

enhancing... improving... cleaning... restoring...  
changing... tackling... protecting... reducing...  
creating a better place... influencing...  
inspiring... advising... managing... adapting...

## Annual report and accounts 2008-09

We are the Environment Agency. It's our job to look after your environment and make it a better place – for you, and for future generations.

Your environment is the air you breathe, the water you drink and the ground you walk on. Working with business, Government and society as a whole, we are making your environment cleaner and healthier.

The Environment Agency. Out there, making your environment a better place.

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**Environment Agency  
Annual Report and Accounts 2008-2009**

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# ANNUAL REPORT and ACCOUNTS

for the year ended

31 March 2009

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## Foreword

This is the first Environment Agency annual report since I took over as Chairman in July 2008. While it is a great privilege to lead the biggest environmental organisation in Europe, it is also daunting given the environmental challenges we face – there is no doubt that we are the last generation with the opportunity to prevent catastrophic climate change.

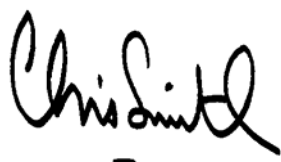
While current economic difficulties dominate the headlines and the minds of politicians, it's important to remember that the environmental crisis is deeper and potentially much more damaging.

Climate change remains the single biggest challenge that humanity and the biosphere have to face. A twelve-year-old child has lived through eleven of the warmest years on record and is likely to witness more extreme weather in their lifetime than any previous generation.

Globally, damaging greenhouse gas emissions continue to rise, while international targets insist that they should be falling. Here in the UK, the Government is committed to reducing CO2 emissions by 34 per cent on 1990 levels by 2016. A welcome target, and one which the Environment Agency will play a major part in achieving.

We also have a vital role in helping people and communities cope with the consequences of climate change and threats to their environment. During the past year we have improved flood defences for thousands of homes and businesses; we have begun the essential task of implementing the recommendations made by Sir Michael Pitt in his review of the devastating summer floods of 2007; we have helped to secure further improvements in air quality and water quality; we have continued to improve the regulatory approach to reduce the impact of business, agriculture and waste on the environment; and we have set out a long-term future strategy for water resources. We look forward to developing our work further, in these and other fields, in the year ahead.

My own task as a new Chairman has been made easy by the strong foundations laid by my predecessor, Sir John Harman. John, with a dedicated team of Board Members – some of whom, sadly, are now leaving us at the end of their terms of office – have together ensured that we face the challenges ahead with a purposeful and highly effective organisation.



**RT HON LORD SMITH OF FINSBURY**  
**CHAIRMAN**  
7 July 2009

## MANAGEMENT COMMENTARY

### Introduction

We are the leading public body for protecting the environment in England and Wales. Our vision is for a rich, healthy and diverse environment for present and future generations. Our aim is to influence and work with government, industry and local authorities to make the environment a priority.

We have around 12,000 members of staff and a budget of almost £1.2 billion. Around 65 per cent of our funding comes from the UK Government and the Welsh Assembly Government (WAG), and most of the rest comes from various charging schemes.

Across England and Wales, our regional offices work closely with other regional bodies to develop the right solutions for the local environment. We also have area offices working with local authorities and others to tackle local environmental issues.

### The major challenges we face

#### Preventing and adapting to climate change

2008 brought new evidence of the seriousness of the climate challenge. Arctic sea ice is declining much more rapidly than previously thought leading to a potential rise in sea level of up to 1.5 metres by 2100. Global greenhouse gas emissions have been rising at three per cent on average per year since 2000 and eleven out of the last twelve years rank amongst the hottest years on record.

We continue to operate the EU Emissions Trading Scheme (EUETS) which contributes to achieving the UK Government's targets to reduce greenhouse gas emissions. This year, the Government appointed us as the regulator responsible for applying the EUETS to the aviation industry.

In England and Wales, we will operate the Carbon Reduction Commitment, an emissions trading scheme that will cover the amount of energy large businesses and public sector organisations use. The scheme, which is due to start in April 2010, will help to achieve the Government's targets to reduce greenhouse gas emissions.

#### Inland flood management

The review of the 2007 floods in Gloucestershire, Yorkshire and Humberside by Sir Michael Pitt was published in June 2008. The review made 92 recommendations. Building on our existing work, we are now also leading on implementing many of these, and are working with others to implement several more. One of the main recommendations was that we take on the strategic overview for all sources of flooding in England. We are taking on this responsibility progressively ahead of forthcoming legislation, and it puts us at the forefront of flood management in England. Separate arrangements are in place in Wales.

We secured additional funding of £10 million from the UK Government over this comprehensive spending review period to implement important recommendations made in the Pitt Review. These include sharing information to produce more accurate flood warnings and improving our mapping and modelling capability. We received an additional £575,000 from the Welsh Assembly Government to take forward similar initiatives in Wales. We also worked with the Met Office to create an extreme rainfall alert warning service and to set up the new National Flood Forecasting Centre that began operating on 1 April 2009.

We have been working with the UK Government to produce a long-term investment strategy for flood and coastal erosion risk management in England. This looks at what the risks are, how to manage them, and how much we will need to invest over the next 25 years.

We also agreed with the Department for Environment, Food and Rural Affairs (Defra) to bring forward £5.1 million of flood defence grant-in-aid money from 2009-2010 into 2008-2009 and to transfer a further £9 million of local authority capital grant allocation into our capital programme. This allowed us to make progress on major flood defence schemes, including one in Carlisle where there was severe flooding in 2005. In Wales, £30 million of European funding received for flood risk management will help us to carry out work on a number of projects, including those in the Conwy Valley and Tregaron.

We have increased the number of people registered with Floodline Warnings Direct by more than 136,000 since June 2007. More than 433,000 people are now registered with the service. In January 2009 we made it possible for people to register from our website.

We continue to ensure that flood defences are in the best possible condition to protect people and property. We have met our target to improve the condition of more than five per cent of our 'high consequence' flood risk management systems during 2008-2009. 72 per cent of these systems (951 out of 1,323) are now at the required condition. If a system is below the required condition it means that the risk of failure, while still very low, has reached a level where we need to take corrective action. We are working to improve the systems which are not at the required condition.

Since July 2007, we have completed 90 flood defence schemes, providing increased protection to more than 58,000 properties.

### **Coastal flood management**

Rising sea levels will have an impact on the rate of coastal erosion. In April 2008, the UK Government gave us responsibility for overseeing all flood and coastal erosion risk management in England. It is now us, rather than Defra, who administer capital grants to fund coastal erosion projects<sup>1</sup>. This increased our accountability and helped ensure that work was prioritised and managed.

This year we set up a national coastal forum and worked with local authorities and communities to establish 22 coastal management groups. We provide resources to help run these groups, which aim to influence national and local policies to manage the risk from sea flooding and coastal erosion.

### **Improving and protecting inland and coastal waters**

We have improved the quality of rivers and other waterways for the eighteenth consecutive year. The biological quality of 72 per cent of rivers in England and 87 per cent of rivers in Wales is classed as 'good or better'. We also measure chemical quality and 76 per cent of rivers in England and 95 per cent of rivers in Wales are 'good or better'.

Next year, we are changing the way we measure water quality to take account of the Water Framework Directive (WFD). We will assess the water environment by looking at over 30 measures, covering both ecological and chemical status. This information will help us target our efforts to improve the environment.

As part of the WFD, we've worked with others to draw up draft River Basin Management Plans which set out what will be done to improve inland and coastal waters over the next six years.

Every five years the economic regulator for the water industry, Ofwat, reviews the prices that water companies can charge their customers. The current Periodic Review (PR09) also determines how much water companies can spend on improving their services and the environment. We identify the environmental aspects that need to be taken into account, and include them in the National Environmental Programme. This helps companies determine how much they need to invest, and sets out targets for them to meet. This time, the target is to improve or maintain more than 3,200km of rivers and over 4,000km of transitional and coastal waters as well as 27 wetlands, 31 bathing waters, 31 shellfish waters and 37 groundwater bodies. We identified 162 water company schemes for inclusion in PR09, benefiting approximately 2,500km of river and 350km<sup>2</sup> of wetland Habitat Directive sites in England and Wales.

In 2008-2009, 355 out of 495 bathing waters (72 per cent) met the European Commission Guideline Bathing Water Standard, falling short of our target of 420. This was due to some of the highest summer rainfall on record, which caused increased overflows from sewerage systems into watercourses and increased water run-off from agricultural land.

### **Water resources**

We have launched a new water resources strategy for England and Wales, setting out how we believe water resources should be managed over the coming decades.

Water companies have been preparing their Water Resource Management Plans. These plans show how companies will manage the supply and demand for water sustainably over the next 25 years while still protecting the environment. Water companies will publish their final plans in 2010.

We met the targets in the Restoring Sustainable Abstraction programme, completing more than 240 investigations into the environmental impact of abstractions. We also identified solutions for addressing damaging abstractions for 92 schemes.

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<sup>1</sup> For accounting purposes, this is shown as a Machinery of Government change as set out in notes 1(c) and 13(c).



We made progress towards changing licences in order to improve the environment. We continue to make progress towards a solution with United Utilities for the Brennand and Whitendale scheme in our North West Region. We also negotiated 16 voluntary licence changes with abstractors in Wales, benefiting Habitats Directive sites on the Rivers Wye, Teifi and Cleddau.

### **Improving the environment for people and wildlife**

It's vital that people are free to enjoy their local areas and that wildlife habitats are protected. In 2008-2009, we continued to work with local authorities and Local Strategic Partnerships in England and Local Service Boards in Wales to improve the environment.

We have increased our efforts to reduce the risks posed by illegal waste sites. We have closed down a number of these sites and have brought others into compliance with the regulations. We continue to tighten the requirements of existing permits where necessary and to make better use of injunctions to tackle illegal waste sites.

In 2005, we established a target to reduce 'big, bad and nasty' illegal dumping incidents. Since then, we have significantly reduced such incidents. In 2008-2009 there were 244 cases of 'big, bad and nasty' illegal dumping, down from 467 in 2005-2006.

Clean rivers mean healthy fish. This year we planned and completed over 750 actions to improve principal salmon, eel and trout rivers.

Salmon remain under pressure internationally from factors affecting marine and freshwater environments. We continue to protect them in England and Wales. We renewed the National Spring Salmon Byelaws to prevent people killing the salmon they catch before June each year. We introduced 'carcass tagging' for all salmon and sea trout legally caught in nets or traps in England and Wales. We also put a ban on the sale of rod caught salmon and sea trout. Now only farmed salmon and sea trout and wild fish caught in legal net and trap fisheries can be bought and sold in England and Wales.

There has been an increase in the number of people fishing, with rod licence sales at record levels. We sold 1,356,822 rod licences last year, 1 per cent above our target.

### **Business and the environment**

We want all businesses to put the environment at the heart of business decisions and report their performance. With public awareness of the environment increasing, there can be a commercial advantage to companies that address their environmental impacts. We welcome the increasing interest among investors about companies' environmental performance. We believe this will lead to more and better disclosure of environmental performance by business.

The number of serious and significant pollution incidents caused by businesses continues to fall. There was a small decrease in these incidents in 2008-2009 – 678, compared with 693 the previous year.

### **Better regulation**

We have continued to reduce administrative costs to business. We exceeded our £15 million target, reducing business administration costs by £17 million in 2008-2009.

We have worked with major water companies to agree a system of self-monitoring that will increase their focus on the performance of their sewage treatment works. This will better protect the environment through greater knowledge of the loads being discharged into watercourses.

We have also improved the way we regulate. We are simplifying and improving the way we provide permits to our customers, receive operator returns and carry out inspections. We are implementing nationally managed systems and a consistent IT framework.

The number of businesses we regulate with higher risk Operator Pollution Risk Appraisal (OPRA) scores has reduced by 17 per cent. The number of companies we regulate that have an internal environmental management system has risen by 6.5 per cent.

We are working with businesses to make sure they comply with permit conditions. In 2008-2009 there were 1,242 Category 1 and 2 permit breaches, fewer than our target ceiling of 2,000.

### **Developing our organisation**

Under our Corporate Strategy, *Creating a better place*, we are progressing in the following areas.

#### Our workforce is more diverse

We have increased our black and minority ethnic (BME) population and have exceeded our target. This success was due to a significant reduction in our BME turnover and our focus on education and development. The Stonewall Workplace Equality Index named us as one of the top 100 employers in England and number one in Wales for lesbian, gay and bisexual people.

#### Using our resources more efficiently

We use our resources to achieve the most we can for the environment. We continue to have an impressive track record with sustainable procurement. This year we engaged with over 100 key suppliers, briefing both them and staff about important principles of sustainable procurement, including how to select, use and dispose of products. In September 2008 we received an award from the Chartered Institute of Purchasing and Supply for our work on sustainable timber procurement.

We also made efficiency savings of £42.7 million last year. This is over £17 million above the target we agreed with Defra and WAG. Of this, flood and coastal risk management saved £24.5 million – £9.5 million above the target. We redirected the money we saved to priority areas of the business including protecting more homes from flooding, investigating ways of reducing the impact of climate change and improving water quality.

We continue to make improvements in developing our own environmental performance, and to consider our carbon footprint across all of our work. We have reduced our carbon footprint by 14 per cent since 2006-2007. Over the last two years, we have reduced our business mileage by almost nine million miles. The Energy Saving Trust awarded us its Green Fleet Hero award for Business Mileage Champion in recognition of our efforts. Our approach to managing our environmental impact was recognised at the Sunday Times Best Green Company awards where we won an award for our employee engagement work. In December, we announced a commercial partnership to install around 80 large wind turbines on our land, and are leading the way in tackling climate change in the public sector.

Our active pension fund received external recognition awards for our best practice in public sector governance, green investment, and communicating scheme changes to members. We produce a separate annual report and accounts for both of our pension funds.

#### Communications

We have strengthened and increased the impact of our communications. Our media profile is higher and more positive. Our programme to support engagement with local communities is recognised as one of the best in the public sector.

This year we completely rebuilt and relaunched our website ([www.environment-agency.gov.uk](http://www.environment-agency.gov.uk)), which gets 450,000 unique visitors every month. Over the last three years we have worked with our customers to understand the way they want to use our site, and the way they expect to find information on it. We then built the site around those needs. Since launching the new site the number of customers that complete the task they have come to do has risen to over 74 per cent and satisfaction with the site has increased from 58 per cent to 64 per cent.

Our annual conference – *Environmental futures 08: creating the climate for change* – brought together leading voices in government, business, investment and the environmental community to discuss their roles in adapting to climate change and working towards a low-carbon economy.

This year we received the Plain English Campaign's Platinum Award for our continuing commitment to producing clearly written materials. We are one of only ten government departments and agencies to receive this award.

## Financial highlights

### Funding

Our total funding in the year was £1,180 million, an increase of £98 million on the previous financial year, after the machinery of government change set out in note 13(c) of the accounts. Of our total funding, £770 million (65 per cent) was provided in the form of grant-in-aid from Defra and the Welsh Assembly Government (WAG). £374 million (32 per cent) was raised through our charging schemes and local flood defence levies (in England), and £36 million (3 per cent) came from other miscellaneous sources.

£717 million of our grant-in-aid came from Defra to fund our work in England and £53 million from WAG to fund our work in Wales.

### The way we report income in our accounts

Income raised from our charging schemes and other miscellaneous income received is included within the Income and Expenditure Account. Grant-in-aid is treated as a contribution from a controlling party giving rise to a residual financial interest and therefore is accounted for as a financing transaction, credited directly to the income and expenditure reserve. This means that the deficit before reserve transfers that is reported in the income and expenditure account is covered by grant-in-aid funding.

### Expenditure

We spent £1,286 million in 2008-2009. Of this, £713 million (55 per cent) was spent on flood risk management; £367 million (29 per cent) on environment protection (protecting and improving air, land and water quality); £138 million (11 per cent) on safeguarding the availability of water resources and £68 million (5 per cent) on our other water management functions, mainly fisheries and navigation.

### Overall results

We had an operating deficit for the year of £883 million. The offsetting of interest receivable of £4 million, and income from the sale of assets of £2 million, financing income on pension scheme assets and liabilities of £14 million and transfers of £7 million to capital reserve and £70 million from pensions reserve, resulted in a retained deficit of £799 million transferred to the income and expenditure reserve.

Grant-in-aid received in year was £770 million. If the grant-in-aid received was included in the income and expenditure account, it would show that we spent £29 million more than our total finances, most of which relates to a pension scheme adjustment of £25 million in accordance with Financial Reporting Standard 17 (FRS17).

### Future developments – spending review

Government decisions on funding for the environment, which determine the level of our grant-in-aid provision, are made through HM Treasury's Spending Review process. This sets three-year expenditure budgets for government departments. Following the Chancellor's decision to conduct a comprehensive spending review in 2007 (CSR2007) we supported Defra in preparing its submissions to HM Treasury. CSR2007 set spending plans for the period 2008-2009 to 2010-2011.

Despite the tight fiscal climate for this review, we received additional grant-in-aid funding from Defra of £139 million for 2008-2009 for our work in England. This included £40 million that was allocated to flood defence schemes promoted by Local Authorities and Internal Drainage Boards. The responsibility for administering these grants was transferred from Defra to the Environment Agency on 1 April 2008. Of the remainder, the majority relates to additional capital expenditure for flood defence projects, of which £5 million has been brought forward from 2009-2010. We will also receive an increase of £48 million for Flood Risk Management in 2009-2010 and anticipate a further increase of approximately £49 million in 2010-2011. Our grant-in-aid funding allocation for our other services is to remain stable for 2009-2010 and is expected to reduce by £9 million in 2010-2011. We are determined to deliver all of our work and to continue to improve the environment in a way that demonstrates value for money.

In Wales we will be receiving a similar level of grant-in-aid funding in 2009-2010 to that for 2008-2009, except for flood risk management revenue which will increase by £1 million.

### **External Funding**

Thanks to the efforts of our staff and our partner organisations, £68.5 million was spent on the environment through our partnership projects in 2008-2009. The majority of this, £53.4 million, was external funding from funding organisations and our project partners and meant that we received £3.52 of external funding for every £1 of ours. This exceeded the targets we had set for the year. The projects delivered across a range of project areas including habitat creation for wildlife and flood risk mitigation schemes.

We also worked to develop future partnership projects. The environmental focus of our external partnership work is shifting towards managing flood risk, improving the impact of businesses on the environment and wiser, sustainable use of resources. These areas of focus are aligned with the environmental direction approved by the Directors in 2008 for our external funding and partnership projects.

### **Environmental accounting**

Our Environmental Finance function is helping to implement our corporate strategy on greening business through promoting the benefits of environmental accounting, and by engaging constructively with the UK financial services sector which influences all other business sectors.

We believe that accounting for environmentally significant expenditure can help us and business save resources and money. We continue to work with the UK accounting bodies, Envirowise (a Government funded body to promote best practice in environmental management) and companies to develop and implement good practice guidance to promote this. We have built environmental accounting into our own financial accounting system and use this information to monitor and report on our environmental performance. Our sustainability report published in appendix A includes both physical and financial information on our significant environmental impacts and supports the goal of wider private and public sector reporting, in addition to testing and demonstrating the latest Government standards in environmental reporting.

We have promoted widely the principle that corporate environmental governance is good for business. In particular we have sought to increase the extent and quality of environmental disclosures by FTSE All-Share listed companies, influencing new company law and publishing biannual reports examining the level of environmental disclosures by publicly listed companies. This information is crucial to make environmental risks and opportunities clear to shareholders, investors and other key stakeholders.

