

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

## Annual report and accounts 2007/08

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.

Published by:

Environment Agency  
Rio House  
Waterside Drive, Aztec West  
Almondsbury, Bristol BS32 4UD  
Tel: 0870 8506506  
Email: [enquiries@environment-agency.gov.uk](mailto:enquiries@environment-agency.gov.uk)  
[www.environment-agency.gov.uk](http://www.environment-agency.gov.uk)



**Environment Agency  
Annual Report and Accounts 2007-2008**

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Environment Act 1995

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# **ANNUAL REPORT and ACCOUNTS**

**for the year ended**

**31 March 2008**

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## Foreword

This is the last annual report reporting on work done while Sir John Harman was chairman.

Sir John was with the Environment Agency from the very beginning – joining the shadow board in 1994. Back then he could not have anticipated the successes we would achieve under his leadership as the most comprehensive agency for environmental protection in Europe.

His pivotal role in helping to bring together the disparate organisations and functions that make up the Environment Agency led us to adopt ambitious and outward-looking aims and objectives that built on our statutory duties, and use them creatively. Under Sir John we have grown into a world leader in environmental protection and acknowledged experts in our field. His contribution to improving the environment in England and Wales has been enormous. We will miss his inspiration and leadership and wish him well for the future.

### 2007-2008

The biggest subject of last year was the summer flooding, which brought devastation and misery to so many people in England. I was proud of the way our staff pulled together to help people and protect vital infrastructure. There is no doubt that our prompt action saved homes and businesses from flooding and kept vital services available.

Sir Michael Pitt's review of the floods reinforced the fact that there is still much to be done in managing flood risk. We need to work with the emergency services to get our existing flood warnings to more people, and we must help them to understand the risks of flooding, and what they can do to protect themselves. We can help people to understand and respond to the risk of flooding from surface water which affected so many last year. We have secured additional funding from government to protect more homes and businesses in the future, and we're talking to them about long term strategies for dealing with flood risk.

The problems of drought and flooding have always come and gone, but climate change is here to stay. While we cannot directly attribute all drought and flooding events to climate change, we can expect more of this type of event in the future. For parts of the country, water availability will be a big issue over the next few decades. The impact of climate change in the South East of England will lead to a more delicate balance between supply and demand. Managing water demand by increasing efficiency is now essential.

We worked hard this year to raise the issue of 'adaptation' - how the country will meet the climate change impacts that we know are coming. The Climate Change Bill now includes some of the measures we have been seeking, and I hope we will work closely with the new Climate Change Committee. It is important to ensure that bodies with responsibility for public infrastructure work out what they need to do to keep it robust, and we have laid the legal foundations for our future adaptation role.



**TED CANTLE**  
**ACTING CHAIRMAN**  
**10 July 2008**

## MANAGEMENT COMMENTARY

### Introduction

We are the leading public body for protecting and improving the environment in England and Wales. With others we aim to make sure that air, land and water are looked after, so that tomorrow's generations inherit a cleaner, healthier world.

We were set up under the Environment Act 1995 and given certain duties and powers. We have around 12,500 members of staff and a budget of just over £1 billion.

Around 60 per cent of our funding comes from Government, and most of the rest comes from various charging schemes set by Parliament. We are an executive Non-Departmental Public Body that reports through ministers to Parliament. We work closely with our Government sponsors in England and Wales to get the best possible results for people and the environment.

As well as working across England and Wales, we have regional offices working closely with other regional bodies to develop the right solutions for local environments. We also have area offices working with local authorities and others to tackle local environmental issues.

### The major challenges we face

#### Tackling climate change

In central England average temperatures have risen by about one degree Celsius since the 1970s, with 2006 being the warmest year on record. Sea levels around the UK rose by about 1mm a year from 1900 to 2000.

In 2007, we saw that extreme weather conditions such as the rain in Gloucestershire, Yorkshire and Humberside and the ensuing floods have a major impact. The people affected by these floods will feel the devastating effects for some time.

Although single events cannot be attributed to climate change, they illustrate the sort of changes we think will happen more frequently in future. No matter what we do now, we are locked into a certain amount of climate change over the coming decades. Floods, droughts and storm surges are likely to become more prevalent, and as a result more people, buildings and land will be vulnerable to changing weather.

We have helped to shape the environmental agenda for eco-towns. The Department for Communities and Local Government (CLG) asked us to conduct high-level environmental assessments for New Growth Points (NGP) and eco-town bids. These assessments included important issues like flood risk, water resources and wastewater infrastructure. Our recommendations helped CLG shortlist 15 eco-towns, and these were announced in April 2008. We will continue to work closely with the Government on this area.

Emissions from regulated industry of greenhouse gases other than carbon dioxide (CO<sub>2</sub>) continued to fall in 2007. Unfortunately, CO<sub>2</sub> emissions from these industries increased. More than 95 per cent of CO<sub>2</sub> emissions from the businesses we regulate fall under the EU Emissions Trading Scheme. We are not able to influence the levels of emissions under the trading scheme. Permitted levels are set by the UK Government.

### Flood risk and coastal management

#### Summer 2007 floods

Last year unprecedented weather conditions led to extensive flooding in England with over 55,000 homes and businesses affected on the rivers Don, Severn and Thames and their tributaries.

It would have been worse but for the protection given by our flood schemes. About half (525 km) of the defences put under pressure were overwhelmed simply because the scale of the floods was much greater than they were designed to withstand.

Following the floods, we surveyed 576 businesses and residents across England. It showed that 86 per cent of people acted to protect their homes and property during the flood. We had over four million visitors to our website and 260,000 telephone calls in 2007-2008 from people looking for flood warning information.

These flood emergencies put phenomenal pressure on our staff. Our Operations Delivery Teams worked tirelessly protecting important infrastructure, helping our professional partners, and providing pumps during and after the floods. One of the most valuable contributions made by our teams was at Walham electricity substation near Gloucester. Without our skilled staff and the temporary defences we provided, 500,000 people would have been without power.

### **Inland flood management**

Despite the amount of work involved in dealing with the summer floods, we provided protection to a further 31,688 homes and businesses in England and Wales in 2007-2008, including West Bridgeford in the Midlands where 5,420 properties were protected, and Thornton Cleveleys in the North West where 5,000 properties were protected. This brought the total protected since 2004 to 117,474.

### **Coastal management**

This year the government gave us a new strategic role in coastal flooding. From April 2008, we are responsible for overseeing management of all flood and coastal erosion risk in England. This will increase our accountability and provide clarity for the public and help ensure that work is properly prioritised and managed.

We successfully responded to the challenge of the biggest east coast storm surge since 1953. While the surge did not lead to severe flooding, we made sure that we issued timely and accurate warnings and liaised with our partners and the media to ensure that the public were fully aware of what was happening.

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

We improved 172 kilometres of watercourse habitat this year, comfortably exceeding our target of 130 kilometres. Flood risk management (FRM) funding accounted for 79 improved kilometres, including Pevensey Levels Floating Pennywort control project in Sussex where 37 kilometres of watercourse were improved within a Site of Special Scientific Interest.

In 2007, 483 (97.8 per cent) of our 494 bathing waters met the European Commission Imperative Bathing Water Standard. The main cause of 11 bathing waters failing to meet the standard was the particularly high summer rainfall which caused increased overflows from sewerage systems into watercourses and increased water run-off from agricultural land. 394 (79.8 per cent) met the more stringent EC Guideline Standard against a target of 414 (84 per cent). Again this is due to the impacts of high rainfall. Bathing water quality as measured by the EU guideline standard has remained stable. 79 per cent met this standard in 2002, and 79.8 per cent in 2007.

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

In 2007-2008, we continued to work well with Local Authorities (LA) and Local Strategic Partnerships (LSA) in England and Local Service Boards (LSBs) in Wales to improve the environment. For example, we are part of an LSP in Birmingham which has overseen cleaning up a heavily polluted brook in Ward End Park, including clearing overgrown vegetation, removing rubbish and significantly reducing water pollution.

We have committed to improving local environments and in 2007-2008 made progress by identifying 50 Environmental Priority Areas in England and 10 in Wales as part of the Improving Poor Environments Initiative. During the year, we worked with 75 per cent of LSPs and LSBs in these areas and concentrated our efforts on flagship projects in Birmingham and Sandwell, helping to improve the local environment for residents.

As well as improving local environments, we need to protect them. In 2005, we established a baseline number of 'big, bad and nasty' illegal dumping incidents to measure our performance against. There were 467 such incidents in 2004-2005, but only 319 in 2007-2008.

### **Wildlife**

A good indicator of how clean our rivers are becoming is the number of salmon in them. This year the percentage of principal salmon rivers at highest risk fell to 44 per cent (ahead of our target of 48 per cent). Salmon are also returning to Yorkshire's rivers. Increased numbers in the Ouse and Humber point to recovering populations.

Unfortunately, salmon are under pressure internationally from environmental factors affecting marine and freshwater environments and we continue to protect them in England and Wales. We will renew the National Spring Salmon Byelaws in 2008-2009 to prevent salmon being caught and killed before June



each year. We also plan to introduce regulations to limit the sale of salmon by anglers and to introduce a tagging scheme for net caught fish.

### **Water abstraction**

We have made good progress on investigating the environmental impact of licensed abstraction (taking water from the environment for commercial purposes) and in assessing options to make abstraction sustainable. We investigated 167 Restoring Sustainable Abstraction sites, half of which needed us to look at possible options to make them sustainable. We have now completed 46 of these option appraisals.

In June 2007, we agreed with the Department of the Environment, Food and Rural Affairs (Defra), the Welsh Assembly Government (WAG) and Ofwat that changes to water company abstraction licences to meet the requirements of the Habitats Directive may be funded through the periodic review of water company prices.

Following consultation, ministers agreed to a revised national abstraction charges scheme, published in April 2008. Compensation funds will be recovered from the new charges scheme. With funding routes secured, we can now make licence changes.

### **A greener business world**

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 impact. Increasingly, the investment community is looking in to companies' environmental performance before investing in them. We welcome this, as it should 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 were 693 such incidents in 2007-2008.

### **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 had a challenging year in 2007-2008, due to a reduction in the size of the organisation. This has led to fewer vacancies, because we re-deploy existing staff where possible. Together with higher Black Minority Ethnic (BME) turnover and a temporary halt to our positive action programme, we ended the year with the same proportion of BME employees as at the end of the previous year.

#### **Using our resources more efficiently**

We are committed to do more for the environment. We are driving value for money into our culture through an extensive efficiency programme, including through our change management projects.

This year we saved £33 million. This is £8 million above the target for the year which we agreed with Defra. Of this, flood risk management saved £17 million - £2 million above target. We redirected the money we saved to priority areas of the business including protecting more homes from flooding, reducing impacts and improving the environment.

### **Communications**

We have continued to develop a more customer-focused approach to communications. This includes the documents for the Environmental Permitting Programme, which we produced in consultation with customers that were going to use them. We continued our Building Trust with Communities programme, which is now becoming embedded in the organisation.

We gained another 30 Plain English Campaign Crystal Marks for our written materials, bringing our total in the last three years to 86.

### **Modernising regulation**

We have continued to reduce the administrative burden on business – exceeding our savings target with a total reduction of over £11 million in 2007-2008.

This year we centralised our permitting processes for Pollution Prevention and Control, Waste and Water Quality in four centres in Warrington, Cardiff, Birmingham and Nottingham. Although this meant making significant changes, we have worked hard and our performance improved in the second part of the year.

We have introduced on-line and telephone registration and returns systems for hazardous waste, packaging and agricultural waste; and telephone registration for simple waste exemptions. This has reduced the average time it takes to register from 80 minutes to less than five minutes. Our new agricultural waste registration system has reduced paperwork from around 70 pages to five pages.

## Financial overview

### Financial highlights

#### Funding

Our total funding in the year was £1,025 million, an increase of £23 million on the previous financial year. Of our total funding, £628 million (61 per cent) was provided in the form of 'grant-in-aid' from Defra and the Welsh Assembly Government (WAG). £347 million (34 per cent) was raised through our charging schemes and local flood defence levies, and £50 million (5 per cent) came from other miscellaneous sources.

£578 million of our grant-in-aid came from Defra to fund our work in England and £50 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.

#### Expenditure

We spent £1,103 million in 2007-2008. Of this, £565 million (51 per cent) was spent on flood risk management; £346 million (31 per cent) on environment protection (preventing and controlling pollution); £128 million (12 per cent) on water resources and £64 million (6 per cent) on our other water management functions.

#### Overall results

We had an operating deficit for the year of £716 million. The offsetting of interest receivable of £8 million, income from the sale of assets of £2 million, financing income on pension scheme assets and liabilities of £24 million and transfers of £7 million from capital reserve and £45 million from pension's reserve, resulted in a retained deficit of £630 million transferred to the income and expenditure reserve.

Grant-in-aid received in year was £628 million, almost matching the retained deficit for the year. If the grant-in-aid received was included in the income and expenditure account, it would show that we spent £2 million more than our income after allowing for reserve transfers.

#### 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 have received additional grant-in-aid funding from Defra of £130 million for 2008-2009 for our work in England. This includes £64 million to be allocated to flood defence schemes promoted by Local Authorities and Internal Drainage Boards. Of the remainder, the majority relates to additional capital expenditure for flood defence projects. We will also receive more money for Flood Risk Management in 2009-2010 and 2010-2011. We are waiting for Defra to tell us what our funding allocation for our other services will be beyond 2008-2009. We are determined to continue to improve the environment in a way that demonstrates value for money.

In Wales we will receive more money in 2008-2009 for flood risk management but the environmental protection grant-in-aid has not been increased.

