

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

# Annual report and accounts 2006/07

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.



**Environment Agency  
Annual report and accounts 2006/07**

Presented to Parliament pursuant to sections 46 and 52 of the  
Environment Act 1995

Ordered by the House of Commons to be printed 26 July 2007

Environment Agency  
Rio House  
Waterside Drive, Aztec West  
Almondsbury, Bristol BS32 4UD  
Tel: 08708 506 506  
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

All rights reserved. This document may be reproduced with  
prior permission of the Environment Agency.  
ISBN: 9780102945140

# Contents

	Page
<b>Overview</b>	1 - 4
- Creating a better place	
- More for the environment	
- Financial overview	
<b>Our performance in 2006-07</b>	5 - 20
- How we performed against key targets in our Corporate Plan	
<b>Financial statements</b>	21 - 67
- Audited accounts for the year ended 31 March 2007	



## Overview

### Creating a better place

We have a vision for the environment: **a better place for people and wildlife, for present and future generations**. To achieve our vision, we work towards nine environmental goals. Here are some highlights of the progress we made in 2006-07 towards these goals:

#### A better quality of life for people

- We have identified 50 'Environmental Priority Areas' in England and 10 in Wales. We will target 63 per cent of these for major improvements in the coming years.
- Our recent regeneration study revealed that in places such as East Manchester and Neath in South Wales, where we have made improvements to people's environments we have seen crime fall and peoples' physical and mental health improve.
- We continue to promote water-related recreation and invested £10 million in infrastructure and facilities, such as locks and moorings, to improve navigation on our waterways. We also negotiated agreements with landowners to allow canoeists onto rivers such as the Mersey, Teme, Wear and Waveney.
- Rod licence sales went up by 1.1 per cent to 1.3 million reflecting the popularity of angling as a recreational activity. Visits to Wales involving fishing, for example, have a significant impact on tourism, which brings over £8 million into the Welsh economy every day.

#### An enhanced environment for wildlife

- We improved 144 km of river habitat for wildlife and contributed to hundreds of biodiversity projects throughout England and Wales.
- We continued to reduce damage to internationally important wildlife sites (*Natura 2000* sites) and improve the condition of those Sites of Special Scientific Interest (SSSIs) we own along with those where we have the lead role. 85 per cent of SSSI land where we are the landowner is now in favourable or recovering condition.
- We completed 862 actions from our Salmon Action Plans.

#### Cleaner air for everyone

- Some of the priority pollutants, such as sulphur dioxide and lead, from the businesses we regulate continued to fall, but others have increased or not fallen by as much as target. Some of this is due to revised calculation methodologies and more accurate reporting.
- We continued to work closely with the electricity supply industry. For the second consecutive year no major coal or oil-fired power station caused a breach of a UK air quality objective.

#### Improved and protected inland and coastal waters

- A record 99.4 per cent of bathing waters in England and Wales met EU mandatory standards in 2006, while just over 80 per cent made the tougher 'guideline' grade.
- Overall river water quality is on target to achieve 91 per cent compliance with quality standards (River Quality Objectives). We have decided on action to improve each failing river stretch.
- Under the Periodic Review 2004 Programme, water companies in total have completed the planned schemes in 2006-07 to improve rivers, wetlands and coastal waters.

#### Restored, protected land with healthy soils

- We helped run over 250 workshops across England and Wales for farmers and made 2,000 farm visits. This work will see agricultural pollution of rivers and lakes fall in years to come. We have also been helping the farming community with agri-environment schemes, new waste rules, new regulations for the pig and poultry sector and the impacts of dairy farming.

### **A greener business world**

- With a continuing fall both in the number of major pollution incidents and serious breaches of consents, we are seeing a more responsible attitude from boardroom to building site.
- Using risk assessment to identify and tackle the highest risks to the environment we have continued to focus our efforts on those sites which perform poorly or operate illegally. Reflecting this we have seen continuing improvement in the risk scores of businesses assessed under our Operator and Pollution Risk Appraisal (OPRA) scheme.
- With fewer incidents and breaches occurring, we took fewer prosecutions for environmental offences, and the average fine for each prosecution increased to £6,773 – up by around £1,700 from 2005.

### **Wiser, sustainable use of natural resources**

- We helped industry with new regulations banning liquid waste from landfill sites and requiring that waste is treated before it is disposed of in these facilities.
- New Waste Electrical and Electronic Equipment (WEEE) regulations, which came into force in July 2007, will mean manufacturers will be responsible for treating and recycling these goods once they have been discarded. Last year we worked hard to help manufacturers understand their responsibilities.
- Last year's drought reminded us what the effects of longer, drier summers could be for our water resources. Almost two years of below-average rainfall saw widespread hosepipe bans and dealt a harsh blow to wildlife. Working very closely with the water industry, we kept impacts on customers and the environment to a minimum.

### **Limiting and adapting to climate change**

- More than 99 per cent of operators met their obligations in 2006-07 under the European Union's Emissions Trading Scheme, which we administer in the UK. Yet we remain concerned that carbon dioxide emissions from industry are not falling as fast as needed to hit the UK's domestic targets.
- In Wales we are working with the Welsh Assembly Government and others on a cross-sector group to ensure long-term planning for climate change.
- Preparing for sea level rise, we have been giving certain areas of land back to the sea, creating new areas of saltmarsh and mudflat that help protect coastal communities from flooding. In Alkborough on the Humber Estuary we created over 300 hectares of such habitat. Not only does this reduce flood risk to the 300,000 people living around the estuary, it creates much needed habitat for wading birds and other wildlife to live.

### **Reducing flood risk**

- We published flood risk maps for over 99 per cent of properties in England and Wales, and delivered improved standards of protection.
- We improved flood protection for almost 29,000 homes, including Burton-on-Trent, Pendle in Lancashire, Chester-le-Street in County Durham, Tilbury in Essex, and Rossett in North Wales.
- We signed up record numbers of households to our direct flood warning service. Around 300,000 people can now receive a direct flood warning.
- We kept the east coast of England safe in the face of some of the highest tides since the 1953 floods.
- We have made good progress in moving away from solely defending against flood towards developing ways to manage flood risk in response to the government's Foresight report on future flooding and Defra's developing cross-government strategy 'Making space for water'.
- Our strategy for reducing flood risk on the Humber, for example, is the first in the country to propose solutions to flooding based on the risk to the whole estuary, instead of individual towns or communities. It provides a detailed plan for the next 15 years and makes recommendations up to 2100 for a comprehensive package of flood risk



management measures taking account of climate change and making provision for flood storage and habitat creation.

- We are also working with local authorities to ensure that planning policies reflect the risks created when the flood plain is built on.
- We put in place risk-based performance requirements for all of our flood risk management systems.

## **More for the environment**

We want to achieve more for the environment by doing things better, faster, for less, looking out not in. We will be customer-focused, accountable, responsive and flexible, faster-paced and cost-efficient. Our progress in 2006-07 included:

### **Modernising regulation**

- We announced new proposals for discharges into rivers and coastal waters – we'll now focus our efforts on the 6,000 highest-risk permit holders. Modern regulation also means making things easier for good performers. We are lightening the administrative burdens on business, making the application for permits much simpler through our Environmental Permitting Programme.

### **Sharpening efficiency**

- We achieved more for the environment whilst making over £27 million in efficiency savings and coping with reduced funding.

### **Developing our people**

- We recruited 109 employees and trainees from black and minority ethnic communities, to better reflect the diversity of the communities we serve.
- The number of incidents when staff took time off due to injury in the workplace has fallen from 207 in 2001-02 to 73 in 2006-07.

### **More effective communications**

- World Environment Day was the biggest ever, involving over 58,000 people and hundreds of business partnerships. If participants keep their promises, they will save 613 Olympic sized swimming pools of water, 9.5 million plastic carrier bags, and the carbon dioxide emitted by driving 6,327 times round the Earth.
- We trained almost another hundred staff to engage better with communities on issues of high public concern. At the Bryn Posteg Landfill site in Powys (Wales), for example, developing better relations with the site operator and the community has improved the running of the site and has led to a fall in the number of complaints received from 200 in 2001 to only two in 2006.
- Over 5,000 of our staff have now received plain English training. We have achieved over 25 Crystal Marks and some of our Regions have won Chartered Institute of Public Relations awards for plain English.

### **Improving our own environmental performance**

- We have become increasingly efficient in our use of resources, with energy use and office waste falling to their lowest levels. We have reduced emissions from our business mileage by 55 per cent since 2001-02.
- 73 per cent of aggregates used in our capital works projects (mainly flood defence schemes) have come from secondary or recycled sources. Work to improve our procurement practices included training 500 staff, consultants and contractors on how to buy sustainable timber and carrying out sustainability audits of 25 key suppliers.

## Financial overview

### Funding

Our total funding in 2006-07 was £1,002 million, an increase of £4 million on the previous year.

Of our total funding, £603 million (60 per cent) was provided in the form of 'grant-in-aid' from government; £349 million (35 per cent) was raised through our statutory charging schemes and flood defence levies; and £50 million (5 per cent) came from miscellaneous sources.

£554 million of our grant-in-aid was provided by Defra to fund our activities in England and £49 million by the Welsh Assembly Government to fund our work in Wales.

Our grant-in-aid from Defra was reduced for 2006-07 initially by about £4 million and subsequently by a further £24 million as a result of budget difficulties within Defra. Our Corporate Plan, and the targets within it, took account of the first cut but had already been finalised when the second larger cut was announced. This unexpected reduction in funding has meant a reduction in and postponement of some work, which we had planned for 2006-07. We have sought to minimise the impacts but some slippage to targets is inevitable. The full impact on our performance does not feature in this annual report because in some areas there is a lag between reducing the work we do and impacts being felt in the environment. We expect to see impacts of reduced investment next year and beyond.

