review of effectiveness of internal control**

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

Under the review process I receive assurances on internal control from executive managers through the line/functional management accountability structure, and increasingly from Project Managers and SROs of programmes and projects. Defra Directors General and Directors also provide assurance to me through a formal annual statement which highlights particular strengths in controls, as well as areas where controls are being improved to address weaknesses. As part of their own review of controls the Directors General, Directors and other key staff this year held workshops facilitated by Internal Audit and the Risk Co-ordinator which have helped to identify key control issues and inform their assurances to me. I receive separate assurances from managers on emergency and continuity planning, health and safety, and security.

The Audit and Risk Committee reviews the adequacy of audit arrangements, considers the results of the NAO's work, and provides strategic oversight and challenge to assurances from Internal Audit, the Departmental Risk Co-ordinator and senior managers on our risk management, control and governance processes. The Head of Internal Audit provides an independent assurance to the Audit and Risk Committee and myself on the adequacy and effectiveness of the Department's risk management, control and governance processes, together with recommendations for improvement. Internal Audit also reviews assurances from other delivery partners in the Defra family, including its Agencies and NDPBs. The Departmental Risk Co-ordinator leads on our risk improvement activities and reports to the Audit and Risk Committee and Board on the implementation of our Risk Management Strategy and our progress towards embedding good risk management into the organisation.

**Control issues and improvements to the system**

The Department is undergoing a lot of change across a broad spectrum affecting corporate systems, particularly Finance and HR. Although the key elements of Defra's system of internal control are in place, including the processes for maintaining and reviewing its effectiveness, I highlight below a number of control problems that Defra and its delivery bodies have experienced during the period. The most significant control issues are in relation to the Single Payment Scheme and the establishment of our new delivery bodies.

I consider that these are clear warning signs of a more general deterioration in internal controls in some areas of Defra's management systems during a challenging time of major change in the Department. I indicate below steps we are taking to strengthen our systems to ensure they are fit for purpose under our new Delivery Strategy. These remedial steps form the basis of an action plan which will be overseen by the Management Board to bring about the necessary improvements in our control framework.

**Single Payment Scheme**

The Single Payment Scheme (SPS) has been introduced to replace a range of payments previously made to farmers and is a major element of the Common Agricultural Policy (CAP) Reform Programme. The Scheme is key to Defra's Sustainable Farming and Food Strategy, and to one of our PSA targets. Implementation of SPS is being managed by Defra and RPA. RPA administer the payments made under the SPS. The challenge of implementing the new scheme within the planned timescales, while major changes were also being made to the structure and staffing of the RPA, has confronted Defra with considerable reputational, financial and other risks.

Sir Brian Bender reported in last year's SIC significant risks surrounding implementation of SPS, mainly concerned with the development of the IT and application processing systems, and the related pressures on staff resources. Steps to manage these risks have been overseen by several governance bodies, principally the Executive Review Group (which has overseen both SPS and RPA Change) and the CAP Reform Implementation Board. Updates on progress have been regularly provided to Ministers.

Early in 2006, I and the managers involved in the governance of the SPS considered that the relevant risks were being managed effectively and that our target to start full payments by the end of February 2006 and make the bulk of payments by the end of March 2006 was still achievable. Full payments were started by the end of February as planned but in spite of the extensive controls and governance processes in place it became clear by 14 March that the rate at which the RPA was progressing claims for payments was insufficient to meet the target and I formally informed Ministers. In response to this situation and with the approval of the Secretary of State, I immediately took steps to strengthen the RPA's leadership and appointed Mark Addison as Acting Chief Executive of RPA in place of Johnston McNeill. Subsequently, Tony Cooper took over as interim Chief Executive from 15 May.

In the weeks following 14 March a number of changes were introduced to the SPS claim process to make the outstanding payments as fast as legally possible. They involved removing a number of checks which were already covered elsewhere in the process, introducing a tolerance to help expedite the claims, changes to the work process, direct contact with customers for processing work and centralising mapping. These changes were discussed and agreed with legal and Internal Audit colleagues and approved by Ministers. Ministers also decided that RPA should make partial payments of claims in May and June 2006. By 30 June, £1.4 billion had been paid under the 2005 scheme which was about 95% of the total estimated to be due for payment, against the European Commission requirement of 96.14%.

I very much regret the impact the delay in SPS payments has had on the farming community, and the additional costs that have arisen due to the problems associated with the introduction of the scheme. Completing the 2005 payments, the 2006 scheme and beyond remains very challenging, with further major reputational and financial risks. Due to the large number of changes required, including those stemming from the NAO review (see below) the RPA considers that it will take between 18 and 24 months for it to deliver a satisfactory level of service and it is working on contingency plans to provide part payments for 2006. The errors and other procedural mistakes in administering the SPS in England are likely to result in the EC imposing a financial penalty, for which the Department has had to recognise provisions and contingent liabilities of some £131m in the 2005-06 accounts. This amount is included within figures reported in these accounts for provisions of £150.2m and contingent liabilities of £63.5m (notes 21.1.2 and 31.1).

Both RPA and Defra are seeking to learn appropriate lessons to improve our controls and governance. My Chief Operating Officer has initiated a review of generic governance issues for our Agencies. In addition, David Hunter (previously Defra's EU Director) is carrying out a review of the long term role of the RPA, including its structure, governance and relationships with stakeholders, and he is due to report by the end of 2006. The reasons for the failure to achieve our target for payment have been investigated by both the NAO and the Parliamentary Committee on Environment, Food and Rural Affairs to which I and other colleagues have provided evidence. Defra and the RPA are currently considering the findings and recommendations made by the NAO in its report (HC1631/2005-06: The Delays in Administering the Single Payment Scheme in England). The key areas of weakness and lessons being considered include:

- the application of contingency planning in high risk projects such as SPS;
- the need for the governance bodies overseeing such projects to establish clarity of responsibility, to avoid straying from their terms of reference, and to challenge effectively the actions being taken;
- ensuring that there are clearly defined metrics to enable objective and effective measurement of project performance and progress;
- that the discretion and independence given to delivery bodies such as the RPA in implementing such schemes should be commensurate with the risks;
- the maintenance of good communication with customers to explain problems and provide information on progress with claims.

**Establishment of new delivery bodies**

A number of significant control issues have also emerged during the creation of our new delivery landscape under the Reform Programme. There were problems in confirming the legal basis for the activities and resourcing of the new Government Decontamination Service which are being addressed. There were also difficulties in determining the opening balances in the 2005-06 accounts of the Marine Fisheries Agency (MFA) and the State Veterinary Service (SVS). While the SVS problems were resolved, the Comptroller and Auditor General had to provide a qualified opinion on the MFA's accounts because there was insufficient evidence on: the value of fixed assets; some elements of 2005-06 expenditure; and 2004-05 income and expenditure. While some of these problems were due to the lack of detailed information maintained by the Department prior to de-merger, the MFA is taking action to establish effective financial controls throughout its organisation and to create reliable asset and expenditure records.

In addition there have been significant issues in the development of Natural England (NE), the new body which started to deliver rural policy from October 2006. This is a major project which has involved bringing together work previously done by three different bodies. Problems have included: substantial deficiencies in processes for transferring staff to appropriate jobs in the new structure (which in turn have caused delay, loss of planned efficiency savings and increased stress for staff affected); a long delay in appointing the Finance Director (which has added to difficulties in dealing with complex merger accounting issues); shortcomings in the overall programme and project management processes (including weaknesses in identifying benefits); clarity on the provision of support services to NE; and uncertainties over the budget baseline.

We are in the process, with NE, of addressing remaining issues but are also (with NAO and Internal Audit) identifying common lessons including: ensuring that bodies have a properly resourced finance function and adequate financial systems in good time; that services to be provided by the Department are adequately defined (e.g. through good quality Service Level Agreements); that the correct statutory basis for new activities is in place. We are also reviewing the effectiveness and governance of Defra systems for setting up and maintaining new bodies, particularly: our Delivery Strategy; the nature and clarity of the roles of the relevant project managers and corporate support functions; the means by which we share knowledge; and the provision of guidance.

**Financial management and planning**

The improvement of financial management controls continues to be a priority for the Department, including embedding financial procurement and project management skills within Defra's policy areas and its delivery agents. During the year we have taken steps to advance awareness of anti-fraud procedures by issuing a revised anti-fraud policy and fraud response plan. Actions to strengthen control systems and address weaknesses include:

- developing the Oracle Business System: while the financial reporting function is generally enabling more accurate forecasting and budgeting there are problems with the quality of the reports, and we need to ensure Oracle meets business and user needs as well as overall corporate requirements. These issues apply both to the Core-Department and delivery bodies who receive financial management services under the SSO;

- improving financial reporting to secure greater alignment between how our money is spent and the Department's strategic priorities, and timelier monthly financial reporting by our Executive Agencies and NDPBs (the latter will mostly be delivered through changes being introduced as part of the faster closing project);

- faster closing of the accounts: we were unable to meet our target for faster closing of the consolidated accounts, despite much progress including greater automation of the consolidation process and a more risk-centred approach to material mis-statement issues. This was partly due to problems described elsewhere with the Single Payment Scheme and MFA accounts. We are considering holding a workshop with the NAO to learn any lessons for accelerating the process for 2006-07;

- improving procedures supporting i-expenses, corporate credit cards and electronic payment processing. We are also enhancing controls over self-certified imprests and advances to staff;

- a need for greater challenge and buy-in on business plans was identified and the 2006-07 plans for each business area were reviewed by an Assurance Panel chaired by me. Lessons learned will be used to further improve the process for next year;

- tightening controls on novel and contentious payments: during the year Internal Audit identified a severance payment made by one of our Agencies to an ex-employee that should have been notified to HM Treasury because it appeared to qualify as 'novel and contentious'. The Department subsequently carried out an exercise which identified several similar payments made by the Core-Department, its Agencies and NDPBs. Although the payments are not of significant value in the context of Defra's overall administration costs, they require prior approval by HM Treasury because they fall outside the Department's delegated authority. We have since obtained retrospective approval for the payments but are taking steps to strengthen internal controls over the correct authorisation of such payments, including improving guidance for staff.

**IT systems**

Since 2004 Defra's IT systems have been delivered by an outsourced contractor managed by a dedicated internal management function. The focus of the contract is on providing improved information services for customers and staff across the Defra family. There have been several control issues, including concern over the strategic quality of the services, problems with project management (e.g. project costing) and a lack of clarity in responsibilities for the allocation and management of IT budgets. We are working hard at developing an IT Services Strategy to underpin the Department's Reform Programme and improve IT delivery.

**Human Resources systems**

There have been capacity and capability issues in Defra's Human Resources (HR) systems and steps are being taken to address these weaknesses. We are also taking actions to:

- ensure the integrity of our HR data, and improve access to e-HR;
- ensure effective controls in payroll reconciliations as well as clarity of responsibility for payroll controls across boundaries between the payroll service contractor, Defra and other Defra bodies using the service;
- in relation to the severance payments issue described above we will also review our personnel procedures to ensure they are consistent with effective management of the relevant risks.

**Risk management and emergency preparedness**

The Department has prioritised the following areas for improvement in risk management: our handling of risk in policy submissions; our management of risk in delivery partnerships; and our understanding and management of the Department's portfolio of risk. For example the Science Advisory Council has been discussing with us how we identify and prioritise natural risks that originate outside the Department. They have concluded that a more consistent approach is needed and after further investigation (via policy case study) plan to develop a risk methodology for our natural and external risks, with a view to agreeing a register of these risks.

Tests of our emergency and business continuity plans have shown them to be broadly fit for purpose, but we identified some areas for improvement including:

- the ability to quickly augment staffing levels;
- greater familiarisation at all levels with government-wide response mechanisms;
- better communication and co-ordination with stakeholders (including our staff) and operational partners.

These issues are being taken forward and in particular have led to the development of Rapid Reaction Teams and a review of the Volunteers Register. The Buncefield Oil Depot fire also revealed gaps in our preparations which we are addressing.

**Helen Ghosh**
**Accounting Officer for the Department for Environment, Food and Rural Affairs** **26 October 2006**

## THE CERTIFICATE AND REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSE OF COMMONS

I certify that I have audited the financial statements of the Department for Environment, Food and Rural Affairs for the year ended 31 March 2006 under the Government Resources and Accounts Act 2000. These comprise the Statement of Parliamentary Supply, the Operating Cost Statement and Statement of Recognised Gains and Losses, the Balance Sheet, the Cashflow Statement and the Statement of Operating Costs by Departmental Aim and Objectives and the related notes. These financial statements have been prepared under the accounting policies set out within them.

**Respective responsibilities of the Accounting Officer and auditor**

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

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

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

I review whether the statement on pages 31 to 38 reflects the Department's compliance with HM Treasury's guidance on the Statement on Internal Control, and I report if it does not. I am not required to consider whether the Accounting Officer's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Department's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only the Management Report, the Corporate Governance Report and the un-audited part of the Remuneration Report. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

**Basis of audit opinion**

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

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

**Opinions**

In my opinion:

- the financial statements give a true and fair view, in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by HM Treasury, of the state of the Department's affairs as at 31 March 2006 and of the net cash requirement, net resource outturn, resources applied to objectives, recognised gains and losses and cashflows for the year then ended;

- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000; and

- in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I have the following observations to make on these financial statements.

**Control weaknesses in the administration of the European Commission Single Payment Scheme**

As set out in the Statement on Internal Control at pages 31 to 38 and at Note 21.1.2 to the Accounts, the Rural Payments Agency (a Defra Executive Agency) has experienced considerable problems in making the payments to farmers necessary to discharge the £1.4 billion liability included in the balance sheet at 31 March 2006 in respect of unpaid claims against the Single Payment Scheme 2005. The results of my separate examination of these problems, carried out under section 6 of the National Audit Act 1983 and presented to Parliament under section 9 of that Act, are published as HC 1631 2005-06, *The Delays in Administering the 2005 Single Payment Scheme in England*.

The nature of the arrangements put in place to expedite payments under the scheme, including the partial payment of claims totalling £770 million, may infringe European Commission Regulations, giving rise to the possibility that the Commission will not refund the full amount of the payments made (disallowance). The Department has assessed that it may not be able to recover all of the amounts paid and has established a provision for disallowance (covering the UK as a whole, and including also previous schemes), together with a contingent liability in this respect, in these accounts at Notes 21.1.2 and 31.1. I have also drawn this matter to attention in my observations on the Rural Payments Agency's Accounts (HC 1612 2005-06).

**John Bourn**
**Comptroller and Auditor General**

**27 October 2006**

**National Audit Office**
**157-197 Buckingham Palace Road**
**Victoria**
**London SW1W 9SP**

## Statement of Parliamentary Supply

### Consolidated Summary of Resources Outturn 2005-06

### Estimates

Estimates are the means of obtaining from Parliament the legal authority to consume the resources and spend the cash the Government needs to finance the Department's agreed spending programmes for the financial year (April to March).

Parliament gives statutory authority for both the consumption of resources and for cash to be drawn from the Consolidated Fund (the Government's general bank account at the Bank of England) by Acts of Parliament known as Consolidated Fund Acts and by an annual Appropriation Act. This process is known as the ‘Supply Procedure’. The Main Estimates start the supply procedure and are presented by HM Treasury around the start of the financial year to which they relate. HM Treasury presents, alongside the Main Estimates, a set of supplementary budgetary information tables reconciling the Estimates to departmental report tables. At various points in the year HM Treasury presents revised and/or Supplementary Estimates asking Parliament for approval for any necessary additional resources and/or cash revisions to the Main Estimates.