#### External funding

Most of the money we have raised through external funding has been spent on projects to reduce flood risk, to enhance the environment for wildlife, to improve quality of life and to create a greener business world.

We have exceeded our annual target for external funding. The total external funding raised for the year is £47.3 million against a target of £45.5 million. This external funding consists of £9.6 million of awards to the Environment Agency, £17.8 million of awards to our project partners, plus £19.9 million of match funding from our project partners. We have provided £6.9 million of match funding. Overall this means that £54.2 million has been spent on the environment through 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 influencing the UK finance 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 have trained staff in our Finance directorate and other parts of the business in the integrated use of financial and environmental data. We continue to work with the UK accounting bodies, Envirowise (which is 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 also built environmental accounting into our financial accounting system and we are using this information to develop our reporting.

We have promoted to the UK finance sector that corporate environmental governance is good for business. In particular we have sought to increase the extent and quality of environmental disclosures by influencing new company law annual reporting requirements, and stock market listing rules. This will make environmental risks and opportunities clear to shareholders, investors and insurers.

### **Financial management**

During the year we have further improved the speed at which we produce monthly management accounts. These end-of-month accounts are now prepared and submitted to Directors on the fifth working day of the month.

In December 2006, we introduced a new fixed asset register and we have done significant work during the year to update the information held on it. This has involved reconciling assets on the register to other databases held by operational teams, reviewing the reasonableness of the indexation rates used to update the values of assets and performing test checks of the original historic cost and revaluation amounts for operational assets.

Our improved financial systems have allowed the Finance Directorate to implement efficiencies that will save approximately £1.8 million per year. Our single Finance Service Centre in Peterborough will make it easier for our finance staff to liaise more regularly with business managers.

## 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, however, independent of the department that sponsors them, and are considered to be 'at arm's length'. This independence allows them to focus on their own objectives.

During 2007-2008, our principal sponsor in Government remained the Department for Environment Food and Rural Affairs (Defra). Defra oversees the environmental policy framework within which the Environment Agency operates, and supports policy on all its other functions in England. In Wales, we are a Welsh Assembly Government (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.

### 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 or recovered to be used in future years.

In 2008-2009, many abstractors will also be charged an environmental improvement unit charge. This charge enables us to pay compensation when we vary or revoke abstraction licences to reduce the environmental risk of damage due to taking too much water from certain watercourses. We only use the money raised from this charge to make compensation payments. Any remaining balance at year end will be carried forward.

#### 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 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 balance at year end will be carried forward.

There is also grant-in-aid funding for these work areas.

#### 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 that have representatives on each Regional Flood Defence Committee. 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 the Welsh Assembly Government towards the costs of our work in Wales.

### **How we are managed**

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

The Environment Agency is governed by a Board. On 31 March 2008, the Board comprised twelve 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 on page 15. Our Board members represent a broad cross-section of bodies and individuals with an interest in 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 Acting Chief Executive as the Environment Agency's Accounting Officer. Barbara Young was the Chief Executive during the year but resigned on 31 May 2008. Paul Leinster was appointed Acting Chief Executive from this date. The Environment Agency has seven other executive directors, 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 Peter Bye. It meets quarterly and its principal aims are to review standards of internal control and financial reporting 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 is currently chaired by John Edmonds. 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 ensure that we 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. Disabled people are given the same consideration as others and, depending on their skills and abilities, will enjoy the same training, development and prospects as other staff. Staff who become 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 handbooks 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.

#### **Health and safety policy**

We are committed to protecting the health and safety 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 and communicate about these actions. Prime responsibility for health and safety lies with individual employees. Directors, Regional Directors, Area Managers and all other managerial and supervisory staff also have responsibility for matters within their control.

## 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 97 per cent of invoices from suppliers within 30 days of receipt and registration. Creditor days, calculated according to the formula in the Companies Act 1985 (Directors Report) were 19.2 days for 2007-2008 (15.8 days for 2006-2007).

### Environmental policy and social community statement

We aim to always adopt best environmental practice in everything we do and we have an 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 within our work. These may be leisure benefits as part of flood defence works, navigation capital expenditure and recreation expenditure.

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
- report on environmental expenditure in the Annual Report and Accounts, including a new report on our sustainability performance included in Appendix A.

We 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.

Our staff and our business benefits from the team building activities and WaterAid benefits from the funds we raise. During 2007-2008, we gave £250,000 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 Defra has a duty under section 173(3) of the Water Act 1989 to ensure the Fund can always meet its liabilities including future 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 Pension Fund is amongst the most solvent funds in the Local Government Pension Scheme. In recent years it has received awards for its investment strategy and innovative environmental overlay strategy. However, while the fund managers are seeking a healthy return from investments, the actuary has advised that future liabilities are also rising and so employer contributions need to be increased. Further information is included in note 18 to the accounts.

### Managing risk

As noted in the Statement on Internal Control, we have a structured risk management strategy to help us manage achieving our objectives. A risk champion manages each key risk. The champion is always one of our Directors. We have not identified any significant risks that are likely to affect the Environment Agency's

long-term position. Our risk management plans and quarterly reviews of performance against the plans help to ensure that risks are mitigated towards the target level.

### **Personal data**

In 2007–2008, 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 continually improve our systems. In 2008-2009, we will insist that staff using personal data on laptops and memory sticks will use encryption software to protect the data.

In January 2008, there was a break-in at our office in Warrington and nine laptops were stolen. This is the only significant incident that has been recorded within the Environment Agency during the year and was not deemed to fall within the criteria for reporting to the Information Commissioner's Office at the time. As far as we are aware, no personal data was held on these laptops.

In the previous two years, the only significant incidents that have been identified are:

- November 2006 – unauthorised disclosure of data due to a mailing error by our contractor relating to flood warning information. 4,000 letters identified the records of a different household instead of the current record of the addressee; and
- April 2005 – the loss or theft of a fisheries bailiff's notebook containing details of elver licence holders subject to licence checks by the officer.

### **Managing our buildings**

We occupy 187,000 square metres of building space. This includes offices, depots and surplus buildings such as closed pumping stations. 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. Many are now coming to the end of their lease, or are in the wrong location. Since 2003, we have been working on developing a strategic asset management plan for buildings. Our strategy is to focus on the right buildings in the right place at the right cost.

Our National Accommodation Programme aims to reduce the space we use by 40 per cent by using space better. 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. By 2012, we will have a ratio of 1.3 staff per desk. We will aim to use on a daily basis an average of over 60 per cent of the desks by 2010 and 80 per cent by 2012.

We also want to improve our environmental performance and have set demanding targets including:

- Reducing our carbon emissions from buildings by 15 per cent by March 2010 and 30 per cent by March 2012, from 2006-2007 levels;
- To achieve Building Research Establishment Environmental Assessment Methodology (BREEAM) 'excellent' ratings for all newly built and refurbished buildings and achieve the government's Sustainable Operations for the Government Estate (SOGE) targets or better;
- To recycle 80 per cent of office waste by March 2012; and
- To reduce water consumption by 25 per cent from 2005-2006 levels, partly through more grey or rain water recycling systems by March 2012.

Part of the work involves reducing the number of properties from 250 to around 180 by March 2010. We are actively seeking opportunities to sublet space and to dispose of properties that we do not need.



**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**  
10 July 2008

## REMUNERATION REPORT

### Terms of Reference

The Remuneration Committee comprises five 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 bonus payments (or other form of performance related pay awards) to 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 six times during the year ended 31 March 2008. It agreed the bonuses of the executive directors for 2007-2008 and the Chief Executive's appraisal for 2007-2008, and objectives for 2008-2009.

During the year, the Committee also:

- reviewed progress on the reward strategy;
- endorsed the Agency's approach to the pay award; and
- endorsed the Agency's new approach to pay and performance management.

### 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 Welsh ministers. The Act provides for the Environment Agency to pay its 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 in 2007-2008 £	Remuneration in 2006-2007 £
Sir John Harman (Chairman) (i)	01 Jan 2004	4	3½ per week to 31/12/07 & then 2½ per week	117,712	101,679
Mr James Brathwaite CBE (ii)	01 July 2005	3	4½	17,707	17,421
Dr Andrew Brown	10 Oct 2006	3	5	20,186	9,384
Mr Peter Bye DL	01 Sept 2006	3	6	24,224	25,250
Mr Edward Cattle CBE DL (Deputy Chairman) (iii)	15 Sept 2003	(iii)	7	36,232	35,415
Mr John Edmonds (iv)	01 June 2005	3	6½	26,242	24,757
Professor Ruth Hall (ii)	01 July 2005	3	6	24,224	24,750
Mr Peter Matthews (v)	15 Sept 2003	3	7	-	12,904
Ms Sara Parkin OBE (vi)	15 Sept 2003	3	5	-	9,218
Mr Richard Percy	01 Nov 2006	3	6	24,224	23,610
Dr Malcolm Smith (vii)	01 Sept 2007	1	7	28,261	26,681
Dr Lyndon Stanton (iv)	01 June 2005	3	6	24,224	23,615
Councillor Kay Twitchen OBE	01 April 2007	3	6	24,224	21,970
Professor Lynda Warren OBE (viii)	10 Oct 2003	3	7	-	14,596
Lady Suzanne Warner (ix)	18 Sept 2006	3	5½	19,682	8,431
Lord Larry Whitty	18 Sept 2006	3	4½	18,168	9,484
Barbara Young (Chief Executive) (x)	01 July 2005	8	Full Time	175,610	164,200
<b>Total</b>				<b>580,920</b>	<b>553,365</b>

Note: Non-executive Board members have no entitlement to bonuses or 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. Lord (Christopher) Smith is to be appointed as Chairman of the Board to replace Sir John Harman.
- ii) Mr James Brathwaite & Professor Ruth Hall were re-appointed for a further 3 years from 01 July 2008.
- iii) Mr Edward Cattle was appointed to the Board on 15 September 2003 for a period of 3 years. This was extended until 16 May 2008 and has recently been extended for a further 6 month period effective from 16 May 2008.
- iv) Mr John Edmonds & Dr Lyndon Stanton's appointments were extended for a further 1 year from 01 June 2008.
- v) Mr Peter Matthews retired from the Board on 14 September 2006.
- vi) Ms Sara Parkin retired from the Board on 14 September 2006.
- vii) Dr Malcolm Smith was re-appointed to the Board for 1 year with effect from 1 September 2007 and subsequently a further 2 years with effect from 1 September 2008.
- viii) Professor Lynda Warren retired from the Board on 9 October 2006.
- ix) Lady Suzanne Warner's time commitment changed from 4 to 5½ days per month on 1 September 2007
- x) 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 on page 16. Barbara Young left the Agency on 31 May 2008 and Paul Leinster has been appointed as Acting Chief Executive until a permanent appointment is made.

## Environment Agency

### Executive Directors' Emoluments (audited)

The Environment Agency employs seven executive directors in addition to the Chief Executive. The following table provides details of their appointments, total emoluments and benefits in kind:

Executive Director	Date of Appointment	Total Emoluments 2007-2008 (Range £'000)	Total Emoluments 2006-2007 (Range £'000)	Benefits in Kind 2007-2008 (£)	Benefits in Kind 2006-2007 (£)
Barbara Young, Chief Executive	01 Jul 2005	240 – 245	220 – 225	-	-
Ms Patricia Henton, Director of Environment Protection	07 Mar 2005	160 – 165	145 – 150	-	-
Dr David King, Director of Water Management	08 Jul 2002	150 – 155	140 – 145	2,974	2,973
Mr Graham Ledward, Director of Human Resources	03 Jan 2006	160 – 165	150 – 155	2,045	2,372
Dr Paul Leinster, Director of Operations	01 Mar 2004	210 – 215	200 – 205	3,937	3,973
Mr Adrian Long, (i) Director of Communications	25 Feb 2008	10 – 15	-	201	-
Mrs Helen McCallum, (ii) Director of Corporate Affairs	03 Jul 2001	75 – 80	135 – 140	-	-
Mr Ric Navarro, Director of Legal Services	08 Aug 1995	115 – 120	105 – 110	2,120	1,586
Mr Nigel Reader, Director of Finance	08 Aug 1995	155 – 160	145 – 150	1,681	2,193

Note: Total emoluments include gross salaries, performance related pay, lease car benefits and employer's pensions contribution.

(i) Mr Adrian Long was appointed as Director of Communications on 25 February 2008.

(ii) Ms Helen McCallum tendered her resignation as Director of Corporate Affairs on 2 November 2007.

## Executive Directors' Emoluments (audited)

The Environment Agency employs seven executive directors in addition to the Chief Executive. The following table provides details of their pensions:

Executive Director	Accrued Pension at 31/03/2008 (Range £'000)	Increase in Accrued Pension During the Year (Range £'000)	Accrued Lump Sum at 31/03/2008 (Range £'000)	Increase in Lump Sum During the Year (Range £'000)	CETV at 31/03/2007 £'000	CETV at 31/03/2008 £'000	Real increase in CETV
Barbara Young Chief Executive	85 – 90	7.5 – 10.0	250 – 255	22.5 – 25.0	1,382	1,583	135
Ms Patricia Henton, Director of Environment Protection	40 – 45	0 – 2.5	120 – 125	2.5 – 5.0	697	758	23
Dr David King, Director of Water Management	45 – 50	0 – 2.5	135 – 140	5.0 – 7.5	746	830	37
Mr Graham Ledward, Director of Human Resources	0 – 5	0 – 2.5	10 – 15	5.0 – 7.5	23	45	12
Dr Paul Leinster, Director of Operations	40 – 45	0 – 2.5	110 – 115	5.0 – 7.5	639	703	23
Mr Adrian Long, Director of Communications	5 – 10	0 – 2.5	15 – 20	0 – 2.5	56	63	6
Mrs Helen McCallum, Director of Corporate Affairs	40 – 45	0 – 2.5	120 – 125	2.5 – 5.0	665	695	10
Mr Ric Navarro, Director of Legal Services	40 – 45	0 – 2.5	125 – 130	5.0 – 7.5	696	779	40
Mr Nigel Reader, Director of Finance	55 – 60	2.5 – 5.0	175 – 180	10.0 – 12.5	977	1,091	55

The previous Chief Executive's performance related pay was calculated by reference to the extent to which pre-determined objectives had been achieved, with a maximum value of 25 per cent of basic pay. The previous Chief Executive was an ordinary member of the Environment Agency's Active Fund pension scheme, and the Environment Agency paid employer's pension contributions into the Active Fund at the same rate as for other ordinary participants. At the end of the year, her accrued pension entitlement from the Environment Agency's pension scheme was £85,100. The Acting Chief Executive is also an ordinary member of the pension scheme.