### **Financial management**

Our improved financial systems have allowed our Finance Directorate to handle transaction processing more efficiently, saving approximately £1.8 million per year. Our single Finance Services Centre for England in Peterborough has taken on further activities, freeing up our regional and head office finance staff to provide more value adding services to business managers.

Working with consultants KPMG, we have benchmarked our services against the performance of comparable organisations. This review has identified that our finance department is well regarded for its ability to track spend and income and produce useful reports. We have provided additional training to help to improve the business support skills of our management accountants to provide a more proactive customer focused service.

## Other statutory information

### How we have prepared these accounts

We have prepared the annual accounts in accordance with the Accounts Direction issued by the Secretary of State for Environment, Food and Rural Affairs and Welsh Ministers. This has also received the consent of HM Treasury, under section 45 of the Environment Act 1995.

### History of the Environment Agency

The Environment Agency was established on 8 August 1995 following Royal Assent for the Environment Act 1995. We took up our statutory powers and duties on 1 April 1996, when the functions of the National Rivers Authority (NRA), Her Majesty's Inspectorate of Pollution (HMIP), the Waste Regulation Authorities (WRA) and several smaller units of the Department of the Environment were transferred to us. Our powers and duties primarily relate to environment protection, flood risk management, water resources, fisheries, recreation, conservation and navigation.

The Environment Agency is a Non-Departmental Public Body (NDPB). NDPBs are public bodies that, although not part of government departments, carry out functions on behalf of sponsor departments who fund them and monitor their performance. NDPBs are independent of the department that sponsors them, and are managed 'at arm's length'. This independence allows them to focus on their own objectives.

During 2008-2009, our principal sponsor in government remained Defra. Defra oversees the environmental policy framework within which the Environment Agency operates in England. In Wales, we are a WAG Sponsored Body. WAG is responsible for the policy and oversight of all of the Environment Agency's functions in Wales. We operate under a Financial Memorandum issued by Defra and WAG.

The Department of Energy and Climate Change (DECC) was formed during the year. We receive funding from DECC for delivering duties that were previously funded by Defra.

### Our principal activities

#### Water Resources

Our Water Resources function is funded entirely through abstraction charges. Abstractors pay a charge for the right to take water out of rivers and other water sources for business use. We are required to ensure that, taking one year with another, income from abstraction charges equals expenditure. Remaining balances at the year-end can be carried forward to be used or recovered in future years.

From 2008-2009, abstractors were also charged an environmental improvement unit charge. This will enable us to pay compensation when we vary or revoke abstraction licences to reduce the risk of environmental damage due to abstractions taking too much water from certain water bodies. We use the money raised from this charge only to make compensation payments. Any remaining balances at year end are carried forward to meet future compensation payments. The balances arise because we have to collect sufficient funds to pay the compensation before revoking or varying a licence.

#### Environment Protection, Navigation, Conservation, Recreation and Fisheries

The principal financial duty for each of these functions that are partly funded by charges to customers, is to balance income raised from these charges with relevant expenditure in each financial year. We have to ensure that, taking one year with another, income from applicants for and holders of consents, licences and authorisations equals expenditure incurred in connection with the granting and subsistence of these consents, licences and authorisations. As with Water Resources, any remaining balances at year end in our Environmental Protection charge amounts are carried forward. In the case of Navigation, Conservation, Recreation and Fisheries any in-year deficit balances are funded through grant-in-aid.

#### Managing flood risk

Funding comes principally in the form of Defra grant-in-aid for our work in England. Additional funding comes from levies on constituent local authorities, who are represented on Regional Flood Defence Committees. We carry forward any unspent levy balances at the end of the year as deferred income. In Wales, we also receive grant-in-aid from WAG towards the costs of our work in Wales.

#### Cost allocation and charging requirements

The Environment Agency has complied with the cost allocation and charging requirements as set out in HM Treasury and Office of Public Sector Information guidance. During the year we have worked with HM

Treasury to confirm that our charges are in compliance. We are working with HM Treasury, with support from Defra, to regularise the basis of future charging schemes.

### **How we are managed**

#### **Board and executive directors**

The Environment Agency is governed by a Board. On 31 March 2009, the Board comprised eleven non-executive members, the Chairman and Chief Executive. The Secretary of State for Environment, Food and Rural Affairs and Welsh Ministers appoint members of the Board, except for the Chief Executive who is appointed by the Board with the approval of the Minister. A list of Board members is available on our website and is set out on page 15. Our Board members bring significant experience of issues that have an impact on the environment. The normal term of office for a non-executive Board member is three years, although length of appointments may be varied to ensure continuity of Board membership.

Defra's Accounting Officer has designated the Chief Executive as the Environment Agency's Accounting Officer. Barbara Young was the Chief Executive at the start of the financial year but resigned on 31 May 2008. Paul Leinster was appointed Acting Chief Executive from this date and he was permanently appointed to the role on 1 November 2008 after a competitive interview and selection process. The Environment Agency had seven other executive directors at 31 March 2009, who are not members of the Board. They are listed on page 16.

#### **Board committees**

The Audit and Risk Committee comprises five Board members and is currently chaired by Suzanne Warner who took over from Peter Bye with effect from 1 June. It meets quarterly and its principal aims are to ensure the standards of internal management and financial control are appropriate and to consider our Annual Report and Accounts and the pension fund accounts. The Committee considers and advises the Board and Accounting Officer on the scale and programme of Internal Audit, and the results of the work of both Internal and External Audit.

The Pensions Committee comprises four Board members, six Environment Agency executives and six representatives of the members of the Environment Agency Active Pension Fund. The Committee was chaired throughout 2008-2009 by John Edmonds. Lord Larry Whitty has now taken on the role of chairman with effect from 1 June 2009. The Environment Agency is responsible for administering two Local Government Pension Funds, an Active Fund for its employees and a Closed Fund for ex-employees of the former water authorities and associated bodies. The Pensions Committee has been delegated by the Board to manage all aspects of the management of both pension funds.

A separate report of the Remuneration Committee is included in the Remuneration Report on page 14.

#### **Employees**

It is our policy to actively support all employees to enable them to produce the best work they can to enable us to meet our aims. This involves attracting staff from all sectors of the community, valuing their different skills and abilities and responding flexibly to their needs in achieving our goals. People with disabilities are given the same consideration as others and will enjoy the same training and development opportunities and career prospects as other staff. Staff who have the misfortune of becoming disabled during their employment with the Environment Agency will be retained wherever possible and encouraged to develop their careers.

We make sure that our employment terms are fair. Employment procedures set out formal policies on key issues such as equal opportunities, disciplinary and grievance procedures, and sexual and racial harassment. We have national and regional joint committees for consultation and negotiation with employees. The committees also keep employees' representatives informed of developments affecting employment within the Environment Agency.

The average number of days sickness per employee during 2008-2009 was 6.1 days. This is a reduction from 7.2 days during 2007-2008. The main reason for long term absence in the Environment Agency is musculo skeletal system and connective tissue injuries. The reductions in average sickness levels are due in part to pro-active targeted occupational health strategies.

### **Health and safety policy**

We are committed to protecting the health, safety and well-being of our employees, contractors and the public. As well as complying strictly with the health and safety measures required by legislation, it is our policy to promote and take all reasonable steps to safeguard the health, safety and welfare of staff and others who may be affected by our actions.

We consult with health and safety representatives on matters relevant to this policy. We discuss and exchange ideas on health and safety with employees on a local basis. We regularly act on health and safety concerns and suggestions for improvements. Prime responsibility for health and safety lies with individual employees. All managerial and supervisory staff also have responsibility for matters within their control. The Board takes a close interest in health and safety performance.

### **Other issues**

#### **Research and development**

Our research and development programme covers the full range of our scientific and technical functions in environment protection, water management and environmental strategy. The overall purpose of the programme is to make our business more efficient and effective, and to take innovative and active approaches to the problems we have to tackle, the advice we give and the changing statutory framework within which we operate. Expenditure on research is expensed in the year in which it is incurred.

#### **Creditor payment policy and statistics**

We seek to meet the level of performance on payment of creditors set out in British Standard 7890, *Method for achieving good payment performance in commercial transactions*, and relevant HM Treasury guidance. During the year we paid over 98 per cent of invoices from suppliers within 30 days of receipt and registration. Creditor days, calculated on an average basis for the year, according to the formula in the Companies Act 2006 (Directors Report) were 9.8 days for 2008-2009 (17.8 days for 2007-2008). The reduction is due to the HM Treasury led initiative that requires government bodies to pay supplier invoices within ten days to help ease businesses cash flow during the current economic downturn.

#### **Environmental policy and social community statement**

We aim to adopt best environmental practice in everything we do and use our environmental management system to pursue sustainability and continuous improvement. Whenever possible, in accordance with our need to provide value for money, social benefits will be provided to local communities through our work. This includes aspects related directly to our work such as flood risk management, water resources, pollution prevention, navigation and fisheries, as well as associated recreation and leisure benefits.

We aim to:

- reduce energy and resource consumption through reduction methods consistent with best practice;
- develop and implement green transport plans for business and commuter travel and use renewable energy to minimise the release of greenhouse gases;
- minimise the use of hazardous materials and waste generated and prevent pollution;
- influence our suppliers and contractors to ensure that goods and services we buy support our environmental policy and, in turn, encourage suppliers and contractors to improve their own environmental performance; and
- monitor and report on our environmental impacts and related expenditure in the Annual Report and Accounts, including a report on our sustainability performance included in appendix A.

Our employees continue to support WaterAid which aims to provide clean water, sanitation and hygiene education to some of the world's poorest people. We encourage and help our staff to get involved in fundraising activities whilst still complying with public sector protocols. WaterAid benefits from the funds we raise. During 2008-2009, our employees gave £245,000 raised through various fundraising events.

#### **Pensions**

The Environment Agency is the statutory administering authority for the pension fund for new employees and transferees from predecessor bodies (known as the Environment Agency Active Fund) and also for a residual fund (the Environment Agency Closed Fund) which provides benefits to pensioners from predecessor organisations. Both are final salary defined benefit schemes administered in accordance with local government pension scheme regulations.

The Closed Fund receives no contribution from the Environment Agency and the Secretary of State for Environment, Food and Rural Affairs has a duty under section 173(3) of the Water Act 1989 to ensure the

Fund can meet and fully discharge its liabilities including future annual indexation awards. The Environment Agency has continued to receive on-going cash funding from Defra for the Closed Pension Fund to pay for its pension liabilities. Separate financial statements are maintained for the Closed Fund and Active Fund.

The Active Fund has been affected by the global financial crisis like all Local Government Pension Scheme funds. However, while our fund managers are seeking a healthy return from all our investments and our innovative environmental overlay strategy, our actuary has advised that future liabilities are also rising and so employer contributions need to be increased.

### **Managing risk**

As noted in the Statement on Internal Control on page 20, we have a structured and dynamic risk management strategy to help us deliver our objectives. Each key risk is owned and actively managed by a risk champion at Director level. We have not identified any significant risks that are likely to affect the Environment Agency's long-term position. Our risk management plans and reviews of performance against the plans help to ensure that risks are mitigated towards the target level.

### **Personal data**

In 2008–2009, there were no reportable incidents of lost personal data that we formally reported to the Information Commissioner's Office. We will continue to monitor and assess our information risks to identify and address any weaknesses, and will improve our systems. Further information is contained in the Statement on Internal Control.

### **Information requests**

For any information requests, please use the following email address: [enquiries@environment-agency.gov.uk](mailto:enquiries@environment-agency.gov.uk). Alternatively written communications can be sent by post to The Environment Agency, National Customer Contact Centre, PO Box 544, Rotherham, S60 1BY. Telephone contact can be made using 08708 506 506 (Monday to Friday, 8am to 6pm).

### **Managing our buildings**

We occupy 187,000 square metres of office space in our offices and depots. 100,000 square metres are freehold and 87,000 square metres leasehold. The majority of our offices and depots were inherited from the organisations from which we were formed. We carried out a major review of our administrative estate (offices and depots) in 2008-2009 and now have a National Accommodation Strategy which will through an overall accommodation change project deliver a reduction of 30 per cent in our office space. Our strategy will take us around ten years to complete as many of our leases have significant periods to run and this will be a major change programme for the organisation.

We have identified our surplus property and have a disposal plan in place in 2008-2009 we disposed of five freehold depots and ended two office leases.

Our National Accommodation Strategy recognises that many of our staff do not spend the majority of their time working from offices. This means that by using office space more flexibly, we can reduce the total amount of office space we need. When we have delivered the strategy we will have a ratio of 1.3 staff per desk and a reduction from the current 275 offices and depots to 175.

In 2008-2009 we started to deliver a significant relocation project for our Head Office operation. In 2010-2011 we will move up to 1000 staff from three offices in Bristol and Bath into a new build office in Bristol city centre. Building work started in October 2009 and is progressing well. This new building will attain the Building Research Establishment Environmental Assessment Methodology (BREEAM) 'excellent' rating. Occupation levels will be high with a ratio of 1.6 full time equivalent staff to one workspace.

We will work with other government organisations to look for opportunities to share space to make better use of the government estate. In 2008-2009 we agreed to sublet space in two of our offices to Her Majesty's Revenue and Customs and the Health Protection Agency.



**Auditor**

The Comptroller and Auditor General, head of the National Audit Office, is the statutory external auditor of the Environment Agency.

So far as the Accounting Officer is aware, there is no relevant audit information of which the Environment Agency's auditor is unaware, and the Accounting Officer has taken all steps that he ought to have taken to make himself aware of any relevant audit information and to establish that the Environment Agency's auditor is aware of that information.

A handwritten signature in black ink, appearing to read 'Paul Leinster', with a stylized flourish at the end.

**PAUL LEINSTER**  
**ACCOUNTING OFFICER**  
7 July 2009

## REMUNERATION REPORT

### Terms of Reference

The Remuneration Committee comprises four Board members and is chaired by the Chairman of the Environment Agency. Its terms of reference, which are derived from the Greenbury Code of Best Practice on Directors' Remuneration and adapted to the circumstances of the Environment Agency as a NDPB, are as follows:

1. The Remuneration Committee is appointed as a Statutory Committee of the Environment Agency Board to consider on behalf of the Environment Agency the matters relating to the remuneration of Environment Agency employees set out in paragraph 2 and, in so doing, shall have regard to the provisions of the Financial Memorandum and other relevant requirements of Defra.
2. The Remuneration Committee's role is to:
  - (a) consider, from time to time, the overall remuneration strategy of the Environment Agency;
  - (b) consider, in general, periodic pay reviews for Environment Agency employees;
  - (c) consider any significant policy issues involving terms and conditions other than pay;
  - (d) decide in conjunction with Defra as appropriate, all aspects of the remuneration of the Chief Executive;
  - (e) agree, upon the recommendation of the Chief Executive, any performance related pay for Directors;
  - (f) review the broad policy of remuneration for other senior executives, and the framework for succession planning for key posts; and
  - (g) receive an annual statement of expenses incurred by Board members.

### Business Conducted in Year

The Remuneration Committee met five times during the year ended 31 March 2009. It agreed the performance related pay of the Executive Directors for 2008-2009 and the Chief Executive's appraisal for 2008-2009, and objectives for 2009-2010. Membership consists of four Board Members (denoted by \*\* in table below).

During the year, the Committee also:

- reviewed progress on the reward strategy;
- reviewed Board Member expenses for 2007-2008; and
- endorsed the Environment Agency's approach to the pay award.

### Remuneration of Non-Executive Board Members

Under section 1 of the Environment Act 1995, Board members are appointed by the Secretary of State for the Environment, Food and Rural Affairs and the Welsh Assembly Government Minister for the Environment. The Act provides for the Environment Agency to pay its Board members such remuneration as may be determined by the appropriate minister. The level of remuneration is subject to review in the context of decisions taken by ministers from time to time in relation to salaries of this type. Non-executive Board members are not eligible for membership of the Environment Agency pension scheme or compensation for loss of office. Board members' appointments may be terminated at any time upon giving three months' notice in writing.

**Board Members' Remunerations (audited)**

The following table provides details of the appointment and emoluments of Board members who have received emoluments in the last two financial years:

Board Member	Date of Appointment or Re-appointment effective from	Period of appointment (years)	Time commitment (days per month)	Remuneration 2008-2009 £	Remuneration in 2007-2008* £	
Sir John Harman (ex Chairman) (i)	01 Jan 2004	4	2½ per week	40,316	117,712	
The Rt Hon Lord Smith of Finsbury (Chairman) (i) **	14 July 2008	3	3 per week	75,092	-	
Mr J Brathwaite CBE (ii) **	01 July 2008	3	4½	18,622	17,707	
Dr A Brown	10 Oct 2006	3	5	20,691	20,186	
Mr P Bye	01 Sept 2006	3	6	24,829	24,224	
Mr E Cante CBE (iii)	16 May 2008	(iii)	7	22,401	36,232	
Mr J Edmonds (iv)	01 June 2008	1	6½	26,898	26,242	
Prof R Hall (ii)	01 July 2008	3	6	24,829	24,224	
Mr R Percy	01 Nov 2006	3	6	24,829	24,224	
Dr M Smith (vii)	01 Sept 2008	2	7	28,968	28,261	
Dr L Stanton (iv)	01 June 2008	1	6	24,832	24,224	
Cllr Kay Twitchen OBE **	01 April 2007	3	6	24,829	24,224	
Lady Warner	18 Sept 2006	3	5½	22,760	19,682	
Lord Whitty **	18 Sept 2006	3	4½	18,622	18,168	
Baroness Young (ex Chief Executive) (vi)	01 July 2005	8	Full Time	35,157	214,720	
Dr P Leinster (Chief Executive) (vi)	01 Nov 2008	1	Full Time	202,967	-	
<b>** member of remuneration committee</b>				<b>Total</b>	<b>636,642</b>	<b>620,030</b>

\* The prior year figures have been amended to include the Chief Executive's bonus.

Note: Non-executive Board members have no entitlement to performance related pay and only the Chairman and Chief Executive are eligible for pension contributions or other benefits.

- i) Sir John Harman's appointment was extended by 6 months effective from 1 January 2008 with a time commitment of 2½ days per week and he retired on 30 June 2008 with a full time equivalent salary of £170,000.00. Lord Christopher Smith was appointed as Chairman of the Board to replace Sir John Harman with effect from 14 July 2008. His full time equivalent salary on appointment was £174,250.00.
- ii) Mr James Brathwaite and Professor Ruth Hall were re-appointed for a further three years from 01 July 2008.
- iii) Mr Edward Cante was appointed to the Board on 15 September 2003 for a period of three years. This was extended until 16 May 2008 and then was extended for a further six month period effective from 16 May 2008. Mr Cante retired from the Board on 16 November 2008. His full time equivalent salary was £102,465.00.
- iv) Mr John Edmonds and Dr Lyndon Stanton retired on 30 May 2009.
- v) Dr Malcolm Smith was re-appointed to the Board for one year with effect from 1 September 2007 and subsequently a further two years with effect from 1 September 2008.
- vi) The Chief Executive sits on the Board as an ex-officio member, for which he/she does not receive any additional remuneration. The total emoluments for the year are disclosed in the Executive Directors' table. When Baroness Barbara Young left the Environment Agency on 31 May 2008 her salary was £171,379.00. Dr Paul Leinster was appointed as Acting Chief Executive from 1 June 2008 and was subsequently appointed permanently as Chief Executive of the Environment Agency from 1 November 2008. His salary on appointment was £187,500.00.
- vii) Julie Hill, Emma Howard Boyd, Robert Light, John Varley and Jeremy Walker were announced as confirmed appointments to the position of part-time non-executive members on 9 June 2009. The appointments are being made to replace the four Board members (John Edmonds, Lyndon Stanton, Peter Bye and Richard Percy) who will come to the end of their terms during 2009.