The Main Estimate is usually produced in February and details can be found on HM Treasury’s website.[21]

There are usually two Supplementary Estimates: Spring and Winter, which are produced in January and November respectively. These are also available on HM Treasury’s website.[22]

**Request for Resources 1:** Ensuring that consumers benefit from competitively priced food, produced to high standards of safety, environmental care and animal welfare from a sustainable, efficient food chain, to contribute to the well-being of rural and coastal communities and funding aspects of the Common Agricultural Policy and England Rural Development Plan Guarantee Section as economically, efficiently and effectively as possible.

| | | 2005-06 | | | | | | | 2004-05 |
|---|---|---|---|---|---|---|---|---|---|
| | | Estimate | | | Outturn | | | Net total outturn compared with Estimate: saving /(excess) | Outturn |
| | Note | Gross expenditure | A-in-A | Net total | Gross expenditure | A-in-A | Net total | | Net total |
| | | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| Request for Resources 1 | | 7,113,973 | 1,167,846 | 5,946,127 | 6,862,489 | 1,167,846 | 5,694,643 | 251,484 | 2,962,937 |
| **Total resources** | 3 | **7,113,973** | **1,167,846** | **5,946,127** | **6,862,489** | **1,167,846** | **5,694,643** | **251,484** | 2,962,937 |
| **Non-operating cost A-in-A** | | | | **23,349** | | | **15,163** | **8,186** | 8,034 |

[21] *http://www.hm-treasury.gov.uk/documents/public_spending_and_services/parliamentary_supply_estimates/pss_pse_mainest.cfm*
[22] *http://www.hm-treasury.gov.uk/documents/public_spending_and_services/parliamentary_supply_estimates/pss_pse_index.cfm*

## Net cash requirement 2005-06

| | Note | 2005-06 Estimate | 2005-06 Outturn | 2005-06 Net total outturn compared with Estimate: saving /(excess) | 2004-05 Outturn |
|---|---|---|---|---|---|
| | | £000 | £000 | £000 | £000 |
| **Net cash requirement** | 4 | 5,939,293 | 3,927,775 | 2,011,518 | 2,848,844 |

## Summary of income payable to the Consolidated Fund

In addition to Appropriations-in-Aid (A-in-A), the following income relates to the Department and is payable to the Consolidated Fund (cash receipts being shown in italics).

| | Note | 2005-06 Forecast Income | 2005-06 Forecast *Receipts* | 2005-06 Outturn Income | 2005-06 Outturn *Receipts* |
|---|---|---|---|---|---|
| | | £000 | *£000* | £000 | *£000* |
| **Total** | 5 | 2,610,563 | *2,591,568* | 2,488,339 | *567,764* |

Explanations of variances between estimate and outturn are given in note 2 and in the Management Commentary.

The notes on pages 50 to 93 form part of these accounts.

## Consolidated Operating Cost Statement
for the year ended 31 March 2006

| | Note | 2005-06 Staff costs £000 | Other costs £000 | Income £000 | 2004-05 £000 |
|---|---|---|---|---|---|
| **Administration costs** | | | | | |
| Staff costs | 9.1 | 271,746 | | | 249,573 |
| Other administration costs | 10 | | 285,880 | | 263,049 |
| Operating income | 12.1 | | | (58,489) | (51,940) |
| | | | | | 460,682 |
| **Programme costs** | | | | | |
| **Request for Resources 1** | | | | | |
| Programme costs* | 11 | | 5,934,055 | | 5,484,465 |
| Income* * * | 12.1 | | | (3,594,590) | (3,438,361) |
| | | | | | 2,046,104 |
| **Frontline services** | | | | | |
| Staff costs* | 9.1 | 216,768 | | | 208,827 |
| Programme costs* | 11 | | 155,710 | | 147,574 |
| Income | 12.1 | | | (2,886) | (2,913) |
| | | | | | 353,488 |
| **Total** | | **488,514** | **6,375,645** | **(3,655,965)** | |
| **Net operating cost* *** | 3.1, 13 | | | **3,208,194** | 2,860,274 |

* The total programme expenditure is £6,306,533,000 (2004-05 £5,840,866,000).
** Some EU receipts are treated as negative public expenditure and reduce the burden on the UK Exchequer, for 2005-06 these were £Nil (2004-05 £7,471,000).
*** Defra acts as an agent for the EU in making payments to third parties, income relating to this for 2005-06 was £3,450,685,000 (2004-05 £3,296,998,000).
All income and expenditure is derived from continuing operations.

## Consolidated Statement of Recognised Gains and Losses
for the year ended 31 March 2006

| | 2005-06 £000 | 2004-05 £000 |
|---|---|---|
| Net gain on revaluation of tangible fixed assets | 19,840 | 32,921 |
| Net gain on revaluation of investments | 6 | 13 |
| Actuarial gain/(loss) | (47,025) | 6,600 |
| **Recognised gains and losses for the financial year** | **(27,179)** | 39,534 |

The notes on pages 50 to 93 form part of these accounts.

## Core-Department Operating Cost Statement
for the year ended 31 March 2006

| | Note | 2005-06 Staff costs £000 | Other costs £000 | Income £000 | Restated 2004-05 £000 |
|---|---|---|---|---|---|
| **Administration costs** | | | | | |
| Staff costs | 9.1 | 181,443 | | | 164,472 |
| Other administration costs | 10 | | 167,115 | | 154,417 |
| Operating income | 12.1 | | | (28,443) | (22,086) |
| | | | | | 296,803 |
| **Programme costs** | | | | | |
| **Request for Resources 1** | | | | | |
| Programme costs* | 11 | | 2,323,612 | | 1,931,618 |
| Income | 12.1 | | | (113,194) | (68,569) |
| | | | | | 1,863,049 |
| **Frontline services** | | | | | |
| Staff costs* | 9.1 | 55,037 | | | 42,911 |
| Programme costs* | 11 | | 14,361 | | 8,335 |
| Income | 12.1 | | | (2,101) | (1,670) |
| | | | | | 49,576 |
| **Total** | | **236,480** | **2,505,088** | **(143,738)** | |
| **Net operating cost**** | | | | **2,597,830** | 2,209,428 |

* The total programme expenditure is £2,393,010,000 (2004-05 £1,982,864,000 (£103,141,000 transferred to MFA and SVS)).
** Some EU receipts are treated as negative public expenditure and reduce the burden on the UK Exchequer, for 2005-06 these were £Nil (2004-05 £Nil (£7,471,000 transferred to MFA)).
All income and expenditure is derived from continuing operations.

## Core-Department Statement of Recognised Gains and Losses
for the year ended 31 March 2006

| | 2005-06 £000 | 2004-05 £000 |
|---|---|---|
| Net gain on revaluation of tangible fixed assets | 2,177 | 23,190 |
| Net gain on revaluation of investments | 6 | 13 |
| Actuarial gain/(loss) | (47,025) | 6,600 |
| **Recognised gains and losses for the financial year** | **(44,842)** | 29,803 |

The notes on pages 50 to 93 form part of these accounts.

## Consolidated Balance Sheet
as at 31 March 2006

| | Note | 31 March 2006 £000 | 31 March 2006 £000 | 31 March 2005 £000 |
|---|---|---|---|---|
| **Fixed assets** | | | | |
| Tangible assets | 14 | 893,296 | | 813,374 |
| Intangible assets | 15 | 16,600 | | 15,414 |
| Investments | 16 | 11,185 | | 12,094 |
| | | | **921,081** | 840,882 |
| **Debtors falling due after more than one year** | 18.1 | | **437,414** | 422,598 |
| **Current assets** | | | | |
| Stocks | 17 | 5,341 | | 23,665 |
| Debtors | 18.1 | 2,223,683 | | 766,851 |
| Cash at bank and in hand | 19 | 1,762,189 | | 273,275 |
| | | 3,991,213 | | 1,063,791 |
| Creditors falling due within one year | 20.1 | (6,119,695) | | (1,511,989) |
| **Net current liabilities** | | | **(2,128,482)** | (448,198) |
| **Total assets less current liabilities** | | | **(769,987)** | 815,282 |
| Creditors falling due after more than one year | 20.1 | (20,871) | | (25,317) |
| Provisions for liabilities and charges | 21.1 | (340,370) | | (232,718) |
| | | | **(361,241)** | (258,035) |
| **Net assets/(liabilities) excluding pension liability** | | | **(1,131,228)** | 557,247 |
| **Pension liability** | 21.2.1 | | **(978,700)** | (892,000) |
| **Net liabilities including pension liability** | | | **(2,109,928)** | (334,753) |
| **Taxpayers' equity** | | | | |
| General fund | 22 | (2,320,481) | | (530,552) |
| Revaluation reserve | 23 | 210,553 | | 195,799 |
| | | | **(2,109,928)** | (334,753) |

**Helen Ghosh**
**Accounting Officer for the Department for Environment, Food and Rural Affairs** **26 October 2006**

The notes on pages 50 to 93 form part of these accounts.

## Core-Department Balance Sheet
as at 31 March 2006

| | Note | 31 March 2006 | | Restated 31 March 2005 |
|---|---|---|---|---|
| | | £000 | £000 | £000 |
| **Fixed assets** | | | | |
| Tangible assets | 14 | 398,412 | | 332,559 |
| Intangible assets | 15 | 11,214 | | 10,556 |
| Investments | 16 | 11,035 | | 11,944 |
| | | | 420,661 | 355,059 |
| **Debtors falling due after more than one year** | 18.1 | | 2,922 | 9,643 |
| **Current assets** | | | | |
| Stocks | 17 | - | | - |
| Debtors | 18.1 | 105,157 | | 154,794 |
| Cash at bank and in hand | 19 | 26,023 | | 109,667 |
| | | 131,180 | | 264,461 |
| Creditors falling due within one year | 20.1 | (1,646,269) | | (607,053) |
| **Net current liabilities** | | | (1,515,089) | (342,592) |
| **Total assets less current liabilities** | | | (1,091,506) | 22,110 |
| Creditors falling due after more than one year | 20.1 | (9,963) | | (10,770) |
| Provisions for liabilities and charges | 21.1 | (290,911) | | (161,523) |
| | | | (300,874) | (172,293) |
| **Net liabilities excluding pension liability** | | | (1,392,380) | (150,183) |
| **Pension liability** | 21.2.1 | | (978,700) | (892,000) |
| **Net liabilities including pension liability** | | | (2,371,080) | (1,042,183) |
| **Taxpayers' equity** | | | | |
| General fund | 22 | (2,459,233) | | (1,128,251) |
| Revaluation reserve | 23 | 88,153 | | 86,068 |
| | | | (2,371,080) | (1,042,183) |

**Helen Ghosh**
**Accounting Officer for the Department for Environment, Food and Rural Affairs** **26 October 2006**

The notes on pages 50 to 93 form part of these accounts.

## Consolidated Cash Flow Statement
for year ended 31 March 2006

| | Note | **2005-06** | 2004-05 |
|---|---|---|---|
| | | **£000** | £000 |
| Net cash outflow from operating activities | 24.1 | (3,261,979) | (2,638,381) |
| Capital expenditure and financial investment | 24.2 | (99,923) | (109,274) |
| Receipts due to the Consolidated Fund which are outside the scope of the Department's activities | | 1,890 | 8,976 |
| Payments of amounts due to the Consolidated Fund | | (148,745) | (80,377) |
| Financing | 24.4 | 4,997,671 | 2,994,970 |
| **Increase in cash in the period** | 24.5 | **1,488,914** | 175,914 |

The notes on pages 50 to 93 form part of these accounts.

## Consolidated Statement of Operating Costs by Departmental Aim and Objectives
for the year ended 31 March 2006

Defra's aim is sustainable development, which means a better quality of life for everyone, now and for generations to come, including:

- a better environment at home and internationally, plus sustainable use of natural resources;
- economic prosperity through sustainable farming, fishing, food, water and other industries that meet consumers' requirements;
- thriving economies and communities in rural areas and countryside for all to enjoy.

The aim is underpinned by six objectives covering the span of the Department's responsibilities. These objectives are integrated within the Strategic Priorities, which are summarised on page 5.

During 2005-06, the six objectives for the Department were:

*Objective 1*: To protect and improve the rural, urban, marine and global environment; to lead integration of these with other policies across government and internationally;

*Objective 2*: To enhance opportunity and tackle social exclusion in rural areas;

*Objective 3*: To promote a sustainable, competitive and safe food supply chain which meets consumers' requirements;

*Objective 4*: To promote sustainable, diverse, modern and adaptable farming through domestic and international actions;

*Objective 5*: To promote sustainable management and prudent use of natural resources domestically and internationally;

*Objective 6*: To protect the public's interest in relation to environmental impacts and health; ensure high standards of animal health and welfare.

| | **2005-06** | | | Restated 2004-05 | | |
|---|---|---|---|---|---|---|
| | **Gross** | **Income** | **Net** | Gross | Income | Net |
| | **£000** | **£000** | **£000** | £000 | £000 | £000 |
| Objective 1 | 2,336,511 | (1,170,937) | 1,165,574 | 1,998,282 | (947,495) | 1,050,787 |
| Objective 2 | 521,752 | (317,126) | 204,626 | 316,851 | (164,371) | 152,480 |
| Objective 3 | 390,384 | (309,533) | 80,851 | 502,154 | (415,554) | 86,600 |
| Objective 4 | 1,072,909 | (914,433) | 158,476 | 1,274,276 | (1,181,971) | 92,305 |
| Objective 5 | 1,027,251 | (666,501) | 360,750 | 928,947 | (615,026) | 313,921 |
| Objective 6 | 1,515,352 | (277,435) | 1,237,917 | 1,332,978 | (168,797) | 1,164,181 |
| **Net operating cost** | **6,864,159** | **(3,655,965)** | **3,208,194** | 6,353,488 | (3,493,214) | 2,860,274 |

For a description of the methodology used see note 1.20.

For a further breakdown see note 25.

The 2004-05 figures have been restated where there has been a material re-assessment of the apportionments to reflect more appropriate allocations than those used in the previous year.

The notes on pages 50 to 93 form part of these accounts.

## Notes to the Departmental Resource Accounts

### 1. Statement of accounting policies

The financial statements have been prepared in accordance with the 2005-06 Government Financial Reporting Manual (FReM) issued by HM Treasury. The FReM replaced the 2004-05 Resource Accounting Manual; the layout of these accounts has been amended to reflect these changes. The accounting policies contained in the FReM follow UK generally accepted accounting practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector.

In addition to the primary statements prepared under UK GAAP, the FReM also requires the Department to prepare two additional primary statements. The Statement of Parliamentary Supply and supporting notes show outturn against Estimate in terms of the net resource requirements and the net cash requirement. The Statement of Operating Cost by Departmental Aim and Objectives and supporting notes analyse the Department's income and expenditure by the objectives agreed with Ministers.

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

### 1.1. Accounting convention

These accounts have been prepared under the historical cost convention, modified to account for the revaluation of fixed assets and stocks where material.

### 1.2. Basis of consolidation

These accounts comprise a consolidation of those entities that fall within the departmental boundary as defined in the FReM. Transactions between entities included in the consolidation have been eliminated. A list of those entities within the departmental boundary is given at note 37.

### 1.3. Scheme costs and grants

**1.3.1.** For each of the schemes administered by RPA, with the exception of the Single Payment Scheme (SPS), an accrual point has been established according to the applicable scheme rules and regulations. SPS expenditure is accrued evenly over each calendar year to which it applies. Where an obligation is identified to fall on or before the balance sheet date, it is shown as a creditor in the current year's financial statements, with the European Commission (EC) funded element as a debtor. Similarly, any elements paid in advance of these accrual points are treated as prepayments, with an offsetting creditor. Clearance decisions by the European Agricultural Guidance and Guarantee Fund (EAGGF) are charged as described below.

EC funding, except intervention, is accounted for on the same basis as RPA scheme costs and uses the same accrual point. With the exception of intervention income, EC income is accrued where the related expenditure has been accrued and is deferred where the related expenditure has been prepaid.

Other UK paying agencies make payments to claimants under EAGGF schemes. As these payments are made they are funded by RPA and subsequently recovered from the EC. These recoveries are subject to adjustments following clearance decisions by EAGGF.

RPA has accrued for liabilities arising from clearance decisions covered by formal proposals for disallowance under Article 8.1 of Commission Regulation (EC) No 1663/95, and for late payments known at 31 March 2006 in accordance with the formulae in Commission Regulation (EC) No 296/96. The Core-Department has made a provision for potential financial corrections. This provision covers all UK paying agencies.

Other grants, for example government Grant-in-Aid and government grants paid or payable, are recorded as expenditure on an annual basis.

### 1.3.2. Modulation

Modulation is a vehicle for redirecting into rural development a proportion of support payments to farmers and other SPS claimants. This process is supported by EC and national legislation. Under these arrangements there are two types of modulation – Voluntary National Modulation and Compulsory EC Modulation.

The payments to which National Modulation applies are reclaimed on a gross basis from the EC but the net amounts are paid to traders or farmers. The modulation amounts applicable to England are retained by RPA and accounted for as deferred income to fund future rural development expenditure. If the funds are not employed on the prescribed rural development measures within 4 years of the end of the EAGGF year in which they were retained, then they must be repaid to the EAGGF.