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 a Board Member, 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**  
**10 July 2008**

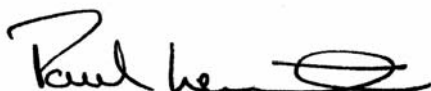
## STATEMENT OF ACCOUNTING OFFICER'S RESPONSIBILITIES

Under section 45 of the Environment Act 1995, Defra and Welsh ministers have directed the Environment Agency to prepare a statement of accounts for each financial year in the form and on the basis determined by the Secretary of State, with the consent of HM Treasury. 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 designated the Acting Chief Executive as the Accounting Officer for the Environment Agency. The Acting Chief Executive's relevant responsibilities as Accounting Officer, including responsibility for the propriety and regularity of the public finances, for the keeping of proper records and for the safeguarding of 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**  
10 July 2008

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

### **Scope of responsibility**

I was appointed as Accounting Officer of the Environment Agency with effect from 1 June 2008. Prior to this date, the Accounting Officer was Barbara Young. In making this statement, I am reliant upon the commitment and discipline that she exercised in carrying out the role of Accounting Officer during the financial year. I have taken advice from the Head of Internal Audit, the Director of Finance and other members of the Directors' Team before making this statement.

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 Welsh Assembly Government (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 the WAG approve the Corporate Plan. As part of this process, the Environment Agency 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, Welsh Assembly ministers, as well as at meetings of the Environment Agency Chairman 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 2008 and up to the date of approval of the annual report and accounts, and accords with HM 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. 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 operational 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 for the year ended 31 March 2008, the Directors prioritised action in the areas of managing the impact of Government reviews and budget settlement for future years, achieving efficiency improvements, managing internal change programmes, managing the risks around flood events and maintaining and improving customer focus. The Board takes an active part in considering and monitoring the management of business risks.

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. The Environment Agency continues to work to enhance its 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 a non-departmental public body sponsored by Defra and the Welsh Assembly Government. The work of the Environment Agency is overseen by the Environment Agency Board. The Chief Executive or Acting 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 Acting 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 management and quality management.

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

The Environment Agency has a long established vision for the environment of: "A better place for people and wildlife, for present and future generations" 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 HM 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 balanced scorecard used to monitor achievement of key organisational objectives. Regional and Head Office Management teams also maintain and monitor balanced 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 Acting 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 review standards of internal control and financial reporting. 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. The work of executive managers within the Environment Agency who have responsibility for the development and maintenance of the internal 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 the assessment of senior Environment Agency managers.
5. Acting on the recommendations made by external auditors in their management letters and other reports.

Areas that presented significant internal control issues during the year were the security around data held in electronic formats, improvements to the information included in the fixed asset register, ecard systems and debt control procedures. Actions have been taken or put in place to ensure that these risks are being appropriately managed.

Security of data held on laptop computers and memory sticks has been a concern for the Environment Agency, especially following the high profile loss of data including personal details by other Government departments. A review of the security procedures of the Environment Agency has been conducted and action is being taken to tighten controls around information contained on computers and memory sticks. Further action will be taken during the course of the 2008-2009 financial year.

Broader concerns around information technology system security continue to be addressed. Management review procedures are to be improved in 2008-2009, as a recent internal audit review has concluded that whilst risks identified by internal audit are being addressed, there needs to be a proactive approach to the increasing levels of risk.

It was reported last year that work was ongoing to ensure that all individual fixed assets are fairly stated in the asset register. An action plan was produced and this has been followed to enable close monitoring of the work to be achieved. Significant progress has been made during the year leading to major improvements in fixed asset information at the year end. This has included testing of assets for physical verification, potential impairment in values, reasonableness of remaining life on all assets with over fifty years expected useful life and appropriate categorisation as either operational or administrative assets. An area that will require further work in 2008-2009, relates to a review and revaluation of nominal value land assets.

The Environment Agency has over 6,000 chargecard holders, who can spend restricted sums of money on routine transactions including temporary staff costs, rail and hotel expenditure. A monthly statement is issued electronically to staff, who explain the reasons for the expenditure and code it to the general ledger. Receipts are included in an ecard envelope and sent to the Finance Service Centre (FSC) for retention. Reviews during the year showed that some envelopes were not received by the FSC and some did not contain all of the required receipts. Whilst reviews have concluded that the expenditure has been properly incurred for business purposes, follow up procedures have been strengthened towards the end of the

financial year to improve controls in this area. This will continue to be a focus of the Audit and Risk Committee during 2008-2009.

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 FSC in Peterborough with close working with operational staff within the National Permitting Service and within Regional offices. The benefits of the improved procedures should be seen in the next financial year.

European and other grant funding has been increasing in recent years. Audited financial information is required to support the retention of the income. At the year end, the Environment Agency had a contingent liability of £4.4 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 but further improvements will be made in the next financial year.



**PAUL LEINSTER**  
**ACCOUNTING OFFICER**  
10 July 2008

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

### **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 2008 under the Environment Act 1995 as amended by the Government Resources and Accounts Act 2000 (Audit of Public Bodies). 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, 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 opinion**

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the 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 Act 1995 and directions made thereunder by the Secretary of State, of the state of the Environment Agency's affairs as at 31 March 2008 and of its deficit 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 in the Annual Report is consistent with the financial statements.

### **Audit 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.

T J Burr  
Comptroller and Auditor General  
National Audit Office  
151 Buckingham Palace Road  
Victoria  
London  
SW1W 9SS

**16 July 2008**

## INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31 March 2008

	2007-2008 Total	2006-2007 Total	
Note	£'m	£'m	
<b>Income</b>			
Income from activities	2	376.3	378.0
Capital grants and contributions		11.0	12.3
		<u>387.3</u>	<u>390.3</u>
<b>Expenditure</b>			
Staff costs	3	489.2	451.3
Capital works expensed in year	4	196.2	202.4
Other operating costs	5	332.6	333.0
Depreciation	8	84.9	77.9
		<u>1102.9</u>	<u>1064.6</u>
Net operating deficit		(715.6)	(674.3)
Sales of Assets		1.9	3.0
Notional cost of capital	6	(75.2)	(74.0)
Interest receivable	7	7.6	5.6
Financing income on pension scheme assets and liabilities	18(e)	24.2	8.1
Deficit for the year after charging notional cost of capital		(757.1)	(731.6)
Reversal of notional cost of capital		<u>75.2</u>	<u>74.0</u>
Deficit for the year before reserve transfers		(681.9)	(657.6)
Transfers to reserves:			
Capital reserve	13(a)	6.8	10.5
Pensions reserve	18(e)	44.7	44.0
Retained deficit after reserve transfers		<u>(630.4)</u>	<u>(603.1)</u>

Grant-in-aid is received directly into the income and expenditure reserve. If grant-in-aid received of £627.8 million had been included in the income and expenditure account above, the retained deficit after reserve transfers would have been reduced to £2.6 million.

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

The notes on pages 30 to 48 form part of these accounts.

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**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED 31 March 2008**

	Note	2007-2008 Total £'m	2006-2007 Total £'m
Deficit for the year		(681.9)	(657.6)
Actuarial gain / (loss) recognised in the Active pension scheme	18(f)	39.7	(270.0)
Unrealised surplus on revaluation of tangible fixed assets	13(a)	153.0	81.5
Adjustments to fixed assets	13(a)	26.5	9.1
<b>Total losses during the year</b>		<b>(462.7)</b>	<b>(837.0)</b>

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

The notes on pages 30 to 48 form part of these accounts.

## BALANCE SHEET AS AT 31 March 2008

	Note	31 March 2008 Total £'m	31 March 2007 Total £'m
<b>Fixed assets</b>			
Tangible assets	8	2,555.8	2,388.4
<b>Current assets</b>			
Debtors	9	72.4	72.9
Short term deposits	22	126.0	94.4
Cash at bank and in hand		2.7	-
<b>Total current assets</b>		201.1	167.3
Creditors – amounts falling due in less than one year	10	(231.8)	(212.6)
<b>Net current liabilities</b>		(30.7)	(45.3)
<b>Total assets less current liabilities</b>		2,525.1	2,343.1
Creditors – amounts falling due after more than one year	10	(4.3)	(8.6)
Provisions for liabilities and charges	11	(14.3)	(10.8)
<b>Net assets excluding net pension liabilities</b>		2,506.5	2,323.7
<b>Unfunded pension liabilities</b>	18(c)	(23.8)	(25.4)
<b>Funded pension liabilities</b>	18(c)	(172.0)	(219.2)
<b>Net assets including net pension liabilities</b>		2,310.7	2,079.1
<b>Financed by</b>			
Deferred grants and contributions	12	59.9	61.2
<b>Reserves</b>			
Capital reserve	13(a)	697.8	663.1
Revaluation reserve	13(a)	1,798.1	1,660.1
Pensions reserve	13(b)	(195.8)	(244.6)
Income and expenditure reserve	13(c)	(49.3)	(60.7)
		2,310.7	2,079.1

The notes on pages 30 to 48 form part of these accounts.

The financial statements on pages 26 to 48 were approved by the Board on 10 July 2008 and were signed on its behalf by:



ACCOUNTING OFFICER  
10 July 2008



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**CASH FLOW STATEMENT FOR THE YEAR ENDED 31 March 2008**

	2007-2008 Total	2006-2007 Total
Note	£'m	£'m
<b>Net cash outflow from operating activities</b>	14(a) (530.3)	(551.6)
<b>Returns on investments and servicing of finance</b>		
Interest received	7.5	5.6
<b>Capital expenditure and financial investment</b>	14(b) (69.8)	(65.7)
<b>Management of liquid resources</b>	14(c) (31.6)	21.4
<b>Financing</b>	14(d) 628.7	603.6
<b>Increase in cash for year</b>	<b>4.5</b>	<b>13.3</b>

The notes on pages 30 to 48 form part of these accounts.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2008

### 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 the accounting and disclosure requirements given in *Managing Public Money* and in the Financial Reporting Manual (FRoM) insofar as these are appropriate to the Environment Agency and in force for the financial year for which the statements are prepared. 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.

#### (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:

- Operating Structures 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. In future financial periods this will be written down to net realisable value over the life of the operational asset in which it 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, flood 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.

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

Finance leases are where the Environment Agency bears substantially the risks and benefits of owning the leased item. 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 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 the current and future pension liabilities. The employers contribution rate in 2007-2008 was 15 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 has approved the Agency's consulting actuary recommendation that the contribution rate should increase by 0.5 per cent per annum for the next 3 years. 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 Defra provided grant-in-aid.

#### **(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.

## 2 Analysis of Income and Expenditure by Function

	FRM	WR	EP	Fish	Rec & Con	Nav	Total 2007-2008	Total 2006-2007
	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m
<b>Income from activities</b>								
Abstraction charges	-	123.7	-	-	-	-	123.7	123.1
Navigation licence income	-	-	-	-	-	5.3	5.3	4.9
Fishing licence income	-	-	-	21.7	-	-	21.7	20.9
EP Charges	-	-	170.3	-	-	-	170.3	166.2
Flood Risk levies	27.2	-	-	-	-	-	27.2	33.7
Recreation & Conservation	-	-	-	-	0.1	-	0.1	0.1
Grants:								
European Union	0.2	-	1.3	0.1	0.1	-	1.7	1.7
Other	0.5	0.3	6.3	0.1	0.1	-	7.3	3.7
Other Income	5.9	2.4	9.1	1.0	0.3	0.3	19.0	23.7
<b>Income from activities</b>	<b>33.8</b>	<b>126.4</b>	<b>187.0</b>	<b>22.9</b>	<b>0.6</b>	<b>5.6</b>	<b>376.3</b>	<b>378.0</b>
Capital Grants & Contributions:								
Capital Works Expensed in Year (CWEIY)	7.8	-	0.5	0.5	-	-	8.8	10.0
Amortisation	2.0	-	0.1	-	-	0.1	2.2	2.3
<b>Total Income</b>	<b>43.6</b>	<b>126.4</b>	<b>187.6</b>	<b>23.4</b>	<b>0.6</b>	<b>5.7</b>	<b>387.3</b>	<b>390.3</b>
<b>Expenditure</b>								
Staff Costs	187.4	58.0	213.7	20.6	4.5	5.0	489.2	451.3
Depreciation and CWEIY	245.2	10.4	14.8	2.0	0.6	8.1	281.1	280.3
Other Operating Costs	132.7	59.2	117.6	14.3	4.2	4.6	332.6	333.0
<b>Total Operating Costs</b>	<b>565.3</b>	<b>127.6</b>	<b>346.1</b>	<b>36.9</b>	<b>9.3</b>	<b>17.7</b>	<b>1,102.9</b>	<b>1,064.6</b>
<b>Operating Deficit</b>	<b>(521.7)</b>	<b>(1.2)</b>	<b>(158.5)</b>	<b>(13.5)</b>	<b>(8.7)</b>	<b>(12.0)</b>	<b>(715.6)</b>	<b>(674.3)</b>
Notional Cost of Capital	(59.6)	(8.5)	(2.0)	(2.5)	(0.1)	(2.5)	(75.2)	(74.0)
Interest receivable	6.6	1.0	-	-	-	-	7.6	5.6
Sales of assets	1.6	-	0.1	-	-	0.2	1.9	3.0
Financing Income on pension scheme assets & liabilities	9.3	3.1	10.2	1.1	0.2	0.3	24.2	8.1
<b>Deficit after charging notional cost of capital</b>	<b>(563.8)</b>	<b>(5.6)</b>	<b>(150.2)</b>	<b>(14.9)</b>	<b>(8.6)</b>	<b>(14.0)</b>	<b>(757.1)</b>	<b>(731.6)</b>
Reversal of notional cost of capital	59.6	8.5	2.0	2.5	0.1	2.5	75.2	74.0
<b>Surplus / (Deficit) for year before reserves transfers</b>	<b>(504.2)</b>	<b>2.9</b>	<b>(148.2)</b>	<b>(12.4)</b>	<b>(8.5)</b>	<b>(11.5)</b>	<b>(681.9)</b>	<b>(657.6)</b>