The level of grant-in-aid to fund our activities in Wales was maintained, and the Assembly Government provided additional funding for flood risk management work.

### Changes to income reported in our accounts

We have amended the presentation of income within the financial statements in accordance with the Government Financial Reporting Manual. Income raised from our charging schemes and other (miscellaneous) income received is included within the Income and Expenditure Account. Grant-in-aid is now considered to be a contribution from a controlling party giving rise to a financial interest and therefore is accounted for as a financing transaction. It is no longer included as income in the income and expenditure account but is taken directly to the income and expenditure account reserve. The prior year accounts have been restated to meet these new reporting requirements.

### Expenditure

Our total expenditure in 2006-07 amounted to £1,065 million. Of this, £581 million (55 per cent) was spent on flood risk management; £311 million (29 per cent) on environmental protection (preventing and controlling pollution); and £173 million (16 per cent) on our other water management functions.

### Future developments – Spending Review

Government decisions on funding for the environment, which determine the level of our grant-in-aid provision, are made through the Treasury's Spending Review process, which sets three-year expenditure budgets for government departments. Following the Chancellor's decision to conduct a comprehensive spending review in 2007 (CSR2007) we are supporting Defra and the Welsh Assembly Government in preparing their submissions to the Treasury. CSR2007 will set spending plans for the period 2008-09 to 2010-11. We are aware of the tight fiscal climate for this review and will ensure that our baseline funding and our assessment of current and future pressures are subject to rigorous analysis and justification on the basis of evidence. We are determined to continue to improve the environment in a way that demonstrates value for money.

## Our performance in 2006-07

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

In this section we report on how we performed in 2006-07 against key performance targets in our Corporate Plan, which are the main quantitative indicators we use to measure progress.

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

#### Key to symbols used in the following tables:



= Target was fully achieved



= Target is on course or was substantially achieved






= Target was not achieved or only partially achieved




= New Baseline





#### A better quality of life

Success measure / Key target for 2006-07		Progress
<p>We have plans in place to improve local quality of life indicators:</p> <ul style="list-style-type: none"> <li>– Work with at least 50 per cent of Local Strategic Partnerships (LSPs) to secure improvements in local Quality of Life Indicators, and ensure all of our Areas have an action plan in place.</li> </ul>		<p>We do not have the resources to work effectively with all of the nearly 400 Local Authorities in England and Wales, and as the year progressed it became apparent that the 50 per cent target was too optimistic.</p> <p>We have to take a prioritised approach to our engagement with LSPs. Following review through the 'Improving Poor Environments' project we identified 50 'Environmental Priority Areas' in England and 10 in Wales, and plan to work with 42 (63 per cent) of these LSP/Community Strategy areas.</p> <p>In the coming year further guidance will be developed for Areas, reflecting both the development of the Improving Poor Environment project and the new Government policy framework for Local Area Agreements and the Local Authority performance framework. It will also reflect the new "duty to co-operate" with local authorities proposed in the Local Government Bill.</p>
<p>We reduce the number of the most serious illegal waste dumping incidents.</p>		<p>We are on track to achieve our target of a 10 per cent reduction in incidents over the next 5 years, with 336 incidents reported at the end of 2006-07. (Year-on-year, this represents a decrease of 28 per cent on the previous year).</p> <p>The fall may in part be attributed to continuing successful compliance by our staff and local authorities with the amended fly-tipping protocol, which was published in March 2005.</p>


<p>More of our navigation assets are in safe working order:</p> <ul style="list-style-type: none"> <li>– Ensure that at least 50 per cent of our assets, which were in 'critical' condition in 2004, are improved.</li> </ul>		<p>We successfully met our 2006-07 target by ensuring a total of 85 per cent (584) of our assets are now in good working order. Activity throughout the year has been aimed at addressing priority health and safety issues, so that by 2011 less than 5 per cent of our navigation assets will be in critical condition.</p>
<p>We deliver our navigation programme:</p> <ul style="list-style-type: none"> <li>– Deliver 100 per cent of our planned navigation maintenance and capital programme.</li> </ul>		<p>We exceeded our planned programme and completed 40 projects. We invested £10 million in our capital works programme on rivers where we are the navigation authority. As well as catching up with a backlog of years of under-investment in the basic infrastructure that keeps the rivers navigable, we are taking the opportunity to make them easier to use, for example, power-assisting lock operation and increasing the number of moorings available. Through good procurement we managed to deliver more projects than anticipated for the £10 million budget.</p>
<p>Reduce peoples' impact on the environment through World Environment Day:</p> <ul style="list-style-type: none"> <li>– Secure at least 150,000 pledges.</li> </ul>		<p>Our World Environment Day campaign has grown from securing 50,000 pledges from 12,000 people in 2004, to 408,000 pledges from 58,500 people in 2006. The pledges relate to simple things everyone can do to help the environment, including being more energy efficient, using water wisely and reducing waste.</p>

### An enhanced environment for wildlife

Success measure / Key target for 2006-07		Progress
<p>We improve the condition of Sites of Special Scientific Interest (SSSIs) on Environment Agency owned land:</p> <ul style="list-style-type: none"> <li>– Aim for 85 per cent of SSSIs on our land to be in favourable condition by 31 March 2007.</li> </ul>		<p>Survey by Natural England confirmed that 85 per cent of SSSI land owned by the Environment Agency is in favourable condition.</p>
<p>We take remedial action to improve SSSIs in unfavourable condition:</p> <ul style="list-style-type: none"> <li>– Agree a programme of actions to improve the condition of SSSIs to help meet Defra's target for 95 per cent of all SSSIs in England to be in favourable or recovering condition by December 2010.</li> </ul>	<p>N</p>	<p>We now have a programme of actions in place and will report against our targets from 2007-08 onwards. As well as developing the programme we also continued to work to improve the condition of SSSIs. During the year we carried out work to deliver remedies on 18,000 hectares of SSSIs. We carried out important preparatory work to inform where we need to modify or revoke water abstraction licences at sites designated by the Habitats and Birds Directives. By summer 2007 this should be complete for most high priority sites. Work continues on medium and low priority sites to the Defra agreed timetable. Agreement on the remedial work programme will start from 2007-08. Delivery of priority Water Level Management Plan work is on track.</p>

<p>Increase in length of watercourse restored or significantly enhanced for wildlife:</p> <ul style="list-style-type: none"> <li>- In 2006-07 improve at least 100 kilometres of river habitat.</li> </ul>		<p>We improved 144 kilometres of river habitat through our Flood Risk Management, biodiversity and fisheries work. Preparatory work (site selection, risk assessments, contingency planning) for our pilot River Habitats Survey is now complete. A full-scale survey will be carried out from summer 2007 to mid 2008.</p>
<p>Population of key fish and wetland species are going up.</p>		<p>The action for 2006-07 was to determine a baseline figure and this was achieved, showing the following:</p> <p>Fisheries: 55 per cent of sites were in class A – C of the Fisheries Classification Scheme for coarse fish (A=13%, B=19%, C=23%, D=22%, E=20%, F=3%).</p> <p>Bird species: The increased annual population of bird species relative to the 1994 baseline was 6 against a target of 3.</p>
<p>More rivers are progressing towards sustainable salmon stocks.</p>		<p>44 per cent of rivers are in the “at risk” category – an improvement over 53 per cent in 2005-06 and better than the expected result of 51 per cent. This is due to delivering actions within Salmon Action Plans to improve fish stocks, and anglers now releasing 56 per cent of the salmon they catch.</p>
<p>Actions are completed to improve the status of principal salmon rivers.</p>		<p>We completed 862 actions from our Salmon Action Plans: more than our target of 831.</p>




### Cleaner air for everyone



Success measure / Key target for 2006-07		Progress
<p>Emissions of priority pollutants are going down:</p> <ul style="list-style-type: none"> <li>- In 2006-07 aim to achieve target reductions for at least 6 of the 8 following key pollutants from processes that we regulate and which report on our Pollution Inventory:</li> </ul> <ul style="list-style-type: none"> <li>- Sulphur dioxide (SO<sub>2</sub>) : no more than 556,000 tonnes;</li> <li>- Nitrogen oxides (NO<sub>x</sub>) : no more than 377,000 tonnes;</li> <li>- Carbon monoxide : no more than 413,000 tonnes;</li> </ul>		<p>Actual releases of SO<sub>2</sub> were 452,000 tonnes. This is a 4 per cent decrease compared to the previous year.</p> <p>Actual releases of NO<sub>x</sub> were 436,000 tonnes. This is slightly below the previous year.</p> <p>Actual releases of carbon monoxide were 536,000 tonnes. This is a 9.1 per cent increase compared to the previous year, but some of this is due to companies reviewing their calculation methodologies and providing more accurate reports.</p>