EC Modulation, under regulation 1259/1999, reduces the net amounts paid to traders and farmers, but unlike National Modulation the funds are retained in the first instance by the EC. However, the EC has committed at least 80% of these funds to be available to cover rural development expenditure in the UK. Therefore, 80% of EC Modulation is accounted for on a similar basis, to National Modulation, as described above and the balance would be treated as a contingent asset, if appropriate.

### 1.4. Tangible fixed assets

Freehold land and buildings are stated at current cost and are professionally revalued by the Valuation Office every 5 years at existing use value, in accordance with guidance issued by the Royal Institute of Chartered Surveyors. Surplus properties are revalued at open market value. The last revaluation took place in 2005, with the exception of RPA, which occurred in March 2003. Non specialised properties are revised annually by means of a desk top review, undertaken by the Valuation Office, where every valuation is reviewed having regard to local and national indices and local knowledge. Specialised properties are updated annually by adopting the Building Cost Information Service All-in Tender Price Index supplied by the Royal Institute of Chartered Surveyors. Other tangible assets have been stated at current cost using appropriate indices provided by the Office of National Statistics.

The minimum level of capitalisation in the Core-Department is £2,000. Other entities within the departmental boundary are not materially different.

Tangible fixed assets are capitalised if the purchase cost equals or exceeds the capitalisation thresholds and where there is an expected useful economic life of more than 1 year.

Internally developed fixed assets are recognised as construction in progress (CIP) and treated as capital expenditure, but not depreciated until the project is brought into service. CIP is not revalued. Internally developed computer software includes capitalisation of internal IT staff costs on projects costing in excess of £50,000 for the Core-Department, £50,000 for MFA and £100,000 for RPA.

Further details are provided in note 14.

### 1.5. Intangible fixed assets

The Department holds a number of licences and copyrights, but the income from these is of a minor nature and they have not been capitalised. If the income from these licences or copyrights increases to a material amount then capitalisation will be reconsidered. In addition, the Department holds various software licences, which were capitalised at purchase cost where this exceeds capitalisation thresholds. Such assets are revalued only where it is possible to obtain a reliable estimate of their market value. They are reviewed annually for any impairment, to ensure they are not carried in the balance sheet above their recoverable amounts. Further details are provided in note 15.

## 1.6. Depreciation

Depreciation is provided at rates calculated to write-off the valuation of freehold buildings and other tangible fixed assets by the straight line method over the estimated useful life of the asset and is charged in the month of disposal but not in the month of purchase. Depreciation is not charged on assets declared surplus to requirements and for sale, freehold land and assets under the course of construction. Lives are normally in the following ranges:

| | |
|---|---|
| Freehold buildings | 4 to 60 years |
| Property on historic lease | Remaining life of lease |
| Scientific equipment | 5 to 15 years |
| Information technology | 2 to 12 years |
| Furniture and fittings | 1 to 30 years |
| Vehicles, plant and machinery | 4 to 25 years |
| Office equipment | 5 to 10 years |
| Intangible assets | 2 to 20 years |
| Vessels | 1 to 30 years |

Further details are provided in note 14 and 15.

## 1.7. Investments

The Department holds a small quantity of shares in a number of plc's, the entire share capital of CEFAS Technology Limited, a 50% ownership of Nirex CLG Limited and a National Loan Fund (NLF) loan, which in turn, has been lent to British Waterways. The plc shares are revalued at the share price on the London Stock Exchange on an annual basis. A number of properties are held on a short-term basis following the Foot and Mouth Disease (FMD) outbreak. The properties are professionally revalued by the Valuation Office on an annual basis, in accordance with guidance issued by the Royal Institute of Chartered Surveyors. Other investments are shown at cost where market value cannot be readily ascertained. Further details are provided in note 16.

## 1.8. Stocks and work in progress

(a) CEFAS, CSL, RPA, SVS and VLA hold stock levels material to their business. With the exception of RPA, these are brought into the consolidated accounts at the lower of cost (or at current replacement cost where materially different) or net realisable value.

RPA's stock comprises agricultural commodities purchased into intervention under terms specified by the EAGGF and valued in accordance with their directions. The stated stock values are therefore realisable through a combination of sales revenue and the contribution provided by the EC. This basis of valuation does not conform to the Statement of Standard Accounting Practice (SSAP) 9, which would give a misleading view; the basis of valuation has been specifically approved in the FReM (para 6.3.4). Tallow and meat and bone meal stocks are valued at the balance sheet date in accordance with SSAP 9, reflecting their value to the business.

(b) Work in progress is valued at the lower of cost (including appropriate overheads) or net realisable value.

Further details are provided in note 17.

### 1.9. Research and development

Research and development expenditure has been written off in the year in which it is incurred. The latter would be capitalised under the following conditions:

(a) the product or service is supplied on a full-cost recovery basis;

(b) development expenditure meets all of the following criteria:

- there is a clearly defined project;
- related expenditure is separately identifiable;
- outcome of the project has been assessed with reasonable certainty as to its technical feasibility and will result in a product or service which will eventually be brought into use;
- adequate resources exist, or are reasonably expected to be available, to enable the project to be completed and to provide any consequential increase in working capital.

Fixed assets acquired for use in research and development are depreciated over the life of the associated research project, or according to the asset category if the asset is to be used for subsequent production work. There are no projects that currently meet the criteria for capitalisation.

### 1.10. Operating income

Operating income relates directly to the operating activities of the Department. It principally comprises fees and charges for services provided on a full-cost basis to external customers, as well as public repayment work, but it also includes other income such as that from investments. It includes income appropriated-in-aid of the Estimate, income due to the Consolidated Fund (which in accordance with the FReM is treated as operating income) and receipts from the EU.

### 1.11. Administration and programme expenditure and income

The Operating Cost Statement is analysed between administration and programme costs. The classification of expenditure and income as administration or programme follows the definition set by HM Treasury. Administration costs reflect the costs of running the Department, as defined under the administration cost control regime, together with associated operating income. Income is analysed in the notes between that which is allowed to be offset against gross administrative costs and that operating income which is not. Programme costs reflect administration costs of frontline services and all other non-administration costs, including payments of grants, subsidies and other disbursements by the Department, as well as certain staff costs where they relate directly to service delivery.

### 1.12. Capital charge

A charge reflecting the cost of capital utilised by the Department is included in operating costs. The charge is calculated at the real rate set by HM Treasury, currently 3.5% (2004-05 3.5%), on the average carrying amount on all assets less liabilities, except for donated assets, cash balances with the Office of the Paymaster General and amounts due from or to the Consolidated Fund and liabilities in respect of advances outstanding from the Contingencies Fund. It has not been possible to completely analyse the cost of capital between administration and programme so the unallocated cost has been charged to administration as the more significant of the two. The capital charge for RPA has been allocated to programme.

### 1.13. Foreign exchange

Transactions which are denominated in a foreign currency are translated into sterling at the exchange rate ruling at the date of each transaction, except where rates do not fluctuate significantly, in which case an average rate for the period is used. Balances held in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. These translation differences are dealt with in the Operating Cost Statement.

### 1.14. Pensions

Pension benefits are provided through the civil service pension arrangements. From 1 October 2002, civil servants may be in one of three statutory based 'final salary' defined benefit schemes (Classic, Premium and Classic Plus).

The provisions of the Principal Civil Service Pension Scheme (PCSPS) cover present and past employees. It is mainly non-contributory and unfunded except in respect of dependent's benefits.

Although the scheme is a defined benefit scheme, departments, agencies and other bodies covered by the PCSPS recognise the cost of the elements on a systematic and rational basis over the period during which it benefits from employees' services by payment to the PCSPS of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on PCSPS. In respect of defined contribution schemes, the Department recognises the contributions payable for the year.

The Department has now fully adopted Financial Reporting Standard (FRS) 17 Retirement Benefits. Under FRS 17 the defined benefit scheme's assets are measured using market values. Pension scheme liabilities are measured using the projected unit method and discounted at the rate of 2.8%. The expected return on the scheme's assets and the increase during the period in the present value of the scheme's liabilities arising from the passage of time are included in net finance costs. Actuarial gains and losses are recognised in the Statement of Recognised Gains and Losses. The Department recognises a liability in respect of any deficit, being the excess of the present value of the scheme's liabilities over the value of the assets in the scheme, to the extent that the Department has a legal or constructive obligation to make good the deficit in the scheme.

Further information is provided in note 9.

### 1.15. Early departure costs

The Department is required to meet the additional costs of benefits beyond the normal PCSPS benefits in respect of employees who retire early. The Department provides in full for this cost when the early retirement programme has been announced and is binding on the Department. The Department may, in certain circumstances, settle some or all of its liability in advance by making a payment to the Paymaster General's account at the Bank of England for the credit of the Civil Superannuation Vote. The amount provided is shown net of any such payments.

Further information is provided in note 21.

### 1.16. Provisions

The Department provides for obligations arising from past events where the Department has a present obligation at the balance sheet date, and where it is probable that it will be required to settle the obligation and a reliable estimate can be made. Where material, the future costs have been discounted using the rate of 2.2% per annum as directed by HM Treasury.

The Department has changed its method of estimating when a constructive obligation arises in relation to payments made on schemes regulated by the EC. The Department considers that an obligation arises when a breach in the EC's regulations has been identified, and moreover that it is probable this breach will lead to financial corrections, known as disallowances.

The Department assumes all the risks relating to disallowances and any provisions relating to these risks are reported in these accounts, rather than those of the UK Paying Agencies.

Further information is provided in note 21.

### 1.17. Leases

A finance lease is one which transfers substantially all the risks and rewards of ownership to the lessee. If the present value of the minimum lease payments amount to 90% or more of the fair value of the assets, then the lessee is assumed to carry all of the risk. An operating lease is a lease other than a finance lease.

Both the asset value and liability to pay future rentals under a finance lease are discounted at the interest rate implicit in the lease to derive the present value. Assets obtained under a finance lease are revalued and depreciated. The Department does not have material finance lease commitments.

All payments under operating leases are charged to the Operating Cost Statement as they are incurred.

### 1.18. Value Added Tax (VAT)

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

### 1.19. Contingent liabilities

In addition to contingent liabilities disclosed in accordance with FRS 12, the Department discloses, for Parliamentary reporting and accountability purposes, certain statutory and non-statutory contingent liabilities where the likelihood of a transfer of economic benefit is remote, but which have been reported to Parliament in accordance with the requirements of Government Accounting.

Where the time value of money is material, contingent liabilities which are required to be disclosed under FRS 12 are stated at discounted amounts and the amount reported to Parliament separately noted. Contingent liabilities that are not required to be disclosed by FRS 12 are stated at the amounts reported to Parliament.

Further information is provided in notes 31 and 32.

### 1.20. Consolidated Statement of Operating Costs by Departmental Aim and Objectives

The Consolidated Statement of Operating Costs by Departmental Aim and Objectives reports expenditure and income against each of the Department's six objectives.

The apportionment of programme expenditure for the Core-Department and RPA is a two stage process. Firstly, each scheme code (objective code) is mapped to a Framework Programme (FP). Secondly, each FP is mapped to one or more of Defra's six objectives.

Administration costs for the Core-Department are spread across objectives based upon already distributed programme expenditure. The Department's capital assets are mainly employed for administrative purposes. Consequently, the distribution of depreciation and capital charges between objectives is made on the same basis as other administrative costs.

The apportionments made to distribute the costs and income of other Executive Agencies, are based on the split of staff numbers involved in the Agencies activities by objective.

### 1.21. Merger accounting

Under Merger accounting rules, with the establishment of the SVS and the MFA, the Core-Department's Accounts for 2004-05 have been restated. SVS and MFA's Balance Sheet and income and expenditure for the year ended 31 March 2005 were extracted to establish a restated Core-Department position as at 1 April 2005.

## 2. Analysis of net resource outturn by section

| | 2005-06 | | | | | | | | 2004-05 |
|---|---|---|---|---|---|---|---|---|---|
| | Outturn | | | | | | Estimate | | |
| | Admin | Other current | Grants | Gross resource expenditure | A-in-A | Net total | Net total | Net total outturn compared with Estimate | Prior-year outturn |
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| **Request for Resources 1:** | | | | | | | | | |
| **Spending in Departmental Expenditure Limits (DEL)** | | | | | | | | | |
| Animal Health and Welfare | 38,182 | 187,695 | 52,943 | 278,820 | (15,011) | 263,809 | 304,177 | 40,368 | 305,277 |
| Environmental Protection | 50,265 | 485,336 | 310,648 | 846,249 | (3,499) | 842,750 | 903,871 | 61,121 | 707,181 |
| Food Farming and Fisheries | 40,273 | 91,504 | 10,354 | 142,131 | (6,509) | 135,622 | 111,824 | (23,798) | 146,427 |
| Natural Resources and Rural Affairs | 22,597 | 146,471 | 75,282 | 244,350 | (229) | 244,121 | 405,481 | 161,360 | 212,533 |
| Department Operations | 197,037 | 77,355 | - | 274,392 | (5,912) | 268,480 | 274,540 | 6,060 | 245,205 |
| Rural Payment Agency | - | 699,956 | - | 699,956 | (4,521) | 695,435 | 428,814 | (266,621) | 727,641 |
| Other Executive Agencies | 38,500 | 101,791 | - | 140,291 | (47,127) | 93,164 | 88,130 | (5,034) | (4,943) |
| **Total** | **386,854** | **1,790,108** | **449,227** | **2,626,189** | **(82,808)** | **2,543,381** | **2,516,837** | **(26,544)** | 2,339,321 |
| **Request for Resources 1:** | | | | | | | | | |
| **Spending in Annually Managed Expenditure (AME)** | | | | | | | | | |
| Environment | - | 54,900 | - | 54,900 | - | 54,900 | 52,200 | (2,700) | - |
| Food Farming and Fisheries | - | - | - | - | - | - | 275 | 275 | - |
| Rural Payment Agency | - | 2,365,165 | 6,214 | 2,371,379 | (82,691) | 2,288,688 | 2,360,489 | 71,801 | 2,253,491 |
| **Total** | **-** | **2,420,065** | **6,214** | **2,426,279** | **(82,691)** | **2,343,588** | **2,412,964** | **69,376** | 2,253,491 |
| **Request for Resources 1:** | | | | | | | | | |
| **Non-budget** | | | | | | | | | |
| Animal Health and Welfare | - | - | - | - | (7,923) | (7,923) | (5,848) | 2,075 | (287) |
| Environmental Protection | - | - | 574,025 | 574,025 | (1,198) | 572,827 | 627,448 | 54,621 | 576,609 |
| Food Farming and Fisheries | - | - | 10,152 | 10,152 | (306) | 9,846 | 10,900 | 1,054 | 9,123 |
| Natural Resources and Rural Affairs | - | - | 142,811 | 142,811 | - | 142,811 | 151,275 | 8,464 | 164,599 |
| Department Operations | - | - | 24,899 | 24,899 | - | 24,899 | 24,899 | - | 16,299 |
| Rural Payment Agency | - | - | 1,052,584 | 1,052,584 | (989,451) | 63,133 | 207,652 | 144,519 | (2,396,218) |
| Other Executive Agencies | - | 5,550 | - | 5,550 | (3,469) | 2,081 | - | (2,081) | - |
| **Total** | **-** | **5,550** | **1,804,471** | **1,810,021** | **(1,002,347)** | **807,674** | **1,016,326** | **208,652** | (1,629,875) |
| **Resource outturn** | **386,854** | **4,215,723** | **2,259,912** | **6,862,489** | **(1,167,846)** | **5,694,643** | **5,946,127** | **251,484** | 2,962,937 |
| Netted-off expenditure | 204 | 1,466 | | 1,670 | (1,670) | | | | |
| Net control agencies internal income | 170,568 | (170,568) | | | | | | | |
| Non-supply income/expenditure including CFER's: | | | | | | | | | |
| Operating income not classified as A-in-A | | | | | (2,486,449) | (2,486,449) | | | |
| Net operating cost | **557,626** | **4,046,621** | **2,259,912** | **6,864,159** | **(3,655,965)** | **3,208,194** | | | |
| Programme grants and other current expenditure (Note 25) | | **4,046,621** | **2,259,912** | **6,306,533** | | | | | |

Refer to the Statement of Parliamentary Supply for a description of Request for Resources 1.

## Significant variances against Estimate

During the year the Department spent £251m less than the amount in the Spring Supplementary Estimate (SSE). This underspend is equivalent to 4.2% of the voted RfR. These variances are spread across three Estimate categories; Departmental Expenditure Limit, Annually Managed Expenditure and Non-budget.