## Abbreviations

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

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

	WR £'m	WQ £'m	PIR £'m	RSR £'m	PPC £'m	WM £'m	Fish £'m	Nav £'m	Total 2007-2008 £'m	Total 2006-2007 £'m
Income										
Fees and Charges	123.7	65.2	4.5	10.0	34.8	55.8	21.7	5.3	<b>321.0</b>	315.1
Expenditure	127.4	65.7	4.6	9.3	35.8	52.0	33.9	17.0	<b>345.7</b>	336.5
(Under) / Over recovery	(3.7)	(0.5)	(0.1)	0.7	(1.0)	3.8	(12.2)	(11.7)	<b>(24.7)</b>	<b>(21.4)</b>
Sales of assets	-	-	-	-	-	-	-	0.1	<b>0.1</b>	0.7
Capital grants	3.7	-	-	-	-	-	1.7	0.4	<b>5.8</b>	3.2
Surplus/(Deficit) for the year	-	(0.5)	(0.1)	0.7	(1.0)	3.8	(10.5)	(11.2)	<b>(18.8)</b>	<b>(17.5)</b>

The above table is for Fees and Charges purposes. Some costs funded by grant-in-aid have been excluded from the table above but are included in the table within note 2. Income from Flood 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 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 Integrated Pollution Control (IPC) 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 Biphenyl's (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>	2007-2008 £'m	2006-2007 £'m
Wages and salaries	322.3	316.6
Social security costs	27.7	26.6
Contributions to pension scheme (defined benefit scheme)	46.9	40.6
Amounts payable under the voluntary severance scheme	0.4	1.2
	<b>397.3</b>	<b>385.0</b>
Other staff related costs:		
Agency staff wages and salaries	10.3	10.9
Secondments wages and salaries	0.2	0.2
Early retirement and redundancy costs	1.9	3.6
Other staff related costs	31.9	19.7
FRS 17 Pension charge	68.9	52.1
	<b>510.5</b>	<b>471.5</b>
Less amounts charged to capital projects	(21.9)	(20.7)
	<b>488.6</b>	<b>450.8</b>
Amounts payable to Board members (see table on page 15)	0.6	0.5
<b>Total</b>	<b>489.2</b>	<b>451.3</b>

Other staff related costs have been re-analysed to show more clearly the nature of the costs. For consistency, comparatives have been re-analysed.

Average number of full time equivalent employees during the year:

	2007-2008 Number	2006-2007 Number
Executive managers	156	157
Staff and other employees	9,939	10,245
Operations Delivery (Flood Risk Management) employees	1,362	1,437
Temporary employees	390	489
Inwardly posted employees	6	8
Employment agency staff	820	778
<b>Total</b>	<b>12,673</b>	<b>13,114</b>

Information on the emoluments of Board members is given in the Remuneration Report on page 14.

4	Capital Works Expensed in Year (CWEIY)	2007-2008	2006-2007	31 March 2008
		£'m	£'m	£'m
		Actual Expenditure	Actual Expenditure	Committed Expenditure
	Embankments	47.6	56.0	17.4
	Repair & refurbishment	33.3	43.2	18.0
	Culverts & channel improvements	24.4	16.3	9.2
	Rock groynes & sea walls	21.1	18.8	16.8
	Piling	20.4	14.9	8.7
	Flood risk management strategies	15.6	15.8	14.0
	Beach recharge	11.8	17.0	10.6
	Flood mapping	6.2	7.0	1.7
	Other	15.8	13.4	12.2
	<b>Total</b>	<b>196.2</b>	<b>202.4</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. 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 committed expenditure as at 31 March 2008 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**

	Note	2007-2008 £'m	2006-2007 £'m
Other operating costs is arrived at after charging the following categories of costs:			
Fees and commissions		57.4	62.2
Information technology		30.9	28.7
Hired and contracted services		30.9	44.0
Transport and plant		23.2	21.0
Building		21.5	15.5
Utilities		18.6	18.9
Reservoir operating agreements		17.2	14.1
Travel and subsistence		11.5	10.9
Operating lease rentals:			
Other		11.9	11.3
Plant & Machinery		15.6	19.4
Administration		11.8	12.4
Training		11.3	12.6
Research and development costs incurred in year		7.9	7.1
Disposal of tangible fixed assets at book value	8	1.2	3.1
Bad debt write-offs		0.8	2.8
External Auditor's remuneration:		0.3	0.2
Foreign exchange losses		0.1	-
Impairment losses		-	0.1
Provision for bad and doubtful debts		(0.6)	2.0
Other		61.1	46.7
<b>Total</b>		<b>332.6</b>	<b>333.0</b>

External Auditor's remuneration includes the audit fee for the statutory audit of £220,000 and for work on the certification of EU funded grant claims of £72,000. No payment was made to the External Auditor for non-audit work.

Other costs have been re-analysed to show more clearly the nature of the costs. For consistency, comparatives have been re-analysed.

**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	697	1.0
Loss of assets	195	0.2
Other (Cash losses; fruitless payments; unenforceable claims; special payments and gifts)	66	0.2
<b>Total</b>	<b>958</b>	<b>1.4</b>

<b>6 Notional Cost of Capital</b>	2007-2008 £'m	2006-2007 £'m
Cost of capital charge	75.2	74.0

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 Treasury (currently 3.5 per cent) on the annual average value of assets and liabilities in the Balance Sheet.

<b>7 Interest Receivable</b>	2007-2008 £'m	2006-2007 £'m
Interest receivable from short-term fixed interest deposits	7.6	5.6

8 Tangible Fixed Assets

(a) Analysis by Type

	At Valuation										At Cost	
	Total £'m	Operational Assets £'m	Freehold Land £'m	Freehold Buildings £'m	Plant and Machinery £'m	Vehicles £'m	Furniture and Fittings £'m	Equipment £'m	IT £'m	Construction £'m	Assets Under Construction £'m	
<b>Cost or Valuation</b>												
At 1 April 2007	4,211.7	3,388.3	79.0	52.8	416.1	47.7	66.0	73.6	-	88.2		
Capital Expenditure	77.9	2.7	2.1	14.7	1.5	1.4	0.9	-	-	54.6		
Assets commissioned in year	-	9.3	-	-	2.0	-	2.3	20.4	-	(34.0)		
Disposals	(16.7)	(0.3)	(0.1)	(1.1)	(5.0)	(3.6)	(4.5)	(2.1)	-	-		
Indexation	252.6	94.7	5.0	148.1	3.2	0.3	0.4	0.9	-	-		
Reclassification and revaluation	(51.5)	194.1	(43.3)	(142.2)	(33.4)	(11.5)	(13.2)	(2.0)	-	-		
<b>At 31 March 2008</b>	<b>4,474.0</b>	<b>3,688.8</b>	<b>42.7</b>	<b>72.3</b>	<b>384.4</b>	<b>34.3</b>	<b>51.9</b>	<b>90.8</b>	<b>108.8</b>			
<b>Depreciation</b>												
At 1 April 2007	1,823.3	1,396.8	-	1.5	335.1	28.5	37.3	24.1	-	-		
Provided during the year	84.9	8.6	-	40.5	9.9	4.4	5.3	16.2	-	-		
Disposals	(15.5)	-	-	(0.9)	(4.7)	(3.3)	(4.5)	(2.1)	-	-		
Indexation	99.6	37.1	-	59.3	2.6	0.1	0.2	0.3	-	-		
Reclassification and revaluation	(74.1)	78.8	-	(94.4)	(33.1)	(11.3)	(12.2)	(1.9)	-	-		
<b>At 31 March 2008</b>	<b>1,918.2</b>	<b>1,521.3</b>	<b>-</b>	<b>6.0</b>	<b>309.8</b>	<b>18.4</b>	<b>26.1</b>	<b>36.6</b>	<b>-</b>			
<b>Net Book Value</b>												
<b>At 31 March 2008</b>	<b>2,555.8</b>	<b>2,167.5</b>	<b>42.7</b>	<b>66.3</b>	<b>74.6</b>	<b>15.9</b>	<b>25.8</b>	<b>54.2</b>	<b>108.8</b>			
At 1 April 2007	2,388.4	1,991.5	79.0	51.3	81.0	19.2	28.7	49.5	88.2			

b) Details of Valuation:

All of the Environment Agency's administrative land 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 existing use. The valuers were Lambert Smith Hampton, Carter Jonas & Co. UK, Smith Gore & Co. UK, Dixon Webb LLP, Stratton & Holborrow, Savills, JH Walter, Gwynfor Williams and Llewellyn Humphreys. These assets have been revalued internally at 31 March 2008 using suitable indices. Plant and machinery, fixtures and fittings and operational assets were valued internally at 1 April 1996 based upon replacement costs and were revalued internally at 31 March 2008 using suitable indices. The impacts are shown in the indexation and revaluation adjustment lines above.

c) Dwellings are included at a net book value of £2.1 million and £9.7 million for Land and Buildings respectively.

d) The transfer from Freehold land and Buildings to Operational Assets comprises a reclassification of assets used for the delivery of the Environment Agency's business.

e) Operational assets include £2.5 million for land that forms an essential element of an operational asset and has significantly changed its nature as a result. In future financial periods the land will be written down to net realisable value over the life of the operational asset in which it is being used.

<b>9 Debtors</b>	31 March 2008 £'m	31 March 2007 £'m
<b>Within one year:</b>		
Trade debtors	15.7	14.5
Bad debt provision	<u>(6.3)</u>	<u>(6.9)</u>
	9.4	7.6
Other debtors:		
Grants	0.1	1.9
VAT	25.0	19.8
Employee loans	0.1	0.1
Other	6.4	2.6
Prepayments	15.9	17.9
Accrued income:		
Water resources	3.0	5.3
Environment protection	7.4	7.9
Other	<u>4.9</u>	<u>9.6</u>
	72.2	72.7
<b>More than one year:</b>		
Employee loans	<u>0.2</u>	<u>0.2</u>
<b>Total</b>	<b><u>72.4</u></b>	<b><u>72.9</u></b>

At 31 March 2008 there were 563 employee loans.

<b>10 Creditors</b>	31 March 2008 £'m	31 March 2007 £'m
<b>Within one year:</b>		
Bank overdraft	19.1	20.9
Tax and social security	7.8	7.8
Trade creditors	32.8	31.9
Trade creditor accruals	66.8	54.4
Other creditors	2.7	1.7
Capital creditors	7.0	1.3
Capital accruals	3.4	2.9
Deferred income:		
Flood risk management	21.5	11.7
Water resources	6.1	4.6
Environment protection	5.1	2.7
Customer deposits and receipts in advance	14.8	28.7
FRS 17 – Pension costs	<u>44.7</u>	<u>44.0</u>
	<b><u>231.8</u></b>	<b><u>212.6</u></b>
<b>More than one year:</b>		
Capital creditors and accruals	0.7	0.7
Other creditors and accruals	<u>3.6</u>	<u>7.9</u>
<b>Total</b>	<b><u>4.3</u></b>	<b><u>8.6</u></b>

To ensure more accurate reporting the systems to calculate trade creditor and capital accruals have been improved for 2007-2008. For consistency, comparative figures have been adjusted.

<b>11 Provisions for Liabilities and Charges</b>	Re- dundancy £'m	Other Claims £'m	2007-2008 £'m	2006-2007 £'m
At 1 April	3.6	7.2	10.8	2.2
Increase charged to the income and expenditure account	1.9	8.3	10.2	8.6
Utilised during the year	<u>(2.7)</u>	<u>(4.0)</u>	<u>(6.7)</u>	-
At 31 March	<b><u>2.8</u></b>	<b><u>11.5</u></b>	<b><u>14.3</u></b>	<b><u>10.8</u></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.

	2007-2008 £'m	2006-2007 £'m
<b>12 Deferred Grants and Contributions</b>		
At 1 April	61.2	66.5
Amounts receivable in the year	0.9	0.5
Amortisation in year	(2.2)	(2.3)
Disposals/adjustments	-	(3.5)
<b>At 31 March</b>	<b>59.9</b>	<b>61.2</b>

In addition to the deferred grants and contributions received in respect of tangible fixed assets, there were grants and contributions receivable of £10.0 million relating to capital works expensed in the year.