<ul style="list-style-type: none"> <li>- Non-methane volatile organic compounds (NMVOCs) : no more than 56,000 tonnes;</li> <li>- Particulate matter (PM<sub>10</sub>) - no more than 12,000 tonnes;</li> <li>- Benzene : no more than 960 tonnes;</li> <li>- 1,3-Butadiene : no more than 85 tonnes;</li> <li>- Lead : no more than 58 tonnes.</li> </ul>		<p>Actual releases of NMVOC's were 59,800 tonnes. Although this is higher than target it is a 13.3 per cent decrease compared to the previous year.</p> <p>Actual releases of PM<sub>10</sub> were 17,800 tonnes This is a 14.8 per cent increase compared to the previous year. Some of the increase is due to companies reviewing their calculation methodologies and providing more accurate reports.</p> <p>Actual releases of benzene were 1,140 tonnes. Although this is not as good as target it is a 4.7 per cent decrease compared to the previous year.</p> <p>Actual releases of 1, 3-butadiene were 85.3 tonnes. This is a 3.1 per cent decrease compared to the previous year.</p> <p>Actual releases of lead were 58 tonnes. This is a 22.6 per cent decrease compared to the previous year.</p>
<p>Site air quality improvement conditions are on track:</p> <ul style="list-style-type: none"> <li>- For those industrial sites previously identified as leading to breaches of EU limit values or UK Air Quality Objectives aim to achieve the following in 2006-07: <ul style="list-style-type: none"> <li>- 90 per cent to have improvement conditions in place;</li> <li>- 90 per cent to have improvement conditions on target;</li> <li>- 10 per cent to meet the appropriate air quality EU limit values or UK objectives.</li> </ul> </li> </ul>	↔	<p>23 sites were identified as leading to breaches in EU limit values or UK Air Quality Objectives.</p> <ul style="list-style-type: none"> <li>- All of these (100 per cent) have improvement conditions in place;</li> <li>- 83 per cent have improvement conditions on target;</li> <li>- 48 per cent now meet the appropriate air quality EU limit values or UK objectives.</li> </ul> <p>We fell marginally short of meeting the overall target due to a number of listed sites with improvement conditions not on target. The reason for this has been due to the nature and condition of the sites and their existing permits. Some of these are waste management licensed and can be difficult to control for air quality. Others may be finding it difficult to find and implement solutions, particularly if their business has a low viability. But for each of the sites a local action plan is in place, and air quality monitoring continues.</p>

### Improved and protected inland and coastal waters

Success measure / Key target for 2006-07		Progress
<p>The quality of rivers is getting better:</p> <ul style="list-style-type: none"> <li>- Aim to achieve compliance with River Quality Objectives (RQOs) for at least 91 per cent of rivers.</li> </ul>	↔	<p>Compliance with RQOs was 90.1 per cent for 2005. This is in line with the Government's target to achieve 91 per cent when the improvements funded by the water industry up to 2005 have come through in the monitoring for 2006-08.</p>

<p>The quality of bathing water is getting better:</p> <ul style="list-style-type: none"> <li>- Aim to achieve 99 per cent compliance with the EC Bathing Water Directive 'imperative standards'.</li> </ul>		<p>A record 99.4 per cent of bathing waters in England and Wales met the EC directive's 'imperative standards' in 2006.</p> <p>However, compliance with the stricter 'guideline standards' fell from 85.2 per cent in 2005 to 81.1 per cent in 2006.</p> <p>There is variation every year, and during the 2006 bathing water season there was significantly higher than average rainfall, which meant more pollution was washed off land and was discharged from storm sewer overflows into rivers and coastal waters.</p> <p>Work is in hand to further improve bathing water quality through planned improvements and investigations funded by the water industry up to 2007, and through initiatives to tackle diffuse pollution from agriculture through the Catchment Sensitive Farming Delivery Initiative.</p>
<p>Water companies deliver planned improvements (the National Environment Programme) agreed through the periodic review of water companies' prices (PR04):</p> <ul style="list-style-type: none"> <li>- In 2006-07 work with the water companies to ensure they: <ul style="list-style-type: none"> <li>- Deliver at least 660 improvement schemes;</li> <li>- Complete at least 320 investigations.</li> </ul> </li> </ul>		<p>Water companies in England and Wales are on track to deliver commitments agreed through the periodic review via their Asset Management Plan (AMP4) programme. Most exceeded their planned obligations in 2005-06 and 2006-07.</p> <p>In 2006-07, water companies delivered 658 schemes. This is more than the target of 645. (The target was updated to reflect agreed changes to the programme). The exception is United Utilities who delivered only 10 schemes out of 24.</p> <p>The performance of water companies for investigations is disappointing. In 2006-07 they completed only 234 out of 289. (Again the target reflects agreed changes to the programme). We need to ensure that all AMP4 investigations due by March 2007 are completed as soon as possible in 2007-08.</p>
<p>Delivery of key milestones in the Water Framework Directive programme:</p> <ol style="list-style-type: none"> <li>a. River Basin Management Plans (RBMPs)</li> <li>b. Groundwater Daughter Directive (preparatory work for implementation, including quality standards)</li> <li>c. WFD Classification</li> <li>d. River Basin Characterisation in conjunction with Hydromorphology project</li> </ol>		<p>The UK has delivered all statutory requirements for the Water Framework Directive on time or ahead of time.</p> <ol style="list-style-type: none"> <li>a) Templates and mock-ups of draft and first RBMPs documents are being developed for internal and external approval. Work is progressing on the components of the underlying River Basin Planning process, which will supply information to populate these documents.</li> <li>b) The Groundwater Daughter Directive ("Directive on the protection of groundwater against pollution and deterioration") was published on the 22 November 2006.</li> </ol>





<p>e. Monitoring &amp; EA Guidance Development</p>		<p>c) Classification tools and method for the first cycle expected by end of September 2007.  d) 24 risk assessments (RAs) have been updated and four new ones developed following comments received by internal and external stakeholders from the Article 5 characterisation consultation. These revised RAs will be reviewed by regions and will be published for external review later in the 2007 prior to their use in the River Basin Plan (RBP) process.  e.) The monitoring network has been agreed by Defra and Welsh Assembly Government officials. Implementation of the monitoring work went live within operational Regions and Areas from January 2007.</p>
<p>Increase the number of Catchment Abstraction Management Strategies (CAMS) published:  – Complete the first cycle of CAMS (119 in total by 2008) and publish a cumulative total of 97 CAMS (subsequently modified to 95) by the end of 2006-07.</p>		<p>We are on target to complete the full first cycle of CAMS covering all of England and Wales by March 2008. At the end of 2006-07 a total of 94 CAMS had been published, just one less than the anticipated target. CAMS completed in the year include those covering the Upper Lee (Thames), the Welland (Anglian), the New Forest (Southern) and the Taff and Ely (Wales).</p>
<p>Increase the number of Restoring Sustainable Abstraction (RSA) schemes completed.</p>		<p>We have made considerable progress through the Habitats Directive Review of Consents process in understanding where we need to modify or revoke water abstraction licences at sites where abstraction of water appears to be causing environmental problems. During the year we completed 133 investigations against a target of 76.</p> <p>Once we have identified issues through the Review of Consents process, delivering solutions will be reliant on identifying a funding mechanism for any potential compensation claims relating to revoked or amended licences. We had hoped to see the implementation of solutions at eight sites in 2006-07. But despite our continued efforts to progress our suggestion to use the next periodic review (PR09) of water company prices to fund changes to some water company licences, we still have no clarity on a funding mechanism. When the outcome of these discussions is known we will be able to consult on proposals to recover the costs of funding changes to non water company abstractions from our national abstraction charges scheme.</p> <p>Until both these stages are completed we can not progress to delivering any sustainable solutions to issues identified in the RSA process.</p>




## Restored, protected land with healthier soils

Success measure / Key target for 2006-07		Progress
<p>More rural land is covered by environmental agreements that protect soil and water:</p> <ul style="list-style-type: none"> <li>- A minimum of 40 per cent of farms in the Environmental Stewardship Entry Level (ELS) and Tir Cynnal schemes that undertake soil management options will be covered by environmental agreements that protect soil and water</li> </ul>		<p>In England, 58 per cent of ELS applications included one or more resource protection options. In Wales, 814 farmers applied to join Tir Cynnal via the 2006 Single Application Form (building on 3,361 applications in 2005); Tir Gofal has 2,806 agreements. This covers 322,907 hectares, which is 15% of the total land in Wales. All participants are required to complete a resource management plan to improve management of soil, manure, pesticide and sheep dip.</p> <p>We continue to influence the farming community to develop resource protection plans for soil and water. Intensive agriculture was brought under Integrated Pollution Prevention and Control (IPPC) in 2006-07 to protect the environment from large-scale pig and poultry farming activities. We have put a lot of effort into tailoring the application procedure and providing assistance for farmers to help them comply with the regulations.</p>
<p>More contaminated land is brought back into use:</p> <ul style="list-style-type: none"> <li>- Bring 2,400 hectares (Ha) of contaminated land back into beneficial use by 2008-09.</li> </ul>		<p>By the end of 2006-07 a total of 1,884 Ha of contaminated land had been brought back into beneficial use, on track for our 2008-09 target.</p> <p>Notable projects include the remediation of the 115 Ha Wath-upon-Deerne colliery site in the North East. Many smaller sized areas of contaminated land are also being bought back into beneficial use as a result of significant urban regeneration schemes, for example in Leeds, Wakefield and Sheffield. We are developing a consistent way of prioritising our involvement in contaminated sites (our responsibility is limited to 'special sites') to deliver the maximum environmental benefits with our resource. This involves taking a risk-based approach and providing guidance to others for managing sites outside our direct responsibility.</p>