Explanations for the significant variances are as follows:

**Departmental Expenditure Limit**

- underspend of £40m on Animal Health and Welfare mainly caused by the transfer of Transmissible Spongiform Encephalopathy surveillance work to RPA;

- underspend of £61m on Environmental Protection caused by:

    - £39m net planned underspend on waste, research and development, community energy and frontline services, offset by a £19m overspend in Local Authority flood management programmes;
    - £41m reallocated to fund RPA running costs as noted below.

- overspend of £24m on Food, Farming and Fisheries caused by additional expenditure on research and development;

- underspend of £161m on Natural Resources and Rural Affairs mainly caused by budget transfers to RPA for payments on the England Rural Development Programme (ERDP) and EU Structural Funds;

- overspend of £267m on RPA caused by:

    - £221m of budget switches mainly from Animal Health and Welfare and Natural Resources and Rural Affairs not reflected in the SSE;
    - £46m additional running costs on SPS and RPA Change Programme, which was largely funded by the underspend on Environmental Protection noted above.

**Annually Managed Expenditure**

- underspend of £72m on RPA caused by lower than expected expenditure on CAP programmes.

**Non-budget**

- underspend of £55m on Environmental Protection caused by Grant-in-Aid (GiA) to the Environment Agency resulting from:

    - £22m planned non-voted DEL underspends on flood management and the radioactive sources initiative generating a similar saving on GiA;
    - £33m of GiA that could not be returned as it would have caused a negative SSE.

- underspend of £145m caused by lower than expected expenditure by the other paying agencies (other than RPA) because the SSE figures are on a resource accounts basis but the actuals are on a funded certificate basis per RPA's accounting policy. As the corresponding EU income is a Consolidated Fund Extra Receipt, there is no matching income reduction.

## 3. Reconciliation of outturn to net operating cost and against administration budget

### 3.1. Reconciliation of net resource outturn to net operating cost

| | Note | 2005-06 Estimate £000 | 2005-06 Outturn £000 | 2005-06 Outturn compared with Estimate £000 | 2004-05 Outturn £000 |
|---|---|---|---|---|---|
| **Net resource outturn** | 2 | 5,946,127 | 5,694,643 | 251,484 | 2,962,937 |
| Non-supply income (CFERs) | 5 | (2,610,563) | (2,486,449) | (124,114) | (102,663) |
| **Net operating cost** | | **3,335,564** | **3,208,194** | **127,370** | 2,860,274 |

Net operating cost is the total of expenditure and income appearing in the Operating Cost Statement. Net resource outturn is the total of those elements of expenditure and income that are subject to Parliamentary approval and included in the Department's Supply Estimate. The outturn against the Estimate is shown in the Statement of Parliamentary Supply.

### 3.2. Outturn against final administration budget

| | 2005-06 Budget £000 | 2005-06 Outturn £000 | 2004-05 Outturn £000 |
|---|---|---|---|
| **Gross Administration Budget** | 454,816 | 386,854 | 359,848 |
| Income allowable against the Administration Budget | (82,441) | (58,489) | (51,940) |
| **Net outturn against final Administration Budget** | **372,375** | **328,365** | 307,908 |

## 4. Reconciliation of resources to cash requirement

| | Note | 2005-06 Estimate | 2005-06 Outturn | 2005-06 Net total outturn compared with Estimate: saving/(excess) | 2004-05 Outturn |
|---|---|---|---|---|---|
| | | £000 | £000 | £000 | £000 |
| **Resource outturn** | 2 | 5,946,127 | 5,694,643 | 251,484 | 2,962,937 |
| **Capital** | | | | | |
| Acquisition of fixed assets | 24.3 | 156,831 | 141,187 | 15,644 | 129,160 |
| **Non-operating cost A-in-A** | | | | | |
| (Proceeds of fixed asset disposals) | 24.3 | (23,349) | (15,163) | (8,186) | (8,034) |
| **Accruals adjustments** | | | | | |
| Non-cash items | | (255,006) | (314,339) | 59,333 | (258,272) |
| Changes in working capital other than cash | | 312 | (1,666,740) | 1,667,052 | (65,068) |
| Changes in creditors falling due after more than one year | 20.1 | - | 4,446 | (4,446) | 12,651 |
| Use of provision | 21.1 | 114,378 | 83,741 | 30,637 | 75,470 |
| **Net cash requirement** | | **5,939,293** | **3,927,775** | **2,011,518** | 2,848,844 |

For an explanation of variances see the Management Commentary.

## 5. Analysis of income payable to the Consolidated Fund

In addition to A-in-A, the following income relates to the Department and is payable to the Consolidated Fund (cash receipts being shown in italics).

| | Note | Forecast 2005-06 Income | Forecast 2005-06 *Receipts* | Outturn 2005-06 Income | Outturn 2005-06 *Receipts* |
|---|---|---|---|---|---|
| | | £000 | *£000* | £000 | *£000* |
| Operating income & receipts - excess A-in-A | | - | - | 5,520 | *5,520* |
| Other operating income & receipts, not classified as A-in-A | | 2,610,563 | *2,591,568* | 2,480,929 | *555,346* |
| | | **2,610,563** | ***2,591,568*** | **2,486,449** | ***560,866*** |
| Non-operating income & receipts – excess A-in-A | 7 | - | - | - | *5,008* |
| Other non-operating income & receipts not classified as A-in-A | 8 | - | - | 1,890 | *1,890* |
| **Total income payable to the Consolidated Fund** | | **2,610,563** | ***2,591,568*** | **2,488,339** | ***567,764*** |

Income of £5,520,000 was returned to the Consolidated Fund because receipts were in excess of the amount included in the SSE to be appropriated in aid. The excess is equivalent to 0.5% of income received. The reason for this was that, although total income received from the EU in respect of Devolved Administration expenditure was much in line with forecast, the split between SPS and non SPS schemes was significantly different. Expenditure in respect of non SPS was more than expected and SPS receipts were less. As SPS receipts are classified as Consolidated Fund Extra Receipts (CFERs) but non SPS are not, the Department retained significantly more EU appropriated-in-aid income than expected, hence the small excess recorded.

## 6. Reconciliation of income recorded within the Operating Cost Statement to operating income payable to the Consolidated Fund

| | Note | **2005-06** **£000** | 2004-05 £000 |
|---|---|---|---|
| Operating income | 12 | 3,655,965 | 3,493,214 |
| Income authorised to be A-in-A | | (1,167,846) | (3,381,162) |
| Netted-off gross expenditure in net sub head | | (1,670) | (9,389) |
| Operating income payable to the Consolidated Fund | 5 | **2,486,449** | 102,663 |

## 7. Non-operating income – excess A-in-A

| | **2005-06** **£000** | 2004-05 £000 |
|---|---|---|
| Proceeds from disposal of fixed assets | - | 14,337 |
| **Non-operating income - excess A-in-A** | **-** | 14,337 |

## 8. Non-operating income not classified as A-in-A

The following amounts are not regarded as income in 2005-06 for the Department and are surrendered to the Consolidated Fund:

| | **2005-06** **Income** **£000** | ***Receipts*** ***£000*** |
|---|---|---|
| Countryside Agency - surrender to Department of surplus funds | 135 | *135* |
| Environment Agency - surrender to Department of surplus funds | 911 | *911* |
| Energy Savings Trust - surrender to the Department of surplus funds | 359 | *359* |
| Miscellaneous non-operating receipts | 485 | *485* |
| **Total amounts surrendered to the Consolidated Fund** | **1,890** | ***1,890*** |

## 9. Staff numbers and related costs

### 9.1. Staff costs comprise:

| | 2005-06 | | | | | 2004-05 |
|---|---|---|---|---|---|---|
| | Permanent employed staff | Others | Ministers | Special advisors | Total | Total |
| | £000 | £000 | £000 | £000 | £000 | £000 |
| Salaries and wages | 349,571 | 46,364 | 176 | 111 | **396,222** | 355,533 |
| Social security costs | 27,844 | 833 | 15 | 7 | **28,699** | 26,621 |
| Other pension costs | 63,644 | 40 | - | 7 | **63,691** | 76,762 |
| **Sub-total** | **441,059** | **47,237** | **191** | **125** | **488,612** | 458,916 |
| Less: recoveries in respect of outward secondments | (2,071) | - | - | - | **(2,071)** | (1,043) |
| **Total net costs** | **438,988** | **47,237** | **191** | **125** | **486,541** | 457,873 |
| **Of which:** | | | | | | |
| **Core-Department (Restated)** | **214,469** | **19,726** | **191** | **125** | **234,511** | 206,921 |

Out of the total, £2,071,000 (£2,067,000 Core-Department) recoveries in respect of outward secondments have been netted off, £98,000 (£98,000 Core-Department) has been charged to capital and the balance of £488,514,000 (£236,480,000 Core-Department) has been charged in the Operating Cost Statement.

Out of the £63,691,000 other pension costs, £1,729,000 relates to RPA's early retirement and early severance costs. The balance of £61,962,000 relates to employer contributions detailed below.

### Principal Civil Service Pension Scheme

Pension benefits for most employees of the Department are provided through the PCSPS. The PCSPS is an unfunded multi-employer defined benefit scheme. Defra is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out at 31 March 2003. Details can be found in the Resource Accounts of the Cabinet Office under Civil Superannuation[23].

For 2005-06, employer's contributions of £61,259,000 (2004-05 £44,170,000) were payable to the PCSPS at one of four rates in the range 16.2% to 24.6% of pensionable pay, based on salary bands (the rates in 2004-05 were between 12% and 18.5%). The Scheme Actuary reviews employer contributions every 4 years following a full scheme valuation. From 2006-07, the salary bands will be revised and the rates will be in a range between 17.1% and 25.5%. The contribution rates are set to meet the cost of the benefits accruing during 2005-06 to be paid when the member retires, and not the benefits paid during this period to current pensioners.

[23] www.civilservice-pensions.gov.uk

### Other pension schemes

Employees joining after 1 October 2002 can opt to open a partnership account, a stakeholder pension with an employer contribution. Employer's contributions of £665,000 for 2005-06 (2004-05 £454,000) were paid to one or more of a panel of four appointed stakeholder pension providers. Employer contributions are age-related and range from 3% to 12.5% of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay. In addition, employer contributions of £38,000 for 2005-06 (2004-05 £31,000), 0.8% of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees. Contributions due to the partnership pension providers at the balance sheet date were £Nil. Contributions prepaid at that date were £Nil.

17 persons (2004-05 19 persons) retired early on ill health grounds: the total additional accrued pension liabilities in the year amounted to £55,000 (2004-05 £36,000).

Loans are made to staff to cover season ticket advances and to relocate. As at 31 March 2006, there were outstanding balances to Management Board Members totalling £10,269.

### 9.2. Average number of persons employed

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

| | 2005-06 | | | | | Restated 2004-05 |
|---|---|---|---|---|---|---|
| **Objective** | **Permanent employed staff** | **Others** | **Ministers** | **Special advisors** | **Total** | Total |
| | **Number** | **Number** | **Number** | **Number** | **Number** | Number |
| Objective 1 | 3,504 | 770 | 2 | 1 | **4,277** | 3,805 |
| Objective 2 | 580 | 175 | - | - | **755** | 511 |
| Objective 3 | 642 | 145 | - | - | **787** | 909 |
| Objective 4 | 1,175 | 385 | - | - | **1,560** | 1,678 |
| Objective 5 | 1,416 | 342 | 1 | 1 | **1,760** | 1,701 |
| Objective 6 | 5,140 | 537 | 2 | 1 | **5,680** | 5,661 |
| Staff engaged on capital projects | 36 | 2 | - | - | **38** | 16 |
| **Total** | **12,493** | **2,356** | **5** | **3** | **14,857** | 14,281 |
| **Of which:** | | | | | | |
| **Core-Department** | **5,358** | **736** | **5** | **3** | **6,102** | 5,946 |

## 10. Other administration costs

| | Note | 2005-06 Core-Department | 2005-06 Consolidated | 2004-05 Restated Core-Department | 2004-05 Consolidated |
|---|---|---|---|---|---|
| | | £000 | £000 | £000 | £000 |
| Rentals under operating leases | | 19,933 | 20,629 | 22,691 | 23,409 |
| Interest charges | | - | - | - | 8 |
| PFI service charges | | 1,024 | 1,024 | 858 | 858 |
| Travel, subsistence and hospitality | | 10,308 | 13,866 | 9,023 | 12,023 |
| Consumables | | - | 26,996 | - | 22,563 |
| Vessels | | - | 3,579 | - | 3,122 |
| IT Services/software/hardware | | 46,587 | 47,895 | 34,725 | 35,853 |
| Estate management | | 35,240 | 70,463 | 31,578 | 64,498 |
| Consultancy/subcontracting | | 19,837 | 23,328 | 20,104 | 24,264 |
| Training | | 4,934 | 5,940 | 4,777 | 5,796 |
| Early retirement | | 8,043 | 8,069 | 2,257 | 2,271 |
| Exchange rate losses | | - | 10 | - | - |
| Other | | 805 | 4,125 | 2,280 | 154 |
| Non-cash items | | | | | |
| Depreciation | | 17,636 | 36,964 | 14,338 | 33,415 |
| Amortisation | | 635 | 730 | 517 | 620 |
| Profit on the disposal of fixed assets | | (994) | (994) | (299) | (676) |
| Loss on the disposal of fixed assets | | 6,696 | 6,835 | 103 | 106 |
| Impairment | | - | 7,193 | - | 5,043 |
| Downward revaluation | | - | (2,277) | 5,501 | 5,831 |
| Cost of capital charge | | (19,418) | (5,266) | (9,690) | 4,105 |
| Auditors' remuneration & expenses | | 292 | 427 | 272 | 435 |
| Provisions provided for in year | | 14,120 | 14,825 | 16,209 | 17,383 |
| Unwinding of discount on provisions | 21.1 | - | 82 | - | (26) |
| Other non-cash items | | 1,437 | 1,437 | (827) | 1,994 |
| **Total** | | **167,115** | **285,880** | 154,417 | 263,049 |

## 11. Programme costs

### 11.1. Analysis of programme costs

| | 2005-06 | | 2004-05 | |
|---|---|---|---|---|
| | | | Restated | |
| | Core-Department | Consolidated | Core-Department | Consolidated |
| | £000 | £000 | £000 | £000 |
| Rentals under operating leases | 493 | 6,012 | 103 | 6,653 |
| Interest charges | 1,466 | 1,466 | 1,691 | 1,691 |
| Research and development expenditure | 109,981 | 109,981 | 114,431 | 114,431 |
| Travel, subsistence and hospitality | 2,923 | 6,323 | 1,991 | 4,728 |
| Consumables | - | 564 | - | - |
| IT Services/software/hardware | 557 | 74,042 | 340 | 64,113 |
| Estate management | 1,284 | 11,489 | 619 | 11,364 |
| Consultancy/subcontracting | 2,267 | 4,760 | 1,017 | 2,719 |
| Training | 664 | 5,480 | 728 | 5,011 |
| Early retirement | - | - | - | 4 |
| Other | 854,659 | 726,842 | 681,026 | 567,753 |
| Non-cash items | | | | |
| Depreciation | 3,608 | 19,165 | 296 | 15,523 |
| Amortisation | - | 2,467 | - | 1,505 |
| Profit on the disposal of fixed assets | (2) | (4,202) | - | - |
| Loss on the disposal of fixed assets | 3 | 11 | 1 | 327 |
| Downward revaluation | - | 61 | - | - |
| Cost of capital charge | - | 9,116 | - | 12,470 |
| Auditors' remuneration and expenses | - | 472 | - | 312 |
| Provisions provided for in year | 219,641 | 232,607 | 100,943 | 123,969 |
| Other non-cash items | - | (59) | - | - |
| Grants & subsidies: EU | 903 | 3,478,992 | 4,071 | 3,320,815 |
| Grants & subsidies: Other | 1,139,526 | 1,404,176 | 1,032,696 | 1,378,651 |
| **Total** | **2,337,973** | **6,089,765** | 1,939,953 | 5,632,039 |

### 11.2. Analysis of major scheme expenditure

The consolidated programme costs above include expenditure on the following major schemes:

| | 2005-06 |
|---|---|
| | Consolidated |
| | £000 |
| Grant in Aid: Environment Agency | 551,169 |
| Fuel Poverty (Warm Front) | 194,446 |
| Regional Development | 71,859 |
| Grant in Aid: Countryside Agency | 65,281 |
| British Waterways | 62,614 |
| Waste Implementation Programme | 61,834 |
| Coast Protection Works | 52,945 |
| RPA scheme expenditure | 3,737,189 |
| RPA running costs | 129,876 |

## 12. Income

### 12.1. Analysis of operating income

| | 2005-06 | | 2004-05 | |
|---|---|---|---|---|
| | Core-Department | Consolidated | Restated Core-Department | Consolidated |
| | £000 | £000 | £000 | £000 |
| **Administration income** | | | | |
| Fees and charges to external customers | 4,935 | 43,435 | 3,917 | 39,684 |
| Fees and charges to other departments | 3,164 | 15,054 | 473 | 12,256 |
| Fees and charges to other agencies | 20,344 | - | 17,696 | - |
| | **28,443** | **58,489** | 22,086 | 51,940 |
| **Programme income** | | | | |
| Frontline services | 2,101 | 2,886 | 1,670 | 2,913 |
| EU funding | 88,071 | 3,542,003 | 47,710 | 3,352,178 |
| Other | 23,657 | 51,121 | 19,168 | 84,492 |
| | **113,829** | **3,596,010** | 68,548 | 3,439,583 |
| Interest on NLF loans on-lent to British Waterways | 1,466 | 1,466 | 1,691 | 1,691 |
| **Total** | **143,738** | **3,655,965** | 92,325 | 3,493,214 |

The Core-Department receives rental income of £525,407 (2004-05 £1,138,351) from other government departments and £1,523,198 (2004-05 £1,528,140) from external customers.