	Capital £'m	Revaluation £'m	2007-2008 Total £'m	2006-2007 Total £'m
<b>13 Reserves</b>				
<b>(a) Capital and Revaluation Reserves</b>				
At 1 April	663.1	1,660.1	2,323.2	2,243.1
Transfer to income and expenditure reserve	(6.8)	-	(6.8)	(10.5)
Revaluation surplus on tangible fixed assets	-	153.0	153.0	81.5
Revaluation adjustment	41.5	(15.0)	26.5	9.1
<b>At 31 March</b>	<b>697.8</b>	<b>1,798.1</b>	<b>2,495.9</b>	<b>2,323.2</b>

The transfer to income and expenditure reserve is calculated as follows:

	31 March 2008 £'m	31 March 2007 £'m
Purchase of fixed assets	77.9	68.7
Grants and contributions (net)	1.3	1.8
Depreciation (including capitalised depreciation)	(84.9)	(77.9)
Disposals	(1.1)	(3.1)
	<b>(6.8)</b>	<b>(10.5)</b>

**(b) Pensions Reserve**

	2007-2008 £'m	2006-2007 £'m
At 1 April	(244.6)	26.4
Actuarial costs charged to income and expenditure account	(44.7)	(44.0)
Employer contributions	53.8	43.0
Actuarial gain/(losses)	39.7	(270.0)
<b>At 31 March</b>	<b>(195.8)</b>	<b>(244.6)</b>

**(c) Income and Expenditure Reserve**

	2007-2008 Total £'m	2006-2007 Total £'m
At 1 April	(60.7)	(60.7)
Grant-in-aid received in year	627.8	603.1
Net expenditure	(681.9)	(657.6)
Charging schemes balances previously reported within working capital	14.0	-
Transferred from capital reserve	6.8	10.5
Transferred from pensions reserve	44.7	44.0
<b>At 31 March</b>	<b>(49.3)</b>	<b>(60.7)</b>

	Total £'m	Defra (GIA) £'m	Defra (FDGIA) £'m	Defra (Other) £'m	WAG £'m
Grant-in-aid received in year	615.5	112.5	442.4	10.4	50.2
To cover unfunded pensions	12.3	12.3	-	-	-
<b>Transferred to income and expenditure reserve</b>	<b>627.8</b>	<b>124.8</b>	<b>442.4</b>	<b>10.4</b>	<b>50.2</b>

## 14 Notes to the Cash Flow Statement

	2007-2008 Total £'m	2006-2007 Total £'m
<b>(a) Reconciliation of operating deficit to net cash inflow</b>		
Operating deficit	(715.6)	(674.3)
Depreciation	84.9	77.9
Amortisation of deferred grants and contributions	(2.2)	(2.3)
Disposal of tangible fixed assets at book value	1.2	3.1
Total operating charge on pension schemes	68.9	52.1
Decrease in debtors	0.6	31.9
Increase/(decrease) in creditors	28.4	(48.6)
Increase in provisions	3.5	8.6
	<b>(530.3)</b>	<b>(551.6)</b>
<b>(b) Capital expenditure and financial investment</b>		
Increase in capital creditors	6.2	-
Payments to acquire tangible fixed assets	(77.9)	(68.7)
Receipts from sales of tangible fixed assets	1.9	3.0
	<b>(69.8)</b>	<b>(65.7)</b>
<b>(c) Management of liquid resources</b>		
Deposits with the Debt Management Agency:		
At 1 April	94.4	115.8
At 31 March	(126.0)	(94.4)
	<b>(31.6)</b>	<b>21.4</b>
<b>(d) Analysis of financing</b>		
Capital grants and contributions for the purchase of tangible fixed assets	0.9	0.5
Government grant-in-aid	627.8	603.1
	<b>628.7</b>	<b>603.6</b>

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

	At 1 April 2007 £m	Cash flow £m	At 31 March 2008 £m
Cash at bank and in hand	-	2.7	2.7
Overdrafts	(20.9)	1.8	(19.1)
	(20.9)	4.5	(16.4)
Liquid resources: Deposits	94.4	31.6	126.0
	<b>73.5</b>	<b>36.1</b>	<b>109.6</b>

	31 March 2008 £'m	31 March 2007 £'m
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**15 Contingent Liabilities**

The Environment Agency has the following contingent liabilities:-

(a) Contaminated assets	4.1	2.2
(b) Contractors' claims	0.6	2.1
(c) Insurance claims	4.0	5.2
(d) Repayment of grants from the European Union	4.4	-
(e) Other	1.1	2.4
	<u>14.2</u>	<u>11.9</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

	31 March 2008 £'m	31 March 2007 £'m
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**16 Capital Commitments**

Contracted for but not provided in the financial statements

26.3      25.5

Commitments in respect of capital works expensed in year are disclosed in note 4. For consistency, comparative figures have been adjusted.

	31 March 2008 Land & Buildings £'m	31 March 2008 Other £'m	31 March 2007 Land & Buildings £'m	31 March 2007 Other £'m
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**17 Operating Leases**

The Environment Agency has annual commitments under operating leases as follows: -

Leases expiring:

Within one year	0.6	2.2	0.6	2.1
In the second to fifth years inclusive	2.0	11.2	1.2	12.7
Over 5 years	8.7	-	9.0	-
	<u>11.3</u>	<u>13.4</u>	<u>10.8</u>	<u>14.8</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 2007-2008, the total pension cost for the Environment Agency was £46.9 million (2006-2007 £39.1 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 2008.

**(a) Financial Assumptions**

The main financial assumptions used at 31 March 2008 for this purpose are as follows:

	2007-2008 Per cent Per Annum	2007-2008 Real per cent Per Annum	2006-2007 Per cent Per Annum	2006-2007 Real per cent Per Annum
Price Inflation	2.75	-	2.75	-
Rate of increase in Salary	4.25	1.5	4.25	1.5
Rate of increase in Pension	2.75	-	2.75	-
Discount Rate	5.32	2.5	4.6	1.8

**(b) Expected Return on Assets**

Asset Class	2007-2008 Rate per Annum	2006-2007 Rate per Annum
Equities	7.7	7.8
Bonds	5.7	4.9
Property	5.7	5.8
Cash	4.8	4.9

**(c) Assets and Liabilities of the Fund at 31 March 2008**

	2007-2008 Fund Value £'m	2007-2008 Return £'m	2006-2007 Fund Value £'m	2006-2007 Return £'m
Equities	968.9	77.7	1,042.7	81.3
Bond	387.6	22.3	342.7	16.8
Property	74.5	4.0	76.4	4.4
Cash	59.6	2.3	58.6	2.9
<b>Total value of assets (a)</b>	<b>1,490.6</b>	<b>106.3</b>	<b>1,520.4</b>	<b>105.4</b>
Present value of scheme liabilities				
Employee members	1,114.5		1,318.2	
Deferred Pensioners	137.1		112.4	
Pensioners	411.0		309.0	
Unfunded liabilities	23.8		25.4	
<b>Total value of liabilities (b)</b>	<b>1,686.4</b>		<b>1,765.0</b>	
<b>Pension Liabilities</b>	<b>(195.8)</b>		<b>(244.6)</b>	
Split between:				
Funded pension scheme liabilities	(172.0)		(219.2)	
Unfunded pension scheme liabilities	(23.8)		(25.4)	
	<b>(195.8)</b>		<b>(244.6)</b>	

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

	2007-2008 £'m	2006-2007 £'m
At 1 April	(244.6)	26.4
Contributions Paid	45.6	40.8
Contributions in respect of unfunded benefits	1.4	1.3
Employer additional contributions	6.8	0.9
Current Service Cost	(60.8)	(51.1)
Curtailments	(1.6)	(0.2)
Past Service Cost	(6.5)	(0.8)
Financing Income	24.2	8.1
Actuarial Gain/(Loss)	39.7	(270.0)
<b>Deficit at 31 March</b>	<b>(195.8)</b>	<b>(244.6)</b>

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

	2007-2008 £'m	2006-2007 £'m
<b>Amounts Charged to Operating Profit:</b>		
Service cost	60.8	51.1
Past service cost	6.5	0.8
Curtailments and settlements	1.6	0.2
<b>Total Operating Charge (A)</b>	<b>68.9</b>	<b>52.1</b>
<b>Amounts Credited to Other Finance Income:</b>		
Expected return on pension scheme assets	106.3	90.9
Interest on pension scheme liabilities	(82.1)	(82.8)
<b>Net Return (B)</b>	<b>24.2</b>	<b>8.1</b>
<b>Net Revenue Account Cost (A) – (B)</b>	<b>44.7</b>	<b>44.0</b>

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

	2007-2008 £'m	2006-2007 £'m
Actual return less expected return on pension scheme assets	(161.1)	12.3
Experience gains and losses arising on the scheme liabilities	(8.0)	(1.1)
Changes in financial assumptions underlying the present value of the scheme liabilities	208.8	(281.2)
<b>Actuarial Gain/(Loss) in Pension Plan</b>	<b>39.7</b>	<b>(270.0)</b>
Increase/(Decrease) in irrecoverable surplus from membership fall and other factors	-	-
<b>Actuarial Gain/(Loss) recognised in STRGL</b>	<b>39.7</b>	<b>(270.0)</b>

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

Difference between the expected and actual return on assets	(161.1)	12.3
Value of assets	1,490.6	1,520.4
Percentage of scheme assets	<b>(10.8)</b>	<b>0.8</b>
Experience gains/(losses) on scheme liabilities	(8.0)	(1.1)
Total present value of liabilities:	1,686.4	1,765.0
<b>Percentage of the total present value of the liabilities</b>	<b>(0.5)</b>	<b>(0.1)</b>
Actuarial gains/(losses) recognised in STRGL	39.7	(270.0)
Total present value of liabilities	1,686.4	1,765.0
<b>Percentage of the total present value of liabilities</b>	<b>2.4</b>	<b>(15.3)</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 2007-2008 was:

	2007-2008	2006-2007
	£'m	£'m
Controlling parties:		
Defra environmental protection grant-in-aid	129.3	129.4
Defra fisheries grant-in-aid	5.9	5.9
WAG environmental protection grant-in-aid	22.6	22.7
WAG flood defence grant-in-aid	27.6	25.9
Defra flood defence grant-in-aid	442.4	419.2
Other related parties:		
Levies on local authorities	27.2	21.9
Charges to the British Waterways Board	2.0	1.9

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.

**(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 2008 were:

	31 March 2008	31 March 2007
	£'m	£'m
Debtors		
Other Government Departments	1.0	0.6
Local Authorities	0.4	0.4
Public Corporations and Trading Funds	0.2	0.1
Balances due from HMRC in respect of VAT claims	25.0	19.8
Creditors		
Other Government Departments	0.1	0.7
Local Authorities	3.5	5.7
Public Corporations and Trading Funds	1.3	0.5
Balances due to HMRC in respect of Tax and National Insurance	7.8	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 work is to be completed by 2012 with a 7 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, 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. The 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 7 years have seen the completion of a large number of maintenance projects, valued at £7 million. New defences at Reedham, St Olaves and Brundall valued at around £2 million in total, and seventeen major improvements schemes worth £33 million have been completed.

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>Charge for the year:</b>	2007-2008	2006-2007
	£'m	£'m
Maintenance work, emergency response, strategy development	1.6	1.7
Planning Approvals	0.5	1.5
Improvement Works	<u>19.0</u>	<u>4.6</u>
<b>Total</b>	<b><u>21.1</u></b>	<b><u>7.8</u></b>

<b>Payments committed for the future:</b>	£'m	£'m
Within one year	13.5	15.7
Within two to five years	52.5	53.1
Over five years	23.7	35.6

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 2008, the amount owing for completed Improvement Works (including accrued interest) amounted to £2.5 million. Interest incurred during the year amounted to £0.4 million and was paid at rates between 6.05 per cent and 7.03 per cent. Fixed rates apply to borrowings of £1.4 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 7.03 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 2008 of £1.1 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 principle 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>	<u>2007-2008</u>	<u>2006-2007</u>
	£'m	£'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	2.0
Commitments within 2-5 years	6.8	9.6
Commitments over 5 years	14.8	16.0

The contract end date is 31st May 2025.

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

FRS 13 ‘Derivatives and other financial instruments: disclosures’ requires disclosure of the role which financial instruments have had during the year in creating or changing the risks an entity faces in undertaking its activities. The Environment Agency holds financial instruments only to the extent that they are necessary to meet its normal operational activities. The Environment Agency has limited powers to borrow or invest surplus funds; financial assets and liabilities are generated by day-to-day operational activities and are not held to change the risk facing the Environment Agency in undertaking its activities. Details explaining the risks and how they are managed are explained below. As permitted by FRS 13, debtors and creditors which mature or become payable within twelve months from the balance sheet date have been omitted from this disclosure note.

**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 in the case of the Broadlands Flood Alleviation Project there is the option to fix interest rates on borrowings. Otherwise, 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.

The Agency held £2.7 million on behalf of Waste Management licence holders. These deposits are held in case of emergency to remediate the waste site if necessary. The deposits are held on 1 month deposit and at 31 March 2008 received interest at a rate of 5.4 per cent .

### Foreign currency risk

The Environment Agency undertook a number of foreign currency transactions to convert grant received from European Institutions from Euro into sterling after discharging any Euro payment obligations to its European partners out of such receipts. 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/Liabilities

The table below shows the Environment Agency interest rate risk profile of financial assets and liabilities as at 31 March 2008. All balances are shown in sterling.