Executive directors in addition to the Chief Executive.  
 Appointments, total emoluments and benefits in kind:

Date of Appointment	Total Emoluments 2008-2009 (Range £'000)	Total Emoluments 2007-2008 * (Range £'000)	Benefits in Kind 2008-2009 (£)	Benefits in Kind 2007-2008 (£)
01 Jul 2005	35 – 40	210 – 215	-	-
07 Mar 2005	145 - 150	140 – 145	-	-
08 Jul 2002	155 - 160	130 – 135	391	2,974
03 Jan 2006	150 - 155	135 – 140	2,837	2,045
01 Mar 2004	200 - 205	175 – 180	4,205	3,937
25 Feb 2008	120 - 125	10 – 15	2,136	201
08 Aug 1995	100 - 105	95 – 100	631	2,120
08 Aug 1995	150 - 155	135 – 140	2,102	1,681
01 Jun 2008	140 - 145	-	2,879	-

and performance related pay. The prior year figures have been restated to exclude employer pension contributions. The

Executive on 1 November 2008.

Director of Operations on 1 June 2008 and was subsequently permanently appointed to the position from 1 April 2009.

0.

9 when his salary was £131,173.00.

0.

anagh, Mr Mark McCloughlin, Mr Jonathan Robinson and Mr Robert Runcie have been appointed.

Executive directors in addition to the Chief Executive.  
pensions:

Accrued Pension at 31/03/2009 (Range £'000)	Increase in Accrued Pension During the Year (Range £'000)	Accrued Lump Sum at 31/03/2009 (Range £'000)	(Decrease)/ Increase in Lump Sum During the Year (Range £'000)	CETV at 31/03/2008* (restated) £'000	CETV at 31/03/2009 £'000	Real increase in CETV £'000
85 – 90	0 – 2.5	255 – 260	(0 – 5)	1,970	2,010	40
45 – 50	2.5 – 5.0	130 – 135	0 – 5	929	1,137	208
50 – 55	2.5 – 5.0	150 – 155	5 – 10	1,063	1,285	222
5 – 10	2.5 – 5.0	10 – 15	0 – 5	49	87	38
45 – 50	5.0 – 7.5	120 – 125	5 – 10	824	1,073	249
10 – 15	2.5 – 5	20 – 25	5 – 10	69	142	73
45 – 50	0 – 2.5	130 – 135	(0 – 5)	989	1,120	131
65 – 70	2.5 – 5.0	185 – 190	0 – 5	1,376	1,569	193
45 – 50	5.0 – 7.5	135 - 140	10 - 15	799	1,021	222

ing figure in last year's accounts. This is due to the CETV factors being updated to comply with The Occupational Pension (ent) Regulations 2008

The Chief Executive's performance related pay is calculated by reference to the extent to which pre-determined objectives have been achieved, with a maximum value of 20 per cent of basic pay. The Chief Executive is an ordinary member of the Environment Agency's Active Fund pension scheme, and the Environment Agency pays employer's pension contributions into the Active Fund at the same rate as for other ordinary participants. At the end of the year, his accrued pension entitlement from the Environment Agency's pension scheme was £48,600.

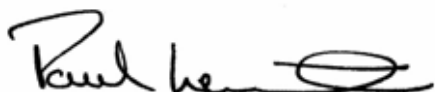
The executive directors' total pay includes an element of performance related pay which is calculated by reference to the extent to which pre-determined objectives have been achieved, with a maximum value of 20 per cent of basic pay. They are also ordinary members of the Environment Agency's Active Fund pension scheme.

#### Cash Equivalent Transfer Value (CETV)

This 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 when the member leaves a scheme and chooses to transfer the pension benefits they have accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their membership of the pension scheme, not just their current appointment as an Executive Director or Senior Manager. 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. CETVs are calculated within the guidelines and framework prescribed by the Institute of Faculty of Actuaries.

#### Real increase in CETV

This reflects the increase in CETV effectively funded by the employer. It takes account of the increase in accrued pension due to inflation and contributions paid by the member and uses common market valuations for the start and end of the year.



**PAUL LEINSTER**  
**ACCOUNTING OFFICER**  
7 July 2009

## STATEMENT OF ACCOUNTING OFFICER'S RESPONSIBILITIES

Under section 45 of the Environment Act 1995, Defra and Welsh Ministers have directed the Environment Agency to prepare for each financial year a statement of accounts in the form and on the basis set out in the Accounts Direction. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the Environment Agency and of its income and expenditure, 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 the Secretary of State, 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 financial statements; and
- prepare the financial statements on the going concern basis.

The Accounting Officer of Defra has designated the Chief Executive as Accounting Officer of the Environment Agency. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the Environment Agency's assets, are set out in the NDPBs Accounting Officers' Memorandum, issued by HM Treasury and published in Managing Public Money.



**PAUL LEINSTER**  
**ACCOUNTING OFFICER**  
7 July 2009

## **ACCOUNTING OFFICER'S STATEMENT ON INTERNAL CONTROL (SIC)**

### **Scope of responsibility**

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the Environment Agency's policies, aims and objectives, whilst safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Managing Public Money. I am personally accountable to the Board, Parliament and the WAG and the Board is accountable to central Government and Welsh Ministers.

Through the publication of the Annual Report and Accounts and the Corporate Plan, the Environment Agency reports on progress made and sets out how we propose to allocate the resource made available to us. Defra and WAG approve the Corporate Plan. As part of this process, we will communicate our policies, aims and objectives and those areas we perceive represent the greatest risk to the achievement of them.

The Environment Agency's aims and objectives in the delivery of central Government and Welsh Ministers policies and key issues related to them are discussed as appropriate at regular meetings of officials, including my meetings with Defra's Accounting Officer, as well as at meetings of the Environment Agency Chairman, Directors and myself with Ministers.

### **The purpose of the system of internal control**

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of departmental policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in the Environment Agency for the year ended 31 March 2009 and up to the date of approval of the Annual Report and Accounts, and accords with Treasury guidance.

### **Capacity to handle risk**

The Environment Agency has a statement setting out its strategic approach to risk management that has been agreed with its Board and Directors. The Directors' Team assesses and prioritises the Environment Agency's key corporate risks every year with individual Directors taking on the role of risk champions. These risks are actively managed and discussed regularly at meetings of the Directors Team. The Audit and Risk Committee and Board receive half-yearly reports on how key corporate risks are being managed.

The Environment Agency's management development training programmes incorporate risk management principles and techniques. Regional and Head Office management teams identify and manage their own major business risks in a similar way to the corporate risk process. Staff have access to guidance on the application of risk assessment. The Environment Agency has post-project appraisal and lessons learned processes in place. This is designed to improve knowledge sharing across the organisation. Staff are regularly reminded of the importance of complying with these requirements.

### **The risk and control framework**

The Environment Agency's risk management strategy recognises that effective risk management is a key component required for the delivery of its objectives. The strategy promotes the taking of well-managed risks when necessary to meet the needs of stakeholders. The strategy recognises the importance of prioritising how the Environment Agency responds to risk and that the response must be to reduce the residual risk to an acceptable and justifiable level. Clear accountability for risk ownership and the regular monitoring and reporting of progress to management teams are mandated to ensure risk management plans are delivered.

All key management teams undertake an annual business-risk assessment process. These prioritised assessments are used to compile an Environment Agency wide risk register. The register informs the Directors' corporate risk assessment. At management team and Director level, risk mitigation plans are developed and routinely monitored and reported on and it is through this process that the on-going maintenance and improvement of the Environment Agency's risk management process occurs.

To manage corporate risks, the Directors use a dynamic process to discuss and update their risk register. The current risks include succession planning for senior leadership posts, effective delivery of the flood and



coastal erosion risk management programme, financial uncertainty and funding risks for future years, managing internal change programmes and asset and information security. The Board takes an active part in considering and monitoring the management of business risks.

The security of assets and information has been given greater focus. Cabinet Office guidance has been implemented under the leadership of the Director of Operations and the Head of Corporate Security.

The Environment Agency is responsible for managing a diverse range of environmental hazards that have the potential to pose risks to the public and the natural environment. The Environment Agency is committed to engaging effectively with its stakeholders including the public to ensure that their views are known and, within the constraints imposed by statute, to take these opinions into account in its decision-making. We continue to work to enhance our ability to communicate effectively on environmental risk and engage with stakeholders.

## **Key elements of the system of internal control**

### **1. Governance**

The Environment Agency is an NDPB sponsored by Defra and WAG. The work of the Environment Agency is overseen by the Environment Agency Board. The Chief Executive is a member of the Board. The Board has a number of sub-committees including the Audit and Risk Committee providing oversight on matters of corporate governance and internal control.

The Chief Executive is the Accounting Officer and has a team of Directors that provide leadership and direction to the organisation. Within the organisation, they are responsible for establishing an effective system of internal control. Additional assurance is obtained through established programmes of external certification including Investors in People and International Standards Organisation (ISO) certification in environmental and quality management.

### **2. Strategy and Planning**

The Environment Agency has a long established vision for the environment and works to achieve this through implementing its Corporate Strategy *Creating a better place*. Each year a Corporate Plan is agreed with sponsor departments that sets out organisational targets and resources over a three-year period, as well as reporting on prior year achievements. The Corporate Plan is built up from and then cascades down into the local business plans and objectives of each operating unit.

### **3. Programme and Project Management**

The Environment Agency undertakes programme and project management in accordance with Office of Government Commerce (OGC) guidelines. Projects are initiated through the approval of business cases that contain appraisals based upon Defra, WAG and Treasury requirements. All programmes and projects have clear accountability frameworks and when appropriate make use of OGC Gateway Review methodologies to manage risk and focus on the successful delivery of benefits.

### **4. Change Management**

There are established protocols for managing any change that impacts on staff roles and responsibilities that incorporates active engagement with Trade Unions.

### **5. Performance Management**

The Environment Agency has an organisation-wide performance management framework designed to align strategic targets to each individual's performance objectives. The Directors' Team has a corporate scorecard used to monitor achievement of key organisational objectives. Regional and Head Office management teams also maintain and monitor scorecards to assist in maximising performance.

## **Review of effectiveness**

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the Environment Agency 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 Board and the Audit and Risk Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

The process that has been applied in maintaining and reviewing the effectiveness of the system of internal control includes:

1. The operation of the Environment Agency Board comprising non-Executive Directors and the Chief Executive that sets strategic direction, approves the corporate strategy and corporate plans and reviews performance. The Board receives reports from the Audit and Risk Committee on the standards of corporate governance and internal control operating in the Environment Agency.
2. The operation of the Audit and Risk Committee, a subcommittee of the Board, which meets quarterly. The principal aims of the Committee are to consider the Annual Accounts of the Environment Agency and to ensure the standards of internal management and financial control are appropriate. It also considers and advises the Board and Chief Executive on the Environment Agency's approach to risk management and corporate governance arrangements.
3. The Head of Internal Audit submitting an annual formal opinion to the Accounting Officer on the adequacy and effectiveness of the Environment Agency's risk management, internal control and governance processes in accordance with Government Internal Audit Standards.
4. An annual review of the effectiveness of the internal review procedures across the control framework. The Audit and Risk Committee and the Accounting Officer receive from the Director of Finance and Director of Operations an annual assurance report on internal control that is based upon an assessment of internal control procedures.
5. Acting on the recommendations made by external auditors in their management letters and other reports.

Areas that have been a concern during the year are set out in the paragraphs below. Actions have been taken or put in place to ensure that these risks are being managed appropriately.

Good progress has been achieved to improve the security of information and assets, with the introduction of a wide range of mandatory security measures, agreed by Directors, being rolled out across the Environment Agency. The security of the personnel and finance IT system has been significantly improved with the introduction of a new security control framework. During the year a significant number of new mandatory security requirements have been introduced by Government. Following the actions that we have put in place, overall our compliance with these measures is good. We have introduced a new reporting system to capture all security incidents. Losses have been reported and investigated in accordance with Cabinet Office and Information Commissioner's guidance. No losses have required reporting.

A range of projects is underway to improve the security of IT systems and assets, such as improved encryption software for laptops and better access controls to our network. In addition there are a number of actions being taken to improve our physical security controls and change the behaviour of staff towards security.

Four key areas, raised by a recent assessment of compliance with the Cabinet Office mandatory requirements, will be addressed in 2009-2010. These are: entry controls to our buildings; security vetting of personnel; control of IT access for personnel who change position or who leave the organisation, and proactive monitoring of abnormal use of IT systems.

The Environment Agency has over 8,000 chargecard holders, who can spend restricted sums of money on routine transactions including temporary staff, rail and hotel expenditure. It was reported last year that controls around the retention of receipts and approvals for expenditure required improvement. We have undertaken a campaign to improve controls in this area supported by a significant increase in internal monitoring. The application of management review procedures is improving as a result. A comprehensive review of the expenses policy and supporting systems will take place during 2009.

The Environment Agency has been facing an increasing level of bad debts in recent years. This has required a review of procedures to identify improvements that can be made to reduce the age profile of debts. Debt management is now centralised within the Finance Service Centre in Peterborough, supported by closer working with operational staff within the National Permitting Service and within Regional offices. The benefits of the improved procedures have been seen in this financial year, notwithstanding the more difficult economic conditions.

European and other grant funding has been increasing in recent years. Grant claims need to be audited or the funding can be reclaimed. At the year end, the Environment Agency had a contingent liability of £2 million relating to income received which would have to be repaid, should the supporting financial information not be accepted by the granting authority. Controls have been tightened to mitigate the risk of having to repay such funding in the future. During the year a small central External Funding finance team was established to assist with the management of the finances of the projects.

Business continuity management plans are in place across the Environment Agency. One third have been subject to a test in the current year. The remaining two thirds are due to be tested in 2009-2010. Some plans have been tested for real during the year. Testing is an important control, to ensure that the plans are robust and that managers are confident in implementing the plan should the need arise.

Declarations of interest by all staff and appointed Board and committee members are required to be completed. Controls need to be tightened to ensure all potential conflicts of interest are disclosed and appropriate action taken to mitigate the risks that are identified.

Project and Programme Management skills are very good in parts of the organisation where it is a required part of the role. This includes project staff responsible for the construction of flood defences. The competency levels in other parts of the organisation are not at such a consistently high level. Work is progressing to identify ways of improving processes, IT systems and staff behaviours to improve our performance in managing change programmes and projects.

The solvency position of the Environment Agency Active Fund was significantly reduced at the end of the year, due to the reduction in the fund's market values of investments. The FRS17 liability has increased by £120 million to £317 million. The 2010 fund valuation will trigger a review of employer contributions and investment strategies, so that the liability can be reduced in future years.



**PAUL LEINSTER**  
**ACCOUNTING OFFICER**  
7 July 2009

## **THE CERTIFICATE AND REPORT OF THE COMPTROLLER AND AUDITOR GENERAL**

### **THE CERTIFICATE AND REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSES OF PARLIAMENT, THE BOARD OF THE ENVIRONMENT AGENCY, THE SECRETARY OF STATE FOR ENVIRONMENT, FOOD AND RURAL AFFAIRS AND WELSH MINISTERS.**

I certify that I have audited the financial statements of the Environment Agency for the year ended 31 March 2009 under the Environment Act 1995. These comprise the Income and Expenditure Account, the Balance Sheet, the Cash Flow Statement and Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

#### **Respective responsibilities of the Environment Agency, Chief Executive and auditor**

The Environment Agency and Chief Executive as Accounting Officer are responsible for preparing the Annual Report, which includes the Remuneration Report, and the financial statements in accordance with the Environment Act 1995 and Secretary of State and Welsh Ministers directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of the Environment Agency's and Chief Executive's Responsibilities.

My responsibility is to audit the financial statements and the part of the remuneration report to be audited 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 the Environment Act 1995 and Secretary of State and Welsh Ministers directions made thereunder. I report to you whether, in my opinion, the information, which comprises the management commentary included in the Annual Report is consistent with the financial statements. 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.

In addition, I report to you if the Environment Agency has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by HM Treasury regarding remuneration and other transactions is not disclosed.

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

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

#### **Basis of audit opinions**

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 Environment Agency and Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Environment Agency's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration Report to be audited are free from material misstatement,

whether caused by fraud or error, and that in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

### **Opinions**

In my opinion:

- the financial statements give a true and fair view, in accordance with the Environment Agency Act 1995 and directions made thereunder by the Secretary of State, of the state of the Environment Agency's affairs as at 31 March 2009 and of its deficit, recognised gains and losses and cash flows 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 the Environment Act 1995 and Secretary of State and Welsh Ministers directions made thereunder; and
- information, which comprises the management commentary included within the Annual Report, is consistent with the financial statements.

### **Opinion on Regularity**

In my opinion, 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.

### **Report**

I have no observations to make on these financial statements.

Amyas C E Morse  
Comptroller and Auditor General  
National Audit Office  
151 Buckingham Palace Road  
Victoria  
London  
SW1W 9SS

16 July 2009

## INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31 March 2009

		2008-2009 Total	*As restated 2007-2008 Total
	Note	£'m	£'m
<b>Income</b>			
Income from activities	2	398.7	376.3
Capital grants and contributions	2	4.9	11.0
		<u>403.6</u>	<u>387.3</u>
<b>Expenditure</b>			
Staff costs	3	535.3	489.2
Capital works expensed in year	4	247.8	196.2
Other operating costs	5	409.0	389.9
Depreciation	8	94.2	84.9
		<u>1,286.3</u>	<u>1,160.2</u>
Net operating deficit		(882.7)	(772.9)
Sales of assets	2	2.1	1.9
Notional cost of capital	6	(78.8)	(75.2)
Interest receivable	7	3.8	7.6
Financing income on pension scheme assets and liabilities	18(e)	14.2	24.2
Deficit for the year after charging notional cost of capital		(941.4)	(814.4)
Reversal of notional cost of capital		<u>78.8</u>	<u>75.2</u>
Deficit for the year before reserve transfers		(862.6)	(739.2)
Transfers to reserves:			
Capital reserve	13(a)	(6.9)	6.8
Pensions reserve	18(e)	70.1	44.7
Retained deficit after reserve transfers		<u>(799.4)</u>	<u>(687.7)</u>

All of the Environment Agency's income and deficit for the year were derived from continuing activities.

The notes on pages 30 to 51 form part of these accounts.

\* For details of the prior year adjustment see note 13.

**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED 31 March 2009**

	Note	2008-2009 Total £'m	*As restated 2007-2008 Total £'m
Deficit for the year		(862.6)	(739.2)
Actuarial (loss) / gain recognised in the Active pension scheme	18(f)	(109.1)	39.7
Unrealised (deficit) / surplus on revaluation of tangible fixed assets	13(a)	(60.7)	153.0
Adjustments to fixed assets	13(a)	103.2	26.5
<b>Total losses during the year</b>		<b>(929.2)</b>	<b>(520.0)</b>

All of the Environment Agency's income and deficit for the year were derived from continuing activities.

The notes on pages 30 to 51 form part of these accounts.

\* For details of the prior year adjustment see note 13.