The information is provided for fees and charges purposes and not for SSAP 25 purposes.

### 12.2. Miscellaneous Core-Department income

| | 2005-06 | | | 2004-05 | | |
|---|---|---|---|---|---|---|
| | Income | Full cost | Surplus/ (Deficit) | Income | Full cost | Surplus/ (Deficit) |
| | £000 | £000 | £000 | £000 | £000 | £000 |
| National listing of seed varieties | 845 | 1,328 | (483) | 1,372 | 1,948 | (576) |
| Seed certification and seed training | 1,390 | 1,377 | 13 | 1,456 | 1,459 | (3) |
| FEPA 1985* - Part II -license fees | 1,443 | 2,168 | (725) | 951 | 1,627 | (676) |
| Issue of CITES** permits | 71 | 1,161 | (1,090) | 64 | 1,133 | (1,069) |
| Plant Health Import Inspections | 805 | 1,124 | (319) | - | - | - |
| | **4,554** | **7,158** | **(2,604)** | 3,843 | 6,167 | (2,324) |

* Food and Environment Protection Act 1985
** Convention on International Trade in Endangered Species

Miscellaneous other services, not reportable to HM Treasury, attracted accrued revenue of £2,063,000 (2004-05 £2,821,000), against costs of £3,441,000 (2004-05 £3,852,000) giving a deficit of £1,378,000 (2004-05 £1,031,000).

The above income forms part of the other fees and charges administration income shown in note 12.1.

Income from services provided by the Agencies can be found in their respective accounts.

## 13. Analysis of net operating cost by spending body

This note analyses funding by the Department to the relevant spending body.

| | 2005-06 | | Restated 2004-05 |
|---|---|---|---|
| | Estimate | Outturn | Outturn |
| | £000 | £000 | £000 |
| **Spending body** | | | |
| **Core-Department** | 1,898,414 | 1,747,916 | 1,412,162 |
| **Agencies** | | | |
| RPA | 386,392 | 493,190 | 539,254 |
| CEFAS | 82 | (484) | (221) |
| CSL | 1,569 | 2,839 | 471 |
| GDS | 5,220 | 887 | - |
| MFA | 20,419 | 16,753 | 18,305 |
| PSD | (483) | (3,100) | (2,991) |
| SVS | 63,396 | 85,098 | 79,102 |
| VLA | (1,466) | (8,234) | (198) |
| VMD | (607) | (1,972) | (2,010) |
| **NDPBs** | | | |
| Countryside Agency | 70,000 | 66,831 | 96,347 |
| Consumer Council for Water | 3,300 | - | - |
| English Nature | 78,004 | 73,746 | 71,265 |
| Environment Agency | 625,348 | 574,666 | 499,055 |
| Food from Britain | 6,874 | 6,420 | 6,427 |
| Gangmasters Licensing Authority | 4,362 | 1,552 | - |
| National Forest Company | 3,271 | 4,200 | 3,271 |
| Royal Botanic Gardens, Kew | 24,899 | 25,190 | 24,115 |
| Wine Standards Board | 420 | 617 | 222 |
| **Total grants to local authorities** | 146,150 | 122,079 | 115,698 |
| **Net operating cost** | **3,335,564** | **3,208,194** | 2,860,274 |

## 14. Tangible fixed assets

### Consolidated

| | Freehold land & buildings | Leasehold land & buildings | Dwellings | Scientific equipment | IT | Furniture & fittings | Vehicles, plant & machinery | Office equipment | Payments on account & CIP | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| **Cost or valuation** | | | | | | | | | | |
| At 1 April 2005 | 454,547 | 46,286 | 4,168 | 63,210 | 150,393 | 42,978 | 39,583 | 7,929 | 202,715 | **1,011,809** |
| Additions | 14,713 | 1,967 | - | 3,867 | 15,798 | 126 | 1,086 | 3,668 | 97,200 | **138,425** |
| Transfers | (59) | - | - | 1 | 2,110 | - | (84) | (31) | (5,480) | **(3,543)** |
| Disposals | (3,602) | (4,452) | (350) | (1,046) | (5,206) | (31) | (4,243) | (566) | (4,796) | **(24,292)** |
| Reclassifications | 102,921 | (6,085) | - | - | 87,681 | - | - | 1 | (186,097) | **(1,579)** |
| Revaluations | 16,359 | 1,221 | (29) | 515 | (3,851) | 801 | 1,336 | (107) | 32 | **16,277** |
| **At 31 March 2006** | **584,879** | **38,937** | **3,789** | **66,547** | **246,925** | **43,874** | **37,678** | **10,894** | **103,574** | **1,137,097** |
| **Depreciation** | | | | | | | | | | |
| At 1 April 2005 | 41,614 | 2,739 | - | 41,276 | 84,858 | 13,195 | 8,108 | 5,159 | 1,486 | **198,435** |
| Charges in year | 23,161 | 2,135 | - | 6,104 | 26,094 | 2,762 | 2,230 | 837 | - | **63,323** |
| Transfers | - | - | - | 1 | (387) | - | (69) | - | (1,486) | **(1,941)** |
| Disposals | (1,704) | (753) | - | (935) | (3,814) | (28) | (2,348) | (514) | - | **(10,096)** |
| Reclassifications | - | 42 | - | - | (91) | - | - | - | - | **(49)** |
| Revaluations | (3,158) | 26 | - | 355 | (3,588) | 419 | 141 | (66) | - | **(5,871)** |
| **At 31 March 2006** | **59,913** | **4,189** | **-** | **46,801** | **103,072** | **16,348** | **8,062** | **5,416** | **-** | **243,801** |
| **Net book value 31 March 2006** | **524,966** | **34,748** | **3,789** | **19,746** | **143,853** | **27,526** | **29,616** | **5,478** | **103,574** | **893,296** |
| Net book value 31 March 2005 | 412,933 | 43,547 | 4,168 | 21,934 | 65,535 | 29,783 | 31,475 | 2,770 | 201,229 | 813,374 |
| **Assets financing** | | | | | | | | | | |
| Owned | 524,966 | 13,043 | 3,789 | 19,746 | 143,853 | 27,526 | 29,616 | 5,478 | 103,574 | **871,591** |
| Finance leased | - | 21,705 | - | - | - | - | - | - | - | **21,705** |
| **Net book value 31 March 2006** | **524,966** | **34,748** | **3,789** | **19,746** | **143,853** | **27,526** | **29,616** | **5,478** | **103,574** | **893,296** |

The above includes the professional revaluation of all land and buildings by the Valuation Office as at March 2005, except RPA, which was carried out in March 2003.

Vehicles, plant and machinery include vessels owned by CEFAS valued at £26,044,000 (2004-05 £25,863,000).

Additions include a non-cash element represented by creditors and transfers. Cash additions amount to £117,342,000 (2004-05 £112,721,000), as per note 24.2.

Depreciation charged against assets held under finance leases amounted to £2,145,000 (2004-05 £883,000).

The net book value of leasehold land and buildings at 31 March 2006 comprises £13,240,000 for short leasehold and £21,508,000 for long leasehold.

## Core-Department

| | Freehold land & buildings | Long leasehold land & buildings | Dwellings | Scientific equipment | IT | Furniture & fittings | Vehicles, plant & machinery | Office equipment | Payments on account & CIP | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| **Cost or valuation** | | | | | | | | | | |
| Restated | | | | | | | | | | |
| At 1 April 2005 | 99,437 | 32,251 | 4,168 | 15,310 | 35,324 | 37,950 | 4,674 | 2,210 | 131,819 | **363,143** |
| Additions | 13,394 | - | - | 651 | 10,737 | 8 | 770 | 110 | 71,463 | **97,133** |
| Transfers | (59) | - | - | (20) | (633) | - | (63) | (31) | (1,251) | **(2,057)** |
| Disposals | (296) | (3,700) | (350) | (10) | (2,363) | (5) | (1,239) | (342) | (4,796) | **(13,101)** |
| Reclassifications | 47,299 | (7,068) | - | - | 72,483 | - | - | - | (112,714) | **-** |
| Revaluations | 1,242 | 569 | (29) | 92 | (51) | 613 | 38 | (70) | - | **2,404** |
| **At 31 March 2006** | **161,017** | **22,052** | **3,789** | **16,023** | **115,497** | **38,566** | **4,180** | **1,877** | **84,521** | **447,522** |
| **Depreciation** | | | | | | | | | | |
| Restated | | | | | | | | | | |
| At 1 April 2005 | 5 | - | - | 8,344 | 9,207 | 9,247 | 2,545 | 1,236 | - | **30,584** |
| Charges in year | 2,780 | 544 | - | 2,954 | 11,458 | 2,445 | 853 | 209 | - | **21,243** |
| Transfers | - | - | - | (12) | (388) | - | (56) | - | - | **(456)** |
| Disposals | (7) | - | - | (10) | (1,031) | (5) | (1,157) | (317) | - | **(2,527)** |
| Reclassifications | - | - | - | - | - | - | - | - | - | **-** |
| Revaluations | 1 | - | - | 90 | (48) | 235 | 28 | (40) | - | **266** |
| **At 31 March 2006** | **2,779** | **544** | **-** | **11,366** | **19,198** | **11,922** | **2,213** | **1,088** | **-** | **49,110** |
| **Net book value 31 March 2006** | **158,238** | **21,508** | **3,789** | **4,657** | **96,299** | **26,644** | **1,967** | **789** | **84,521** | **398,412** |
| Net book value 31 March 2005 | 99,432 | 32,251 | 4,168 | 6,966 | 26,117 | 28,703 | 2,129 | 974 | 131,819 | 332,559 |
| **Assets financing** | | | | | | | | | | |
| Owned | 158,238 | - | 3,789 | 4,657 | 96,299 | 26,644 | 1,967 | 789 | 84,521 | **376,904** |
| Finance leased | - | 21,508 | - | - | - | - | - | - | - | **21,508** |
| **Net book value 31 March 2006** | **158,238** | **21,508** | **3,789** | **4,657** | **96,299** | **26,644** | **1,967** | **789** | **84,521** | **398,412** |

The Department's premises, including properties in London, York and Guildford, are Civil Estate property on which the Department pays a capital charge in its capacity as major occupier. Included in the above are certain agricultural properties referred to as 'The Minister's Estate'. These properties are experimental husbandry farms owned by Defra.

Land and buildings include properties with a value of £13,449,500, which are surplus to requirements. These surplus properties are a combination of ex-laboratory, warehouse, residential and office accommodation. Due to the delay in obtaining the relevant documentation and information, the sale of some of these properties could not take place in 2005-06. However, Defra agents are working hard to ensure those surplus properties are sold in 2006-07.

Depreciation charged against assets held under finance leases amounted to £544,000 (2004-05 £810,000).

The net book value of leasehold land and buildings at 31 March 2006 is £21,508,000 for long leasehold.

## 15. Intangible fixed assets

The Department's intangible fixed assets comprise purchased software licences.

| | Restated Core-Department | Consolidated |
|---|---|---|
| | £000 | £000 |
| **Cost or valuation** | | |
| At 1 April 2005 | 12,008 | 21,193 |
| Additions | 1,128 | 2,762 |
| Transfers | 399 | 399 |
| Disposals | (238) | (819) |
| Reclassifications | - | 1,579 |
| **At 31 March 2006** | **13,297** | **25,114** |
| **Amortisation** | | |
| At 1 April 2005 | 1,452 | 5,779 |
| Charged in year | 635 | 3,197 |
| Transfers | - | - |
| Disposals | (4) | (511) |
| Reclassifications | - | 49 |
| **At 31 March 2006** | **2,083** | **8,514** |
| **Net book value at 31 March 2006** | **11,214** | **16,600** |
| Net book value at 31 March 2005 | 10,556 | 15,414 |

Additions for the consolidated figures include a non-cash element represented by creditors. Cash additions amount to £2,752,000 (2004-05 £3,447,000), as per note 24.2.

## 16. Investments

| | Property investments | British Waterways | Stocks and shares | | | Total |
|---|---|---|---|---|---|---|
| | | NLF loan on-lent | Genus plc | Dairy Crest plc | CEFAS Technology Ltd | |
| | £000 | £000 | £000 | £000 | £000 | £000 |
| **Consolidated** | | | | | | |
| Balance at 1 April 2005 | 1,315 | 10,552 | 14 | 63 | 150 | **12,094** |
| Additions | - | - | - | - | - | **-** |
| Disposals | (275) | - | - | - | - | **(275)** |
| Revaluations | - | - | 7 | (1) | - | **6** |
| Loan repayments | - | - | - | - | - | **-** |
| Loan repayable within 12 months transferred to debtors | - | (640) | - | - | - | **(640)** |
| **Balance at 31 March 2006** | **1,040** | **9,912** | **21** | **62** | **150** | **11,185** |
| **Of which:** | | | | | | |
| **Core-Department** | **1,040** | **9,912** | **21** | **62** | **-** | **11,035** |

Receipts from disposal of investments totals £245,021 (2004-05 £Nil).

The National Milk Records plc and UK Nirex Limited are not shown in the above table as the actual balances are less than £1,000.

The Department's share of the net assets and results of Nirex CLG Limited and CEFAS Technology Limited are summarised below.

| | Consolidated | |
|---|---|---|
| | £000 | £000 |
| | **Nirex CLG Limited** | **CEFAS Technology Limited** |
| Net assets at 31 March 2006 | **1,115** | **650** |
| Turnover | **6,202** | **572** |
| Profit for the year (before financing) | **851** | **173** |

Nirex CLG is a Government owned company limited by guarantee, which was set up jointly by Defra and the Department of Trade and Industry (DTI) on 1 April 2005 to hold the shares of UK Nirex Limited and oversee its business operations. Nirex CLG was set up with no share capital and no share certificates. The Defra investment in UK Nirex Limited is £100 for 50% ownership. Defra has joint control of Nirex CLG on an equal basis with DTI. The members can appoint directors of UK Nirex Limited and exercise control over this wholly owned subsidiary through an agreed business plan and operational guidelines, which accompany the Memorandum and Articles of Association. The information disclosed is from Nirex CLG un-audited annual results for the period to 31 March 2006, completed using UK GAAP.

## 17. Stocks and work in progress

| | 2005-06 | | 2004-05 | |
|---|---|---|---|---|
| | **Core-Department** | **Consolidated** | Core-Department | Consolidated |
| | **£000** | **£000** | £000 | £000 |
| Stocks | - | 3,592 | - | 21,940 |
| Work in progress | - | 1,749 | - | 1,725 |
| | **-** | **5,341** | - | 23,665 |

The reduction in stocks relates to RPA milk powder stock.