Assets/(liabilities)	Floating Rate £'m	Fixed Rate £'m	31 March	31 March
			2008 Total £'m	2007 Total £'m
Short term investments with Debt Management Agency	-	126.0	<b>126.0</b>	94.4
Cash at bank – Euro	0.2	-	<b>0.2</b>	0.4
Short term bank overdraft (net of Euro bank balance)	(19.3)	-	<b>(19.3)</b>	(21.3)
Financial Provisions held on deposit	-	2.7	<b>2.7</b>	-

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

### 23 Post balance sheet events

There are no significant post balance sheet events to record except for the resignation of Barbara Young from the position of Chief Executive with effect from 31 May 2008 and the consequent appointment of Paul Leinster as Acting Chief Executive. The Chairman, Sir John Harman also resigned his post with effect from 30 June 2008. Lord (Christopher) Smith will be joining the Board as Chairman on 14 July 2008.

The Environment Agency's financial statements are laid before the Houses of Parliament by the Secretary of State for Defra. 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 2008.

## APPENDIX A

### Sustainability accounting and reporting

The following information represents our performance in key environmental areas. It indicates progress in a number of key areas and associates sustainability expenditure with these. Sustainability expenditure is defined as the amount that is spent to lessen polluting emissions.

The Government's sustainability strategy encourages both private companies and public bodies to disclose their sustainability and environmental performance information in their statutory annual report and accounts. We have been active in environmental accounting and reporting for a long time and 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.

Through membership of HM Treasury's Financial Reporting Advisory Board (FRAB) we have advocated the same approach for the public sector, and so we welcome FRABs current pilot project to develop and promote sustainability accounting and reporting.

A FRAB working group has produced a template so that pilot reporting can be incorporated into some public bodies annual report and accounts for 2007-2008. Designing a template such as this is obviously a difficult exercise, and whilst there may be criticisms with this first attempt, we were keen to be involved in the process and contribute towards developing and refining it in the future.

The information has been collected from a wide range of internal and external sources, and it presents both financial and environmental data. Our policy of embedding environmental accounting within our business and financial reporting systems for some years has also enabled us to present some trend information.

The tables and graphics that follow indicate that our carbon emissions are below our stated targets. Due to a change in our reporting methods, we currently only have data available for the last two 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. Significant investment in energy saving measures has allowed us to cut our use and expenditure on energy despite rising energy costs and high energy requirements in recent years. Full details can be found on the following pages.

The data provided follows a template provided to the FRAB working group by the Prince of Wales Trust Accounting for Sustainability project. Full definitions of the terms used can be found with reference to their web site at:

[http://www.princeofwales.gov.uk/newsandgallery/news/hrh\\_launches\\_accounting\\_for\\_sustainability\\_at\\_st\\_james\\_s\\_pal\\_1859677089.html](http://www.princeofwales.gov.uk/newsandgallery/news/hrh_launches_accounting_for_sustainability_at_st_james_s_pal_1859677089.html).

Climate, waste and resource indicators	2005-2006 £k	2006-2007 £k	2007-2008 £k	Non-financial indicators
<b>Emissions</b>				
▪ CO <sub>2</sub> equivalent emissions				
- Sustainability expenditure	107	98	127	
- Offset expenditure	0	0	0	
- Carbon equivalent liability	0	0	0	
▪ Other significant emissions				
- Sustainability expenditure	0	0	0	

**Targets and narrative**

The sustainability expenditure above represents the investments we have made in reducing the impact of our non-energy emissions, largely focused on travel. We currently do not make any investment in carbon off-setting, and have instead made the decision to invest the equivalent amount of money in reducing our overall carbon footprint. Our investments in this area include many different schemes and projects, from bike to work incentives to purchasing battery powered transit vans. We have published a carbon emission target of 63,000 tonnes for 2007-2008 with our actual emissions at 59,230 tonnes of CO<sub>2</sub> for the year. We have a target to reduce our carbon emissions by 30% by March 2012 from our 2005-2006 levels.

Climate, waste and resource indicators	2005-2006 £k	2006-2007 £k	2007-2008 £k	Non-financial indicators
<b>Waste</b>				
- Sustainability expenditure	30	48	27	
▪ Hazardous waste				
- Total disposal cost	595	1,200	858	
▪ Non hazardous waste				
- Total disposal cost	905	968	1,041	
▪ Total waste	1,500	2,168	1,899	

**Targets and narrative**

Our target for total residual office waste in 2007-2008 was 165,053 tonnes. We are currently meeting this target with year on year reductions in residual waste since 2004-2005. We produced 153,460 tonnes in 2007-2008. We have a target of zero office waste going to landfill by 2012. Our sustainability investments in this area have focused on increasing the volume of waste recycled from our offices and introducing composting and similar schemes where appropriate.

Climate, waste and resource indicators	2005-2006 £k	2006-2007 £k	2007-2008 £k	Non-financial indicators
Finite resource usage				
▪ <b>Water</b>				
- Operating expenditure	242	207	205	
- Sustainability expenditure	120	57	162	

**Targets and narrative**

We set a maximum target of 63,778m<sup>3</sup> total water usage within the Environment Agency for 2007-2008. Following significant investment in this area we are now meeting this target and are continuing to reduce water use within our buildings with investments including waterless urinals. In 2007-2008 our water usage was down to 61,859m<sup>3</sup>. By 2012 we have set a target to reduce water consumption by 25% from 2005-2006 levels. Investments in this area often take the form of building / facility improvement projects and this explains the level of expenditure. Separating individual water saving expenditure from this is difficult, for example the replacement and improvement of shower facilities in a regional office.

Climate, waste and resource indicators	2005-2006 £k	2006-2007 £k	2007-2008 £k	Non-financial indicators
Finite resource usage				
▪ <b>Energy consumption</b>				
- Operating expenditure	4,200	6,200	5,100	
- Sustainability expenditure	198	150	595	

**Targets and narrative**

Recent investments in solar voltaic cells, wind turbines and solar water heating represent considerable investments that we believe will result in significant energy savings over the following years. Much of our sustainability expenditure in this area comes from our carbon reduction budget, which is set aside to fund and research schemes that reduce our overall carbon footprint. In 2007-2008 we used 43,185,900 KWh of energy, this includes electricity, gas and oil and was below our 2007-2008 target of 43,455,838 KWh.

Climate, waste and resource indicators	2005-2006 £k	2006-2007 £k	2007-2008 £k	Non-financial indicators
Finite resource usage				
▪ <b>Other finite materials</b>				
- Sustainability expenditure	-	-	-	
<b>Environmental incidents</b>				
▪ Category 1	3	2	2	
▪ Category 2	6	6	1	
▪ Category 3	41	30	32	
▪ Near miss	28	26	13	
▪ Not classified	2	0	0	
▪ Total	80	64	48	

**Targets and narrative**

Our published target for 2007-2008 is for 70% of aggregates used in capital projects to come from secondary or recycled sources. We are currently above our target, at 75% recycled or secondary aggregate use. We currently do not collect or track specific data on our sustainability expenditure across this area. Our capital programmes have the largest impact in this area, and all of this work in this area is carefully controlled through a managed environmental process to reduce the impact on the wider environment.

APPENDIX B

## Our performance in 2007-2008

### How we performed against key targets in our Corporate Plan

We report on how we performed in 2007-2008 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 2007-2008	Progress	Performance report
We have plans in place to improve local quality of life indicators	<b>Baseline</b>	<p>In 2007-2008 we worked well with Local Authorities (LAs) and Local Strategic Partnerships (LSPs) to improve the environment throughout England and Wales.</p> <p>We have continued work on the Improving Poor Environments Initiative, having identified 50 'Environmental Priority Areas' in England and 10 in Wales in 2006-2007. In 2007-2008, we engaged with 75 percent of LSPs in these key areas and concentrated our efforts on flagship projects in Birmingham and Sandwell, helping improve the local environment for residents.</p> <p>The new Local Government Performance Framework has placed new duties on the Environment Agency. To reflect these changes we have introduced new targets, placing an emphasis on engaging with upper tier LAs. Specifically, we aim to ensure that Sustainable Community Strategies recognise the importance of the environment and that we help deliver mutually agreed Local Area Agreement targets to improve local quality of life.</p>
We reduce 'big', 'bad' or 'nasty' illegal waste dumping incidents	<b>Target achieved</b>	<p>We dealt with 319 'big, bad or nasty' fly tipping incidents, out of a total of 919 fly-tipping incidents, between 1 April 2007 and 31 March 2008.</p> <p>Our target is to bring about a 10 per cent overall reduction within five years in the number of 'big, bad and nasty' illegal waste dumping incidents from a baseline of 467 incidents in 2005.</p> <p>As a result of the amended fly-tipping protocol published in May 2005, more of the smaller fly-tipping incidents that we are informed of will be issued to local authorities to investigate.</p>



<b>A better quality of life</b>		
<b>Success measure / Key target for 2007-2008</b>	<b>Progress</b>	<b>Performance report</b>
More of our navigation assets are in working order	<b>Target achieved</b>	<p>At the end of 2007-2008, we have brought 102 assets out of the 'critical baseline' (meaning likely to fail within two years, as recorded during the Comprehensive Spending Review 2004) and they are now in safe working order.</p> <p>Since 2005 we have improved 603 out of a total of 676 navigation assets. We are 3 per cent (28 assets) above our target of '85 per cent of our assets are in safe working order'.</p>
We deliver our navigation programme	<b>Target achieved</b>	<p>At the end of the year we spent £10.9 million against our capital budget of £10.7 million. Our 1.8 per cent expenditure over budget was due to us being able to complete more of our programme across regions ahead of schedule. We delivered 115 per cent of the outcomes of our overall navigation construction programme.</p>
We reduce people's impact on the environment through World Environment Day	<b>Target not achieved</b>	<p>In 2007, 34,917 people responded to our campaign. This was below our target of 60,000 – which was set based on our achievement of 58,000 respondents in 2006. This shortfall was the result of a shift in campaign strategy audience and objective and a greater number of similar campaigns which created a more crowded communications environment than in previous years.</p>

<b>An enhanced environment for wildlife</b>		
<b>Success measure / Key target for 2007-2008</b>	<b>Progress</b>	<b>Performance report</b>
The condition of SSSIs on Environment Agency owned land improves	<b>Target achieved</b>	<p>Currently 85.8 per cent of Environment Agency owned Sites of Special Scientific Interest (SSSI) land is in favourable or unfavourable recovering condition. This is up slightly from 84.6 per cent at the end of 2006-2007. The original target for 2007-2008 was to reach 90 per cent. This was based on the profile needed to achieve 95 per cent by December 2010.</p> <p>There remain some complex and expensive remedies on certain large units of our SSSI land. Some of the remedies on our own land will have to be delivered by third parties, over which we have limited control.</p> <p>We are now forecasting to reach 94 per cent by the end of 2010-2011.</p>

An enhanced environment for wildlife		
Success measure / Key target for 2007-2008	Progress	Performance report
We deliver our programme of actions to improve the condition of SSSIs	<b>Target achieved</b>	<p>We completed our programme of actions on 24,637 hectares of land for 2007-2008, against our target of 12,800. This is the highest one-year level of improvement in the condition of SSSIs that we have achieved. The Secretary of State for the Environment, Hilary Benn, recognised this in a recent letter of acknowledgement and thanks.</p> <p>Some work that we planned for future years was brought forward to 2007-2008 and completed earlier than expected.</p> <p>The FRM contribution to this total amounted to 2,466 hectares.</p>
Increase in length of watercourse restored or significantly enhanced for wildlife	<b>Target achieved</b>	<p>We improved 172 kilometres of watercourse habitat this year, exceeding the target of 130 kilometres. Projects funded by fisheries, particularly those aimed at salmonid rivers in the North-East and South-West of England and in Wales, contributed to the success. Flood risk management (FRM) funding accounted for 79 kilometres of the total length improved. The FRM funded Pevensy Levels Floating Pennywort control project in Sussex improved 37 kilometres of watercourse within the SSSI area.</p>
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. 44 per cent of our principal salmon rivers were judged to be in the highest 'at risk' category. This is the same as in 2006-2007 but better than our target of 48 per cent. Salmon rivers in our middle risk categories are showing signs of improvement. However, one river (the Dwyrdd, a small mainly sea trout river in North Wales) previously considered to be 'not at risk' (in the best category) has slipped down one risk category. Salmon populations continue to be under pressure internationally, largely from environmental factors affecting both their marine and freshwater environments.</p> <p>Measures to improve this situation include a package of national byelaws which we plan to advertise in mid May 2008 for implementation in the 2009 season, together with individual river controls on failing rivers. Many of the latter are in partnership with local fishery interests.</p>

An enhanced environment for wildlife		
Success measure / Key target for 2007-2008	Progress	Performance report
Actions are completed to improve the status of principal salmon rivers	<b>Target achieved</b>	<p>Our target was to complete 95 per cent of all Salmon Action Plan objectives required for completion in 2007-2008.</p> <p>We have completed a total of 826 actions against a target of 700 (118%). We completed all of these actions within funding limits.</p> <p>We continue to make good progress towards our Corporate Strategy target of restoring populations of salmon through protecting their habitats and freshwater migration routes used for spawning.</p> <p>We have worked closely with our partners and third parties. This is essential, as we are heavily reliant on collaborative working to achieve our goals. An example of our work in 2007-2008 includes the success of the salmon returning to Yorkshire's rivers. Improved water quality in the Humber Estuary and Ouse system has meant that the natural population is recovering. Some North Yorkshire rivers are seeing large numbers of salmon, equal to densities not seen for many years.</p>

Cleaner air for everyone		
Success measure / Key target for 2007-2008	Progress	Performance report
Emissions of priority pollutants are going down	<b>Target not achieved</b>	<p>Four of the eight priority pollutants have reduced from their 2006 levels, although only two achieved the strict targets we set ourselves in <i>Creating a better place</i>. We have achieved significant reductions in emissions from 2000 for all of the eight priority pollutants. The net present value of health benefits from reductions in emissions of sulphur dioxide, oxides of nitrogen and particulate matter from regulated installations in the UK is estimated to be approximately £888 million – £1,25 million.</p> <p>A large proportion of the butadiene and benzene emissions were down to an accidental release at one site (Sabic Olefins) on Teeside. The increase in PM10s appears to be down to the first time reporting from the farming sector.</p> <p>We are producing action plans for each of the priority pollutants. The outline specification for the work will be produced by the end of June and the action plans completed by March 2009.</p>