## BALANCE SHEET AS AT 31 March 2009

	Note	31 March 2009	*As restated 31 March 2008
		Total £'m	Total £'m
<b>Fixed assets</b>			
Tangible assets	8	2,612.3	2,555.8
<b>Current assets</b>			
Debtors	9	85.9	72.4
Short term deposits	22	74.0	126.0
Cash at bank and in hand		4.0	2.7
<b>Total current assets</b>		163.9	201.1
Creditors – amounts falling due in less than one year	10	(230.0)	(233.2)
<b>Net current liabilities</b>		(66.1)	(32.1)
<b>Total assets less current liabilities</b>		2,546.2	2,523.7
Creditors – amounts falling due after more than one year	10	(4.3)	(4.3)
Provisions for liabilities and charges	11	(17.9)	(22.8)
<b>Net assets excluding net pension liabilities</b>		2,524.0	2,496.6
<b>Unfunded pension liabilities</b>	18(c)	(21.5)	(23.8)
<b>Funded pension liabilities</b>	18(c)	(295.9)	(172.0)
<b>Net assets including net pension liabilities</b>		2,206.6	2,300.8
<b>Financed by</b>			
Deferred grants and contributions	12	67.0	59.9
<b>Reserves</b>			
Capital reserve	13(a)	704.7	697.8
Revaluation reserve	13(a)	1,840.6	1,798.1
Pensions reserve	13(b)	(317.4)	(195.8)
Income and expenditure reserve	13(c)	(88.3)	(59.2)
		2,206.6	2,300.8

The notes on pages 30 to 51 form part of these accounts.

\* For details of the prior year adjustment see note 13.

The financial statements on pages 26 to 51 were approved by the Board on 7 July 2009 and were signed on its behalf by:



ACCOUNTING OFFICER  
7 July 2009



**CASH FLOW STATEMENT FOR THE YEAR ENDED 31 March 2009**

	2008-2009 Total	*As restated 2007-2008 Total
Note	£'m	£'m
<b>Net cash outflow from operating activities</b>	14(a) (724.5)	(589.3)
<b>Returns on investments and servicing of finance</b>		
Interest received	3.9	7.5
<b>Capital expenditure and financial investment</b>	14(b) (106.9)	(68.4)
<b>Management of liquid resources</b>	14(c) 52.0	(31.6)
<b>Financing</b>	14(d) 779.6	686.3
<b>Increase in cash for year</b>	<u>4.1</u>	<u>4.5</u>

The notes on pages 30 to 51 form part of these accounts.

\* For details of the prior year adjustment see note 13.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2009

### 1 STATEMENT OF ACCOUNTING POLICIES

#### (a) Basis of Accounting

The financial statements have been prepared in accordance with the Direction on the Annual Accounts made by the Secretary of State for Environment, Food and Rural Affairs, and Welsh Ministers under section 45 of the Environment Act 1995. The financial statements are prepared in accordance with generally accepted accounting principles in the United Kingdom (UK GAAP) and the Companies Act requirements, the disclosure and accounting requirements contained in *Managing Public Money, Fees and Charges Guide* and in the Financial Reporting Manual (FReM) insofar as these are appropriate to the Environment Agency. The financial statements are prepared under the modified historical cost convention by the inclusion of fixed assets at their value to the business by reference to current replacement costs.

#### (b) Income

Income represents total income, exclusive of VAT, receivable in the year for functions undertaken in England and Wales. This relates to charges for regulation of businesses in England and Wales to monitor and control their impacts on the environment, whether air, water or land. It also includes the issuing of licences to permit certain activities such as fishing in controlled waters or navigation of boats and other craft in the South East of England. It does not include grant-in-aid received from Defra or WAG.

#### (c) Capital Grants and Contributions

Grants that relate to specific capital expenditure are treated as deferred grants and contributions, which are then credited to the income and expenditure account over the asset's useful life.

With effect from 1 April 2008, the Environment Agency took on responsibility for administering and issuing grants to Local Authorities and Internal Drainage Boards for flood and coastal erosion risk management capital schemes. The grant was received from Defra and distributed for appropriate projects undertaken during the year. Prior to this year, the grants were administered by Defra. At 31 March 2008, Defra held accruals and provisions amounting to £9.9m in respect of final grant claims due on capital schemes that had been substantially completed. These liabilities were transferred to the Environment Agency and are shown as a transfer from the income and expenditure reserve in the prior year.

This transfer is deemed to be a machinery of Government change and so the grants received and paid by Defra in 2008 of £39.6m have been included in the comparative figures (see note 13). Grant-in-aid receipts from Defra and WAG are treated as income received from a controlling party, giving rise to a residual financial interest. The receipts are treated as a financing transaction and credited directly to the income and expenditure reserve.

#### (d) Capital Reserve, Revaluation Reserve and Income and Expenditure Reserve

On the date of transfer of the predecessors' assets to the Environment Agency, the value of tangible fixed assets was reflected at their replacement cost in the capital reserve. It is the Environment Agency's policy to maintain the capital reserve, taken together with the balance of deferred grants and contributions, at a level equal to the costs on date of transfer and subsequent purchases at historic costs of its tangible fixed assets. Revaluations to reflect increases in current replacement costs are taken to the revaluation reserve. The balance on the income and expenditure reserve then represents accumulated surpluses/deficits in respect of revenue expenditure and related income.

#### (e) Capital Works Expensed in Year

Capital works which are expensed in year, comprise earth work on river banks; channel and related works; piling and stoning which are of no realisable value to the Environment Agency and other works on structures and properties belonging to third parties where the risk and rewards of ownership of the works undertaken does not vest in the Environment Agency.

#### (f) Tangible Fixed Assets

Land and administrative buildings are stated on the basis of open market value for existing use and are subject to independent professional revaluation in accordance with the RICS Appraisal and Valuation Manual every five years. Other tangible fixed assets are valued at net current replacement cost. Their values are revised annually through the use of suitable indices. Depreciation is calculated so as to write off

the value of tangible fixed assets on a straight line basis over the expected useful economic lives of the assets concerned.

The principal economic lives used for depreciation purposes are:

Operational Assets 20-100 years  
Freehold Buildings 10-60 years  
Plant and Machinery 3-20 years  
Vehicles 3-20 years  
Fixtures and Fittings 3-10 years; and  
IT Equipment 5-10 years

Freehold land is not depreciated, unless it forms an essential element of an operational asset and significantly changes its nature. There are only a small number of land assets that fall into this category. These assets are being depreciated to net realisable value over the life of the operational asset in which the land is being used.

Tangible fixed assets are reviewed for impairment if events or changes in circumstances indicate that the carrying amount needs to be reduced to reflect current replacement cost.

Any physical assets identified as a result of the Environment Agency's continuous programme of asset verification, which are not included in the asset register, are treated as revaluation adjustments in the year in which they are identified.

#### **(g) Accrued and Deferred Income**

Accumulated surpluses/deficits relating to water resources charges including the environmental improvement unit charge, flood and coastal erosion risk management local levies, and environmental protection charges are treated as deferred income/accrued income. Surpluses are credited to the income and expenditure account as costs exceed income from charges or local authority levy contributions. Deficits are debited to the income and expenditure account as income exceeds costs.

Deferred income includes environmental improvement unit charges received from abstractors to be used to fund compensation payments for the variation or revocation of abstraction licences. The change in licence conditions require approval by the Secretary of State and are used to reduce the environmental damage caused to watercourses through taking out too much water. Separate regional balances are retained for water companies and non-water companies. Charges are only raised where compensation has been assessed as likely to be paid in the future. A summary of balances is included in appendix C.

#### **(h) Leases**

Where the Environment Agency bears substantially the risks and benefits of owning a leased item it is accounted for as a finance lease. The leased assets are capitalised at the start of the lease term at their fair value or, if lower, the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and the lease liability to achieve a consistent rate of interest on the remaining balance of the liability. The finance charge is included within finance costs in the income and expenditure statement. Capitalised leased assets are depreciated over the shorter of the lease term or the estimated useful life of the asset.

Costs in respect of operating leases are charged to the income and expenditure account on a straight-line basis over the lease term.

#### **(i) Research and Development**

Expenditure on research is not capitalised. Development expenditure is capitalised and written off over the useful life of the asset if it meets the criteria specified in the FReM which has been adapted from SSAP 13 to take account of the not-for-profit context. Expenditure which does not meet the criteria for capitalisation is charged to the income and expenditure account in the year in which it is incurred. Fixed assets required for research and development are depreciated over the life of the associated project or according to the asset category if the asset is to be used in normal operations or for subsequent research and development work.

#### **(j) Pensions**

The Environment Agency makes regular contributions to the Environment Agency's Pension Fund (known as the 'Active Fund') to fund current and future pension liabilities. The employers contribution rate in 2008-2009 was 15.5 per cent of pay. Contributions are charged to the income and expenditure account taking

account of the expected pension costs over the service lives of the employees and are set at a level sufficient to ensure the scheme is fully funded following formal actuarial valuations of the fund. Following the 31 March 2007 triennial valuation of the Active Fund the Board approved the Agency's consulting actuary recommendation that the contribution rate should increase by 0.5 per cent per annum for the next three years to 2009-2010. Liabilities for enhancements to employees' pension arrangements under the Environment Agency's voluntary severance scheme are accounted for in the year in which applications for severance are approved.

The Environment Agency also effects payment of certain unfunded pensions to former, pre-privatisation water industry employees on behalf of the Government. Such pension payments are met entirely from grant-in-aid funding provided by Defra.

### **(k) Foreign Currency**

Foreign currency transactions are translated into sterling at a pre-determined rate during the year. Foreign currency balances held at the year-end are translated into sterling at the currency rate of exchange in force at the balance sheet date. Exchange gains and losses are recognised in the income and expenditure account.

### **(l) Short Term Deposits**

These comprise short-term loans to the Debt Management Agency with an original maturity date of three months or less and are included at book value.

### **(m) Public Private Partnership Contracts**

PPP transactions are accounted for in accordance with Financial Reporting Standard 5, Application Note F and Technical Note 1 (Revised) "How to account for PFI Transactions" as required by the FReM.

The Environment Agency has two PPP contracts (see Note 21) for the provision of services and capital works expensed in year. Therefore there are no tangible fixed assets recognised in the balance sheet. Expenditure incurred during the year on both contracts is charged to the income and expenditure account.

### **(n) Provisions**

Provisions are recognised when the Environment Agency has a present legal or constructive obligation as a result of a past event, when it is probable that an outflow of resources will be required to settle the obligation and when a reliable estimate can be made of the amount of the obligation. The Environment Agency makes all appropriate provisions including redundancy and early retirement costs, where these meet the definition within Financial Reporting Standard 12.

### **(o) Notional Cost of Capital Charge**

As required by the FReM, a notional cost of capital is required to be calculated for each class of business. The charge for each class of business is calculated using the real rate set by HM Treasury (currently 3.5 per cent) of the annual average value of assets and liabilities in the Balance Sheet.

### **(p) Financial Assets and Liabilities**

The Environment Agency classifies its non derivative financial assets as loans and receivables. Financial assets and liabilities are recognised at fair value (the transaction price plus any directly attributable transaction costs).

### **(q) Derivative Financial Instruments and Hedging**

The Environment Agency does not use derivative instruments such as interest rate swaps or any other hedging facilities.

2 Analysis of Income and Expenditure by Function

							*As restated	
	FCRM	WR	EP	Fish	Rec & Con	Nav	Total	Total
	£'m	£'m	£'m	£'m	£'m	£'m	2008-2009	2007-2008
	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m
<b>Income from activities</b>								
Abstraction charges	-	134.2	-	-	-	-	134.2	123.7
Navigation licence income	-	-	-	-	-	5.8	5.8	5.3
Fishing licence income	-	-	-	23.1	-	-	23.1	21.7
EP charges	-	-	170.0	-	-	-	170.0	170.3
Flood risk levies and charges	40.5	-	-	-	-	-	40.5	27.2
Recreation & Conservation	-	-	-	-	0.1	-	0.1	0.1
Grants:								
European Union	0.1	-	0.9	-	-	-	1.0	1.7
Other	0.4	0.2	7.3	-	0.1	-	8.0	7.3
Other income	4.9	1.2	7.9	0.9	0.4	0.7	16.0	19.0
<b>Income from activities</b>	<b>45.9</b>	<b>135.6</b>	<b>186.1</b>	<b>24.0</b>	<b>0.6</b>	<b>6.5</b>	<b>398.7</b>	<b>376.3</b>
Capital grants & contributions:								
Capital works expensed in year (CWEIY)	2.0	-	0.4	0.2	-	0.1	2.7	8.8
Amortisation	1.9	-	0.1	0.1	-	0.1	2.2	2.2
<b>Total income</b>	<b>49.8</b>	<b>135.6</b>	<b>186.6</b>	<b>24.3</b>	<b>0.6</b>	<b>6.7</b>	<b>403.6</b>	<b>387.3</b>
<b>Expenditure</b>								
Staff Costs	222.6	61.6	220.9	20.8	4.4	5.0	535.3	489.2
Depreciation and CWEIY	305.3	11.7	13.4	1.6	0.7	9.3	342.0	281.1
Other operating costs	185.4	64.3	133.1	16.5	4.3	5.4	409.0	389.9
<b>Total operating costs</b>	<b>713.3</b>	<b>137.6</b>	<b>367.4</b>	<b>38.9</b>	<b>9.4</b>	<b>19.7</b>	<b>1,286.3</b>	<b>1,160.2</b>
<b>Operating deficit</b>	<b>(663.5)</b>	<b>(2.0)</b>	<b>(180.8)</b>	<b>(14.6)</b>	<b>(8.8)</b>	<b>(13.0)</b>	<b>(882.7)</b>	<b>(772.9)</b>
Notional cost of capital	(64.4)	(8.1)	(0.4)	(5.2)	-	(0.7)	(78.8)	(75.2)
Interest receivable	3.8	-	-	-	-	-	3.8	7.6
Sales of assets	2.1	-	-	-	-	-	2.1	1.9
Financing income on pension scheme assets & liabilities	5.6	2.0	5.8	0.6	0.1	0.1	14.2	24.2
<b>Deficit after charging notional cost of capital</b>	<b>(716.4)</b>	<b>(8.1)</b>	<b>(175.4)</b>	<b>(19.2)</b>	<b>(8.7)</b>	<b>(13.6)</b>	<b>(941.4)</b>	<b>(814.4)</b>
Reversal of notional cost of capital	64.4	8.1	0.4	5.2	-	0.7	78.8	75.2
<b>Deficit for year before reserves transfers</b>	<b>(652.0)</b>	<b>-</b>	<b>(175.0)</b>	<b>(14.0)</b>	<b>(8.7)</b>	<b>(12.9)</b>	<b>(862.6)</b>	<b>(739.2)</b>

Abbreviations

EP – Environment Protection, NAV – Navigation; Rec & Con – Recreation & Conservation; Fish – Fisheries; WR – Water Resources; FCRM – Flood and Coastal erosion Risk Management.

\* For details of prior year adjustment see note 13.

**2(a) Analysis of Fees and Charges**

	WR £'m	WQ £'m	PIR £'m	RSR £'m	PPC £'m	WM £'m	Fish £'m	Nav £'m	Total 2008-2009 £'m	Total 2007-2008 £'m
Income										
Fees and Charges	134.2	65.8	3.3	11.4	31.9	57.6	23.1	5.8	<b>333.1</b>	321.0
Expenditure	135.6	67.3	3.6	11.6	32.6	54.3	35.1	18.8	<b>358.9</b>	345.7
(Under) / over recovery	(1.4)	(1.5)	(0.3)	(0.2)	(0.7)	3.3	(12.0)	(13.0)	<b>(25.8)</b>	<b>(24.7)</b>
Sales of assets	-	-	-	-	-	-	-	-	-	0.1
Capital grants	1.4	-	-	-	-	-	1.2	0.9	<b>3.5</b>	5.8
(Deficit) / surplus for the year	-	(1.5)	(0.3)	(0.2)	(0.7)	3.3	(10.8)	(12.1)	<b>(22.3)</b>	<b>(18.8)</b>

The above table is for Fees and Charges purposes. Costs funded by grant-in-aid have been excluded from the table above, except for Fisheries and Navigation where it is not possible to separate these costs and the excess is funded by grant-in aid, but are included in the table within note 2. Income from Flood and Coastal erosion Risk Management, Recreation and Conservation functions is excluded from the table and therefore it is not intended to fully meet the requirements of SSAP25 *Segmental Reporting*.

The financial objectives for the above Environment Protection and Water Resources charging schemes is full cost recovery taking one year with another, based on all costs including current cost depreciation and a rate of return on relevant assets (currently 3.5 per cent) and other notional costs where appropriate.

Abbreviations used in the table are as follows: -

Function	Key	Fees and Charges Schemes within each (sub) function
<b>WATER RESOURCES</b>	WR	Abstraction charges for businesses using water abstraction from rivers and the ground
<b>ENVIRONMENT PROTECTION</b>		
Water Quality	WQ	Charging for Discharges (CFD) from businesses into the environment
Process Industry Regulation	PIR	Regulation of businesses under such schemes as: Control of Major Accident Hazards (COMAH) EU Emissions Trading Standards (ETS)
Radioactive Substances Regulation	RSR	Regulation of Nuclear Sites RAS 1 and 2 Regulation of Non-Nuclear Sites RAS 3 and 4
Integrated Pollution Prevention and Control	PPC	Regulation of businesses under Integrated Pollution Prevention and Control (PPC)
Waste Regulation	WM	Licensing for Registration of Carriers and Brokers (ROCAS) Transfrontier Shipments (TFS) Hazardous Waste Producer Responsibility Producer Responsibility - Waste Electronic and Electrical Equipment (PR WEEE) Producer Responsibility - End of Life Vehicles (PR ELV) Polychlorinated Biphenyls (PCBs) Waste Management Licensing Waste Management Licensing – Exemptions
<b>FISHERIES</b>	Fish	Fishing Licences
<b>NAVIGATION</b>	Nav	Boat Licences

<b>3 Staff Costs</b>	2008-2009 £'m	2007-2008 £'m
Wages and salaries	345.2	322.3
Social security costs	27.7	27.7
Contributions to pension scheme (defined benefit scheme)	76.6	46.9
Amounts payable under the voluntary severance scheme	0.9	0.4
	<b>450.4</b>	<b>397.3</b>
Other staff related costs:		
Employment agency staff wages and salaries	14.4	10.3
Secondments wages and salaries	0.2	0.2
Early retirement and redundancy costs	0.1	1.9
Other staff related costs	27.4	31.9
FRS 17 Pension charge	84.3	68.9
	<b>576.8</b>	<b>510.5</b>
Less amounts charged to capital projects	(42.1)	(21.9)
	<b>534.7</b>	<b>488.6</b>
Amounts payable to Board members (see table on page 15)	0.6	0.6
<b>Total</b>	<b>535.3</b>	<b>489.2</b>

Average number of full time equivalent employees during the year:

	2008-2009 Number	2007-2008 Number
Executive managers	162	156
Staff and other employees	10,044	9,939
Operations Delivery (Flood and Coastal erosion Risk Management) employees	1,278	1,362
Employees with time limited contracts	462	390
Secondments into the Agency	6	6
Employment agency staff	1,135	820
<b>Total</b>	<b>13,087</b>	<b>12,673</b>

Information on the emoluments of Board members is given in the Remuneration Report on page 15.

4	Capital Works Expensed in Year (CWEIY)	2008-2009	2007-2008	31 March 2009	31 March 2008
		£'m	£'m	£'m	£'m
		Actual Expenditure	Actual Expenditure	Committed Expenditure	Committed Expenditure
	Embankments	37.9	47.6	19.3	17.4
	Repair & refurbishment	54.6	33.3	31.9	18.0
	Culverts & channel improvements	26.6	24.4	9.1	9.2
	Rock groynes & sea walls	18.7	21.1	32.8	16.8
	Piling	18.8	20.4	10.2	8.7
	Flood risk management strategies	33.7	15.6	17.3	14.0
	Beach recharge	29.9	11.8	15.9	10.6
	Flood mapping	7.7	6.2	2.5	1.7
	Other	19.9	15.8	7.1	12.2
	<b>Total</b>	<b>247.8</b>	<b>196.2</b>	<b>146.1</b>	<b>108.6</b>

£10 million of staff costs relating to internal estates, legal and other staff, who worked on CWEIY projects, are not included in the above analysis for 2007-2008. These costs have been included within staff costs as they cannot be related to specific projects and therefore the categories of costs included in the above analysis. The analysis for 2008-2009 has been included above and the costs amount to £11 million.