## 18. Debtors

### 18.1. Analysis by type

| | 2005-06 | | 2004-05 | |
|---|---|---|---|---|
| | **Core-Department** | **Consolidated** | Restated Core-Department | Consolidated |
| | **£000** | **£000** | £000 | £000 |
| **Amounts falling due within one year** | | | | |
| Trade debtors | 30,995 | 26,980 | 19,350 | 27,314 |
| Deposits and advances | 747 | 794 | 968 | 1,062 |
| VAT | 15,642 | 21,208 | 14,269 | 15,150 |
| Other debtors | 9,954 | 20,420 | 19,552 | 29,518 |
| Current part of NLF loan | 640 | 640 | 3,584 | 3,584 |
| Prepayments/accrued income | 47,179 | 2,153,641 | 97,071 | 690,223 |
| **Total due within one year** | **105,157** | **2,223,683** | 154,794 | 766,851 |
| **Amounts falling due after more than one year** | | | | |
| Trade debtors | 2,627 | 2,627 | 9,345 | 9,345 |
| Deposits and advances | 295 | 326 | 298 | 351 |
| Prepayments/accrued income | - | 434,461 | - | 412,902 |
| **Total due after more than one year** | **2,922** | **437,414** | 9,643 | 422,598 |
| **Total debtors** | **108,079** | **2,661,097** | 164,437 | 1,189,449 |

Included within debtors is £1,954,390,000 (2004-05 £35,349,000) that will be due to the Consolidated Fund once the debts are collected. The majority relates to EU income.

### 18.2. Intra-government balances

### Consolidated

| | **2005-06** | 2004-05 | **2005-06** | 2004-05 |
|---|---|---|---|---|
| | **Amounts due within one year** | | **Amounts due after one year** | |
| | **£000** | £000 | **£000** | £000 |
| Balances with other central government bodies | 30,035 | 22,897 | - | - |
| Balances with local authorities | 12,199 | 11,598 | - | - |
| Balances with NHS trusts | 61 | 29 | - | - |
| Balances with public corporations and trading funds | 729 | 5,916 | - | - |
| **Subtotal: intra-government balances** | **43,024** | 40,440 | **-** | - |
| Balances with bodies external to government | 2,180,659 | 726,411 | 437,414 | 422,598 |
| **Debtors at 31 March** | **2,223,683** | 766,851 | **437,414** | 422,598 |

## 19. Cash at bank and in hand

| | 2005-06 | | 2004-05 | |
|---|---|---|---|---|
| | Core-Department | Consolidated | Restated Core-Department | Consolidated |
| | £000 | £000 | £000 | £000 |
| **Balance at 1 April** | 109,667 | 273,275 | (19,587) | 97,361 |
| Net change in cash balance | (83,644) | 1,488,914 | 129,254 | 175,914 |
| **Balance at 31 March** | **26,023** | **1,762,189** | 109,667 | 273,275 |
| **The following balances at 31 March are held at:** | | | | |
| Office of HM Paymaster General | 25,846 | 1,758,623 | 109,212 | 271,161 |
| Commercial bank accounts and cash in hand | 177 | 3,566 | 455 | 2,114 |
| **Balance at 31 March** | **26,023** | **1,762,189** | 109,667 | 273,275 |

Included within the closing cash at bank figure above is advance funding from the EU totalling £1,416,000 and £1,500,000 held on behalf of third parties by the Core-Department and CSL respectively. The Core-Department and CSL acted as the lead participants on several projects. They were responsible for paying the funds to other participants on the projects and were also the custodians in respect of these assets. Neither the Core-Department, CSL, nor the UK Government more generally has a direct beneficial interest in these assets.

## 20. Creditors

### 20.1. Analysis by type

| | 2005-06 | | 2004-05 | |
|---|---|---|---|---|
| | Core-Department | Consolidated | Restated Core-Department | Consolidated |
| | £000 | £000 | £000 | £000 |
| **Amounts falling due within one year** | | | | |
| Trade creditors | 92,904 | 192,147 | 94,588 | 107,541 |
| Other creditors | 14,306 | 73,412 | 16,109 | 101,519 |
| Accruals and deferred income | 201,109 | 2,125,621 | 233,336 | 981,036 |
| Other taxation and social security | 6,350 | 11,294 | 5,714 | 9,683 |
| Current part of NLF loan | 640 | 640 | 3,584 | 3,584 |
| Amounts issued from the Consolidated Fund for supply but not spent at year end* | 1,308,288 | 1,308,288 | 238,392 | 238,392 |
| Consolidated Fund Extra Receipts due to be paid to the Consolidated Fund | | | | |
| Received | 14,321 | 453,903 | 993 | 34,885 |
| Receivable | 8,351 | 1,954,390 | 14,337 | 35,349 |
| **Total due within one year** | **1,646,269** | **6,119,695** | 607,053 | 1,511,989 |
| **Amounts falling due after more than one year** | | | | |
| NLF loan | 9,912 | 9,912 | 10,552 | 10,552 |
| Others | 51 | 10,959 | 218 | 14,765 |
| **Total due after more than one year** | **9,963** | **20,871** | 10,770 | 25,317 |
| **Total creditors** | **1,656,232** | **6,140,566** | 617,823 | 1,537,306 |

* Included within this is £340,000 (2004-05 £Nil) owed to the Contingencies Fund.

### 20.2. Intra-government balances

### Consolidated

| | 2005-06 | 2004-05 | 2005-06 | 2004-05 |
|---|---|---|---|---|
| | Amounts due within one year | | Amounts due after one year | |
| | £000 | £000 | £000 | £000 |
| Balances with other central government bodies | 3,842,318 | 384,785 | 13,765 | 10,592 |
| Balances with local authorities | 26,007 | 58,179 | - | - |
| Balances with NHS trusts | 15 | - | - | - |
| Balances with public corporations and trading funds | 735 | 5,886 | - | - |
| **Subtotal: intra-government balances** | **3,869,075** | 448,850 | **13,765** | 10,592 |
| Balances with bodies external to government | 2,250,620 | 1,063,139 | 7,106 | 14,725 |
| **Creditors at 31 March** | **6,119,695** | 1,511,989 | **20,871** | 25,317 |

## 21. Provisions for liabilities and charges

### 21.1. Provisions for liabilities and charges (excluding Environment Agency pension liability)

| | Early departure costs | Foot and Mouth | EAGGF financial corrections | Programme provisions | Admin provisions | Total |
|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 |
| **Consolidated** | | | | | | |
| Balance at 1 April 2005 | 47,749 | 58,497 | - | 112,987 | 13,485 | 232,718 |
| Provided in the year | 12,147 | 15,373 | 150,222 | 28,963 | 10,065 | 216,770 |
| Provisions not required written back | (2,010) | (3,287) | - | (17,910) | (2,371) | (25,578) |
| Provisions utlised in year | (22,833) | (29,460) | - | (29,766) | (1,563) | (83,622) * |
| Unwinding of discount | 82 | - | - | - | - | 82 |
| **Balance at 31 March 2006** | 35,135 | 41,123 | 150,222 | 94,274 | 19,616 | 340,370 |
| **Core-Department** | | | | | | |
| Restated | | | | | | |
| Balance at 1 April 2005 | 11,112 | 56,747 | - | 80,179 | 13,485 | 161,523 |
| Provided in the year | 7,207 | 17,123 | 150,222 | 10,755 | 9,865 | 195,172 |
| Provisions not required written back | - | (3,287) | - | (10,653) | (2,371) | (16,311) |
| Provisions utlised in year | (4,902) | (29,460) | - | (13,548) | (1,563) | (49,473) |
| Unwinding of discount | - | - | - | - | - | - |
| **Balance at 31 March 2006** | 13,417 | 41,123 | 150,222 | 66,733 | 19,416 | 290,911 |

* The use of provisions reported in note 4 and note 24.1 differs from the amount above because some of the utilisation relates to notional charges (£119,000).

#### 21.1.1. Early departure costs

The early departure costs are those additional costs of benefits beyond the normal PCSPS benefits, in respect of employees who retire early. These are met by the Department by paying the required amount annually to the PCSPS over the period between early departure and the normal retirement date. The Department provides for this in full when the early retirement programme becomes binding on the Department by establishing a provision for the estimated payments, discounted by the HM Treasury discount rate of 2.2% in real terms.

#### 21.1.2. Other provisions

**FMD provision**

The reduction in the FMD provision relates mainly to invoices from the original outbreak being paid during the year, a number of which relate to settlement of disputes with vendors. The main balance relates primarily to items still in dispute with vendors and other ongoing work. As such the actual timing of the utilisation of the provision is uncertain. The provision also includes the cost of maintaining the FMD Burial sites, including the costs of bringing back into use the land that was contaminated and dilapidation costs attributable to the 2001 outbreak.

**Disallowance provision: EAGGF financial corrections**

The Department has reported in the Statement on Internal Control the difficulties in making fully validated payments relating to the SPS within the June 2006 deadline. At the year-end, obligations to pay amounts still due to farmers, amounting to some £1.4 billion, were held within the creditors balance (note 20.1).

The European Commission (EC) can apply financial corrections if Defra (through RPA) does not comply with EC regulations for payments funded by the European Agricultural Guidance and Guarantee Fund (EAGGF). Any amounts disallowed (and hence funded by Defra instead) will depend on the assessed severity of the breach of regulations and on subsequent negotiations with the EC in accordance with the Commission's clearance of accounts procedure[24]. In response to the difficulties in implementing the Single Payment Scheme, and with the aim of aligning more closely the accounting for the income, expenditure and potential penalties, the Department has reviewed its recognition point for financial corrections. As a result, this provision has been recognised on the following basis:

- covering all cases where the EC has notified that a financial correction is being considered and covering all UK paying agencies (including devolved agriculture departments as Defra has the ultimate responsibility for UK disallowance);

- representing for SPS an appraisal of what the Commission is likely to assess as an appropriate correction, based on indications previously provided by the EC around partial payments and on perceived weaknesses in complying with EC regulations on control requirements. Once again the provision includes assessments of each UK paying agency's risk.

Further amounts in relation to the Single Payment Scheme are recognised as a contingent liability in these accounts (see note 31.1).

The programme provisions include:

- the Nature Conservancy Council (NCC) pensions provision of £16.289m provides for former NCC staff who were not transferred when the NCC was disbanded. The provision is reviewed annually by the Government Actuaries Department and no estimate of the end date has been provided in this year's review;

- the UK Emissions Trading Scheme provision of £9.750m covers costs of incentive payments made by the Department when scheme participants achieve their emissions targets. The provision is expected to be fully utilised by April 2007;

- the Structural Funds provision of £9.453m was set up to cover charges and penalties imposed on the Department by the EU for incorrect paperwork, relating to recovery of funding through EAGGF. The provision also covers claims disallowed under the scheme. Utilisation is expected to complete towards the end of 2006;

- the Fur Farming provision of £6.636m was set up to provide compensation to fur farmers resulting from the Fur Farming (Prohibition) Act 2000. Timing is dependent upon the outcome of meetings to discuss unsettled claims and the possibility of arbitration proceedings;

- the Classical Swine Fever (CSF) provision of £6.600m includes the costs payable to suppliers over disputed invoicing for CSF in 1999 and 2000. It is expected to be utilised by March 2008;

- the Flood and Coastal Defence provision of £5.574m relates to a 5% retention of grant outstanding to Local Authorities (LAs) for grant eligible work. 95% of the grant has already been paid. The 5% retention will be paid to the LA when a final statement of account is provided to the Department. This is generally expected to be within 2 years of the work being completed;

- the Arne Claypit provision of £3.500m was set up to provide compensation to LAs incurring costs on a statutory basis resulting from regulation 50 of the Conservation (Natural Habitats) Regulations 1994. Due to the nature of the provision, the timing of the payments to be offset against the provision are uncertain, however, the provision is likely to be utilised over the next 2-3 years with a review being carried out in 2006-07.

[24] http://ec.europa.eu/agriculture/publi/fact/clear/clear_en.pdf

The administration provisions include:

- £12.600m relating to a Horticulture Research International (HRI) Pension Scheme. The HRI Pension Scheme is now closed following the restructuring of HRI in 2004. There are no active members in the scheme, only pensioners (deferred and current). The HRI pension scheme is PCSPS by analogy and is a final salary scheme providing a combination of pension and lump sum benefits on a range of contingencies: retirement, death and resignation. This is the first valuation of the scheme which has been carried out by the Government Actuarial Department for the purpose of Resource Accounting. In accordance with FRS 17 requirements, the liabilities of the scheme are assessed by summing the present value of all the benefits accrued at the valuation date, with allowance for future pension increases.

  The following assumptions have been used:

  | | |
  |---|---|
  | Return on notional investment in excess of prices | 2.8% per annum |
  | Long-term future inflation | 2.5% per annum |

  Based on the assumptions outlined above, the liabilities of the HRI Pension Scheme as at 31 March 2006 are as follows:

  | | **2005-06** | 2004-05 |
  |---|---|---|
  | | **£000** | £000 |
  | Scheme Liability at 1 April 2005 | (6,882) | - |
  | Increase in provision charged to the operating cost | (2,893) | - |
  | Transfer of provision liability from HRI | - | (6,882) |
  | Actuarial loss | (2,825) | - |
  | | **(12,600)** | (6,882) |

  Present value of scheme liabilities at 31 March 2006 is £6.300m for current pensioners and £6.300m for deferred pensioners having a total scheme liability of £12.600m.

- the Contaminated Land provision of £5.549m comprises the maintenance costs for land used during the Second World War for production of mass gas. The Department has a legal obligation to maintain the site to the environmental standard requirement. The provision will be utilised on a yearly basis up to 2023.

## 21.2. Provision for pension liability

**21.2.1.** The Environment Agency closed fund (the Fund) is vested in the EA by Regulation 2(1) of the Local Government Pension Scheme Regulations 1996. The Secretary of State has the function conferred by Section 173 of the Water Act 1989 (the Act) to make such payments into the Fund as may be considered appropriate in respect of the actual and contingent liabilities falling from time to time. These are met out of the Fund to persons who were ex-employees of regional water authorities and other water industry bodies at the time of water privatisation in 1989 (the Closed Fund members).

The assets in the scheme and the expected rate of return are:

| | **Long-term rate of return expected at 31 March 06** | **Value at 31 March 06** | Long-term rate of return expected at 31 March 05 | Value at 31 March 05 | Long-term rate of return expected at 31 March 04 | Value at 31 March 04 |
|---|---|---|---|---|---|---|
| | | **£000** | | £000 | | £000 |
| Equities | n/a | - | 7.7% | 76,000 | 7.7% | 107,200 |
| Bonds | 4.1% | 78,200 | 4.8% | 77,000 | 5.1% | 104,800 |
| Cash | 4.6% | 13,200 | 4.8% | 17,300 | 4.0% | 26,300 |
| Market value of assets | | 91,400 | | 170,300 | | 238,300 |
| Present value of scheme liabilities | | (1,040,100) | | (1,032,300) | | (1,064,900) |
| Net pension liabilities (as per Actuarial Report) | | (948,700) | | (862,000) | | (826,600) |
| Pension increase (pre 1974) | | (30,000) | | (30,000) | | - |
| **Net pension liabilities (Balance Sheet)** | | **(978,700)** | | (892,000) | | (826,600) |

The major financial assumptions used by the Actuary when providing the assessment of the accrued liabilities as at the following dates for the Resource Accounting assessments were:

| | **At 31 March 2006** | At 31 March 2005 | At 31 March 2004 |
|---|---|---|---|
| Rate of increase in salaries | 5.1% | 4.9% | 4.9% |
| Rate of increase in pensions in payment and deferred pensions | 3.1% | 2.9% | 2.9% |
| Inflation assumption | 3.1% | 2.9% | 2.9% |
| Discount rate | 6.0% | 6.5% | 6.5% |

The scheme managers are responsible for providing the Actuary with relevant information to carry out the valuation. This information includes, but is not limited to, details of:

- scheme membership, including age and gender profile, active membership, deferred pensioners and pensioners;
- benefit structure, including details of any discretionary benefits and any proposals to amend the scheme;
- following consultation with the Actuary, the key assumptions that should be used to value the scheme liabilities, ensuring that the assumptions are mutually compatible and reflect a best estimate of future experience.

The value of the liability included on the balance sheet may be significantly affected by even small changes in assumptions. For example, if at a subsequent valuation it is considered appropriate to reduce the assumed rate of inflation, then the value of the pension scheme liability will decrease (other things being equal). Conversely, if the assumed rates are increased, the value of the liability will increase. The managers of the scheme accept that, as a consequence, the valuation provided by the Actuary is inherently uncertain. The increase or decrease in future liability charged or credited for the year, resulting from changes in assumptions, is disclosed in notes 21.2.4. and 21.2.5. The note also discloses 'experience' gains or losses for the year, showing the amount charged or credited for the year because events have not coincided with assumptions made for the last valuation.