**A 'greener' business world**



Success measure / Key target for 2006-07		Progress
<p>More companies we regulate under Pollution Prevention and Control (PPC) and Waste Management Licensing (WML) will have Environmental Management Systems (EMS):</p> <ul style="list-style-type: none"> <li>- Aim for a 5 per cent increase in the number of companies we regulate that have an EMS.</li> </ul>		<p>The total number of companies we regulate that have an EMS is 3,932, compared with 3,723 the previous year (a 5.6 per cent increase). Of these 1,848 were external accredited/ certified systems (5.7 per cent higher than the previous year). There is a general expectation in PPC that operators use a robust EMS. The charging scheme gives credit for having one, similarly for WML. There is also an expectation from many customers that their suppliers will possess good environmental credentials, and an EMS goes some way to prove that. All of these drivers encourage their take-up.</p>
<p>We reduce the number of businesses with higher risk OPRA scores:</p> <ul style="list-style-type: none"> <li>- In 2006-07 at least 75 per cent of all businesses we regulate under PPC will achieve OPRA scores in Band 'C' and above and less than 10 per cent will have OPRA scores in the highest risk category Band 'E'.</li> </ul> <p>(Note: OPRA – "Operator Pollution Risk and Appraisal" is a rating system for quantifying the environmental risk presented by a regulated process. 'A' represents the lowest risk and 'E' the highest risk).</p>		<p>95 per cent of businesses that we regulate under PPC achieved an OPRA score of Band "C" and above. Only 2 per cent of businesses had a score of "E."</p> <p>This has been achieved by effective regulation, including charging scheme incentives and the interventions of our field staff targeting efforts on poor performers.</p>
<p>There are fewer serious and significant (Category 1 and 2) pollution incidents:</p> <ul style="list-style-type: none"> <li>- In 2006-07 aim for a 5 per cent reduction (to no more than 940 incidents).</li> </ul>		<p>A total of 911 Category 1 and 2 incidents were recorded in the year, 8 per cent less than in the previous year. This is in part a reflection of our pollution prevention work targeting high-risk sectors and activities.</p>
<p>More regulated businesses comply with permit conditions.</p>	<p>N</p>	<p>In total there were 12 per cent fewer serious breaches of permit conditions compared with the previous year. The most serious transgressions - Category 1 - fell by 41 per cent from 267 to 157. Category 2 breaches were down by 8 per cent from 2,025 to 1,857.</p>
<p>Our compliance activity is focused where needed:</p> <ul style="list-style-type: none"> <li>- In 2006-07 aim to spend a minimum of 25 per cent of our total compliance assessment activity on programmed major audits.</li> </ul>		<p>By the close of 2006-07 we achieved our target to focus 25 per cent of our compliance activity on major audits for sites which come under PPC regulation.</p> <p>As part of our Modern Regulation Programme, which is about using risk assessment to identify and tackle the highest risks to the environment, we have modernised the way in which carry out compliance assessment, focusing effort on those sites which may perform poorly or operate illegally.</p>

<p>We identify and reduce illegal waste sites:</p> <ul style="list-style-type: none"> <li>- In 2006-07 aim for a 10 per cent reduction in the number of illegal sites.</li> </ul>	<p>N</p>	<p>An assessment of illegal waste sites across England and Wales highlighted that at the end of 2005-06 there were significantly more sites in operation than we were aware of when we developed our plan. Based on this new information we established a baseline of 1,277 sites and committed to reduce this by 10 per cent over 2006-07.</p> <p>By the end of the year, we had exceeded our target and had closed or brought into compliance more than 30 per cent of these sites. We are carrying out a detailed review of this data and plan to make a fuller report available in due course.</p> <p>Success can be attributed to a number of factors and in particular the establishment of specialist environmental crime teams who have focussed attention on tackling illegal waste sites, using their expertise in surveillance and intelligence gathering to identify offenders and take effective action against them.</p>
<p>We are successful in taking action against those who damage the environment.</p>	<p>N</p>	<p>The number of prosecutions we took reduced from 880 in 2005-06 to 736 in 2006-07, but this reflects the fall in the numbers of serious incidents and breaches. Total fines and the average level of fines increased indicating our concentration on more serious offending. This is also demonstrated by the increase in fines above £5,000 and £10,000. The number and length of custodial sentences imposed is also an indication of the serious nature of some environmental offending. Two such sentences have been for periods of 16 months.</p>
<p>We reduce our own environmental footprint:</p> <ul style="list-style-type: none"> <li>- In 2006-07 meet our targets for mileage emissions, energy use, water use and waste production.</li> </ul>	<p></p>	<p>We reduced our energy use to our lowest level at 2,712kWh / FTE (Full Time Equivalent employee). We reduced our water use to 4.45m<sup>3</sup> / FTE. We generated our lowest level of office waste, sending just 14.9kg/FTE to landfill.</p> <p>We have reduced emissions from our business mileage by 55 per cent since 2001-02. To do this we have greened our business fleet by choosing those vehicles with the lowest emission scores and we are driving less miles than we drove in 2001-02 even though we have had a large increase in new duties since that time.</p> <p>Our investment strategy for our pensions fund requires fund managers to take account of material environmental risks and opportunities (for example, climate change) in their investment process to manage our £1.5 billion fund. This has been recognised over the last two years by the receipt of 6 awards for excellence in responsible investment.</p>


**Wiser, sustainable use of natural resources**







Success measure / Key target for 2006-07		Progress
<p>Reduction in waste disposal from industries we regulate under PPC:</p> <ul style="list-style-type: none"> <li>- In 2006-07 aim for a 3 per cent reduction (to no more than 7,085 kilo tonnes).</li> </ul> <p>Increase in waste recovery or reuse from industries we regulate under PPC:</p> <ul style="list-style-type: none"> <li>- In 2006-07 aim for a 3 per cent increase (to at least 11,036 kilo tonnes)</li> </ul>	<div style="background-color: red; color: white; width: 20px; height: 20px; margin: 0 auto; display: flex; align-items: center; justify-content: center;"> <span style="font-size: 12px;">×</span> </div>	<p>Total waste disposal amounted to 8,146 kilo tonnes.</p> <p>Some 75 per cent of the increase in waste disposal is attributable to the Fuel and Power Sector and the increased utilisation of coal-fired power stations with a consequent increase in ash. The next largest increase is due to the inclusion of the Food and Drink Sector. If these two sectors are excluded then year-on-year waste disposal hardly changes (just a 0.2 per cent reduction).</p> <p>Total waste recovery or reuse amounted to 9,129 kilo tonnes.</p> <p>The reduction in waste recovery is mainly attributable to the Fuel and Power sector and the reclassification of gypsum from waste to product (it is no longer reported as recovered waste). If this sector is excluded, waste recovery increased by 7.8 per cent. In addition, the data includes the first year of reporting from the Food and Drink sector. If this sector is also excluded then waste recovery year-on-year shows a small (0.8 per cent) increase.</p>
<p>Water supply and demand is properly managed:</p> <ul style="list-style-type: none"> <li>- Minimise the population in Water Company supply zones that have a deficit in their supply/demand balance for normal and dry years.</li> </ul>		<p>We are tasked by Government to audit water companies' water resource plans. Through this exercise we ensure they have appropriate supply/demand balances for each of their supply zones.</p> <p>We are currently analysing the water companies' returns for 2006-07 and will publish our detailed findings later in the year. Our preliminary assessment suggests that up to nine companies may have unplanned supply deficits. These are relatively minor but we would be concerned if there were further slippage against their plans to ensure secure supplies to their customers. We will work closely with the companies to understand the reasons for the slippage.</p>

## Limiting and adapting to climate change

Success measure / Key target for 2006-07		Progress
<p>Reduction in Global warming Potential (GWP) from processes we regulate to help meet the UK's Kyoto commitment to reduce levels by 12.5 per cent below 1990 levels between 2008 and 2012:</p> <ul style="list-style-type: none"> <li>- In 2006-07 aim for releases of greenhouse gases to total no more than 277 million tonnes.</li> </ul>		<p>Greenhouse gas emissions in 2006-07 from processes we regulate amounted to 256 million tonnes, which is better than target and about 17 per cent below the estimated 1990 release.</p> <p>Within this total, emissions of carbon dioxide (CO<sub>2</sub>) increased slightly from 237.4 million tonnes in 2005-06 to 238.7million tonnes in 2006-07. However they are approximately 11 per cent less than the estimated 1990 release.</p> <p>Power stations, refineries and iron and steel facilities all released significantly more CO<sub>2</sub> emissions than in 2005. These and the majority (88 per cent) of emissions came within the EU Emissions Trading Scheme (ETS) from 2005. This is a market mechanism where installations are required to purchase CO<sub>2</sub> allowances if they fail to meet their cap. Emission reductions occur in the EU where they are cheapest and so are dependent on their carbon price. The Environment Agency has no scope to seek reductions beyond the trading scheme.</p>
<p>Our policies and processes are adapted to take account of climate change:</p> <ul style="list-style-type: none"> <li>- In 2006-07 increase the number of Environment Agency priority Functions to 5 out of 7 business units that have action plans developed and integrated into their business plans as part of an adaptation strategy to cope with the impacts of climate change.</li> </ul>		<p>Good progress has been made to incorporate adaptive action into business plans. Key areas such as Flood Risk Management, Water Resources, Waste Regulation and Land Quality continue to invest time and expertise into developing their response to climate change impacts. Work on integrating adaptive action into our Conservation work and the implementation of the Water Framework Directive is progressing though has not yet reached a stage where firm plans can be set out. This is partly due to the complex nature of our role in the former and the breadth of the subject area in the latter.</p>



## Managing flood risk

Success measure / Key target for 2006-07		Progress
<p>We successfully influence planning decisions in relation to development in the floodplain:</p> <ul style="list-style-type: none"> <li>- In 2006-07 at least 85 per cent of our objections to inappropriate development will be upheld by planning authorities.</li> </ul>		<p>90 per cent of our objections were taken on board by local authorities in their decisions in 2006-07, up from 86 per cent in the previous year.</p> <p>We influenced developers and planners in their decision-making by communicating the realities of flood risk. We ensured that land allocation decisions take account of flood risk and that developments where possible reduce rather than increase flood risk.</p>