The committed expenditure as at 31 March 2009 excludes capital commitments on the two Public Private Partnership (PPP) contracts detailed in note 21.

The cost categories included above involve the following areas of work:

#### Beach Recharge

This involves shingle replacement on beaches to retain the integrity of a sea defence.

#### Culverts & Channel Improvements

This involves work on repairing or replacing culverts under land, roads and properties and channel improvements that assist the flow of watercourses.

#### Embankments

A significant proportion of projects involve the creation, improvement or heightening of embankments along the watercourses to encourage the water to stay within the river channel.

#### Flood Risk Management Strategies

Strategies are developed to provide long term flood risk options to cover a large area. It is from the long term strategies that individual flood risk projects are developed.

#### Flood Mapping

Flood Mapping is the development of multi-layered maps which provide information on flooding from rivers and the sea for England and Wales. Flood Maps also have information on flood defences and the areas benefiting from those flood defences.

#### Piling

This relates to the installation of piles (normally steel) along the river banks to strengthen them and secure the adjacent land and prevent landslips into the river causing obstructions. These works would largely be below ground. Once installed there is no ongoing benefit to the Environment Agency.

#### Repair & Refurbishment

This entails carrying out works to ensure that the condition of the flood defences are retained in the appropriate condition and repaired and restored to that condition as necessary.

#### Rock Groynes & Sea Walls

These defences are built as part of sea and coastal defences and are often used in conjunction with beach recharge activity to prevent sea flooding. Normally the responsibility for maintenance resides with the local authority.

#### Other

Other costs include the preparation of Water Level Management Plans and Catchment Flood Management Plans, locks and other waterway improvements, telemetry replacement and fish habitats improvements.



**5 Other Operating Costs**

		2008-2009 £'m	*As restated 2007-2008 £'m
Other operating costs is arrived at after charging the following categories of costs:	Note		
Fees and commissions		67.4	57.4
Grants awarded to Local Authorities and Internal Drainage Boards	13	54.4	57.3
Hired and contracted services		52.2	30.9
Transport and plant		24.6	23.2
Reservoir operating agreements		24.5	17.2
Information technology		23.6	30.9
Utilities		21.0	18.6
Building		19.6	21.5
Operating lease rentals:			
Plant & Machinery		15.2	15.6
Other		11.6	11.9
Training		14.8	11.3
Travel and subsistence		14.6	11.5
Public Private Partnership costs	21	14.1	23.1
Administration		12.0	11.8
Research and development costs incurred in year		7.2	7.9
Disposal of tangible fixed assets at book value	8	1.4	1.2
Provision for bad and doubtful debts		0.9	(0.6)
Bad debt write-offs		0.6	0.8
External Auditor's remuneration		0.3	0.3
Foreign exchange losses		0.1	0.1
Other		28.9	38.0
<b>Total</b>		<b>409.0</b>	<b>389.9</b>

\* For details of the prior year adjustment see note 13.

External Auditor's remuneration includes the audit fee for the statutory audit of £225,000, £15,500 for the IFRS audit and £48,000 for work on the certification of EU funded grant claims. No payment was made to the External Auditor for non-audit work.

**5a Losses and Special Payments**

Managing Public Finances requires disclosure of losses and special payments by category, type and value where they exceed £250,000 in total and for any individual items above £250,000. The following table provides a list by category and type of losses. There are no individual amounts in excess of £250,000. Losses are estimated at fair value and include costs incurred in previous financial years.

Category / Type	Number	Value £'m
Write-off of sundry debts	850	0.7
Loss of assets	225	0.3
Other (Cash losses; fruitless payments; unenforceable claims; special payments and gifts)	50	0.1
<b>Total</b>	<b>1,125</b>	<b>1.1</b>

**6 Notional Cost of Capital**

	2008-2009 £'m	2007-2008 £'m
Cost of capital charge	78.8	75.2

As required by the FReM, a notional cost of capital is required to be calculated for each class of business. The charge for each class of business is calculated using the real rate set by HM Treasury (currently 3.5 per cent) on the annual average value of assets and liabilities in the Balance Sheet.

**7 Interest Receivable**

	2008-2009 £'m	2007-2008 £'m
Interest receivable from short-term fixed interest deposits	3.8	7.6

Total £'m	At Valuation							At Cost	
	Operational Assets £'m	Freehold Land £'m	Freehold Buildings £'m	Plant and Machinery £'m	Vehicles £'m	Furniture and Fittings £'m	IT Equipment £'m	Assets Under Construction £'m	
4,474.0	3,688.8	42.7	72.3	384.4	34.3	51.9	90.8	108.8	
109.6	-	-	-	-	-	-	-	109.6	
-	35.6	-	-	7.4	6.0	5.3	15.7	(70.0)	
(17.6)	(3.4)	-	(0.1)	(7.3)	(1.9)	(0.3)	(4.6)	-	
(70.8)	(73.1)	(8.3)	(13.8)	16.3	1.5	2.4	4.2	-	
78.1	68.9	-	(0.2)	13.9	(0.6)	0.2	(4.1)	-	
<b>4,573.3</b>	<b>3,716.8</b>	<b>34.4</b>	<b>58.2</b>	<b>414.7</b>	<b>39.3</b>	<b>59.5</b>	<b>102.0</b>	<b>148.4</b>	
1,918.2	1,521.3	-	6.0	309.8	18.4	26.1	36.6	-	
94.2	52.8	-	2.0	10.0	4.3	5.4	19.7	-	
(16.2)	(2.7)	-	-	(7.0)	(1.7)	(0.3)	(4.5)	-	
(10.1)	(26.2)	-	(1.4)	13.3	0.9	1.3	2.0	-	
(25.1)	(19.8)	-	(0.4)	(0.4)	(0.2)	(0.2)	(4.1)	-	
<b>1,961.0</b>	<b>1,525.4</b>	<b>-</b>	<b>6.2</b>	<b>325.7</b>	<b>21.7</b>	<b>32.3</b>	<b>49.7</b>	<b>-</b>	
<b>2,612.3</b>	<b>2,191.4</b>	<b>34.4</b>	<b>52.0</b>	<b>89.0</b>	<b>17.6</b>	<b>27.2</b>	<b>52.3</b>	<b>148.4</b>	
2,555.8	2,167.5	42.7	66.3	74.6	15.9	25.8	54.2	108.8	

and buildings except assets under construction were re-valued at 1 April 2006 by external Chartered Surveyors on the basis of open market value for Apton, Carter Jonas & Co. UK, Smith Gore & Co. UK, Dixon Webb LLP, Stratton & Holborrow, Savills, JH Walter, Gwynfor Williams and Llewellyn internally at 31 March 2009 using suitable indices. Plant and machinery, fixtures and fittings and operational assets were valued internally at 1 April 1996 internally at 31 March 2009 using suitable indices. The impacts are shown in the indexation, reclassification and revaluation adjustment lines above. £7.8 million and £7.8 million for Land and Buildings respectively.

that forms an essential element of an operational asset and has significantly changed its nature as a result. The land is being written down to net book value in which it is being used.

<b>9 Debtors</b>	31 March 2009 £'m	31 March 2008 £'m
<b>Within one year:</b>		
Trade debtors	25.1	15.7
Bad debt provision	(7.2)	(6.3)
	<u>17.9</u>	<u>9.4</u>
Other debtors:		
Grants	0.2	0.1
VAT	23.8	25.0
Employee loans	0.2	0.1
Other	7.1	6.4
Prepayments	21.7	15.9
Accrued income:		
Water resources	3.8	3.0
Environment protection	7.9	7.4
Other	3.1	4.9
	<u>85.7</u>	<u>72.2</u>
<b>More than one year:</b>		
Employee loans	0.2	0.2
<b>Total</b>	<u><b>85.9</b></u>	<u><b>72.4</b></u>

At 31 March 2009 there were 761 employee loans.

Further details regarding the Water Resources balance can be found in appendix C.

<b>10 Creditors</b>	31 March 2009 £'m	* As restated 31 March 2008 £'m
<b>Within one year:</b>		
Bank overdraft	16.3	19.1
Tax and social security	8.4	7.8
Trade creditors	9.5	32.8
Trade creditor accruals	63.9	66.8
Other creditors	0.9	4.1
Capital creditors	1.2	7.0
Capital accruals	9.9	3.4
Deferred income:		
Flood and coastal erosion risk management	19.6	21.5
Water resources, including environmental improvement unit charge	9.1	6.1
Environment protection	6.2	5.1
Customer deposits and receipts in advance	14.9	14.8
FRS 17 – Pension costs	70.1	44.7
	<u><b>230.0</b></u>	<u><b>233.2</b></u>
<b>More than one year:</b>		
Capital creditors and accruals	0.6	0.7
Other creditors and accruals	3.7	3.6
<b>Total</b>	<u><b>4.3</b></u>	<u><b>4.3</b></u>

Further details regarding the Water Resources balance can be found in appendix C.

\* For details of the prior year adjustment see note 13.

## Environment Agency

11 Provisions for Liabilities and Charges	Re-	Other	*As restated	
	dundancy	Claims	2008-2009	2007-2008
	£'m	£'m	£'m	£'m
At 1 April	2.8	20.0	22.8	10.8
Increase charged to the income and expenditure account	0.1	6.2	6.3	18.7
Utilised during the year	(2.3)	(8.9)	(11.2)	(6.7)
At 31 March	<b>0.6</b>	<b>17.3</b>	<b>17.9</b>	<b>22.8</b>

Redundancy provisions relate to voluntary early retirement costs where agreement has been reached with the staff member. The other provisions relate to claims against the Environment Agency, which can take up to five years before settlement is reached.

\* For details of the prior year adjustment see note 13

12 Deferred Grants and Contributions	2008-2009	2007-2008
	£'m	£'m
At 1 April	59.9	61.2
Amounts receivable in the year	9.3	0.9
Amortisation in year	(2.2)	(2.2)
At 31 March	<b>67.0</b>	<b>59.9</b>

In addition to the deferred grants and contributions received in respect of tangible fixed assets, there were grants and contributions receivable of £2.6 million relating to capital works expensed in the year.

13 Reserves	Capital	Revaluation	2008-2009	2007-2008
	£'m	£'m	Total	Total
	£'m	£'m	£'m	£'m
<b>(a) Capital and Revaluation Reserves</b>				
At 1 April	697.8	1,798.1	2,495.9	2,323.2
Transfer from / (to) income and expenditure reserve	6.9	-	6.9	(6.8)
Revaluation (deficit) / surplus on tangible fixed assets	-	(60.7)	(60.7)	153.0
Revaluation adjustment	-	103.2	103.2	26.5
At 31 March	<b>704.7</b>	<b>1,840.6</b>	<b>2,545.3</b>	<b>2,495.9</b>

The transfer from / (to) income and expenditure reserve is calculated as follows:	31 March 2009	31 March 2008
	£'m	£'m
Purchase of fixed assets	109.6	77.9
Grants and contributions (net)	(7.1)	1.3
Depreciation	(94.2)	(84.9)
Disposals	(1.4)	(1.1)
	<b>6.9</b>	<b>(6.8)</b>

(b) Pensions Reserve	2008-2009	2007-2008
	£'m	£'m
At 1 April	(195.8)	(244.6)
Actuarial costs charged to income and expenditure account	(70.1)	(44.7)
Employer contributions	57.6	53.8
Actuarial (loss) / gain	(109.1)	39.7
At 31 March	<b>(317.4)</b>	<b>(195.8)</b>

(c) Income and Expenditure Reserve	2008-2009	* As restated 2007-2008
	Total £'m	Total £'m
At 1 April	(59.2)	(61.0)
Grant-in-aid received in year	770.3	685.4
Deficit for the year	(862.6)	(739.2)
Liability transferred from Defra (See note 1(c))	-	(9.9)
Charging schemes balances previously reported within working capital	-	14.0
Transferred (to) / from capital reserve	(6.9)	6.8
Transferred from pensions reserve	70.1	44.7
At 31 March	<b>(88.3)</b>	<b>(59.2)</b>

	Total £'m	Defra (GIA) £'m	Defra (FDGIA) £'m	Defra (Other) £'m	WAG £'m
Grant-in-aid received in year	758.0	130.8	568.2	5.9	53.1
To cover unfunded pensions	12.3	12.3	-	-	-
Transferred to income and expenditure reserve	770.3	143.1	568.2	5.9	53.1

The comparative figures have changed with regards to fluvial grants received and paid in the year ended 31 March 2008. Previously the grants received and paid had been netted off and the remaining balance shown as a creditor. The grant-in-aid income of £18.0 million is now shown as being credited directly into the income and expenditure reserve as grant-in aid and the expense of £17.7 million is shown within other operating costs in note 5. The balance of £0.3 million has been removed from the opening income and expenditure reserve. This adjustment affects the income and expenditure account, the balance sheet, the cash flow statement and the statement of total recognised gains and losses.

The comparative figures have also been changed with regards to grants paid to Local Authorities and Internal Drainage Boards as referred to in note 1(c). This responsibility was transferred from Defra to the Environment Agency on 1 April 2008. It has been treated as a Machinery of Government change and therefore the comparative figures have been amended as if the Environment Agency had administered these grants during 2007-2008. The income and expenditure account now includes the grants administered and paid by Defra in the year to 31 March 2008 amounting to £39.6 million. The cost of grants awarded is shown in note 5 and the income is shown as an increase in grant-in-aid received in note 13(c) above.

The transfer of liability of £9.9 million from Defra, referred to in note 1(c), has been treated as an adjustment to income and expenditure reserve in 2007-2008. £8.5 million of the charge is included as a provision and the remaining £1.4 million is an increase to capital creditors as at 31 March 2008.

**14 Notes to the Cash Flow Statement**

\* As restated

	2008-2009 Total £'m	2007-2008 Total £'m
<b>(a) Reconciliation of operating deficit to net cash inflow</b>		
Operating deficit	(882.7)	(772.9)
Depreciation	94.2	84.9
Amortisation of deferred grants and contributions	(2.2)	(2.2)
Disposal of tangible fixed assets at book value	1.4	1.2
Total operating charge on pension schemes	84.3	68.9
(Increase) / decrease in debtors	(13.6)	0.6
(Decrease) / increase in creditors	(1.0)	28.1
Adjustment to opening reserves	-	(9.9)
(Decrease) / increase in provisions	(4.9)	12.0
	<b>(724.5)</b>	<b>(589.3)</b>

**(b) Capital expenditure and financial investment**

Increase in capital creditors and accruals	0.6	7.6
Payments to acquire tangible fixed assets	(109.6)	(77.9)
Receipts from sales of tangible fixed assets	2.1	1.9
	<b>(106.9)</b>	<b>(68.4)</b>

**(c) Management of liquid resources**

Deposits with the Debt Management Agency:		
At 1 April	126.0	94.4
At 31 March	(74.0)	(126.0)
	<b>52.0</b>	<b>(31.6)</b>

**(d) Analysis of financing**

Capital grants and contributions for the purchase of tangible fixed assets	9.3	0.9
Government grant-in-aid	770.3	685.4
	<b>779.6</b>	<b>686.3</b>

**(e) Analysis of Changes in Net Funding**

	At 1 April 2008 £m	Cash flow £m	At 31 March 2009 £m
Cash at bank and in hand	2.7	1.3	4.0
Overdrafts	(19.1)	2.8	(16.3)
	(16.4)	4.1	(12.3)
Liquid resources: Deposits	126.0	(52.0)	74.0
	<b>109.6</b>	<b>(47.9)</b>	<b>61.7</b>

\* For details of the prior year adjustment see note 13

<b>15 Contingent Liabilities</b>	31 March 2009 £'m	31 March 2008 £'m
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The Environment Agency has the following contingent liabilities:-

(a) Contaminated assets	4.1	4.1
(b) Contractors' claims	0.6	0.6
(c) Insurance claims	4.5	4.0
(d) Repayment of grants from the European Union	2.0	4.4
(e) Other	0.6	1.1
	<u>11.8</u>	<u>14.2</u>

Where appropriate, liabilities that only have a possible chance of crystallising and do not meet the provisions criteria have been classified as contingent liabilities. These include possible obligations for remedial works on contaminated assets should the Environment Agency dispose of them and legal claims by third parties.

<b>16 Capital Commitments</b>	31 March 2009 £'m	31 March 2008 £'m
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Contracted for but not provided in the financial statements	40.5	26.3
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Commitments in respect of capital works expensed in year are disclosed in note 4.

<b>17 Operating Leases</b>	31 March 2009 Land & Buildings £'m	31 March 2009 Other £'m	31 March 2008 Land & Buildings £'m	31 March 2008 Other £'m
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The Environment Agency has annual commitments under operating leases as follows: -

Leases expiring:

Within one year	0.5	4.1	0.6	2.2
In the second to fifth years inclusive	3.3	11.5	2.0	11.2
Over five years	8.1	-	8.7	-
	<u>11.9</u>	<u>15.6</u>	<u>11.3</u>	<u>13.4</u>

## 18 Pension Obligations

The Environment Agency operates a defined benefit pension scheme for employees and transferees from the former Defra, NRA, HMIP, London Waste Regulation Authority (LWRA) and other local waste regulation authorities. It is a statutory scheme, administered in accordance with the Local Government Pension Scheme Regulations 1997, as amended. It is contracted out of the State Second Pension.

In 2008-2009, the total pension cost for the Environment Agency was £76.6 million (2007-2008 £46.9 million). The pension cost relating to the scheme was assessed in accordance with the advice of an independent qualified actuary using the projected unit method of valuation to calculate the service costs. The latest formal triennial actuarial valuation of the scheme was at 31 March 2007. The assumptions having the most significant effect on the valuation were those relating to the rate of return on investments and the rate of increases in salaries and pensions. It was assumed that the existing investment return would be 6.1 per cent per annum, that salary increases would average 4.7 per cent per annum and that present and future pensions would increase at the rate of 3.2 per cent per annum.

At the date of the last actuarial valuation, the market value of the assets of the pension scheme was £1,521.0 million. The actuarial value of the assets (using the projected unit method) was sufficient to cover 103 per cent of the benefits, which had accrued to members. The Environment Agency has accepted the independent actuary's recommendation in respect of future employer contributions.

**Financial Reporting Standard (FRS) 17 Disclosure**

The table below sets out the disclosure requirements of FRS 17 'Retirement Benefits' for the current year in relation to the Environment Agency's Active Fund.

All calculations have been made by a qualified independent actuary based on the most recent full actuarial valuation of the fund at 31 March 2007 updated to 31 March 2009.