Cleaner air for everyone		
Success measure / Key target for 2007-2008	Progress	Performance report
Site air quality improvement conditions are on track	<b>Target achieved</b>	<p>Our target for completed air quality improvement conditions is cumulative up to 2011 and allows for the time taken to monitor air quality, and then if necessary, plan and install appropriate control techniques at a particular site.</p> <p>We have 23 site air quality improvement conditions, all of which are on track. Actual progress by operators aligns with our forecast position. All listed sites that require an improvement conditions plan now have improvement conditions or action plans in place. All sites are on target or have completed the relevant improvement conditions or action plans. Of all the 23 listed sites, 12 of them now have completed their improvement conditions.</p>

Improved and protected inland and coastal waters		
Success measure / Key target for 2007-2008	Progress	Performance report
The quality of rivers is getting better (2006 results)	<b>Target achieved</b>	<p>Our target is for 91 per cent of our rivers to meet the River Quality Objectives (RQOs). The 2006 results show that of a total of 40,295 km of river, 36,718km (91.1 per cent) met this standard.</p> <p>RQO results can be adversely affected by differing weather conditions. Where drought or flooding has occurred, results can differ quite substantially from previous years.</p> <p>We will continue with our compliance programme and also our response to incidents. We will promote to businesses the need to consider the environmental impacts of their processes, through activities such as pollution prevention campaigns.</p>

Improved and protected inland and coastal waters		
Success measure / Key target for 2007-2008	Progress	Performance report
The quality of bathing water is getting better - Imperative Standards	<b>Target partially achieved</b>	<p>In 2007, 483 (97.8 per cent) of our 494 bathing waters met the EC Imperative Bathing Water Standard. The main cause resulting in 11 bathing waters failing to meet the standard was the particularly high rainfall over the summer period (the wettest on record). High levels of rainfall can result in increased overflows from sewerage systems into watercourses and increased water run-off from agricultural land.</p> <p>394 (79.8 per cent) bathing waters met the more stringent EC Guideline Standard against a target of 414 (84 per cent). Reasons for failing this target can also be attributed to the impacts of high rainfall.</p> <p>We have narrowly missed the Imperative Standard target in 2007, but there has been an increase of 48 per cent of bathing waters achieving this standard since 1990. The percentage of waters meeting the Guideline Standards has also increased, from 32.4 per cent in 1990 to 79.8 per cent in 2007.</p> <p>This has been achieved through close working with water companies resulting in improved sewerage treatment facilities on and around coastal areas. We are also focused on tackling more pollution incidents in both urban and rural areas.</p>
Water companies deliver planned improvements (AMP4)	<b>Target achieved</b>	<p>Performance against target is 105 per cent for length of river improved (420 km improved against a target of 399 km), and 100 per cent for area of Bathing Water improved (6.55 square kilometres).</p> <p>It should be noted that at the time of writing the data has yet to be fully quality checked. Final data and performance analysis will be available towards the end of July.</p> <p>The delivery profile for this area of work ramps up significantly over the next two years, and we have plans in place to achieve this.</p>
Delivery of key milestones in the water framework directive (WFD) programme	<b>Target achieved</b>	All key milestones planned for 2007-2008 were completed by year end.
Increase in the number of CAMS (Catchment Abstraction Management Strategies) published	<b>Target achieved</b>	<p>At the end of 2007-2008 we completed and published a total of 25 Catchment Abstraction Management Strategies as planned. This brings us up to 100 percent of our programme target for England and Wales.</p> <p>We published all of the 119 CAMS documents we said we would do in our <i>Creating a better place</i> strategy by 31 March 2008. The results from CAMS will be used in setting the baseline for the climate change indicator under PSA 27.</p>

Improved and protected inland and coastal waters		
Success measure / Key target for 2007-2008	Progress	Performance report
We complete our planned RSA investigations and options appraisals	<b>Target achieved</b>	<p>Our corporate measure monitors three stages of the RSA programme: investigation, option appraisal and implementation. Our performance is measured against the number of planned investigations and the number of planned option appraisals.</p> <p>We have made good progress in investigating the environmental impact of licensed abstraction and in completing the appraisal of options to secure sustainable abstraction. We have completed investigations on 167 RSA sites, with almost half of these identifying that an options appraisal will be needed. Forty-six option appraisal studies have also been completed. Our priority remains the Habitats Directive Review of Consents.</p> <p>In June 2007, agreement was reached with Defra, Welsh Assembly Government and Ofwat that changes required to water company abstraction licences to meet the requirements of the Habitats Directive may be funded through the periodic review of water company prices (PR09).</p> <p>We will propose other licence changes using our powers which may mean we have to compensate the licence holder if their licence is changed. Following consultation Ministers agreed to a revised national abstraction charges scheme which was published in April 2008. Compensation funds will be recovered from the new charges scheme. With funding routes secured, we can now prepare for delivering identified licence changes.</p>

Restored, protected land with healthier soils		
Success measure / Key target for 2007-2008	Progress	Performance report
More rural land is covered by environmental agreements that protect soil and water	<b>Target achieved</b>	<p>We exceeded our target of 40 per cent, with 53 per cent of agreement holders in England having Entry Level schemes with one or more resource protection options. Resource protection is mandatory for applications in Wales, therefore achieving 100 per cent compliance. Examples of resource protection options include soil, nutrient or manure management plans.</p> <p>Defra announced that management plan options are to be removed from the Entry Level Scheme within the new Rural Development Plan for England, with retrospective effect to January 2007. This will affect around 1800 conditional agreements, out of 6000 made during the year, which will no longer have sufficient points for a valid agreement. The exact impact on the number of agreements with resource protection options is not yet known, but is likely to reduce the number significantly.</p> <p>All agreements need to be re-negotiated between Natural England and the farmers concerned.</p>
More contaminated land is brought back into use	<b>Target achieved</b>	<p>Our annual target for 2007-2008 is to bring 695 hectares of land back into beneficial use, towards our goal of seeing a minimum of 4,000ha dealt with under <i>Creating a better place</i>. We have exceeded this year's target by 692 hectares, and have brought back a total of 1,387 hectares of contaminated land. This has been due to:</p> <ul style="list-style-type: none"> <li>a) several very large development sites (including IMI and Fort Dunlop in the Midlands) being brought back into beneficial use;</li> <li>b) more validation reports being received, in line with good practice, from developers and their consultants enabling us to confirm that remediation objectives have been met;</li> <li>c) improvements having been completed at several Part 2A and Potential Part 2A special sites.</li> </ul>

A 'greener' business world		
Success measure / Key target for 2007-2008	Progress	Performance report
More companies we regulate have environmental management systems	<b>Target not achieved</b>	<p>The number of operators with externally accredited Environmental Management Systems (EMS) has risen. The number with in-house EMS has gone down. The numbers show a significant decline within the WML sector, especially a reduction in the use of internal EMS.</p> <p>We are starting discussions with the major interested parties in EMS such as the British Standards Institute and the UK Accreditation Service on the reasons for the national lack of take up in EMS and with communication colleagues on how to encourage EMS take up.</p>

A 'greener' business world		
Success measure / Key target for 2007-2008	Progress	Performance report
We reduce the number of businesses with higher risk OPRA scores	<b>Target partially achieved</b>	<p>The Operator Pollution Risk Appraisal system (OPRA) is a rating system for quantifying the environmental risk presented by regulated processes. 'A' represents the lowest risk and 'E' the highest risk.</p> <p>95 per cent of sites have 'satisfactory' or above scores (A-C ratings) at the end of 2007-2008. Our targeted efforts on poor performers has resulted in 6.5 per cent of businesses moving out of bands 'D' and 'E' in 2007-2008. This situation has improved year on year. At the end of the year there were 77 Ds (3.4 per cent of total) and 37 Es (1.6 per cent of total).</p>
There are fewer serious and significant pollution incidents	<b>Target achieved</b>	<p>The rolling year on year number of Category 1 and 2 pollution incidents continues to remain below our target. There were 693 pollution incidents against a 'no more than' target of 1,354 for the year ending March 2008.</p> <p>At the end of the year we are at 51 per cent of our 'no more than' target (compared with 66 per cent in 2006-2007, 63 per cent in 2005-2006 and 77 per cent in 2004-2005).</p> <p>We will be revising our target downwards for future years.</p>
More businesses comply with permit conditions	<b>Target achieved</b>	<p>We have previously reported on all categories of permit breaches. We are now focusing on the more serious breaches (Categories One and Two), to align more closely with <i>Creating a better place</i>.</p> <p>By the end of March, 2,031 serious breaches were recorded against our target of 2,108, meeting our target of a five per cent reduction against our baseline.</p>
Our compliance activity is focussed where required	<b>Target achieved</b>	<p>We exceeded our target of time spent on audit for all three regimes: Waste Management Licensing and Pollution Prevention Control (Process Industry and Waste).</p> <p>More of our staff are now trained and experienced in site auditing. We are embedding more of an audit approach to our work, with fewer routine inspections.</p>
We identify and reduce illegal waste sites	<b>Target achieved</b>	<p>The baseline for the number of illegal waste sites operating on 1 April 2007 has been revised to 628 illegal waste sites. This reduction from the previously reported baseline (774 sites) followed a quality assurance review. This led to the removal of duplicates and non illegal waste sites.</p> <p>Over the year 2007-2008 we have stopped or legalised operations at 352 sites (56 per cent). This exceeds the 10 per cent target. It includes 277 (44 per cent) sites closed, 45 issued with an exemption (7 per cent), and 30 sites licensed (5 per cent). 276 sites remained open (44 per cent) on 31 March 2008 and will carry forward to the baseline for 2008-2009.</p>



A 'greener' business world		
Success measure / Key target for 2007-2008	Progress	Performance report
We are successful in taking action against those who damage the environment	<b>Target achieved</b>	There were 38 Category 1 incidents in the year. In three incidents we had insufficient evidence to proceed for two it was not in the public interest to proceed further, resulting in 33 enforceable incidents. Of these, 25 resulted in a prosecution and five resulted in a formal caution. This equates to an enforcement outcome of 91 per cent against a target of 80 per cent. The remaining three incidents resulted in warnings.
We reduce our environmental footprint	<b>Target achieved</b>	In 2007-2008, we have achieved all five internal environmental management targets. We have reduced our mileage by approximately four million miles this year compared to 2006-2007 and carbon by around 3500 tonnes. Further information is provided in pages 53-55.

Wiser, sustainable use of natural resources		
Success measure / Key target for 2007-2008	Progress	Performance report
We reduce waste disposal and increase waste recovery or reuse	<b>Target not achieved</b>	<p>We failed to meet our targets for reducing waste disposal and increasing reuse from sites we regulate. This is due to a large increase in non-hazardous waste disposal from the fuel and power sector and chemical sector. This waste is pulverised fuel ash (PFA) from power stations. Changing demand in the construction industry has led to a decrease in recovery of PFA. The new PFA waste protocol (due for release in August 2008) should result in increased recovery.</p> <p>There has also been a fall in the recovery of non-hazardous waste from both the food and drink sector and power sector. Waste production is down from 3.5 megatonnes in 2006 to 2.8 megatonnes in 2007. Some of this will be due to the reclassification of 'wastes' reused in animal feeds to by-products in 2006. As the production of non-hazardous waste in 2007 is down considerably (0.6 megatonnes) compared to 2006 there is a corresponding (but smaller) reduction of 0.3 megatonnes in recovery. The actual percentage recovery from 2006 to 2007 has increased from 70 per cent to 73.8 per cent.</p> <p>There has also been a large increase in the disposal of hazardous waste from associated processes, but there has also been an increase in the amount of hazardous waste that has been recovered and reused. We are producing plans that will allow us to target those sites and sectors that can make the greatest improvements.</p>

Wiser, sustainable use of natural resources		
Success measure / Key target for 2007-2008	Progress	Performance report
Water supply and demand balance is properly managed by the water companies	<b>Target partially achieved</b>	<p>We have reviewed water company returns for the financial year 2006-2007. 15.2 million people, including 190,000 people in Wales, live in areas with a supply deficit, against our target of 14.2 million. Supplies for these people are not at risk, but in a dry year these people would be subject to restrictions, such as hosepipe bans, earlier than would otherwise be necessary.</p> <p>In total there are 18 resource zones with deficits, five of which fall within Wales. Two thirds of the total population facing a deficit are concentrated in only three zones - London, the West Midlands and parts of East Anglia.</p> <p>Seven water companies have reported unplanned supply deficits, affecting a total of four million people. We are working closely with these companies to understand the reasons for this. We are also continuing to work through the new statutory water resources plans to make sure that these deficits are reduced quickly.</p>