<p>More properties in the floodplain (extreme flood outline) are offered an appropriate flood warning service:</p> <ul style="list-style-type: none"> <li>– In 2006/07 aim to extend coverage to at least 900,000 properties.</li> </ul>		<p>We have extended the numbers of properties offered a service to over 1 million properties for the first time.</p> <p>Around 300,000 of the million properties are registered on our recently developed Flood Warning Direct system which is unique in the world. We have concentrated efforts on high-risk areas and are beginning to focus on the least self-sufficient people including the disabled, elderly and long-term sick.</p>
<p>More people respond to flooding based on our advice:</p> <ul style="list-style-type: none"> <li>– In 2006-07 aim for 75 per cent of people to take appropriate action following the issue of a flood warning.</li> </ul>		<p>We exceeded our target with a total of 78 per cent of people taking appropriate action as measured by our “Response to Flooding “ survey conducted this year.</p>
<p>More houses are protected from flooding:</p> <ul style="list-style-type: none"> <li>– In 2006-07 provide protection from flood risk for an additional 30,000 houses in England and 1,000 houses in Wales.</li> </ul>		<p>Flood risk was reduced for an additional 28,260 houses in England and 699 houses in Wales. This is a little below the total target for the year, in part due to external factors such as adverse weather conditions delaying construction plans. However, no adverse impact on local communities resulted as a consequence of not completing all planned works.</p> <p>In England a cumulative total of 80,890 houses has been protected since April 2005 and we remain confident to achieve our aim agreed at the last Spending Review to protect at least 85,000 additional properties by April 2008.</p> <p>Schemes completed during the year include those at Clevedon in North Somerset protecting almost 5,000 homes from coastal flooding; and in St Clears and Glynneath in South Wales, which improved protection for around 650 properties.</p>
<p>More flood risk management systems are at or above the target condition:</p> <ul style="list-style-type: none"> <li>– In 2006-07 aim to have at least 63 per cent of flood systems in the condition required by the performance specifications.</li> </ul>		<p>Flood risk management systems comprise Environment Agency assets and third parties’ that together provide protection to a flood risk area. Overall, 57 per cent of flood risk systems met their target condition including third party assets. However, 92 per cent of Environment Agency owned or maintained structures and defences are assessed to be in fair or better condition.</p>
<p>More new Biodiversity Action Plan (BAP) habitats are created:</p> <ul style="list-style-type: none"> <li>– In 2006-07 create at least 225 hectares (Ha) of new BAP habitats, as a result of our flood management activities, of which at least 100 Ha should be saltmarsh and mudflat.</li> </ul>		<p>A net total of 434 Ha of BAP habitat gain was delivered through our flood risk work in 2006-07. Of this total, 302 Ha was delivered by the Alkborough Flats managed realignment project. Other key projects included those at Treraven Meadows, Cerig y Gwaennydd (Harlech), Lepe, Darwen Moor, Slimbridge and Wicken Fen.</p>
<p>We deliver our flood risk management programme.</p>		<p>We met our targets for both capital and revenue expenditure, with a small overspend (less than 1 per cent of budget) at year-end.</p>

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

### Modernising regulation

Success measure / Key target for 2006-07		Progress
<p>We deliver permits more quickly:</p> <ul style="list-style-type: none"> <li>– In 2006-07 aim to determine a minimum of 75 per cent of applications for a PPC permit within the target time.</li> </ul>		<p>We met our targets for both Pollution Prevention and Control (PPC) waste and for PPC non-waste permitting with 87 per cent of permits determined within target time.</p> <p>Building on the reorganisation of our processes for determining permits, including the establishment of a central permitting team, we carried out a review of forms and guidance aimed at reducing the time it takes our customers to provide us with the information required when applying for a permit.</p>
<p>We reduce the administrative burden that we place on business.</p>		<p>We have contributed significantly to the government-wide exercise to measure the administrative burdens of regulations and to Defra's Simplification Plan (Joint Defra, EA and Welsh Assembly Government initiative). The plan sets out measures to achieve a 25 per cent reduction in the administrative burdens faced by business by 2009.</p> <p>We have delivered over £8 million in administrative burden savings to business from initiatives undertaken in 2005-06 and 2006-07, against a target of £5 million. These include:</p> <ul style="list-style-type: none"> <li>▪ Tracking movements of hazardous wastes (£2.1m pa)</li> <li>▪ Simplifying implementation of Waste Packaging Regulations (£1.0m pa)</li> <li>▪ Use of 'NetRegs' compliance self-assessment tool (£0.7m costs avoided)</li> <li>▪ Review of IPPC process: pigs &amp; poultry (£2.1m one-off costs avoided)</li> <li>▪ Simplifying licensing of landfill gas engines (£0.8m one-off saving)</li> <li>▪ Developing End of Waste protocols (£0.5m pa)</li> <li>▪ Core Regulation including online notifications &amp; registrations (£0.5m pa)</li> <li>▪ Simplifying reviews for nuclear licensed sites (£0.4m pa)</li> </ul> <p>We established a Regulatory Scrutiny Panel to provide governance and scrutiny over our regulatory activities to ensure we are delivering simpler processes with reductions in administrative burdens. We also launched a web-based suggestion scheme inviting business to send us their ideas for simplification.</p>

Our policies and procedures meet quality criteria: – 80 per cent meet required standards.	✓	Of the 18 of our policies that were assessed 16 (89 per cent) passed.
We are trusted with new duties: – 10 out of 10 milestones delivered.	✓	We achieved all of the milestones for the new duties that we have been tracking.

### Sharpening efficiency

Success measure / Key target for 2006-07		Progress
We are more efficient: – Achieve efficiency savings of at least £25 million in 2006-07	✓	We delivered in excess of £27 million savings.  We have benchmarked our activities, both internally and externally, to identify areas for potential improvement and savings and, where appropriate, are re-engineering our processes to make them more streamlined and cost-effective. We have also developed and implemented a revised 'Improvement Cycle' to improve programme and project management within our organisation.

### Driving performance

Success measure / Key target for 2006-07		Progress
Develop and improve the use of our management information systems to help drive better performance.		We have seen year-on-year improvement in corporate performance against Corporate Scorecard measures, which has been driven by regular management review. We have extended the 'balanced scorecard' as a performance management tool to more parts of our business and have trained staff in business planning and performance management. We have used zero-based planning techniques to review areas of our business and activity-based costing data has been used to inform our process re-engineering work programme.

### Communicating and influencing

Success measure / Key target for 2006-07		Progress
We successfully influence key audiences around priority issues: – In 2006-07 aim to meet 90 per cent of success criteria for key communications programmes and campaigns.	✓	We have influenced a number of key audiences. For example, farmers' awareness of new agricultural waste regulations has increased from 17 per cent in 2004 to 55 per cent in 2007. Once prompted, 93 per cent now say they are aware of the new regulations. There was also a 96 per cent increase in the numbers of people signing up



		for our new 'Flood Warnings Direct' service in 2006.
<p>Our customers say we are providing a good service:</p> <ul style="list-style-type: none"> <li>- In 2006-07 aim for an overall score of 6.5 out of 10 awarded by corporate customers (ie businesses holding Environment Agency permits) for the quality of our service.</li> </ul>	✓	<p>Customer satisfaction is meeting the target. There has been considerable work in the latter part of the year in developing our Leadership Group's customer focus and producing guidance for all staff on knowing and responding to our customers.</p> <p>What businesses think of us:</p> <ul style="list-style-type: none"> <li>▪ 72 per cent agree we are a tough but fair regulator;</li> <li>▪ 79 per cent agree they can trust what we say;</li> <li>▪ 75 per cent agree we provide helpful advice to improve their compliance and environmental performance.</li> </ul>
<p>We effectively deliver priority communications programmes and campaigns:</p> <ul style="list-style-type: none"> <li>- In 2006-07 aim to meet 90 per cent of our milestones.</li> </ul>	✓	<p>The success of our priority communications programmes and campaigns resulted partly from ensuring that most of the key products were well planned and delivered to time, cost and quality. Milestones included implementing a new campaign strategy for World Environment Day and completing market research to measure the effectiveness of our communications in waste and agriculture and the effectiveness of our Flood Awareness campaign.</p>
<p>We respond to planning enquiries on time:</p> <ul style="list-style-type: none"> <li>- In 2006-07 aim to respond to a minimum of 78 per cent of planning consultations within the target time.</li> </ul>	✓	<p>We provided a considered response to 11,237 planning applications, scrutinising the environmental impact of proposed development. 88 per cent of our responses were made within the 21-day turnaround time. This compares with 64 per cent in 2005-06.</p>
<p>Key stakeholders agree we are good at working with them towards shared goals.</p>		<p>We did not complete our stakeholder survey in 2006-07 due to budget cuts. We plan to undertake the survey in 2007-08.</p>
<p>We receive positive media coverage and are seen at the forefront of environmental debate.</p>	✓	<p>Media coverage has been widespread particularly in relation to flooding, water shortages, budget cuts and disposal of waste.</p> <p>Positive coverage focussed on improving rivers and waterways, creating fish passes and improving fish stocks and taking enforcement action against companies for pollution offences.</p>

### Developing people

Success measure / Key target for 2006-07		Progress
<p>We provide a safe place to work:</p> <ul style="list-style-type: none"> <li>- In 2006-07 aim for no more than 81 lost time incidents.</li> </ul>	✓	<p>The number of lost time incidents fell to 73, compared to 103 the previous year.</p>
<p>Our workforce is more diverse:</p> <ul style="list-style-type: none"> <li>- In 2006-07 increase the number of employees from Black and Minority Ethnic (BME) groups.</li> </ul>	✓	<p>At the beginning of 2005 only 1.6 per cent of our workforce were from BME groups. Through a proactive recruitment strategy we have increased the number of our employees from BME groups</p>

		by one-third and BME employees now make up 2.7 percent of our workforce. In 2006-07 we recruited 109 BME starters against a target of 94. The net increase (allowing for starter and leavers) for the year was 54, which, although lower than our aspirational target of 80, is nevertheless our highest annual increase to date.
We achieve the right balance of resources: – In 2006-07 aim to achieve a staff turnover rate in the range of 7-11 per cent.	✓	The turnover rate for our workforce in total was 7.8 per cent.
We have workforce plans in place.	✓	Workforce planning has become an integral part of our resource planning activity, with plans now in place for many business units. This will continue as additional parts of the business define their requirements. Our Strategic Resourcing section will continue to work with business units to improve the content and quality of these plans.
Leadership Group attendance at Leadership Programme: – In 2006-07 aim to achieve 95 per cent Leadership Group attendance at our Leadership Programme.	↔	We achieved 94 per cent attendance of the first three modules of the Leadership Programme in 2006-07 (324 attendances out of a possible 344). The fourth module will be completed in June 2008.