**(a) Financial Assumptions**

The main financial assumptions used at 31 March 2009 for this purpose are as follows:

	2008-2009 Per cent Per Annum	2008-2009 Real per cent Per Annum	2007-2008 Per cent Per Annum	2007-2008 Real per cent Per Annum
Price inflation	3.10	-	2.75	-
Rate of increase in salary	4.60	1.5	4.25	1.5
Rate of increase in pension	3.10	-	2.75	-
Discount rate	6.90	3.7	5.32	2.5

**(b) Expected Return on Assets**

Asset Class	2008-2009 Rate per Annum	2007-2008 Rate per Annum
Equities	7.0	7.7
Bonds	5.4	5.7
Property	4.9	5.7
Cash	4.0	4.8

**(c) Assets and Liabilities of the Fund at 31 March 2009**

	2008-2009 Fund Value £'m	2008-2009 Return £'m	2007-2008 Fund Value £'m	2007-2008 Return £'m
Equities	761.9	75.2	968.9	77.7
Bond	292.7	22.5	387.6	22.3
Property	35.0	4.7	74.5	4.0
Cash	34.0	3.3	59.6	2.3
<b>Total value of assets (a)</b>	<b>1,123.6</b>	<b>105.7</b>	<b>1,490.6</b>	<b>106.3</b>

Present value of scheme liabilities

Employee members	945.0	1,114.5
Deferred pensioners	106.0	137.1
Pensioners	368.5	411.0
Unfunded liabilities	21.5	23.8
<b>Total value of liabilities (b)</b>	<b>1,441.0</b>	<b>1,686.4</b>
<b>Pension Liabilities</b>	<b>(317.4)</b>	<b>(195.8)</b>

Split between:

Funded pension scheme liabilities	(295.9)	(172.0)
Unfunded pension scheme liabilities	(21.5)	(23.8)
	<b>(317.4)</b>	<b>(195.8)</b>



**(d) Movement in Deficit During the Year**

	2008-2009 £'m	2007-2008 £'m
<b>Opening defined benefit obligation</b>	1,686.4	1,765.0
Current service cost	54.0	60.8
Interest cost	91.4	82.1
Contributions by members	21.5	17.4
Actuarial gains	(402.1)	(200.8)
Past service costs	27.4	6.6
Losses on curtailments	3.0	1.6
Unfunded benefits paid	(1.4)	(1.4)
Benefits paid	(39.1)	(44.9)
<b>Closing defined benefit obligation</b>	<b>1,441.1</b>	<b>1,686.4</b>
	2008-2009 £'m	2007-2008 £'m
<b>Opening fair value of employer assets</b>	1,490.6	1,520.4
Expected return on assets	105.7	106.3
Contributions by members	21.5	17.4
Contributions by employer	56.1	52.5
Contributions in respect of unfunded benefits	1.4	1.4
Actuarial losses	(511.2)	(161.1)
Unfunded benefits paid	(1.4)	(1.4)
Benefits paid	(39.1)	(44.9)
<b>Closing fair value of employer assets</b>	<b>1,123.6</b>	<b>1,490.6</b>

**e) Analysis of Amount Charged to Operating Profit**

	2008-2009 £'m	2007-2008 £'m
<b>Amounts Charged to Operating Profit:</b>		
Service cost	54.0	60.8
Past service cost	27.3	6.5
Curtailments and settlements	3.0	1.6
<b>Total Operating Charge (A)</b>	<b>84.3</b>	<b>68.9</b>
<b>Amounts Credited to Other Finance Income:</b>		
Expected return on pension scheme assets	105.6	106.3
Interest on pension scheme liabilities	(91.4)	(82.1)
<b>Net Return (B)</b>	<b>14.2</b>	<b>24.2</b>
<b>Net Revenue Account Cost (A) – (B)</b>	<b>70.1</b>	<b>44.7</b>

**(f) Analysis of Amount Recognised in Statement of Total Recognised Gains and Losses (STRGL)**

	2008-2009 £'m	2007-2008 £'m
Actual return less expected return on pension scheme assets	(511.2)	(161.1)
Experience gains and losses arising on the scheme liabilities	-	(8.0)
Changes in financial assumptions underlying the present value of the scheme liabilities	402.1	208.8
<b>Actuarial (loss) / gain in pension plan</b>	<b>(109.1)</b>	<b>39.7</b>
Increase in irrecoverable surplus from membership fall and other factors	-	-
<b>Actuarial (loss) / gain recognised in STRGL</b>	<b>(109.1)</b>	<b>39.7</b>

**(g) History of Experience Gains and Losses**

	31 March 2009 £'m	31 March 2008 £'m	31 March 2007 £'m	31 March 2006 £'m	31 March 2005 £'m
Difference between the expected and actual return on assets	(511.2)	(161.1)	12.3	177.4	43.0
Value of assets	1,123.6	1,490.6	1,520.4	1,389.1	1,111.7
<b>Percentage of scheme assets</b>	<b>(45.5)</b>	<b>(10.8)</b>	<b>0.8</b>	<b>12.8</b>	<b>3.9</b>
Experience gains/(losses) on scheme liabilities	-	(8.0)	(1.1)	0.1	(1.1)
Total present value of liabilities:	1,441.1	1,686.4	1,765.0	1,362.7	1,093.6
<b>Percentage of the total present value of liabilities</b>	<b>-</b>	<b>(0.5)</b>	<b>(0.1)</b>	<b>-</b>	<b>(0.1)</b>
Actuarial (losses) / gains recognised in STRGL	(109.1)	39.7	(270.0)	18.6	41.9
Total present value of liabilities	1,441.1	1,686.4	1,765.0	1,362.7	1,093.6
<b>Percentage of the total present value of liabilities</b>	<b>7.6</b>	<b>2.4</b>	<b>(15.3)</b>	<b>1.4</b>	<b>3.8</b>

The Environment Agency also effected aggregate payments of £12.3 million in respect of unfunded pensions to former water industry employees, on behalf of the Government.

**19 Corporation Tax and Value Added Tax**

On 6 July 1995, the Inland Revenue confirmed that the Environment Agency qualified for income and corporation tax exemption on the basis that it inherited the precepting powers of the National Rivers Authority. Accordingly no amounts for corporation tax have been provided in the financial statements.

By Treasury Order, the Environment Agency is classified as a body to which section 33 of the Value Added Tax Act 1994 applies. Accordingly the Environment Agency recovers tax paid on both business and 'non-business' activities, although the recovery of VAT on exempt supplies is dependent on the threshold for the Environment Agency's exempt activities.

**20 Related Party Disclosures and Whole of Government Accounting**

**(a) Related Party Disclosures**

Financial Reporting Standard 8, 'Related Party Disclosures', requires the Environment Agency to provide information on its transactions with related parties, and further guidance has also been given by HM Treasury.

The aggregate value of the relevant transactions in 2008-2009 was:

	2008-2009 £'m	* As restated 2007-2008 £'m
Controlling parties:		
Defra environmental protection grant-in-aid	143.1	129.3
Defra fisheries grant-in-aid	5.9	5.9
WAG environmental protection grant-in-aid	23.4	22.6
WAG flood defence grant-in-aid	29.7	27.6
Defra flood defence grant-in-aid	504.2	442.4
Defra IDB/LA grant-in-aid	64.0	57.6
Other related parties:		
Levies on local authorities	27.4	27.2
Charges to the British Waterways Board	2.6	2.0

FRS 8, as adopted in the FReM, specifically excludes transactions between government departments and their sponsored entities from its disclosure requirements. For completeness and to distinguish between this class of transaction and others between the Environment Agency and its sponsors, grant-in-aid amounts for each department are included in the table above.

The Environment Agency had no other material related party transactions with organisations in which other Board members, Executive Directors or senior managers have declared an interest.

\* For details of prior year adjustment see note 13.

**(b) Whole of Government Accounting**

Whole of Government Accounting is the production of one consolidated commercial style set of accounts covering the whole of the public sector. The Government is treated as if it were one single entity, eliminating all significant transactions between public sector entities.

The Environment Agency is committed to disclose balances between itself and other bodies within the public sector. The closing balances as at 31 March 2009 were:

	31 March 2009 £'m	31 March 2008 £'m
Debtors:		
Other Government Departments	2.6	1.0
Local Authorities	0.7	0.4
Public Corporations and Trading Funds	0.5	0.2
Balances due from HMRC in respect of VAT claims	23.8	25.0
Creditors:		
Other Government Departments	0.2	0.1
Local Authorities	5.4	3.5
Public Corporations and Trading Funds	-	1.3
Balances due to HMRC in respect of Tax and National Insurance	8.4	7.8

## 21 Commitments under Public Private Partnership (PPP) Contracts

The Environment Agency has entered into the following PPP contracts

### (a) Broadland Flood Alleviation Project

The Broadland PPP contract commenced in February 2001 following a detailed negotiated tendering process with the private sector. It is a contract costing in excess of £120 million over a 20 year period, to restore flood defences to at least the levels measured in a 1995 topographical survey of the area. The improvement works are to be completed by 2013 with a seven year remaining life on the assets before they erode below the 1995 condition.

It covers a range of services related to the flood defence strategy for the Broadland tidal river system, including maintenance, emergency response, strategic planning, design and improvement works. The improvement works are provided through the options of bank strengthening or setting-back of banks, all with erosion protection, and will result in enhanced flood defences to this internationally important wetland environment. In addition, modest first-time defences are being provided to undefended properties. All these works are planned and designed taking into account the effects of expected sea level rise.

The contract features target price incentives within the bounds of an overall fixed budget. The first eight years have seen the completion of a large number of maintenance projects, valued at £8 million. New defences at five locations in the project area and nineteen major improvement works schemes costing £46 million have been completed. Site works are underway at a further five locations.

The current annual review of the strategy, based on the latest topographic and condition surveys, confirms that the original scope of the project remains affordable and will form the basis for implementation of future improvement and maintenance works in the project.

Expenditure incurred during the year is charged to the income and expenditure account. For maintenance work, emergency response and strategy development, costs are accrued based on the agreed annual charge for these services. For Planning Approvals and Improvement Works, costs are recognised when the work is completed in accordance with the Amendment to Financial Reporting Standard 5. For Planning Approvals costs are recognised when formal notification of the granting of planning permission has been received. For Improvement Works, the flood defence work is recognised when the Agency accepts the work through the issuing of an Improved Service Level Certificate.

<b><u>Charge for the year:</u></b>	2008-2009	2007-2008
	£'m	£'m
Maintenance work, emergency response, strategy development	1.5	1.6
Planning Approvals	0.9	0.5
Improvement Works	<u>9.7</u>	<u>19.0</u>
<b>Total</b>	<b><u>12.1</u></b>	<b><u>21.1</u></b>

<b><u>Payments committed for the future:</u></b>	£'m	£'m
Within one year	12.1	13.5
Within two to five years	45.4	52.5
Over five years	15.5	23.7

The contract end date is May 2021.

**Financial derivative disclosure:**

Once improvement works schemes have been accepted by the Environment Agency through the issuing of the Improved Service Level Certificate, payment for the works becomes due. The Environment Agency is required to pay at least 70 per cent of the full amount with the remainder of the fee being deferred over the residual contract life. The Environment Agency has the option of fixing the interest rates on such payments. To reduce the interest rate exposure, this option is usually exercised.

At 31 March 2009, the amount owing for completed Improvement Works (including accrued interest) amounted to £4.6 million. Interest incurred during the year amounted to £0.2 million and was paid at rates between 3.845 per cent and 7.48 per cent. Fixed rates apply to borrowings of £1.9 million. The rate used is 1.5 per cent plus the "ask" fixed interest swap rate for Sterling as at the date that the Improved Service Level Certificate is signed and for the period that is the remaining length of the contract.

Variable rate, currently 3.845 per cent, uses the most recent offer price of six month Interbank Sterling LIBOR plus 1.5 per cent. This is applied to borrowings at 31 March 2009 of £2.7 million.

**(b) Pevensey Bay Sea Defences**

In May 2000 the Environment Agency and Pevensey Coastal Defence Ltd (PCDL) signed a £27.4 million PPP contract for the Pevensey Bay Sea Defences, following a detailed negotiated tendering process with the private sector. This was the first flood defence project in the country to use this form of procurement.

The contract is for 25 years and PCDL, a consortium of Westminster Dredging Co Ltd, Dean & Dyball Construction, Mackley Construction and Mouchel Consulting will carry out improvement works and maintain the sea defences, in return for a monthly fee, with yearly indexing to the Retail Price Index (RPI). In May 2003 the contract was varied to include the Sovereign Harbour frontage. The current contract value with a January 2008 price base, is £37 million.

Under the contract PCDL have carried out improvement works, and now continue to maintain the improved sea defences in return for a monthly fee, detailed in an annual payments schedule. The contract is based on the provision of a service rather than the creation of a physical asset. The principal service provided under the contract is protection against the breaching and erosion of the sea defences up to specified service levels. Service Levels are specified by reference to Joint Probability tables and curves of water level and significant wave heights.

The contractor is responsible for the design of all works it considers necessary to meet the service requirements and for obtaining the required planning consents. In addition, the contractor is required to provide an emergency response and maintain certain key physical features of the sea defences. If the contractor's performance falls below the specified service levels, the Environment Agency is entitled to make deductions. To date, the contractor has maintained the beach satisfactorily to the required levels of service.

Expenditure incurred during the year is charged to the income and expenditure account, on an accruals basis in accordance with the payments schedule.

<b><u>Charge for the Year</u></b>	2008-2009 £'m	2007-2008 £'m
Maintenance work – shingle recharge, recycling, reprofiling and emergency response	<u>2.0</u>	<u>2.0</u>
<b><u>Payments committed in the future</u></b>	£'m	£'m
Commitments within one year	2.1	2.1
Commitments within two to five years	5.9	6.8
Commitments over five years	13.6	14.8

The contract end date is 31st May 2025.

## 22 Financial Reporting Standard 13 Derivatives and other Financial Instruments: Disclosure

The Environment Agency does not face the degree of exposure to financial risk that commercial businesses do. In addition financial assets and liabilities generated by day-to-day operational activities are not held in order to change the risk facing the Environment Agency in undertaking its activities. The Environment Agency relies upon Defra for its cash requirements, having limited powers to borrow or invest surplus funds and the main financial assets and liabilities have either a nil or a fixed rate of interest related to the cost of capital (currently 3.5 per cent). The short-term liquidity of interest rate risks are therefore slight and there is little foreign currency risk as the majority of income and expenditure, and material assets and liabilities, are denominated in sterling.

### Liquidity risk

The majority of the Environment Agency's net revenue resource requirements are financed by grant-in-aid received from Defra. The Environment Agency is not therefore exposed to significant liquidity risks.

### Interest rate risk

Short term deposits earn fixed rates of interest and are placed with the UK Debt Management Office, an Executive Agency of Her Majesty's Treasury.

The Agency also holds deposits on behalf of Waste Management licence holders, which are placed on fixed terms of one month. These deposits are held in case of emergency in order to remediate the relevant waste site, should this prove necessary.

In the case of borrowing under the Broadland Flood Alleviation Project, there is the option to fix the interest rate for the unexpired term of the project, otherwise these borrowings are on a short term fixed rate of interest basis.

In all other cases, with the exception of bank account balances, where floating rates of interest apply, the Environment Agency's financial assets and liabilities are predominately non interest bearing. The interest rate risk is not considered material in the context of the overall activity of the Environment Agency.

### Foreign currency risk

The Environment Agency undertook a number of foreign currency transactions to convert grant received from European institutions from euros into sterling, after discharging any euro payment obligations to its partners. The Environment Agency is exposed to an exchange risk between the time that it calculates a grant claim from a sterling cost base until the time that the grant is converted into sterling. The foreign currency risk is not considered material in the context of the overall activity of the Environment Agency.

### Financial Assets by category

	Loans and receivables	31 March 2009 Total £'m
	£'m	£'m
Short term deposits	74.0	74.0
Cash at bank – euros	0.6	0.6
Financial Provisions held on deposit	4.0	4.0
Trade debtors	17.9	17.9
Prepayments	21.7	21.7
Accrued income	11.7	11.7
Other debtors	10.8	10.8

The above figures exclude statutory debtors which relate to VAT due from HM Revenue and Customs.

Trade debtors are shown net of the bad debt provision of £7.2m.

An analysis of the ageing of the non impaired trade debtors is shown below:-

	0-30 days	30-60 days	Over 60 days	Total
	£'m	£'m	£'m	£'m
As at 31 March 2009	7.2	1.1	9.6	17.9

**Financial Liabilities by category**

	Financial liabilities £'m	31 March 2009 Total £'m
Bank overdraft	16.9	16.9
Trade creditors	9.5	9.5
Accruals	73.8	73.8
Deferred income	34.9	34.9
Customer deposits received in advance	14.9	14.9
FRS17 – pensions costs	70.1	70.1
Capital creditors and accruals	1.8	1.8
Other creditors and accruals	4.6	4.6

The above figures exclude statutory creditors which relate to Tax and Social Security due to HM Revenue and Customs. £0.6 million of capital creditors and accruals and £3.7 million of other creditors and accruals are payable after one year.

The book value of the assets and liabilities disclosed are not materially different from fair values.

**Credit Risk**

The Environment Agency's principal financial assets are bank balances and trade and other receivables. These represent the Environment Agency's maximum exposure to credit risk in relation to financial assets. The credit risk is primarily attributable to its trade receivables. The amounts presented in the Balance Sheet are net of provisions for doubtful receivables estimated by the Environment Agency's management based on prior experience and their assessment of current economic value.

Set out below is the movement in the provision for bad and doubtful debts relating to the Environment Agency's trade receivables.

	31 March 2009 Total £'m
Provision at 1 April 2008	6.3
Charges to the income and expenditure account	1.5
Provision used	(0.6)
Balance at 31 March 2009	<u>7.2</u>

**Hedging**

The Environment Agency does not involve itself in any hedging transactions.

**23 Post balance sheet events**

The Environment Agency's financial statements are laid before the Houses of Parliament by the Secretary of State for Environment, Food and Rural Affairs. FRS21 requires the Environment Agency to disclose the date on which the financial statements are authorised for issue. The authorised for issue date is 17 July 2009.

**APPENDIX A**

**Sustainability accounting and reporting**

The Government's sustainability strategy encourages both private companies and public bodies to disclose their sustainability and environmental performance information in their statutory public reports. We have advocated the importance of environmental accounting and reporting in financial statements for a long time. We have a corporate strategy target to promote and increase the percentage of FTSE all-share companies that make quantitative disclosures on their environmental performance in their annual report and accounts.

Through membership of HM Treasury's Financial Reporting Advisory Board (FRAB) we have advocated that the same philosophy and principles should also apply to the public sector. A FRAB working group produced a pilot template in 2007-2008 for reporting sustainability in annual reports and accounts. We have worked as a member of this group to develop the template and we agreed to incorporate it as an element in our annual report and accounts, promoting the latest standards and guidance issued by Defra. The template itself has evolved over the past two years, and we will continue to work with FRAB to contribute towards developing and refining the tools and processes of data collection.

The information we are presenting here has been collected from a number of different sources, and it presents both our environmental data and the associated financial costs. Our policy of embedding environmental accounting within our business and financial reporting systems for some years has assisted us in this. We collect and maintain information on the physical quantities to assist us in reducing our overall environmental impacts as an organisation. Through our Eco Management and Audit Scheme (EMAS) registration we publish an annual EMAS statement which includes details of our environmental performance against specific key performance indicators. Where appropriate we have included details of these targets and our performance against them in this report.

Due to a change in our reporting methods – improving the accuracy of the results – we only have data available for the last three years on our carbon emissions. We have steadily reduced the volumes of residual waste from our offices, and in doing this have cut our overall waste disposal costs, and are now tracking the expenditure and physical quantities of the methods of disposal. Significant investment in energy saving measures have allowed us to cut our use and expenditure on energy despite rising energy costs and high energy requirements in recent years.

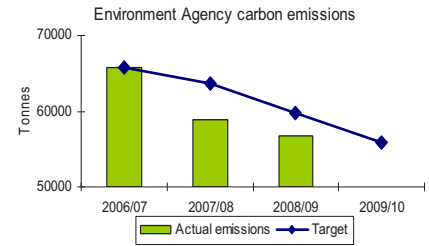
Full details over the five core categories of carbon emissions, waste, water, energy and additional finite resource use can be found on the pages that follow.