## 21.2.2. Analysis of movement in scheme liability

| | **2005-06** | 2004-05 |
|---|---|---|
| | **£000** | £000 |
| Scheme liability at 1 April | (892,000) | (826,600) |
| Contributions in respect of unfunded benefits | 12,400 | 12,100 |
| Other expenses | (3,000) | - |
| Net return on assets (Note 21.2.3.) | (51,900) | (54,100) |
| Actuarial gain/(loss) (Note 21.2.4.) | (44,200) | 6,600 |
| Sub-total | (978,700) | (862,000) |
| Pension increase (pre 1974) | - | (30,000) |
| **Scheme liability at 31 March** | **(978,700)** | (892,000) |

## 21.2.3. Analysis of the amount charged to operating costs

| | **2005-06** | 2004-05 |
|---|---|---|
| | **£000** | £000 |
| Expected return on pension scheme assets | 7,600 | 11,800 |
| Interest on pension scheme liabilities | (59,500) | (65,900) |
| Net return on assets | (51,900) | (54,100) |
| Other expenses | (3,000) | - |
| Pension increase (pre 1974) | - | (30,000) |
| **Charged to operating cost** | **(54,900)** | (84,100) |

## 21.2.4. Analysis of amount recognised in the Statement of Recognised Gains and Losses

| | **2005-06** | 2004-05 |
|---|---|---|
| | **£000** | £000 |
| Actual return less expected return on pension scheme assets | 4,800 | 9,300 |
| Experience (losses) arising on the scheme liabilities | (100) | (2,700) |
| Changes in financial assumptions underlying the present value of the scheme liabilities | (48,900) | - |
| **Actuarial gain/(loss) recognised in the statement of recognised gains and losses** | **(44,200)** | 6,600 |

## 21.2.5. History of experience gains and losses

| | **2005-06** | 2004-05 | 2003-04 | 2002-03 |
|---|---|---|---|---|
| Difference betw een the expected and actual return on scheme assets | | | | |
| Amount (£000) | 4,800 | 9,300 | 16,900 | (62,300) |
| Percentage of assets | 5.3% | 5.4% | 7.1% | (21.0%) |
| Experience gains/(losses) on liabilities | | | | |
| Amount (£000) | (100) | (2,700) | (153,500) | 5,300 |
| Percentage of assets | - | (0.3%) | (14.4%) | 0.6% |
| Total amount recognised in statement of recognised gains and losses | | | | |
| Amount (£000) | (44,200) | 6,600 | (136,600) | (57,000) |
| Percentage of assets | (4.2%) | 0.6% | (12.8%) | (5.9%) |

## 22. General fund

The general fund represents the total assets less liabilities of each of the entities within the accounting boundary, to the extent that the total is not represented by other reserves and financing items.

| | 2005-06 | | 2004-05 | |
|---|---|---|---|---|
| | **Core-Department** | **Consolidated** | Restated Core-Department | Consolidated |
| | **£000** | **£000** | £000 | £000 |
| Balance at 1 April | (1,128,251) | (530,552) | (1,146,861) | (440,843) |
| Net operating cost for the year | (2,597,830) | (3,208,194) | (2,209,428) | (2,860,274) |
| Income not A-in-A payable to the Consolidated Fund | (83,282) | (2,480,929) | (42,525) | (102,816) |
| **Net Parliamentary Funding** | | | | |
| Drawn down | 4,997,331 | 4,997,331 | 2,994,970 | 2,994,970 |
| Deemed | 238,392 | 238,392 | 92,265 | 92,265 |
| Net financing from the Contingencies Fund | 340 | 340 | - | - |
| Transfer of HRI pension fund | - | - | (7,342) | (7,342) |
| Transfer from revaluation reserve | 98 | 5,124 | 84 | 10,967 |
| Transfer to general fund - asset transfers | 1,330 | (541) | (1,262) | (279) |
| Non-operating A-in-A | 2,293 | 2,293 | 432 | 432 |
| Non-cash charges | | | | |
| Cost of capital | (19,418) | 3,850 | (9,690) | 16,575 |
| Early departure | - | (75) | (744) | 19 |
| Auditors remuneration | 292 | 899 | 272 | 747 |
| Other | (17,549) | 14 | (10,413) | (944) |
| Additional A-in-A | (5,520) | (5,520) | (14,337) | (14,337) |
| Pension actuarial gain/(loss) | (47,025) | (47,025) | 6,600 | 6,600 |
| Contributions in respect of unfunded benefits | 12,400 | 12,400 | 12,100 | 12,100 |
| Balance due to PSD in respect of transferred functions | - | - | (426) | - |
| Agency funding | (2,504,546) | - | (553,554) | - |
| **Year end adjustment** | | | | |
| Supply creditor - current year* | (1,308,288) | (1,308,288) | (238,392) | (238,392) |
| **General fund at 31 March** | **(2,459,233)** | **(2,320,481)** | (1,128,251) | (530,552) |

* Included within this is £340,000 (2004-05 £Nil) owed to the Contingencies Fund.

## 23. Revaluation reserve

The revaluation reserve reflects the unrealised element of the cumulative balance of indexation and revaluation adjustments (excluding donated assets).

| | 2005-06 | | 2004-05 | |
|---|---|---|---|---|
| | **Core-Department** | **Consolidated** | Restated Core-Department | Consolidated |
| | **£000** | **£000** | £000 | £000 |
| Balance at 1 April | 86,068 | 195,799 | 62,949 | 173,832 |
| Arising on revaluation during the year (net) | 2,183 | 19,878 | 23,203 | 32,934 |
| Transferred from general fund in respect of realised element of revaluation reserve | (98) | (5,124) | (84) | (10,967) |
| **Balance at 31 March** | **88,153** | **210,553** | 86,068 | 195,799 |

## 24. Notes to the consolidated Cash Flow Statement

### 24.1. Reconciliation of operating cost to operating cash flows

| | Note | 2005-06 £000 | 2004-05 £000 |
|---|---|---|---|
| Net operating cost | 13 | 3,208,194 | 2,860,274 |
| Adjustments for non-cash transactions | | (314,339) | (258,272) |
| (Decrease) in stock | | (18,324) | (38,227) |
| Increase in debtors | | 1,471,648 | 365,130 |
| *less movements in debtors relating to items not passing through the OCS* | | 8,215 | (18,463) |
| (Increase) in creditors | | (4,603,260) | (555,480) |
| *less movements in creditors relating to items not passing through the OCS* | | 3,426,104 | 207,949 |
| Use of provisions | 21.1 | 83,741 | 75,470 |
| **Net cash outflow from operating activities** | | **3,261,979** | 2,638,381 |

### 24.2. Analysis of capital expenditure and financial investment

| | Note | 2005-06 £000 | 2004-05 £000 |
|---|---|---|---|
| Intangible fixed asset additions | 15 | 2,752 | 3,447 |
| Tangible fixed asset additions | 14 | 117,342 | 112,721 |
| Proceeds from disposals of fixed assets | | (20,171) | (6,894) |
| **Net cash outflow from investing activities** | | **99,923** | 109,274 |

### 24.3. Analysis of capital expenditure and financial investment by Request for Resources

| | Capital expenditure £000 | A-in-A £000 | Net Total £000 |
|---|---|---|---|
| Request for Resources 1 | 120,094 | (20,171) | 99,923 |
| Net movement in debtors/creditors | 21,093 | 5,008 | 26,101 |
| **Total 2005-06** | **141,187** | **(15,163)** | **126,024** |
| Total 2004-05 | 129,160 | (22,371) | 106,789 |

### 24.4. Analysis of financing

| | Note | 2005-06 £000 | 2004-05 £000 |
|---|---|---|---|
| From Consolidated Fund (Supply): current year | 22 | 4,997,331 | 2,994,970 |
| From Consolidated Fund (Supply): prior year | | - | - |
| Advances from the Contingencies Fund | | 340 | - |
| **Net financing** | | **4,997,671** | 2,994,970 |

## 24.5. Reconciliation of net cash requirement to increase in cash

| | | 2005-06 £000 | 2004-05 £000 |
|---|---|---|---|
| Net cash requirement | 4 | 3,927,775 | 2,848,844 |
| Net financing | 24.4 | (4,997,671) | (2,994,970) |
| Amounts due to the Consolidated Fund received in prior year and paid over | | 34,885 | 5,097 |
| Amounts due to the Consolidated Fund received and not paid over | | (453,903) | (34,885) |
| NLF loan - interest received from other bodies | | (1,466) | (1,691) |
| NLF loan - interest paid to the NLF | | 1,466 | 1,691 |
| **(Increase) in cash** | | **(1,488,914)** | (175,914) |

## 25. Notes to the Consolidated Statement of Operating Costs by Departmental Aim and Objectives

Programme grants and other current expenditures have been allocated as follows:

| | 2005-06 £000 | Restated 2004-05 £000 |
|---|---|---|
| Objective 1 | 2,170,249 | 1,846,584 |
| Objective 2 | 503,265 | 299,510 |
| Objective 3 | 365,332 | 485,430 |
| Objective 4 | 1,039,618 | 1,244,640 |
| Objective 5 | 977,598 | 871,676 |
| Objective 6 | 1,250,471 | 1,093,026 |
| | **6,306,533** | 5,840,866 |

For a description of the Objectives see page 49.

## 26. Capital commitments

| | 2005-06 | | Restated 2004-05 | |
|---|---|---|---|---|
| | Core-Department £000 | Consolidated £000 | Core-Department £000 | Consolidated £000 |
| Contracted capital commitments at 31 March for which no provision has been made | **10,742** | **17,977** | 8,384 | 26,878 |

The prior year figures have been restated as detailed in note 36.

## 27. Commitments under leases

### 27.1. Operating leases

Commitments under leases to pay rentals during 2006-07 are given in the table below, analysed according to the period in which the lease expires.

| | 2005-06 | | 2004-05 | |
|---|---|---|---|---|
| | | | Restated | |
| | Core-Department | Consolidated | Core-Department | Consolidated |
| | £000 | £000 | £000 | £000 |
| **Obligations under operating leases comprise** | | | | |
| **Land and buildings** | | | | |
| Expiry within 1 year | 671 | 1,286 | 585 | 710 |
| Expiry within 2 to 5 years | 1,732 | 2,113 | 2,048 | 2,583 |
| Expiry thereafter | 19,738 | 25,497 | 18,760 | 25,458 |
| **Amount payable in the following year** | **22,141** | **28,896** | 21,393 | 28,751 |
| **Other** | | | | |
| Expiry within 1 year | 291 | 334 | 41 | 163 |
| Expiry within 2 to 5 years | 1,558 | 2,052 | 424 | 829 |
| Expiry thereafter | - | - | - | - |
| **Amount payable in the following year** | **1,849** | **2,386** | 465 | 992 |

### 27.2. Finance leases

Obligations under finance leases are as follows:

| | 2005-06 | | 2004-05 | |
|---|---|---|---|---|
| | Core-Department | Consolidated | Core-Department | Consolidated |
| | £000 | £000 | £000 | £000 |
| **Obligations under finance leases comprise** | | | | |
| Rentals due within 1 year | 7 | 7 | 7 | 13 |
| Rentals due within 2 to 5 years | 36 | 36 | 30 | 30 |
| Rentals due thereafter | 382 | 382 | 412 | 412 |
| | **425** | **425** | 449 | 455 |
| Less: interest element | - | - | - | (1) |
| **Amount payable** | **425** | **425** | 449 | 454 |

## 28. Commitments under Private Finance Initiative (PFI) contracts

### 28.1. Off-balance sheet

The majority of PFI contracts associated with Defra are funded by NDPBs and public corporations outside the resource accounting boundary. An off-balance sheet contract was signed by the Department in February 2001 to develop land at Brooklands Avenue, Cambridge. The scheme involves the PFI partner constructing an office building for Defra and other government departments to occupy and for surplus land to be used for housing. The estimated capital value of the contract is £18.21m, of which a £0.25m deposit was paid during the contract exchange in February 2001. A further £5m was received in February 2002 after planning permission was granted. The project was completed in March 2003, phased occupation took place between March and April. The Department formally gave vacant possession of the site in April 2003 and £8.73m was received by Defra in May 2003. A final payment of £4.23m is expected in November 2006.

### 28.2. Charge to the Operating Cost Statement and future commitments

The total amount charged in the Operating Cost Statement in respect of off-balance sheet PFI transactions was £1,024,000 (2004-05 £858,000). The payments to which the Department is committed during 2006-07 analysed by the period during which the commitment expires, are as follows:

| | 2005-06 | | 2004-05 | |
|---|---|---|---|---|
| | **Core-Department** | **Consolidated** | Core-Department | Consolidated |
| | **£000** | **£000** | £000 | £000 |
| Expiry within 26 to 30 years | 1,023 | 1,023 | 862 | 862 |
| | **1,023** | **1,023** | 862 | 862 |

## 29. Other financial commitments

The Department is committed to making payments to non-cancellable contracts (which are not leases or PFI contracts). The payments which the Department is committed to make during 2006-07, analysed according to the period in which the commitment expires, are as follows:

| | 2005-06 | | Restated 2004-05 | |
|---|---|---|---|---|
| | **Core-Department** | **Consolidated** | Core-Department | Consolidated |
| | **£000** | **£000** | £000 | £000 |
| Expiry within 1 year | 46,475 | 121,475 | 28,615 | 48,915 |
| Expiry within 2 to 5 years | 92,589 | 92,589 | 85,285 | 85,285 |
| Expiry thereafter | 10,569 | 10,569 | 6,920 | 6,920 |
| | **149,633** | **224,633** | 120,820 | 141,120 |

The prior year figures have been restated as detailed in note 36.

Defra also enters into multi-annual agreements with beneficiaries under a number of schemes within the England Rural Development Programme. Under these agreements, payments are due annually to beneficiaries upon their submission of a signed claim form and following their completion of specified activities and adherence to laid down prescriptions. In the event of activities and prescriptions specified within the agreements not being undertaken there is no liability to pay.

## 30. Financial instruments

**30.1.** The Department is required to disclose the role financial instruments had during the period in creating or changing the risks faced in undertaking its activities. The non-trading nature of Defra's activities and the way government departments are financed, means the Department is not exposed to the degree of financial risk faced by business entities. Defra has very limited powers to borrow or invest surplus funds. Financial assets and liabilities generated by day to day operational activities are not held to change the risks facing the Department in undertaking its activities.

**30.2.** As permitted by FRS 13 the Department has elected to exclude from disclosure all debtors and creditors which mature or become payable within 12 months of the balance sheet date.

**30.3.** With the exception of RPA, the Department's exposure to risk can be summarised:

- Liquidity risk: no significant exposure given that the Department's net resource requirement is financed through resources voted annually by Parliament;

- Interest rate risk: no exposure as the Department's main financial assets and liabilities carry nil or fixed rates of interest;

- Foreign currency risk: not significant as foreign currency income and expenditure is negligible. Although no active hedging is utilised, the accounting treatment adopted avoids gains and losses arising.

**30.4.** Liquidity risk does, however, arise with RPA operations. The main driver is the successful recovery from the EC of funds paid to claimants under the CAP. As these funds are financed by HM Treasury in the first instance, there is no exposure to interest rate risks.

**30.5.** Foreign currency risk: from January 2003, in accordance with Commission Regulation 1997/2002 (amending Regulation 296/96), non-Eurozone member states have been reimbursed in Euro. The timing difference between converting the indent (the claim for reimbursement for CAP expenditure) from Sterling to Euro and converting back to Sterling when received some 3 weeks later generates an exchange difference. In 2005-06 this has generated an exchange gain of £0.2m, bringing the total net gain to date to £41.7m (2004-05 generated an exchange gain of £30m). In line with HM Treasury guidance gains are treated as CFER's and losses are treated as scheme expenditure.

RPA is exposed to a funding risk if it does not have budgetary cover for the increased scheme expenditure that may arise from any exchange losses incurred. For 2005-06 HM Treasury had agreed that the budgetary cover was available up to the limit of earlier net exchange gains. As of April 2005, HM Treasury have confirmed that an appropriate hedging strategy can be put in place to reduce the risk of foreign currency exchange movement. During the year, after consultation with HM Treasury, RPA decided to hedge the foreign currency risk between submission of the indent and the date of the reimbursement from the Commission, using an appropriate financial instrument. In March 2006, RPA contracted the Royal Bank of Scotland to provide a foreign exchange hedging facility to reduce the risk of exchange rate movement between the periods above.