### Funding targets

Success measure / Key target for 2006-07		Progress
We secure the funding necessary to deliver our objectives.	✗	Grant-in-aid which we receive from Defra was reduced in 2006-07 initially by about £4 million and subsequently by a further £24 million as a result of budget difficulties within Defra. Our Corporate Plan took account of the first round cut but had already been finalised when the second larger cut was announced. The unexpected reduction in funding has meant a reduction in and postponement of some work, which we had planned to progress in 2006-07 but we have sought to minimise the impacts.  The level of Grant-in-aid from the Welsh Assembly Government was maintained.  By the close of the year we had secured income of £8 million (0.8 per cent) above the revised/reduced budget level.
Our expenditure is in accordance with our plans: – Expenditure is delivered within agreed operating budgets.	✓	Total annual expenditure was managed to within 0.5 per cent of budget (£5 million above).

**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED**  
**31 MARCH 2007**

**CONTENTS**

I	Foreword
II	Report of the Remuneration Committee
III	Statement of the Environment Agency's and Chief Executive's Responsibilities
IV	Accounting Officer's Statement on Internal Control
V	Auditor's Certificate and Report
VI	Income and Expenditure Account
VII	Balance Sheet
VIII	Cash Flow Statement
IX	Notes to the Financial Statements
X	Supporting Statements

## I FOREWORD

### HISTORY AND STATUTORY BACKGROUND OF THE ENVIRONMENT AGENCY

The Environment Agency was established on 8 August 1995 following Royal Assent for the Environment Act 1995. It took up its 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 and several smaller units of the Department of the Environment (DoE) were transferred to it. Its powers and duties relate to environmental protection, flood defence, water resources, fisheries, recreation, conservation and navigation.

The Environment Agency is a non-departmental public body and in 2006-07 its 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 policy on all its functions in England. The Welsh Assembly Government is responsible for the policy and oversight of all of the Environment Agency's functions discharged in Wales. The Environment Agency operates under a Financial Memorandum issued by Defra.

Flood risk management activities in England and Wales are mainly funded through grant-in-aid in England. Local authorities provide local levies to pay for local priorities not covered by the nationally agreed programme.

Expenditure on the water resources function is funded entirely through charges to customers. The Environment Agency's remaining functions, relating to environmental protection, fisheries, recreation, conservation and navigation, receive their funding predominantly through fees for licences, authorisations, registrations and consents, supplemented by grant-in-aid from Defra and WAG (for functions in Wales only).

### PREPARATION OF ACCOUNTS

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

### RESULTS

The Environment Agency had an operating deficit from continuing activities for the year of £674.3m. Interest receivable of £5.6m, income from the sale of assets of £3.0m, financing income on pension scheme assets and liabilities of £8.1m, transfers of £10.5m from capital reserve and £44.0m from pensions reserve, resulted in a retained deficit of £603.1m transferred to the income and expenditure reserve. The deficit is a result of applying the new requirements of the Government Reporting Manual which requires non-departmental public bodies (NDPBs) to account for grants and grant-in-aid received for revenue purposes as financing because they are regarded as contributions from a controlling party which gives rise to a financial interest in the residual interest of NDPBs.

This is a change in accounting policy from earlier periods when government grant-in-aid was recorded as income in the income and expenditure account. Grant-in-aid received in year amounted to £603.1m, matching the retained deficit for the year. If the grant-in-aid received had been included in the income and expenditure account, the retained deficit after reserve transfer would have been reduced to £0.

### REVIEW OF ACTIVITIES

#### Water Resources

The Environment Agency is required to ensure that, taking one year with another, income from abstraction charges equals expenditure (including current cost depreciation, a rate of return of 3.5 per cent on the net current cost value of assets transferred to the former NRA on 1 September 1989 and on such assets acquired since then). Cash surpluses at the year-end can be carried forward only to the extent that they cover net repayments due to abstractors, short term creditors and accrued liabilities. All other cash surpluses have to be offset, in the first instance, against the grant-in-aid requirements of the environmental protection, recreation, conservation and navigation functions. Any surpluses still remaining are offset against the grant-in-aid requirements of the fisheries function.

Income exceeded expenditure from abstraction charges on the Water Resource function in the year by £0.2m. This in year profit reduces the deficit balance accumulated to the end of 2005-06 to £0.7m to be carried forward into 2007-08.

### Grant-aided Functions

The principal financial duty for each of the grant-aided functions is to balance cash income and grant-in-aid funding with expenditure in each financial year. Surplus grant-in-aid can be carried forward by the Environment Agency from one financial year to the next provided it does not exceed 2 per cent of the total grant-in-aid provision, as approved by Parliament or Welsh Ministers. Any amount in excess of 2 per cent is taken into account in the payment of the following year's grant-in-aid. In Wales 5 per cent can be carried forward for flood risk activities as provided for in Schedule 9A to the Financial Memorandum. As regards environmental protection specifically, the Environment Agency has to ensure that, taking one year with another, income from applicants for and holders of consents, licences and authorisations equals expenditure (including current cost depreciation and a 3.5% rate of return on relevant assets) incurred in connection with the granting and subsistence of such consents, licences and authorisations. Any cash surpluses arising on monitoring and consenting are treated in the same way as those arising on the water resources function.

Although the financial statements are prepared on an accruals basis, financial performance on grant-aided functions has to be measured in cash accounting terms for the purpose of assessing compliance with the financial duties laid down in the Financial Memorandum.

The following table, derived from the analysis of receipts and payments, summarises the position on grant-aided functions on a cash basis:

	Payments £'m	Operating Receipts £'m	Grant-in-aid Requirement £'m
Environmental protection	323.2	202.1	121.1
Fisheries	28.6	22.7	5.9
Recreation & Conservation	7.4	0.5	6.9
Navigation	17.6	6.8	10.8
Flood Risk Management	504.5	59.4	445.1
Sub-total	881.3	291.5	589.8
Unfunded pensions	12.3	-	12.3
Total	893.6	291.5	602.1

Interest receivable on water resources function was classified as revenue rather than negative public expenditure. As a consequence receipts from this source (£1.0m) were surrendered to the Consolidated Fund and the Environment Agency received equivalent amounts of grant-in-aid from Defra.

### Environmental Protection

Under the accruals convention, income within the Environmental Protection function exceeded expenditure from monitoring and consenting by £0.6m. As a consequence, this in-year surplus decreased the accumulated deficit of £5.8m brought forward from 2005-06 to £5.2m at the end of 2006-07.

### Flood Risk Management

The Environment Agency is required to break even, taking one year with another, on income and expenditure.

The consolidated flood defence account comprises the individual accounts of Flood Defence Committees through which the Environment Agency, in accordance with Section 14 of the Environment Act 1995, arranges to carry out its flood risk management activities. Funding comes principally in the form of grant-in-aid (£419.2m). Funding from levies on constituent local authorities, which have representatives on each Committee, amounted to £21.9m. The Environment Agency received grant-in-aid of £26.0m from the Welsh Assembly Government towards the costs of projects in Wales.

During 2006-07, the Environment Agency continued progress in optimising the delivery of capital construction projects through management of its national capital programme service. The service's aims are to achieve efficiencies and improve value for money for flood defence and other capital procurement, deliver the capital programme to the required standard, quality and timescale, and to use all capital flood defence funding effectively.

### **Fixed Assets**

The movements in fixed assets during the year are set out in Note 7 to the financial statements. They derive mainly from planned acquisitions of assets and the annual revaluation to replacement value. Review of asset records, physical verifications and revaluations are the means by which the Environment Agency identifies impairments of fixed assets and complies with FRS 11, Impairment of Fixed Assets and Goodwill.

### **CORPORATE GOVERNANCE MATTERS**

The Environment Agency aims for the highest standards in corporate governance. The Environment Agency has throughout the year had risk management and review processes in place so as to be able to review the effectiveness of the Environment Agency's system of internal control. The Environment Agency has prepared a statement on internal control for 2006-07, which has reflected that the Environment Agency is compliant with HM Treasury Guidance and Turnbull guidance on internal control. The Accounting Officer has provided the statement required by this guidance in Section IV.

### **Board Composition and Executive Directors**

Particulars of Board members are available on the Environment Agency's Internet site and are recorded in Section II.

The Accounting Officer of Defra designated the Chief Executive as the Environment Agency's Accounting Officer. On 31 March 2007, the Board comprised twelve non-executive members, the Chairman and Chief Executive. Members of the Board were appointed by the Secretary of State for Environment, Food and Rural Affairs and the Welsh Ministers, except for the Chief Executive who is appointed by the Board with the approval of the Minister. The normal term of office for a non-executive Board member is three years, although lengths of appointments may be varied to ensure continuity of Board membership. The Environment Agency has seven executive directors, who are not members of the Board. Where the financial statements are required by the Companies Act to disclose information concerning "directors", the Accounts Direction requires the requisite information to be disclosed in respect of Board members, including the Chief Executive, and also the other executive directors.