Our performance summary:

<b>Area</b>	<b>Figure</b>	<b>Target performance</b>
Carbon dioxide emissions	56,737 tonnes	On target
Residual office waste	143 tonnes	On target
Total waste expenditure	£1,927,000	No target currently
Water consumption	61,461 m <sup>3</sup>	103% of target
Water expenditure	£245,000	No target currently
Total energy consumption	68.8 million kWh	No target currently
Buildings energy consumption	41.5 million kWh	106% of target
Total energy expenditure	£6,918,000	No target currently



Emissions		2006-2007	2007-2008	2008-2009
Non-Financial Indicators (tCO <sub>2</sub> e)	Total Gross Emissions	65,676	58,807	56,737
	Total Net Emissions	65,676	58,807	56,737
	Gross emissions attributable to official business travel	-	-	15,182
Financial Indicators (£k)	CRC Gross Expenditure (2010 onwards)	-	-	-
	Expenditure on accredited offsets (e.g. GCOF)	0	0	0
	Expenditure on official business travel	4,954	3,855	4,018



**TARGETS AND COMMENTARY**

We have a target to reduce our carbon emissions by 30% (to 45,730) by March 2012 from our 2006-2007 baseline levels. In 2008-2009 we achieved a 13.6% reduction from our baseline year. Much of this was achieved through a reduction in our vehicle mileage, and was achieved despite particularly cold weather and the additional energy requirements this placed on us.

**DIRECT IMPACTS COMMENTARY**

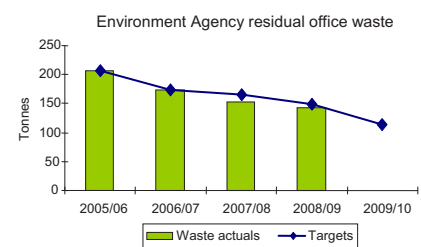
The main direct impacts for us in terms of carbon emissions are from our operational electricity, vehicle mileage and office building energy consumption. Strategies are in place to reduce these direct impacts through efficiency programmes. Our consumption of all these resources is however vulnerable to extreme weather and the operational impact this has on us. Our figure for gross emissions attributable to official business travel include only vehicle mileage from our badged vehicle fleet, lease vehicles and casual business use. We hope to include all other forms of business travel in the next report.

**OVERVIEW OF INDIRECT IMPACTS**

The Environment Agency is able to influence the emissions of its supply chain significantly through procurement specifications. An action plan is now in place to communicate to suppliers about future contracts and expectations with regards to emissions reductions. In addition for our major capital projects we now use a tool to calculate carbon emissions at the project assessment stage to identify, and where possible reduce, carbon emissions associated with these projects.

As the Competent Authority for the existing EU Emissions Trading scheme in the UK, and the forthcoming Carbon Reduction Commitment we have both regulatory responsibility and influencing roles to deliver emission reductions across the UK through these schemes.

Waste		2006-2007	2007-2008	2008-2009	
Non-Financial Indicators (t)	Total waste	-	-	886	
	Hazardous waste	Total	-	14	
		Non hazardous waste	Landfill	174	143
			Reused/Recycled	-	348
	Incinerated/energy from waste	-	19		
Financial Indicators (£k)	Total disposal cost	2,205	1,894	1,927	
	Hazardous waste - Total disposal cost	1,237	853	395	
	Non hazardous waste - Total disposal cost	Landfill	968	1,041	1,532
		Reused/Recycled	-	-	-
	Incinerated/energy from waste	-	-	-	



**TARGETS AND COMMENTARY**

We have a target of reducing waste to landfill by 80% by 2012 and for 80% of the office waste we do produce to be recycled. In 2008-2009 we generated 143 tonnes of residual office waste.

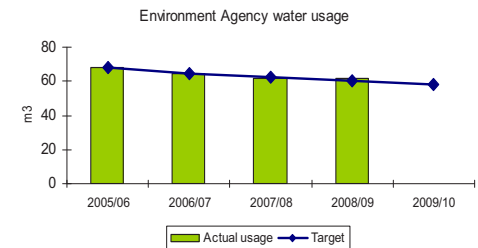
**DIRECT IMPACTS COMMENTARY**

We undertake regular waste audits as well as providing opportunities to recycle up to 20 different waste streams from our offices. We have also implemented a range of additional local initiatives that include a "waste to energy" scheme for our food waste across a number of sites. Our figures for absolute volumes of waste are based on data from our buildings and offices, and exclude quantities from our construction projects which we look to include in future reports. Our financial indicators cover both office and construction waste.

**OVERVIEW OF INDIRECT IMPACTS**

The Environment Agency is able to place certain quality objectives on its suppliers in terms of their waste disposal performance. By working to minimise the volumes of waste throughout the procurement process we hope to reduce the amount of waste throughout the supply chain.

Water			2006-2007	2007-2008	2008-2009
Non-Financial Indicators	Water Consumption (M3)	Supplied	64,000	62,000	61,000
		Abstracted	-	-	-
Financial Indicators (£k)	Water Supply Costs		207	205	245



Year	Actual usage	Target
2005/06	64,000	64,000
2006/07	62,000	62,000
2007/08	61,000	60,000
2008/09	61,000	58,000
2009/10	61,000	56,000

**TARGETS AND COMMENTARY**

We have set a 2012 target to reduce water consumption by 25% from 2005-2006 levels to 51,223m<sup>3</sup>. This year we missed our target for water reduction by 3%. However, at the end of our second year of our five year plan, we have reduced consumption by 10% from our baseline.

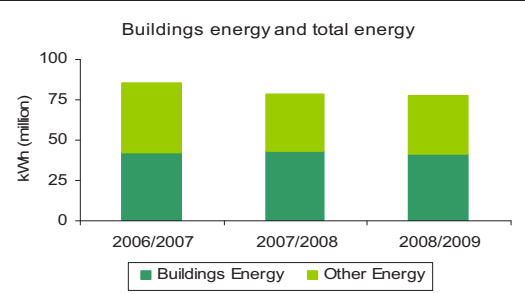
**DIRECT IMPACTS COMMENTARY**

Our major source of water consumption is from our offices and operational sites. The very cold winter this year resulted in a number of major leaks due to frozen pipe work which is why we missed our target reduction. Plans are in place to improve leak detection and increase our use of rain water harvesting to further reduce consumption.

**OVERVIEW OF INDIRECT IMPACTS**

We have a significant indirect impact through our input to the setting of water supply policy for new communities' development. Negotiations are in place to ensure that a fully sustainable supply is considered, and we have a publicly stated position statement on sustainable communities that includes full consideration of the environmental pressures this places on water supplies. The Periodic Review 2009, undertaken by Ofwat to set the prices that water companies will charge their customers between 2010 and 2015 is a significant area of work for us. We are required to advise Ministers on the water resource management plans submitted by the water companies and the likely environmental impacts of these.

Energy			2006-2007	2007-2008	2008-2009
Non-Financial Indicators	Energy Consumption (million kWh)	Electricity: Non-Renewable	-	-	-
		Electricity: Renewable	68.1	57.7	56.8
		Gas	11.9	10.3	12
		LPG	-	-	-
		Other	2.2	3.3	-
Financial Indicators (£k)	Total Energy Expenditure		6,246	5,028	6,918



Year	Buildings Energy	Other Energy
2006/2007	41.5	38.5
2007/2008	41.5	34.5
2008/2009	41.5	34.5

**TARGETS AND COMMENTARY**

Our energy key performance indicator (KPI) is based on energy used within our buildings, and for 2012 is 30.5 million kWh annual consumption. This year we have used 41.5 million kWh in our buildings. Efforts to achieve a more significant cut were hampered by the cold weather we experienced this winter. We have an action plan in place to deliver our 2012 target.

**DIRECT IMPACTS COMMENTARY**

Our main areas for buildings energy consumption are lighting, heating and cooling our offices. As previously described, our overall energy consumption, which includes operational pumping data, is highly dependent on the weather. We are working to ensure that operational equipment we use, and our usage of it, is as energy efficient as possible. A recent project to install voltage optimisation systems at our major offices should result in significant reductions in buildings energy consumption for 2009-2010.

**OVERVIEW OF INDIRECT IMPACTS**

As the Government's principal advisor on the environment, we promote wiser, sustainable use of natural resources by working through partnerships and voluntary schemes to encourage business to improve their resource and energy efficiency. We have reduced our own energy consumption, and, through our sustainable procurement activities, we work to encourage our suppliers to reduce their energy and resource consumption.

Other material impacts		2006-2007	2007-2008	2008-2009
Environmental Incidents	Category 1	2	2	1
	Category 2	6	1	3
	Category 3	30	32	50
	Near Miss	26	13	25
	Not classified	0	0	0
	Total	64	48	79

**TARGETS AND COMMENTARY**

We continue to monitor and report all Environmental Incidents. We actively encourage reporting of all near misses in order to minimise the number of incidents. Our target for 2008-2009 is 22% or less construction waste to go to landfill. This year we sent only 12% to landfill. We are currently using 65% recycled or secondary aggregates against our target of at least 75%. Through our capital projects we spent nearly £400k on timber in 2008-2009 and 99% of this was obtained from certified sustainable sources.

Year	Percentage (%)
2006/07	70
2007/08	72
2008/09	65

**DIRECT IMPACTS COMMENTARY**

Our capital programmes have the largest impact in this area, and we are currently making efforts to capture that expenditure for future reporting, we hope to include this data in next year's report. We use a range of tools and monitoring to reduce the impact of our capital programmes work, including a tool for modelling associated carbon emissions as part of the project assessment phase.

**OVERVIEW OF INDIRECT IMPACTS**

Resource use in this area is carefully controlled through a managed environmental process to reduce the impact on the wider environment. Our sustainable procurement programme ensures that we work with our suppliers to reduce material use and waste. As a significant developer of environmental infrastructure, we have considerable influence on ensuring that this work is carried out in a sustainable way, with minimum impact on the environment.

APPENDIX B

**Our performance in 2008-2009**

We report on how we performed in 2008-2009 against key targets in our Corporate Plan. These targets are the main measurable indicators we use to track our progress.

We divide our work into nine environmental themes, which correspond to the headings in this section. Towards the end of this section we report on the progress we have made in our change programme *More for the environment*, which sets out key areas for developing our organisation and improving the way we work.

A better quality of life		
Success measure / Key target for 2008-2009	Progress	Performance report
We are working with local government to improve the local quality of life	<b>Target partially achieved</b>	<p>In 2008-09 34 out of the 41 Sustainable Community Strategies (England) and Community Strategies (Wales) published reflected the key environmental priorities for their specified areas.</p> <p>New English legislation requires Local Authorities to work closely with partner authorities to draw up and implement Local Area Agreements (LAAs). As one of the partner authorities, we have emphasised working with County, Unitary and London Borough Councils. Specifically we aimed to ensure that Sustainable Community Strategies recognise the importance of the environment and that we help deliver mutually agreed LAA targets.</p> <p>Of the 87 LAA targets we have formally agreed to help deliver, we are actively contributing to 86. Delivery activity ranges from sharing information and expertise to leading partnership projects. In Wales we are meeting our contribution to existing Local Delivery Agreements.</p> <p>In Wales there is no equivalent statutory duty but the Welsh Assembly Government considers us to be a key organisation to help deliver its duty to promote sustainable development. We are working with Local Authorities and other partners through Community Strategies, Local Service Boards and the Wales Spatial Plan to protect the environment and promote sustainability.</p> <p>There are 60 areas across England and Wales suffering from multiple environmental problems. We have targeted 30 of these areas and agreed improvement action plans. In 2009-10 we will be applying a prioritisation framework to guide our work with local authorities, based on local environmental risk and wider issues.</p>
We reduce 'big', 'bad' or 'nasty' illegal waste dumping incidents	<b>Target achieved</b>	<p>Our 2008-09 target was to reduce the number of 'big, bad and nasty' illegal dumping incidents by 5% from last years total, ie a ceiling of 275 incidents.</p> <p>We met and exceeded the target; over 2008-09 there were 244 incidents, a reduction of 15% from the previous year.</p>

A better quality of life		
Success measure / Key target for 2008-2009	Progress	Performance report
More of our navigation assets are in working order	<b>Target achieved</b>	At the end of 2008-09 we exceeded our target of ensuring 607 of our navigation assets in critical condition were in safe working order. A total of 617 out of 682 of our navigation assets were in safe working order.  65 assets were below required condition but are being maintained in a safe and operable state. Subject to continued funding, at least 40 of these will be repaired by April 2011.
We deliver our navigation programme	<b>Target achieved</b>	Our end of year out-turn was within 0.8% of budget. We spent £18.4 million against our capital budget of £18.6 million.  Greater efficiencies achieved during the procurement process contributed to the under spend of £0.2 million.
We reduce people's impact on the environment through World Environment Day	<b>Target not achieved</b>	Our 2008-09 target was to achieve 40,000 responses to our campaign for World Environment Day. Despite an injection of fresh resource in autumn 2008 we did not achieve our target for WED. The impact of environmental pledging/ promise campaigns has been diluted by other external campaigns targeting similar audiences and activities.

An enhanced environment for wildlife		
Success measure / Key target for 2008-2009	Progress	Performance report
The condition of SSSIs on Environment Agency owned land improves	<b>Target achieved</b>	At the end of 2008-09, 4,617 hectares (87.0%) of our own SSSI land was either in good conservation condition or was moving towards good condition. This exceeded our target of 4,601 hectares (86.7%).  Three sites made a major contribution - River Derwent (Yorks) 15 hectares, Dungeness (Southern) 9 hectares, Doxey & Tillington Marshes (Midlands) 19 hectares.  Through our partnership with Natural England improving the condition of SSSI land we own is a priority. In 2009-10 we are planning to deliver 93% of land in good condition or moving towards good condition.
We deliver our programme of actions to improve the condition of SSSIs	<b>Target achieved</b>	We remedied 16,918 hectares of SSSI in 2008-09 against our target of 4,535 hectares. Much of this is due to work completed in 2007-08 now being recognised in the ENSIS database in 2008-09.  The cumulative target for 2007-08 and 2008-09 was to achieve 17,335 hectares of remedies. The overall programme from 2004-05 has now reached 47,615 hectares, more than double the original target. Improving the condition of SSSI land will continue to be a priority.

An enhanced environment for wildlife		
Success measure / Key target for 2008-2009	Progress	Performance report
More rivers are progressing towards sustainable salmon stocks	<b>Target achieved</b>	<p>We categorise our 62 principal salmon rivers according to four levels of risk of not having sustainable populations. 35% of our principal salmon rivers were judged to be in the worst category, 'at risk', in 2008-09. This was an improvement on the 44% in 2007-8 and better than our target for this year, also 44%. Salmon rivers in the other risk categories also showed signs of improvement.</p> <p>However, salmon populations continue to be under pressure internationally, largely from environmental factors affecting both their marine and freshwater environments.</p> <p>To improve this situation, we continue to control the number of salmon that can be caught and removed and implement other actions to improve their freshwater environment such as fish passes and measures to improve water quality. Many of these actions are in partnership with local fishery interests.</p>
More river habitat is improved	<b>Target achieved</b>	<p>We improved 204kms of watercourse for wildlife in 2008-09 against a target of 130kms.</p> <p>A significant proportion of this achievement was due to strategic fisheries habitat enhancement programmes in EA Wales (51kms) and Devon and Cornwall (41kms).</p>
Actions are completed to improve the status of salmon, sea trout and eel fisheries	<b>Target achieved</b>	<p>We met our annual target, delivering 779 actions over 2008-09.</p> <p>Salmon Action Plans help deliver environmental outcomes set out in our current 2006-11 Fisheries Strategy. We want to see a greater number of rivers meet their potential for sea trout and salmon. At the end of 2008-09 we saw a drop in the 62 principal salmon rivers that are considered 'at risk' from 44% to 35% in one year. Completion of fisheries actions contributed to this success.</p>

Cleaner air for everyone		
Success measure / Key target for 2008-2009	Progress	Performance report
Site air quality improvement conditions are on track	<b>Target achieved</b>	<p>Over the course of 2008-09 improvement conditions were completed, resulting in significant improvements to local air quality. In total, all 21 listed sites requiring improvement conditions in place had them, and all of these sites were on track to deliver their plans on time. 16 listed sites completed improvement conditions, exceeding our target of 12 sites.</p>

Improved and protected inland and coastal waters		
Success measure / Key target for 2008-2009	Progress	Performance report
We protect the high quality of rivers	<b>Target achieved</b>	<p>River quality improved for the 18th consecutive year.</p> <p>This is largely due to significant investment on improvements and maintenance by water companies.</p> <p>Other contributory factors include declining pollution loads in industrial discharges, tighter limits on discharge permits and the reduction in the number of pollution incidents.</p>
The quality of bathing water is getting better	<b>Target not achieved</b>	<p>In 2008, 355, 72%, out of 495 bathing waters met the EC Guideline Standard. Our target was 420 bathing waters.</p> <p>The shortfall was caused mainly by wet weather in four out of five months of the summer, one of the wettest on record. This had several consequences: there was more runoff from agricultural and urban land, storm sewage overflowed more frequently and the cloudy conditions reduced ultraviolet light that destroys bacteria in water.</p> <p>Our actions included working with water companies and local authorities to track down sources of pollution, addressing diffuse pollution by processes such as Catchment Sensitive Farming, and working with farmers by offering advice to prevent runoff.</p>
Delivery of key milestones in the Water Framework Directive (WFD) programme	<b>Target achieved</b>	All key milestones planned for 2008-09 were completed by year end.
We complete our planned RSA investigations and options appraisals	<b>Target achieved</b>	<p>We met the 2008-09 targets for delivery of the Restoring Sustainable Abstraction (RSA) programme. We completed 241 investigations into the environmental impact of abstractions, against our target of 240, and identified solutions for addressing damaging abstractions for 92 schemes, against our target of 91, through the options appraisals process.</p> <p>We made progress towards making the necessary licence changes to deliver environmental improvements. We negotiated 16 voluntary licence changes with abstractors in Wales benefiting Habitats Directive sites on the Rivers Wye, Teifi and Cleddau. We also identified 162 water company schemes benefiting approximately 2,500km of river and 350km<sup>2</sup> of wetland Habitat Directive sites in England and Wales for inclusion in Ofwat's 2009 Periodic Review.</p>

Restored, protected land with healthier soils		
Success measure / Key target for 2008-2009	Progress	Performance report
More rural land is covered by environmental agreements that protect soil and water	<b>Target achieved</b>	<p>In England, there are currently 37,878 live Entry Level Schemes (ELS) and Organic Entry level Schemes (OELS). Of these, 16,485 (43%) have one or more resource protection options, against a target of 40%.</p> <p>In Wales, there are currently 4,448 farmers participating in the Tir Cynnal scheme, covering 297,398 hectares in Wales. Resource management plans are compulsory.</p>
More contaminated land is brought back into use	<b>Target achieved</b>	<p>By the end of 2008-09 we enabled 3,733 hectares of land to be brought back into beneficial use by remediation. This significantly exceeded our target of 2,898 hectares.</p> <p>We reclassify land when we receive validation reports and remediation statements, indicating that previously contaminated land which has been a risk to controlled waters, has been improved and risks eliminated or reduced to acceptable levels.</p> <p>In addition to remediation land, we returned 2,867 hectares to beneficial use via risk assessment, indicating that land has been assessed by us and been deemed suitable for development without the need for further intervention.</p>

A 'greener' business world		
Success measure / Key target for 2008-2009	Progress	Performance report
More companies we regulate have environmental management systems	<b>Target achieved</b>	<p>Our five year target is to increase the number of externally accredited Environmental Systems (EMS) by 25%, an annual increase of 5%.</p> <p>We have developed an action plan to increase EMS uptake. This includes working with stakeholders, (Defra, WAG, UKAS, Certification Bodies, IEMA and Industry) setting sector targets and developing processes to identify and reward good industrial performers.</p>
We reduce the number of businesses with higher risk OPRA scores	<b>Target achieved</b>	<p>The Operator Pollution Risk Appraisal system (OPRA) is a rating system for quantifying the environmental risk presented by regulated processes.</p> <p>Our target for 2008-09 was to reduce the risk of at least 10% of sites in the two highest risk categories. We achieved a reduction in 17% of the sites.</p> <p>Overall, 96% of sites now have 'satisfactory' or better OPRA scores.</p>



A 'greener' business world		
Success measure / Key target for 2008-2009	Progress	Performance report
There are fewer serious and significant pollution incidents	<b>Target partially achieved</b>	For 2008-09 there were fewer pollution incidents than in any previous year, a reduction of 15, 2%, compared to 2007-08. Our target was to achieve a reduction of 5%. This is a significantly more challenging target than in previous years.  We reduced the number of incidents through targeted pollution prevention work.
We stop illegal waste activity at high risk sites	<b>Target achieved</b>	We categorise and score sites according to the potential environmental impact of their illegal waste activities.  Whilst we aim to close all illegal waste sites, we focus our efforts on those sites with the highest risk of environmental damage. We measure our progress by monitoring the change in the risk score for all illegal waste sites. Over the year we met our target.