Limiting and adapting to climate change		
Success measure / Key target for 2007-2008	Progress	Performance report
We reduce Global Warming Potential emissions	<b>Target achieved</b>	<p>Emissions are marginally higher than last year (257 megatonnes compared to 255). The industries we regulate should reduce their emissions by at least 12.5 per cent below 1990 levels between 2008 and 2012. This is in line with the UK's Kyoto commitment.</p> <p>Non-carbon dioxide (CO<sub>2</sub>) greenhouse gases continued to fall in 2007.</p> <p>The 2007-2008 CO<sub>2</sub> emissions were higher than those in 2006-2007 (243 megatonnes versus 239 megatonnes). Over 95 per cent of CO<sub>2</sub> emissions have been regulated under the EU Emissions Trading Scheme from 2005. This is a market mechanism. Carbon emissions are allocated by Defra. Domestic emissions can be increased by purchasing allowances from abroad.</p>
Our policies and processes are adapted to take account of climate change	<b>Target achieved</b>	<p>Waste, Water Resources, Flood Risk Management, Conservation and Ecology, Land Quality and Monitoring and Assessment have now completed climate change risk assessments and developed Adaptation Action Plans to address those risks. These have been integrated into business plans for 2008-2009.</p> <p>A further 11 policy functions will undertake the same process by the end of 2008-2009.</p>

<b>Managing flood risk</b>		
<b>Success measure / Key target for 2007-2008</b>	<b>Progress</b>	<b>Performance report</b>
We successfully influence flood plain development planning decisions	<b>Target achieved</b>	At the end of 2007-2008, we had lodged a total of 3,054 objections against planning applications within floodplains. Over the course of the year, 2,819 (92 per cent) of the objections we raised were taken into account by the planning authorities. Planning applications were revised in line with our advice or turned down. This performance exceeded our 90 per cent target. This is the highest level of achievement since we started reporting in 2003.
People respond to flood warnings	<b>Target achieved</b>	<p>Our annual response to flooding report shows that 86 per cent of people took action that we think is appropriate during a flood event (for example, blocked doorways/airbricks with sandbags etc, or switched off gas and/or electricity). This figure is taken from a survey that was carried out in response to the summer 2007 flooding. It targeted 576 business owners and residences from across England. As the summer flooding had a smaller effect on Welsh properties and businesses, the survey was not carried out in Wales. We exceeded our target of 75 per cent and aim to maintain this level in the future.</p> <p>Sixty per cent of properties in the floodplain are now provided with an appropriate flood warning service. This is a significant advance on last year's figure of 52 per cent, and exceeds this year's target of 57 per cent.</p>
More houses are protected from flooding	<b>Target achieved</b>	<p>We exceeded our overall annual target of 30,025 properties by over 1,600 houses.</p> <p>In England we protected 31,505 houses against a target of 29,843 and in Wales we protected 183 houses against a target of 182.</p> <p>We have exceeded the Defra Spending Review 2004 target of 85,000 houses. Overall we protected 117,474 houses over this three-year spending review period.</p> <p>Substantial schemes of work undertaken over 2007-2008 included West Bridgeford in the Midlands (5,420 properties protected) and Thornton Cleveleys in the North West (5,000 properties protected).</p>

Managing flood risk		
Success measure / Key target for 2007-2008	Progress	Performance report
More of our flood risk management systems are at or above the target condition <sup>1</sup>	<b>Target achieved</b>	<p>The measure shows what proportion of our flood risk management (FRM) systems (groups of individual assets working together) are in appropriate working order.</p> <p>At the end of March 2008 we had 1440 'high consequence of failure' FRM systems. Of these, 958 (67 per cent) are at target condition and 20 per cent are being investigated to further determine their condition. The remaining 13 per cent need improvement to bring them up to their required condition.</p> <p>We have exceeded our revised and agreed target for 50 per cent of 'high consequence of failure' systems to be at target condition by the end of 2007-2008. More than 92 per cent of structures and defences owned or maintained by the Environment Agency are in target condition or better.</p>
More new BAP habitats are created	<b>Target achieved</b>	<p>We created a total of 259 hectares of Biodiversity Action Plan (BAP) habitat through Flood Risk Management (FRM) activities.</p> <p>Almost half (129 hectares) of the BAP habitat creation was intertidal. 22 hectares were created in Wales, of which seven hectares was intertidal habitat.</p>
We deliver our flood risk management programme	<b>Target achieved</b>	<p>Our spend was 0.8 per cent (£4.0 million) above our agreed budget level spend. The minor overspend was mainly due to additional capital expenditure that was made possible through additional grant-in-aid availability towards the end of the year.</p> <p>Regional overspends were due to additional maintenance and repair works as a consequence of the floods in 2007. These were offset by underspends that were due to delays in the availability of rock and piling and difficulties in sourcing shingle (demand outstripping supply) for sea defences and beach management. Significant procurement and contract savings were made on a number of capital projects that enabled more capital work to be undertaken during the year.</p> <p>In Wales, we also met our budget and fully spent our grant-in-aid allocation from the Welsh Assembly Government.</p>

<sup>1</sup> In 2006-2007 we introduced a measure of how individual flood defence assets worked together as systems to protect flood risk areas. This required our flood risk management teams to set a target condition for each asset using local judgement with a prudent default of 'good' condition. Based on this definition we estimated that 46 percent of high risk systems in England met the target condition. This is the figure contained in the NAO report published in June 2007. Independent scientific research and our experiences from the floods last summer has subsequently established that assets in 'fair' condition are likely to perform as designed with a small probability of failure and 'fair' is now our default target. This means that some systems which failed last year's measure now pass. We are describing assets systems for which all assets are 'fair' or better as 'serviceable'.

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

<b>Modernising regulation</b>		
<b>Success measure / Key target for 2007-2008</b>	<b>Progress</b>	<b>Performance report</b>
We deliver permits more quickly	<b>Target achieved</b>	As part of our modernising regulation programme, this year we centralised our permitting processes for Pollution Prevention and Control, Waste and Water Quality in four centres in Warrington, Cardiff, Birmingham and Nottingham. Previously, we did this work at Area level. Our new way of working has meant significant process and structural change. We have had to recruit and train new staff for all centres. We have worked hard to improve our performance this year, with strong performance in the second part of the year.
We have reduced the administrative burden that we place on business	<b>Target achieved</b>	We exceeded our target through initiatives undertaken, with a total reduction in administration burden savings to business of over £11 million in 2007-2008.  We have completed our contribution to Defra's Regulatory Simplification Measures and administrative burden savings have been made against targets, including: 2005-2006 - £3.10 million, 2006-2007- £7.06 million, 2007-2008- £1.22 million. Total to date £11.38 million.
Our policies and procedures meet quality criteria	<b>Target partially achieved</b>	We narrowly missed our 2007-2008 target of 90 per cent, with 24 of the 27 policies audited (89 per cent) meeting all of our quality criteria.
We are trusted with new duties	<b>Target achieved</b>	We have achieved all the targets for this year. Our continual improvement in project management discipline can be demonstrated by achievement of all our new duty milestones. We are also reviewing the measure to set more challenging targets in future years. We are working with policy teams to identify new duties we wish to track in 2008-2009.

Sharpening efficiency		
Success measure / Key target for 2007-2008	Progress	Performance report
We are more efficient	<b>Target achieved</b>	<p>We have an ongoing efficiency programme with an annual efficiency target agreed with Defra. In 2007-2008, our efficiency programme saved £33.2 million which was £8.2 million above the target for the year. Of this, flood risk management saved £16.7 million - £1.7 million above target.</p> <p>The savings realised were redirected into the business. In some cases the savings were invested in future efficiency initiatives while in other cases the benefits were used to progress work that we could not have otherwise supported. Within flood risk management we were able to undertake additional construction projects and thereby we have protected more properties at risk of flooding than our target for the year.</p> <p>In addition we reduced costs to mitigate the impact of charge increases on our customers. In 2007/08 we reduced our charge increases by two per cent to account for our more efficient operations.</p>

Driving performance		
Success measure / Key target for 2007-2008	Progress	Performance report
We improve performance	<b>Target achieved</b>	<p>We have improved the quality and timeliness of our corporate scorecard reporting this year which has meant that directors get information and can take decisions more quickly to improve performance.</p> <p>Human Resources has introduced the Individual Performance Plan which brings together objectives, capabilities and personal development. This will help our managers to be more confident in managing their people and more transparently align personal objectives with business plans.</p> <p>All business units are applying a consistent and integrated approach to business planning with robust challenge and prioritisation stages.</p> <p>We continue to use benchmarking and activity based costing to help us improve our processes and achieve our environmental outcomes.</p>

<b>Communicating and influencing</b>		
<b>Success measure / Key target for 2007-2008</b>	<b>Progress</b>	<b>Performance report</b>
We successfully influence key audiences around priority issues	<b>Target achieved</b>	We met all of our targets. 77 per cent of businesses we permit agree that the Environment Agency processes licence applications in a reasonable time. This represents a five per cent improvement on last year. 34 per cent of all of our staff used environmental leave to go and create a better place for people or wildlife.
Our customers say we are providing a good service	<b>Target partially achieved</b>	The overall score this year is marginally lower at 6.3 (6.4 in 2006-2007) despite significant improvements in some key areas. This change has been caused by a shift from customers giving us a high rating to giving us a neutral rating. This coincides with a significant reported drop in the number of visits that our customers are able to recall.
We successfully deliver priority communication programmes and campaigns	<b>Target achieved</b>	We exceeded our target of '90 per cent of milestones met'. This has allowed us to deliver our priority communications and campaigns to time and budget, helping to ensure their success. Milestones included, for example, the design, implementation and review of our flood awareness campaign.
We respond to more planning enquiries on time	<b>Target achieved</b>	During 2007-2008, we received over 65,000 planning application consultations or pre-planning enquiries. Of these, we responded to over 57,000 (87 per cent) within 21 days, against our target of 78 per cent. This is nearly 9,900 more than in 2006-2007, when we had a similar level of staff and funding.  In addition, we responded to approximately 8,000 (13 per cent) enquiries outside of 21 days.
Key stakeholders agree we are good at working with them towards shared goals	<b>Target achieved</b>	Our survey shows that 65 per cent of our top stakeholders agree that we are good at working towards common goals. This is a three per cent increase since 2005-2006.
We receive positive media coverage and are seen at the forefront of environmental debate	<b>Target achieved</b>	We had a large increase in media coverage this year due to the summer floods. The issue of people's homes flooding created a negative backdrop to some of this media coverage. Despite this the number of articles about us that were either beneficial or factual exceeded our target of 85 per cent.

<b>Developing people</b>		
<b>Success measure / Key target for 2007-2008</b>	<b>Progress</b>	<b>Performance report</b>
We provide a safe place to work	<b>Target achieved</b>	We had 48 lost time incidents (LTIs) in the year to March 2008, within the ceiling target of 54.  The ceiling for 2008-2009 is 44 LTIs.

<b>Developing people</b>		
<b>Success measure / Key target for 2007-2008</b>	<b>Progress</b>	<b>Performance report</b>
Our workforce is more diverse	<b>Target not achieved</b>	<p>We have had a challenging year in 2007-2008, due to a reduction in the size of the organisation (leading both to fewer vacancies and an obligation to re-deploy existing employees into many of those that arose), a temporary halt on the use of positive action and higher Black Minority Ethnic (BME) turnover. Since January 2008, however, we have seen improvements following intervention from the Diversity Action Group. We ended the year with the proportion of BME employees at 2.8 per cent – the same as at the beginning of the year, against a target of 3.2 per cent.</p> <p>We have set a challenging target for the proportion of BME employees to increase from 2.8 per cent to 3.4 per cent in 2008-2009. Based on current headcount this will mean a net BME increase of around 70 people – over 20 per cent - next year. To achieve this we will need to maximise recruitment opportunities and bring BME turnover in line with average turnover.</p>
We achieve the right balance of resources	<b>Target achieved</b>	<p>Our external turnover has risen throughout 2007-2008 from 8.1 per cent in April 2007 to 10.6 per cent in March 2008. This is still within our target range for the year of 9-11 per cent.</p> <p>Internal turnover for the year stands at 5.2 per cent (with transfers accounting for 2 per cent and promotions 3.2 per cent).</p>
We have resourcing strategies in place for scarce skill areas	<b>Target achieved</b>	<p>There was a significant increase in recruitment activity between October and December 2007, with the National Recruitment Service (NRS) handling over 400 vacancies in national campaigns.</p> <p>Of the 39 recruitment campaigns that took place in 2007-2008, 37 were completed within 8 weeks. Our performance of 95 per cent, exceeded our 90 per cent target for 2007-2008.</p>
Staff are doing More for the Environment	<b>Baseline</b>	<p>This measure indicates the level of staff engagement in the More for the Environment (MfE) change programme, calculated from responses to the employee survey. The primary measure indicates the level of 'engagement through action' by calculating the average of the percentage of staff saying that change activities are embedded in their personal objectives (39 per cent in the 2007-2008 employee survey), and the percentage saying that they are actively doing them (47 per cent in the 2007-2008 employee survey).</p>
Our employees think we have good leaders	<b>Baseline</b>	<p>There were 4841 responses to the question in the staff survey 'How effective is your manager in the following area - leads people: provides inspirational leadership?'. Assigning a score of one to five to the categories 'never' to 'always' gives an average score of 3.5. This is the first time we have asked the question.</p>



<b>Funding targets</b>		
<b>Success measure / Key target for 2007-2008</b>	<b>Progress</b>	<b>Performance report</b>
We have secured the funding necessary to deliver our objectives	<b>Target achieved</b>	Our total funding was £25 million higher than last year and in excess of the full year budget. The most significant amount of additional funding was £3 million grant-in-aid for flood defence capital projects.
Our expenditure is in accordance with our plans	<b>Target achieved</b>	Our overall level of expenditure was slightly lower than the income that we received, on a budget of over £1 billion. The under spends related to Water Resources and Flood Defence expenditure on projects funded by Local Authority levies. These under spends can be carried forward in balances for use in future years.
We attract third party investment in Environment Agency objectives	<b>Target achieved</b>	The total external funding obtained for the year was £47.3 million, against a target of £45.5 million. In addition we have provided £6.9 million of match funding. This means that overall £54.2 million has been spent on the environment through projects we run with partners.



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