The Board met in formal session six times in the year ended 31 March 2007. It is accountable to the Secretary of State for every aspect of the operation of the Environment Agency in England and Welsh Ministers for its activities in Wales. The Environment Agency's scheme of delegation sets out matters which require specific Board approval. In addition, the Board has three statutory committees: Audit & Risk Committee, Pensions Committee, and Remuneration Committee; and five advisory groups on Agriculture & Countryside, Industry, Resources, Water & Flood Risk Management and Urban Environment. The Flood Defence Finance Committee which is also a sub-group of the Board is responsible for advising the Board on allocation of Flood Defence grant-in-aid to Regional Flood Defence Committees.

The Board has approved a Code of Best Practice for Board members of the Environment Agency, based on the Cabinet Office's model code. A register of Board members' interests is updated twice a year and maintained at the Environment Agency's London Head Office and is readily available for inspection.

### **Board Committees**

The Audit & Risk Committee comprises five Board members and is currently chaired by Mr Peter Bye meets quarterly and its principal aims are the review of standards of internal control and financial reporting within the Environment Agency and the consideration of the annual report and accounts of the Environment Agency and its pension funds. 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 Internal and External Audit.

The Pensions' Committee comprises five Board members, the Chief Executive, four Environment Agency executives, and six representatives of the members of the Environment Agency Pension Scheme. It is currently chaired by Mr John Edmonds. The Environment Agency has responsibility for administering the scheme and also for a residual fund for employees of the former water authorities and associated bodies. The Pensions' Committee considers pension matters on the Environment Agency's behalf.

A separate report of the Remuneration Committee is given in Section II.

## **RESEARCH AND DEVELOPMENT**

The Environment Agency has a research and development programme covering the full range of the Environment Agency's scientific and technical functions across environmental protection, water management and environmental strategy. The overall purpose of the programme is to make the Environment Agency more efficient and effective in its business, and to innovate and be proactive with regard to the problems it has to tackle, the advice it gives, and the changing statutory framework within which it operates. Expenditure on Research and Development is written off in the year and amounts to £7.1m.

## **EMPLOYEES**

The Environment Agency's policy is to ensure that all employees are actively supported in giving their best contribution to the Environment Agency's aims. This involves attracting people from all spheres, valuing the differing skills and abilities of all employees and responding flexibly to the needs of individuals in achieving organisational 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.

The Environment Agency ensures that it has fair employment terms for its staff. Employment handbooks set out formal policies on key issues such as equal opportunities, disciplinary and grievance procedures, sexual and racial harassment. The Environment Agency has national and regional joint committees for consultation and negotiation with industrial and non-industrial employees. The committees are also the means of keeping employees' representatives informed of developments affecting employment with the Environment Agency.

The Director of Human Resources is responsible for overseeing employment standards and implementing best practice employment policies throughout the Environment Agency.

## **HEALTH & SAFETY POLICY STATEMENT**

The Environment Agency is committed to conducting its business in a manner that protects the health and safety of our employees, contractors and the public. In addition to complying strictly with the health and safety measures required by legislation, it is the Environment Agency's policy to promote and take all reasonably practicable steps to safeguard the health, safety and welfare of its employees and others who may be affected by its actions.

To meet the requirements of this policy, the Environment Agency will work with all employees and strive for continuous improvement in health and safety performance. The Environment Agency will operate an integrated, structured, and documented system of management control over its operations.

The Environment Agency will provide information to ensure appropriate consultation with health and safety representatives on matters relevant to this policy. We will discuss and exchange ideas relating to health and safety with our employees on a local basis and will, in addition, operate an organisation that maintains adequate communications and action in these matters.

Prime responsibility for these matters lies with individual employees. Directors, Regional Directors, Area Managers and all other managerial and supervisory staff equally have responsibility for matters within their control. They have a duty to ensure that health and safety issues are given the fullest consideration at all times, and for providing a safe and healthy working environment for their employees. The Director of Human Resources is directly accountable for monitoring and reporting on health and safety performance, and providing such advice as the organisation needs to maintain and improve its performance in this area.

In addition, all Environment Agency employees have a responsibility to themselves and others for safety and prevention of ill health at work. All employees must work together in a spirit of participation and co-operation to ensure the success of this policy and hence the maintenance of human health and well being while carrying out important work to protect and improve the environment.

## **INSURANCE**

Apart from statutory insurance requirements and certain risks covered with the approval of Defra, the Environment Agency follows a strategy of self-insurance in accordance with the Financial Memorandum.

## **CREDITOR PAYMENT POLICY AND STATISTICS**

The Environment Agency seeks 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 Treasury guidance. During the year the Environment Agency paid 95.8 per cent of invoices from supplier within 30 days of receipt and registration. Creditor days, calculated according to the formula in the Companies Act 1985 (Directors Report) (Statement of Payment Practice) Regulations 1997 (SI 1997/571), were 15.8 days for 2006-07 (13.5 days for 2005-06). The Environment Agency has complied with the Better Payment Practice Code.

## **ENVIRONMENTAL POLICY AND SOCIAL COMMUNITY STATEMENT**

The Environment Agency's primary aim is to protect and improve the environment and make a contribution towards the delivery of sustainable development through the integrated management of air, land and water. The Environment Agency will conduct its own activities and operations to reflect best environmental practice and implement an environmental management system to pursue sustainability and continual improvement. Whenever possible, social benefits will be provided to local communities within the work that the Environment Agency undertakes. This may take the form of leisure benefits as part of flood defence works, navigation capital expenditure and recreation expenditure.

The Environment Agency will:

- reduce energy and resource consumption by promoting effective and efficient reduction methods consistent with best practice;
- develop and implement green transport plans for business and commuter travel and utilise renewable energy to minimise the release of greenhouse gases; minimise the use of toxic materials and waste generated, and to prevent pollution;
- influence our suppliers and contractors to ensure that goods and services procured support our environmental policy and, in turn, encourage our suppliers and contractors to improve their own environmental performance;
- use environmental accounting tools to support the integration of environmental performance measures into core financial processes, and to track internal environmentally significant expenditure;
- report on environmental expenditure in our Annual Report and Accounts and Environmental Report; and
- seek to improve community facilities as part of capital works.

## **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 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. Environment Agency finance and other staff have been trained in the integrated use of financial and environmental data. We continue to work with Envirowise, the UK accounting bodies, and several hundred businesses developing and implementing good practice guidance to promote this. We have also built environmental accounting into our financial accounting system 1B1S and this helps develop what we do in the future.

In relation to the finance sector we have promoted the view that corporate environmental governance is good for business, and 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 transparent to shareholders, investors and insurers.



## FINANCIAL REPORTING IMPROVEMENTS

In 2004-05 we introduced a new financial reporting system using an Oracle computerised information system. The new systems have been used to enable ongoing improvements in financial control. During last year the consolidated reporting of the Agency's financial management information was improved. Financial information, in the form of monthly management accounts, is now available within seven working days of month end. This enables the Executive Directors of the Agency to take decisions in a more proactive manner, based on up to date financial information. It will also enable the Agency to meet tighter Defra targets for monthly financial information during 2007-08.

## PENSIONS

The Environment Agency is the statutory administering authority for the pension fund for new employees and transferees from predecessor bodies (the Environment Agency Active Fund, previously known as the NRA Active Fund) and also for a residual fund (the Environment Agency Closed Fund) which provides benefits to pensioners of the Foundation for Water Research, WRc plc, Water Services Association of England and Wales, Water Training international, the ten former Regional Water Authorities and the former British Water International. The funds are 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 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. Separate financial statements are maintained for the Active Fund and Closed Fund.

We are delighted to be able to report that we have now secured and begun to receive the on-going cash funding from Defra for the Closed Pension Fund to pay for the pension liabilities we inherited in 1996.

We are also pleased that our Active Pension Fund is amongst the most solvent funds in the Local Government Pension Scheme. This year we received two awards for our new investment strategy and innovative environmental overlay strategy. However, whilst our new fund managers achieved a healthy return in our investments in their second year of appointment, our actuary is advising us that our future liabilities are also rising and so employer contributions will need to be reviewed. Our formal actuarial valuation for March 2007 is now underway.

## CORPORATE RISKS

We run a business risk process that is embedded within our business unit management teams, and conforms to the highest standards of corporate governance. The process involves the assessment, prioritisation and management of the most significant business risks that could impact on the delivery of business unit objectives. Main business units are regions, areas, Corporate Information Systems, National Laboratory Service, and Head Office directorate management teams.

Likewise, our Directors Team are involved in a similar process, informed by key themes arising from business unit risk assessments. This leads to the identification of the key corporate risks to be managed during the year.

Our Directors Team identified the following significant risks to be managed by them in 2006-07:

- Efficiency
- Change involving information systems
- Cumulative impact of change
- Delivery of Modernising Regulation Programme
- Availability of right people/right skills
- Management of Stakeholder engagement
- Comprehensive Spending Review 2007
- Delivery of Water Framework Directive
- Potential drought
- Trade Union relationship

- Improving business planning review
- Living within the 2006-07 revised budget

Good progress was made against action plans to mitigate these risks. This progress was actively monitored by the Environment Agency's Directors Team, Audit and Risk Committee and the Board.

The risks selected by the Directors Team for 2007-08 include a number of risks carried forward from 2006-07 that still require further management, and to some extent different emphasis.

These topics include:

- Future funding
- Cumulative impact of change
- Efficiency
- Delivery of Modernising Regulation Change Programme
- Flood Risk Management delivery
- Management of Stakeholder Engagement
- Availability of right people

To those carried forward, a new risk was added:

- Impact of Government Policy Reviews and Government Change.