Wiser, sustainable use of natural resources		
Success measure / Key target for 2008-2009	Progress	Performance report
Water supply and demand balance is properly managed by the water companies	<b>Target not achieved</b>	Data from annual water company returns indicates that there are 12.7 million people living in zones with a supply deficit, against our target of 6.5 million. Although the number of resource zones in deficit has decreased from 18 to 9, most of these are the zones with smaller populations.  The total deficit for England and Wales has decreased by 57% in the last year, from 328 Megalitres a day (MI/d) to 139 MI/d.  The three zones in deficit with the largest populations represent 10.5 million people (82% of the total). Thames (London zone) and Severn Trent (Severn zone) are both still included as zones in deficit, although both have made significant progress in reducing their deficit. The London zone and Severn zone have reduced their deficits by 68% and 51% respectively. Anglian Water (Ruthamford zone) is still in deficit, but will be in surplus next year when work at Wing water treatment works is completed.

Limiting and adapting to climate change		
Success measure / Key target for 2008-2009	Progress	Performance report
Our policies and processes are adapted to take account of climate change	<b>Target achieved</b>	Our 2008-09 target was to ensure all 18 functions identified in the Environment Agency's Climate Change Adaptation Strategy have developed action plans to address climate change adaption issues that could impact those parts of the business. We have successfully met our target.

Managing flood risk		
Success measure / Key target for 2008-2009	Progress	Performance report
We successfully influence flood plain development planning decisions	<b>Target partially achieved</b>	<p>This target measures our success at influencing Local Planning Authority (LPA) decisions on planning applications which involve flood risk as an issue. This year we received information about the LPA decisions for 3350 cases where we made an objection on flood risk grounds, and 3150 (94.1%) of these were either amended or refused in line with our advice. This just misses our target of 95% for this year, but is still a noticeable improvement over last year's performance of 92.3%.</p> <p>We are also tracking the number of residential units within these applications where our objections have resulted in amendments to plans or refusals. The total number of residential units where we made objections and received decision notices during the year was 69,000. Our advice was taken for 67,500 of these residential units, which is an achievement of 98%. This demonstrates that we are prioritising our efforts on delivering outcomes.</p> <p>In 2008-09 we received decision notices for 81% of the total number of applications on which we made an objection on flood risk grounds. We prioritise our efforts to obtain decision notices according to the level of flood risk presented by the applications. We have also undertaken research into performance where we have not received a decision notice and we are confident that the data obtained provides a true reflection of performance across all applications.</p>

Managing flood risk		
Success measure / Key target for 2008-2009	Progress	Performance report
More houses are protected from flooding	<b>Target achieved</b>	<p>At the end of 2008-09 we moved 38,181 households (out of a target of 38,610) to a lower flood probability category across a mixture of flood and coastal erosion schemes in England and Wales. Alongside Local Authority and Internal Drainage Board major capital works we moved 37,511 households in England (out of a planned 37,940) to a lower flood probability category. In Wales 670 households (100% of the target) were moved to a lower flood probability category.</p> <p>Of the 37,511 households protected in England, the Environment Agency delivered 29,218 (out of a planned 28,772) funded by Flood defence Grant in Aid (FDGiA) and 361 funded by Local Levy. The Internal Drainage Boards delivered 416 households and the Local Authorities delivered 7,516 households, both grant funded by FDGiA.</p> <p>At the end of 2008-09, Environment Agency, Local Authority and Internal Drainage Board major capital works had moved 15,193 households in England (out of a planned 29,761) from 'very significant' or 'significant' to 'moderate' or 'lower' flood probability categories. Although this is some way short of the original target, the variance is due to the clarification of which works can contribute to the target. There has been no change in the performance of the capital works programme and we remain on track to hit the three year target of moving 45,000 households from 'very significant' and 'significant' flood probability categories to a lower one by 2010-11.</p>

Managing flood risk		
Success measure / Key target for 2008-2009	Progress	Performance report
More new BAP habitats are created	<b>Target achieved</b>	<p>Biodiversity Action Plans (BAP) describe actions needed to protect and enhance natural habitats across England and Wales.</p> <p>Over the course of 2008-09 a total of 253 hectares of BAP habitat were created, 204 hectares in England and 49 hectares in Wales. This has been achieved as part of our Flood and Coastal Risk Management capital and maintenance programme and through working together with external partners.</p> <p>In 2008-09, the projects delivering the largest area of habitat were:</p> <ul style="list-style-type: none"> <li>- The Cumbria Wetland Bird Recovery Programme, 82 hectares, a three year project delivered in partnership with the RSPB and Natural England.</li> <li>- The Frampton Habitat Creation Scheme, 30 hectares, in Lincolnshire delivered in partnership with the RSPB.</li> <li>- In Wales, the Solutia Reserve, 35 hectares, near Newport where we worked in partnership with the Gwent Wildlife Trust to create new habitat.</li> </ul> <p>By the end of 2008-09 we delivered 26% of our England-only 3-year 800 hectare target, due to be delivered by the end of March 2011. We are on track to deliver the remainder of this target by the end of the programme.</p> <p>In 2009-10 our target is to create 30 new hectares of BAP habitat in Wales.</p>
We deliver our flood risk management programme	<b>Target achieved</b>	<p>At the end of 2008-09 our capital outturn of £278.2 million was on budget. Our revenue outturn of £289.4 million was 1.4% over budget.</p> <p>Our overspend on revenue is due to increased maintenance costs. We delivered our capital and our revenue maintenance programme of works in line with our expenditure.</p>
More households and businesses in the floodplain are offered an appropriate flood warning service	<b>Target achieved</b>	<p>Our annual response to flooding report shows that 88% of people took action that we think is appropriate during a flood event (for example, moved valuables, or switched off gas and/or electricity). We exceeded our target of 75% and aim to maintain this level in the future.</p> <p>In England and Wales 68.3% of houses within the floodplain were offered an appropriate flood warning. This is above the target of 62% and an improvement relative to target over last year's performance.</p>

Managing flood risk		
Success measure / Key target for 2008-2009	Progress	Performance report
Condition of flood defences	<b>Target achieved</b>	<p>A Flood Risk Management System comprises a number of interdependent flood defence assets. Individual assets may be owned by the Environment Agency or by third parties. Systems are classified as 'High', 'Medium' or 'Low' consequence based on the number of properties, infrastructure or amount of high value land that they protect. A system will be classed as below the required condition if one or more defence or structure in the system is below its required standard.</p> <p>We met our target to improve the condition of more than 5% of our 'High Consequence' flood risk management systems during 2008-09. There are now 71.9% (951 out of 1,323) of our 'High Consequence' flood risk management systems at the required condition. Of the 951 passing systems, 811 were in England and 140 in Wales.</p> <p>Throughout the year we have also continued to inspect and maintain the condition of our 'Medium Consequence' and 'Low Consequence' systems. There has been no overall deterioration in their condition.</p> <p>An investigation of our individual assets shows that 96% of assets in 'High Consequence' systems are at or above their required condition. Over the past three years we have seen a year-on-year improvement in the condition of our flood defences. We continue to work on our programme to improve asset condition and ensure our flood defences are 'fit for purpose'.</p>
We respond to more planning enquiries on time	<b>Target achieved</b>	<p>We measure our performance against our statutory duty to return timely comments to Local Planning Authorities and other enquirers to help them process planning applications.</p> <p>This year we responded to 52,688 consultations, with 48,151, or 91.4%, of them within the 21 day time limit. We exceeded our target of 83% and significantly improved on last year's performance of 87.5%.</p>

### Changing the way we work: More for the environment, Better, Faster, with Less

Modernising regulation		
Success measure / Key target for 2008-2009	Progress	Performance report
We have reduced the administrative burden that we place on business	<b>Target achieved</b>	<p>We exceeded our £15.0 million target, achieving a reduction in business administration costs of £17.0 million.</p> <p>We are on track to achieve a £26.8 million reduction by 2009-10, exceeding our target of £22.3 million, 25% of the 2005-06 baseline, by £4.5 million.</p>

Sharpening efficiency		
Success measure / Key target for 2008-2009	Progress	Performance report
We are more efficient	<b>Target achieved</b>	<p>At the end of 2008-09 the Efficiency Portfolio delivered £42.7 million savings, exceeding our target of £25.0 million by £17.7 million.</p> <p>The strong performance of the portfolio is largely due to significant savings by our National Capital Programme Management Service of £11.0 million and procurement contract efficiencies of £12.0 million.</p>

Communicating and influencing		
Success measure / Key target for 2008-2009	Progress	Performance report
Our customers say we are providing a good service	<b>Target partially achieved</b>	<p>The average score for our quality of service for business customers from our 2008-09 survey is 6.5/10. This is a slight increase from 2007-08 but is below our target of 6.8/10.</p> <p>As in previous surveys radioactive substance licence holders are significantly more likely than all other customers to give a positive rating whilst IPPC licence holders are more likely than average to give a negative rating.</p>
We receive positive media coverage and are seen at the forefront of environmental debate	<b>Target achieved</b>	<p>In 2008-09 our target was for 85% of media articles about the Environment Agency to be beneficial or factual.</p> <p>In the latest quarterly survey we achieved a rating of 96%, the highest over the last 8 quarters.</p> <p>Strong coverage was achieved for issues such as water resources, flood risk management, waste and biodiversity.</p>

<b>Developing people</b>		
<b>Success measure / Key target for 2008-2009</b>	<b>Progress</b>	<b>Performance report</b>
We provide a safe place to work	<b>Target not achieved</b>	<p>In 2008-09 there were 55 Lost Time Incidents (LTIs), 11 more than our target ceiling of 44. This was more than in 2007-08 but significantly fewer than in previous years.</p> <p>To combat the rise in Lost Time Incidents (LTIs) the National Safety Action Group met in October. It confirmed the view that we need to continue to focus on improving management competence and leadership as well as behavioural safety. Phase 3 of the Behavioural Safety Programme was also launched in October. We continue to use targeted communications to address specific risks. We issued notices to alert relevant teams to incidents where there were clear learning points.</p>
Our workforce is more diverse	<b>Target achieved</b>	<p>This year we exceeded our target of 3.4% of the workforce being of Black or Minority Ethnic (BME) origin. We ended the year on 3.5%. Our success has included work to ensure that turnover in our BME population is the same as that of the Environment Agency as a whole.</p> <p>We have worked hard through active promotion of our normal recruitment and through the use of positive action training schemes in Operations Delivery and Environmental Management to become more representative of the communities we serve.</p>
We achieve the right balance of resources	<b>Target achieved</b>	<p>Our target in 2008-09 was for our external staff turnover rate to be between 7% and 13% of the workforce. Our turnover rate over the year was 8.1%. This is a reduction of 2.5% from the 2007-08 rate.</p>
We have resourcing strategies in place for scarce skill areas	<b>Target achieved</b>	<p>In 2008-09 our National Recruitment Service handled a total of 57 campaigns and Executive Management posts, an increase of 46% from 2007-08. This equates to a total of 777 roles. We completed 55, or 96.4%, of the 57 campaigns within 8 weeks, exceeding our target of 51(90%).</p> <p>Our graduate campaign attracted 308 responses with 32 offers made to date. The campaign has been short-listed for an award in the Most Popular Graduate Recruiter - Public Sector category. We have also been named as one of the UK's leading employers and have been ranked within The Times Top 100 Graduate Employers.</p>

Efficient Operator		
Success measure / Key target for 2008-2009	Progress	Performance report
We have secured the funding necessary to deliver our objectives	<b>Target achieved</b>	Our outturn for total income was within 0.4% of budget.  The small shortfall against budget was mainly due to reductions in interest receivable and commercial income as a result of the current economic climate.
Our expenditure is in accordance with our plans	<b>Target achieved</b>	Our outturn for expenditure was within 0.6% of budget.  We proactively reduced expenditure budgets during the year to offset a reduction in income.
External funding helps us create a better place	<b>Target achieved</b>	In 2008-09 we attracted external funding of £53.4m, exceeding our target of £39.6m by £13.8m.  This comprises £10.2m of awards to the Environment Agency, £16.2m of awards to our project partners and £27m of match funding from our project partners. In return for this external funding, we provided £15.1m. We received £3.52 of external funding for every £1 that we spent. Overall £68.5m has been spent on the environment through our partnership projects this year.

Champion of the Environment		
Success measure / Key target for 2008-2009	Progress	Performance report
We are trusted with new duties	<b>Target not achieved</b>	Our target for 2008-09 was to achieve seven milestones on new projects this year. We successfully completed five milestones on time.  Of the two missed milestones, work on the Carbon Reduction Commitment project was delayed by ten months due to legislative changes. Delays on work to transpose the Groundwater Daughter Directive into domestic legislation have been caused by legal complexities.
We reduce our environmental footprint	<b>Target partially achieved</b>	Over 2008-09, we achieved three out of five Internal Environment Management targets. We met our targets on carbon dioxide emissions, waste and car travel.  We used 3% more water than target. Over the winter we had two large leaks, caused by frozen pipework, and lost water equivalent to 14 % and 8% of annual consumption in Wales and Anglian regions respectively. We reduced consumption from our baseline year by 10%.  Our energy use for the year was 6% over target. The coldest winter since 1996 resulted in 9% more gas or oil being used to heat our buildings and operational facilities than last year. We reduced consumption from our baseline year 2005-06 by 4.9%



Modern Regulator		
Success measure / Key target for 2008-2009	Progress	Performance report
We deliver permits more quickly	<b>Target not achieved</b>	<p>Over 2008-09, we determined 61% of permits within eight months. Our target was 90%. We anticipated this level of performance as it reflects the ongoing impact of the completion of older Pollution Prevention &amp; Control (PPC) work.</p> <p>97% of such permits received since April 2008 were issued within eight months. Additional support from consultants in the last three months of the year, together with the successful filling of vacancies helped to increase the delivery of the legacy work.</p> <p>Of the outstanding applications which were received before April 2008, when EPR was implemented, we are aiming to deliver 89% of these by June 2009 (24 applications) and the remainder by September 2009 (three applications).</p> <p>There are a further 24 applications received before April 2008 but these are delayed due to matters outside of the control of the Environment Agency. These applications will be determined as soon as these issues are resolved.</p>
Our compliance activity is focussed where required	<b>Target achieved</b>	<p>Over the year we spent 36% of our compliance time on audits. This exceeds our target of 25%.</p> <p>We have managed our approach to compliance well over the year and in addition to regular training have introduced 'auditing for better regulation' courses for staff.</p>
More businesses comply with permit conditions	<b>Target achieved</b>	<p>Over 2008-09 there were 1,242 category 1 and 2 permit breaches. This is fewer than our target ceiling of 2,000.</p> <p>We report permit breaches every three months. There has been a downwards trend over the last two years. This trend is consistent with our 'outcome focussed' approach to regulation. We have used our resources and targeted effort with our regulated stakeholders to achieve the best outcomes possible. As a result we have seen better permit compliance across the regulated sectors.</p>
We are successful in taking action against those who damage the environment	<b>Target achieved</b>	<p>Our target was for 80% of category 1 incidents to result in us recommending a prosecution or caution.</p> <p>We achieved 95%, dealing with 37 of 41 incidents by prosecution and two by caution.</p> <p>The other two incidents were dealt with by way of formal warning, a judgement based on the specific circumstances in each case.</p>

Influential advisor and active communicator		
Success measure / Key target for 2008-2009	Progress	Performance report
We successfully influence key audiences around priority issues	<b>Target achieved</b>	<p>We achieved all four of the outcomes we set ourselves this year. The Flood Awareness Campaign Tracking Survey 2008-09 confirms we have met our targets for the year.</p> <p>The 'awareness of risk' figures describe the number of individual respondents who feel their property may be at risk from flooding. 55% of respondents surveyed during 2008-09 accepted some level of flood risk; this represents the targeted 3% increase in awareness since April 2008 (52%). In addition, 63% of respondents who felt they were at risk say that they have made some preparations in advance of a flood event.</p>
We successfully deliver priority communication programmes and campaigns	<b>Target achieved</b>	<p>We achieved 23 out of 26 milestones this year, meeting our target. The three milestones that were not met were:</p> <ul style="list-style-type: none"> <li>- the Water Resources strategy launch due in Quarter 4 was successfully completed in London. The strategy for Wales will be launched in July 2009.</li> <li>- the Flood crisis communications training which was originally due in Quarter 3 was re-scheduled to 2009-10.</li> <li>- the strategy and business case for an enlarged public Floodwise campaign was completed in Q2 as planned, but sign-off was completed in Q3. The additional time was used to incorporate feedback provided by the policy team and senior management.</li> </ul>

## APPENDIX C

## Water Resources Income

## Standard Unit Charge (SUC) and Environmental Improvement Unit Charge (EIUC) balances

	SUC balance	EIUC balance water companies	As at 31 March 2009		2008 SUC balance
			EIUC balance non water companies	Total	
	£'m	£'m	£'m	£'m	£'m
Anglian	2.2	(0.9)	(0.3)	<b>1.0</b>	2.2
Midlands	-	(0.5)	(0.2)	<b>(0.7)</b>	(0.7)
Yorkshire	0.6	-	(0.1)	<b>0.5</b>	(0.3)
Northumbria	0.9	-	-	<b>0.9</b>	(0.3)
North West	(0.7)	(0.4)	(0.1)	<b>(1.2)</b>	(0.8)
Southern	(0.5)	(0.6)	(0.1)	<b>(1.2)</b>	(1.6)
South West	(2.8)	(0.6)	(0.1)	<b>(3.5)</b>	(2.4)
Thames	0.1	(1.0)	(0.1)	<b>(1.0)</b>	0.5
Wales	-	-	(0.1)	<b>(0.1)</b>	0.3
<b>Total</b>	<b>(0.2)</b>	<b>(4.0)</b>	<b>(1.1)</b>	<b>(5.3)</b>	<b>(3.1)</b>

**Key:**

Balances in surplus shown as negative ( )

Balances in deficit shown as positive.

From 2008-2009, abstractors were also charged an Environmental Improvement Unit Charge (EIUC). This will enable us to pay compensation when we vary or revoke abstraction licences to reduce the risk of environmental damage due to taking too much water from certain water bodies. We only use the money raised from this charge exclusively to make compensation payments. Any remaining balances at year end are carried forward to meet future compensation payments. The balances arise because we have to collect sufficient funds to pay the compensation before revoking or varying a licence.







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