**30.6.** Securities and guarantees: traders wishing to undertake certain transactions under EC Regulations are required to guarantee completion of the transaction in question by lodging a security with RPA. The security may be forfeited (in whole or in part) if the undertaking is not completely fulfilled. Bank and other guarantees totalling £392.9m (2004-05 £371.1m) and cash totalling £2.2m (2004-05 £2.1m) were held at 31 March 2006 by RPA.

## 31. Contingent liabilities disclosed under FRS 12 and contingent assets

### 31.1. Contingent liabilities

There are a number of events, with uncertain outcomes, that could potentially lead to liabilities for the Department. Given such uncertainties, these items have not been accrued for in the Accounts, but are instead listed separately as contingent liabilities. At 31 March 2006, the main items under this heading were:

- a potential disallowance liability in respect of partial payments and late payments attributed to the SPS, estimated at £63.5m;
- various contingencies relating to non availability of automatic cross checks in the Rural Land Register for the England Rural Development Programme (£7.35m) and a possible further 2% correction on payments on the Over Thirty Month Slaughter (OTMS) Scheme;
- liability for landfill sites that do not reach the standards required by Pollution Prevention and Control regulations if the licence holder becomes insolvent. Potential liability estimated at £20m;
- various claims connected with the FMD outbreak (unquantifiable);
- infringements of the Urban Waste Water Treatment Directive could lead to substantial fines from the EU (unquantifiable);
- Defra has an obligation under Article 14.2 of an agreement of 1988, registered with the UN, to support the Commonwealth Agricultural Bureau International (CABI). For the year to 31 December 2005, Defra provided 34% of the member contributions towards CABI's costs. Under the Agreement, Defra is required to underwrite any future deficit or recover any surplus on winding up of CABI in the same proportion as its members' contributions. As at 31 December 2005, management considers CABI's liabilities to be valued at up to £53m and its assets to have a valuation of at least £40m. Defra considers that in the unlikely event of CABI being wound up, Defra's residual obligation is potentially £13m;
- a claim for unfair treatment in the tendering process for an OTMS contract in 1999. This claim is for up to £12.7m from January 2000 to December 2004;
- investment guarantees, up to a maximum of £5.6m, related to the Waste and Resources Action Programme (WRAP), together with various liabilities concerning WRAP accommodation lease commitments to a maximum of £0.76m, due in stages to 2012;
- indemnity against all actions, costs and expenses made against the National Institute of Agricultural Botany (NIAB) arising from their contract with Defra. We cannot quantify the value of any such possible future actions but, to minimise liability, the contract requires NIAB to take out a £5m professional insurance;
- potential liabilities arising from small claims against Defra. The potential liability is estimated at no more than £5m.

Defra has the lead responsibility for a large number of NDPBs and public corporations (see note 38). Although these sponsored bodies lie outside the accounting boundary, the Department is still required to meet any liabilities they are unable to absorb themselves.

### 31.2. Contingent assets

- the EC retains funding on OTMS Scheme expenditure pending the disposal of tallow and meat and bone meal. The value of the retention at the balance sheet date is £4.4m.

## 32. Contingent liabilities not required to be disclosed under FRS 12 but included for parliamentary reporting and accountability purposes

### 32.1. Quantifiable

Defra has entered into the following quantifiable contingent liabilities by offering guarantees, indemnities or by giving letters of comfort. None of these are contingent liabilities within the meaning of FRS 12 since the likelihood of a transfer of economic benefits in settlement is too remote.

| | 1 April 2005 | Increase in year | Liabilities crystallised in year | Obligation expired in year | 31 March 2006 |
|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 |
| **Statutory guarantees** | | | | | |
| Guarantee of British Waterways borrowing | 3,000 | - | - | - | **3,000** |
| Guarantee for Carbon Trust Directors - prevent Director liabilities (previously unquantifiable) | - | 17,831 | - | - | **17,831** |
| Guarantee for Energy Trust Directors - prevent Director liabilities | - | 38,785 | - | - | **38,785** |
| **Statutory indemnities** | | | | | |
| CHPQA[1] contractors wrongly assessing a scheme | 100 | - | - | - | **100** |

[1]CHPQA: Quality Assurance for Combined Heat and Power

A transfer of economic benefits is also considered to be remote on the following:

- a legal action for £100m damages by importers of seed potatoes, alleging that the potatoes were diseased on arrival in Argentina. The Argentinean authorities destroyed the potatoes. The Court of Appeal gave a judgement in favour of HM Government and the claimants are unlikely to lodge a final appeal;
- Defra owns the Nuclear Industry Radioactive Waste Executive (NIREX CLG Limited) jointly with DTI. A decision on HM Government policy on managing the UK's radioactive waste, will probably be made in 2007, which will determine the long term future of NIREX. The staff at NIREX would probably be transferred within other HM Government organisations if NIREX were to cease, so any redundancy and pension costs, estimated at £7.65m, are unlikely to be incurred.

### 32.2. Unquantifiable

Defra has entered into the following unquantifiable contingent liabilities by offering guarantees, indemnities or by giving letters of comfort. None of these are contingent liabilities within the meaning of FRS 12 since the possibility of a transfer of economic benefits in settlement is too remote.

Indemnities:

- to indemnify the Royal Society against legal costs and damages, should they arise, following publication of their report on 'Infectious Diseases in Livestock';
- to indemnify the UK Chemicals Stakeholders Forum against legal action by companies affected by Forum decisions or announcements on chemicals;
- indemnity to maintain an offshore works, built in the 1970s, to ensure that no danger or nuisance is caused.

## 33. Losses and special payments

### 33.1. Losses statement

| | 2005-06 | | 2004-05 | |
|---|---|---|---|---|
| | No. of cases | Value | No. of cases | Value |
| | | £000 | | £000 |
| Cash losses | 141 | 2,621 | 136 | 420 |
| Stores losses | 9 | 27 | 12 | 107 |
| Fruitless payments | 6 | 4,427 | 2 | 1 |
| Claims abandoned | 800 | 512 | 1,122 | 673 |
| **Total losses** | **956** | **7,587** | 1,272 | 1,201 |

### Details of cases over £250,000

### Cash losses:

- one case totalling £2,266,620 relating to IT staff costs capitalised in previous years which cannot be assigned to a specific project.

### Fruitless payments and constructive losses:

- one case totalling £1,656,224 relating to projects for the Exotic Disease Control Project which has become obsolete;
- one case totalling £1,371,189 relating to costs incurred under the Electronic Data Record Management framework which does not support the replacement Catalyst Project;
- one case totalling £3,998,807 relating to balances cleared following the discontinuation of the Phoenix Project, of which £1,398,956 has been written off during 2005-06.

### 33.2. Special payments

| | 2005-06 | | 2004-05 | |
|---|---|---|---|---|
| | No. of cases | Value | No. of cases | Value |
| | | £000 | | £000 |
| Special payments | **169** | **246** | 1,188 | 282 |

## 34. Related party transactions

The Department is the parent of the Agencies shown in note 37. The Department's NDPBs within the Departmental accounting boundary are also shown in note 37 and those outside the boundary are shown in note 38. These bodies are regarded as related parties with which the Department has had various material transactions during the year.

In addition, the Department has had a number of transactions with other government departments (e.g. DTI, Food Standards Agency, the Devolved Administrations, Government Offices within the Office of the Deputy Prime Minister (from 5 May 2006 known as the Department of Communities and Local Government)) and other central government bodies.

None of the Board Members, key managerial staff or other related parties have undertaken any material transactions with the Department during the year.

Christine Tacon is a member of the RPA Ownership Board and a Director of Farmcare (part of the Co-operative Group (CWS) Ltd). In 2005-06 Farmcare received £178,200 (2004-05 £2,500,000), together with an additional outstanding balance, as at 31 March 2006, of £2,199,602 (2004-05 £Nil) in scheme payments from RPA. These external interests were known before appointment and were carefully considered by Defra.

Gordon Meek is also a member of the RPA Ownership Board and a Director of GR & SK Meek. In 2005-06 this company received £31,054 (2004-05 £45,969), together with an additional outstanding balance, as at 31 March 2006, of £47,393 (2004-05 £Nil) in scheme payments from RPA.

Debby Reynolds, Chief Veterinary Officer, is a member of the Governing Board of the Institute of Animal Health, which is dedicated to the study of infectious diseases in farm animals. The Institute of Animal Health held contracts with the Veterinary Directorate in 2005-06 for the Laboratory Facilities for Exotic Diseases, receiving £1,698,889; research and development for Transmissible Spongiform Encephalopathy and TB, receiving £6,400,000 and the rebuilding of laboratory facilities at the Pirbright site, receiving £67,010,000 over the period of 2004-05 to 2012-13.

## 35. Post balance sheet events

The delays faced by RPA in processing payments due under the SPS experienced during the financial year continued thereafter. One of the steps taken as part of the subsequent processing of payments, sanctioned by Ministers, was the making of partial payments, £770m in total. The European Commission was consulted before these payments were made and Commission officials advised that making these payments could give rise to disallowance up to 10% of the payments made. In addition RPA took steps to streamline the controls over processing claims for payment. These steps resulted in 94.9% of payments being made by the regulatory deadline of 30 June 2006. However, this level of payment may still give rise to late payment penalties.

The risks arising from the partial payments, streamlining in controls and late payments have given rise to a material exposure to disallowance which will result in a failure to recover sufficient monies from the EU to fully fund the payments made under the SPS. These are provided for in note 21.1 under EAGGF financial corrections and a contingent liability in note 31.1.

Johnston McNeill left RPA on 15 March 2006. The terms of his departure are still under discussion.

Following Ministers' acceptance of the recommendation in the 2005 Hampton Review on reducing administrative burdens, and a recommendation in the 2004 Purnell Report, the Horticultural Marketing Inspectorate (HMI) has transferred operations from the Core-Department to become part of RPA with effect from 1 April 2006. HMI enforces the EC Marketing Standards by virtue of the powers given to it under the amended version of the Agriculture and Horticulture Act 1964.

Ministers have also accepted the recommendation in the 2003 Haskins Review on Rural Delivery, resulting in the creation of Natural England, an Executive NDPB, which came into operation on 1 October 2006. This merged English Nature, part of The Countryside Agency (both NDPBs), and the majority of the Rural Development Service, previously part of the Core-Department.

The Commission for Rural Communities became an Executive NDPB from 1 October 2006.

The Dairy Hygiene Inspectorate has now merged with SVS (from 1 October 2006).

The Wine Standards Board, an NDPB of Defra, now forms part of the Food Standards Agency (from 1 July 2006).

## 36. Prior year adjustments

### Core-Department

Details of Core-Department prior year adjustments are as a result of restating prior year balances under FRS 6 (Mergers and Acquisitions), and reclassifications. The adjustments under FRS 6 are to take account of the transfer of operation of the SVS and the MFA to Executive Agencies. These adjustments affect the majority of the statements and notes. The overall effect on the Core-Department prior figures are as follows:

- net operating costs for 2004-05 decrease by £97,117,000;
- reserves at 31 March 2005 decrease by £5,925,000;
- tangible fixed assets at 31 March 2005 decrease by £7,549,000;
- intangible assets at 31 March 2005 decrease by £126,000;
- debtors at 31 March 2005 decrease by £4,553,000;
- cash at 31 March 2005 decrease by £12,165,000;
- creditors at 31 March 2005 decrease by £23,217,000;
- provisions at 31 March 2005 decrease by £7,101,000;
- operating leases at 31 March 2005 decrease by £1,297,000;
- capital commitments at 31 March 2005 decrease by £763,000 (also reclassification of £65,805,000 see below).

Of the Capital Commitments (note 26) declared in 2004-05, £65,805,000 has been reclassified as Other Financial Commitments (note 29), of which £6,920,000 is the commitment for 2005-06.

### Consolidated

The Consolidated Statement of Operating Costs by Departmental Aim and Objectives and note 25 prior year figures have been restated where there has been a material re-assessment of the apportionments to reflect more appropriate allocations than those used in the previous year.

## 37. Entities within the Departmental boundary

The entities within the Departmental boundary during 2005-06 comprise the Core-Department, its Executive Agencies and NDPBs as follows:

**Executive Agencies**

**Centre for Environment, Fisheries and Aquaculture Science (CEFAS)**
Specialist scientific, technical support and consultancy to Defra in fisheries science and management, aquaculture and fish health and environmental assessment.

**Central Science Laboratory (CSL)**
Policy advice, technical support and enforcement underpinned by research and development to meet Defra's objectives.

**Government Decontamination Service (GDS)**
Provides expert advice, guidance and assessment of the ability to decontaminate buildings and the environment after a chemical, biological, radiological or nuclear incident.

**Marine Fisheries Agency (MFA)**
Brings together the service delivery, inspection and enforcement activities provided by the Government to the fishing industry and other marine stakeholders in England and Wales.

**Pesticides Safety Directorate (PSD)**
Controlling the sale, supply, storage, advertisement and use of pesticides; implementing post approval controls over pesticides; provide policy advice to Defra.

**Rural Payments Agency (RPA)**
Payment of EAGGF and Exchequer grants and subsidies to the rural and farming community; implementation within the UK of the guarantee functions of the CAP.

**State Veterinary Service (SVS)**
A Great Britain wide organisation dealing with animal health, public health, animal welfare and international trade.

**Veterinary Laboratories Agency (VLA)**
Specialist scientific and technical expertise and advice to Defra on animal and public health, including diagnostic, research and advisory services and products.

**Veterinary Medicines Directorate (VMD)**
Responsible to Ministers for the licensing of veterinary medicines; surveillance of veterinary medicine residues; servicing, developing and implementing new policy/legislation.

The Executive Agencies accounts have been prepared under the direction of HM Treasury in accordance with Section 7(2) of the Government Resources and Accounts Act 2000 and are published separately.

**Executive NDPBs (Defra funded)**

Agricultural Wages Board for England and Wales
Agricultural Wages Committee

**Advisory NDPBs (Defra funded)**

Advisory Committee on Consumer Products and the Environment *(disbanded 30 September 2005)*
Advisory Committee on Hazardous Substances
Advisory Committee on Organic Standards
Advisory Committee on Packaging
Advisory Committee on Pesticides
Advisory Committee on Releases to the Environment
Agricultural Dwelling House Advisory Committees
Air Quality Expert Group
Committee on Agricultural Valuation
Committee of Investigation for Great Britain
Committee on Products and Processes for Use in Public Water Supply
Committee on Radioactive Waste Management
Consumers Committee for Great Britain under the Agricultural Marketing Act 1958
Darwin Advisory Committee (the Darwin Initiative)
Expert Group on Cryptosporidium in Water Supplies
Expert Panel on Air Quality Standards
Farm Animal Welfare Council
Hill Farming Advisory Committee for England, Wales and Northern Ireland
Independent Agricultural Appeals Panel*
Independent Scientific Group on Cattle TB
Inland Waterways Amenity Advisory Council
Pesticide Residues Committee
Royal Commission on Environmental Pollution
Science Advisory Council
Sustainable Development Commission
Veterinary Products Committee
Veterinary Residues Committee
Water Regulations Advisory Committee
Zoos Forum

*Formerly the Integrated Administration and Control System Appeals Panel

**Advisory NDPBs (jointly funded with Department of Health and Food Standards Agency)**

Spongiform Encephalopathy Advisory Committee

**Tribunal NDPBs (Defra funded)**

Agricultural Land Tribunal (England)
Commons Commissioners
Dairy Produce Quota Tribunal
Plant Varieties and Seeds Tribunal

## 38. Bodies outside the Departmental boundary

The public sector bodies which have not been consolidated in these accounts, but for which the Department had lead responsibility during the year, are as follows:

**Executive NDPBs**

British Potato Council
Countryside Agency
Consumer Council for Water
English Nature
Environment Agency
Food from Britain
Gangmasters Licensing Authority
Home Grown Cereals Authority
Horticultural Development Council
Joint Nature Conservation Committee (funded from English Nature Grant in Aid)
Meat and Livestock Commission
Milk Development Council
National Forest Company
Royal Botanic Gardens, Kew
Sea Fish Industry Authority
Waste and Resources Action Programme
Wine Standards Board (part of FSA from 1 July 2006)

**Public corporations**

British Waterways Board
Covent Garden Market Authority
Nuclear Industry Radioactive Waste Executive – Nirex CLG Limited (jointly owned, 50% DTI and 50% Defra)

**Other bodies**

British Wool Marketing Board
National Broads Authority
National Parks Authorities

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