#### **CONTAMINATED ASSETS – Disclosure under FRS 12**

The Environment Agency has a property estate of some 15,300 hectares and 286 built properties. The March 2001 quinquennial property valuation identified a possible contingent liability of between £14m and £35m associated with potential historical contamination at 198 of our office and depot sites. Since then we have undertaken further work to investigate and assess this financial risk. In order to ensure that our investigations are justified, reasonable and cost effective we have developed a phased approach. The four phases are 1) desk study review 2) visual inspection 3) intrusive investigation and 4) remediation. This is in line with current best practice and the UK framework for risk assessment and risk management. Based on the investigations carried out so far the current liability figure has been reduced to between £0.8m and £2.2m. We are currently reviewing the work to be completed during 2007-08 on those sites remaining in the programme.

#### **AUDITOR**

The Comptroller and Auditor General, head of the National Audit Office is the statutory external auditor of the Environment Agency. The National Audit Office published "*Building and maintaining river and coastal flood defences in England*" (HC 528 2006-07) on 15 June 2007.

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 she ought to have taken to make herself aware of any relevant audit information and to establish that the Environment Agency's auditor is aware of that information.



**BARBARA YOUNG**  
**CHIEF EXECUTIVE AND ACCOUNTING OFFICER**  
**ON BEHALF OF THE ENVIRONMENT AGENCY**  
**11 July 2007**

## II REPORT OF THE REMUNERATION COMMITTEE

### Terms of Reference

The Remuneration Committee normally comprises five Board members and is chaired by the Chairman of the Environment Agency, Sir John Harman. 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 non-departmental public body, 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 annual statement of expenses incurred by Board members.

### Business Conducted in Year

The Remuneration Committee met six times during the year ended 31 March 2007. It agreed the bonuses of the executive directors for 2005-06 and the Chief Executive's appraisal for 2005-06, and objectives for 2006-07.

During the year, the Committee also:

- reviewed the Chief Executives new contract;
- discussed succession planning for the Directors Team;
- endorsed recommendations for the 2007-08 pay review; and
- discussed the Environment Agency's current approach to the reward strategy.

### 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.

## Environment Agency

### Board Members' Remunerations

The following table provides details of the appointment and emoluments of Board members (which are subject to audit):

Board Member	Date of Appointment or Re-appointment	Period of appointment (years)	Time commitment (days per month)	Remuneration in 2006-07 £	Remuneration in 2005-06 £
Sir John Harman	01 Jan 2004	4	3½ days per week	101,679	97,421
Mr James Braithwaite CBE (i)	01 July 2005	3	4½	17,421	11,434
Dr Andrew Brown (ii)	10 Oct 2006	3	5	9,384	-
Mr Peter Bye DL (iii)	01 Sept 2006	3	6	25,250	27,407
Mr Edward Cattle CBE DL (iv)	15 Sept 2003	(iv)	7	35,415	25,409
Mr John Edmonds (v)	01 June 2005	3	6½	24,757	22,848
Dr Ruth Hall (vi)	01 July 2005	3	6	24,750	11,434
Mr Peter Matthews (vii)	15 Sept 2003	3	7	12,904	25,409
Ms Sara Parkin OBE (viii)	15 Sept 2003	3	5	9,218	19,055
Mr Richard Percy (ix)	01 Nov 2006	3	6	23,610	21,596
Professor Donald Ritchie (x)	-	-	-	-	8,651
Mr Malcolm Smith	01 Sept 2004	3	7	26,681	26,676
Dr Lyndon Stanton	01 June 2005	3	6	23,615	22,871
Councillor Kay Twitchen (xi)	01 April 2007	3	6	21,970	17,763
Professor Lynda Warren (xii)	10 Oct 2003	3	7	14,596	26,681
Lady Suzanne Warner (xiii)	18 Sept 2006	3	4	8,431	-
Lord Larry Whitty (xiv)	18 Sept 2006	3	4½	9,484	-
Barbara Young (xv)	01 July 2005	8	Full Time	164,200	163,150
<b>Total</b>				<b>553,365</b>	<b>527,805</b>

Note: Board members have no entitlement to bonuses, performance related pay, pension contributions or other benefits.

- (i) Mr James Braithwaite time commitment changed from 4 to 4½ days per month from 01 Sept 2006.
- (ii) Dr Andrew Brown was appointed to the Board with effect from 10 October 2006.
- (iii) Mr Peter Bye was re-appointed to the Board for a further three years with effect from 01 September 2006.
- (iv) Mr Edward Cattle was appointed to the Board on 15 September 2003 for a period of 3 years. This has now been extended until 16 May 2008.
- (v) Mr John Edmonds time commitment changed from 6 to 6½ days per month from 1 September 2006.
- (vi) Dr Ruth Hall time commitment changed from 4 to 6 days per month from 01 September 2006.
- (vii) Mr Peter Matthews retired from the Board on 14 September 2006.
- (viii) Ms Sara Parkin retired from the Board on 14 September 2006
- (ix) Mr Richard Percy was re-appointed to the Board for a further three years with effect from 01 November 2006.
- (x) Professor Donald Ritchie retired from the Board on 30 June 2005.
- (xi) Councillor Kay Twitchen was re-appointed to the Board for a further three years with effect from 01 April 2007.
- (xii) Professor Lynda Warren retired from the Board on 9 October 2006.
- (xiii) Lady Suzanne Warner was appointed to the Board with effect on 18 September 2006.
- (xiv) Lord Larry Whitty was appointed to the Board with effect on 18 September 2006.
- (xv) Barbara Young's total emoluments are disclosed in the Executive Directors' table on pages 31 – 32.

## Executive Directors' Emoluments

The Environment Agency employs eight executive directors in addition to the Chief Executive. The following table provides details of their appointments and emoluments (which are subject to audit):

Executive Director	Date of Appointment	Total Emoluments 2006-07 (Range £'000)	Total Emoluments 2005-06 (Range £'000)
Barbara Young, Chief Executive	01 Jul 2005	220 – 225	215 – 225
Mr Chris Bale, (i) Director of Performance and Innovation	08 Sep 2003	165 – 170	135 – 170
Ms Patricia Henton, Director of Environmental Protection	07 Mar 2005	145 – 150	135 – 150
Mr Graham Ledward, Director of Human Resources	03 Jan 2006	150 – 155	300 – 350
Mr David King, Director of Water Management	08 Jul 2002	140 – 145	135 – 145
Dr Paul Leinster, Director of Operations	01 Mar 2004	200 – 205	160 – 205
Mrs Helen McCallum Director of Corporate Affairs	03 Jul 2001	135 – 140	130 – 140
Mr Ric Navarro, Director of Legal Services	08 Aug 1995	105 – 110	100 – 110
Mr Nigel Reader, Director of Finance	08 Aug 1995	145 – 150	140 – 150

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

(i) Mr Chris Bale tendered his resignation as Director of Performance and Innovation on 31 December 2006.

## Environment Agency

### Executive Directors' Emoluments

The Environment Agency employs eight executive directors in addition to the Chief Executive. The following table provides details of their appointments and emoluments (which are subject to audit):

Executive Director	Accrued Pension at 31/03/07 (Range £'000)	Increase in Accrued Pension During the Year (Range £'000)	Accrued Lump Sum at 31/03/06 (Range £'000)	Increase in Lump Sum During the Year (Range £'000)	CETV 31/03 £'000
Barbara Young Chief Executive	85 – 90	12.5 – 15.0	265 – 270	25.0 – 27.5	1
Mr Chris Bale Director of Performance and Innovation	30 – 35	7.5 – 10.0	100 – 105	15.0 – 17.5	
Ms Patricia Henton, Director of Environmental Protection	50 – 55	7.5 – 10.0	150 – 155	17.5 – 20.0	
Mr Graham Ledward, Director of Human Resources	30 – 35	2.5 – 5.0	100 – 105	2.5 – 5.0	
Mr David King, Director of Water Management	50 – 55	2.5 – 5.0	155 – 160	5.0 – 7.5	
Dr Paul Leinster, Director of Operations	60 – 65	17.5 – 20.0	170 – 175	32.5 – 35.0	
Mrs Helen McCallum Director of Corporate Affairs	55 – 60	2.5 – 5.0	165 – 170	7.5 – 10.0	
Mr Ric Navarro, Director of Legal Services	40 – 45	0 – 2.5	120 – 125	2.5 – 5.0	
Mr Nigel Reader, Director of Finance	60 – 65	2.5 – 5.0	185 – 190	7.5 - 10	

The Chief Executive's performance related pay is calculated by reference to the extent to which pre-determined objectives have been achieved, with a maximum value of 25 per cent of basic pay. The Chief Executive is an ordinary member of the Environment Agency's Active Fund pension scheme, and the Environment Agency pays employer's pension contributions into the Active Fund at the same rate as for other ordinary participants. At the end of the year, her accrued pension entitlement from the Environment Agency's pension scheme was £89,209. She is eligible for compensation for early termination of her appointment.

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 15 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, contribution paid by the member and uses common market valuations for the start and end of the period.



**BARBARA YOUNG**  
**ACCOUNTING OFFICER**  
11 July 2007

### **III STATEMENT OF THE ENVIRONMENT AGENCY'S AND CHIEF EXECUTIVE'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 Environment Agency's state of affairs at the year end and of its income and expenditure and cash flows for the financial year.

In preparing accounts the Environment Agency is required 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 have been followed and disclose and explain any material departures in the financial statements; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Environment Agency will continue in operation.

The Accounting Officer of Defra designated the Chief Executive of the Environment Agency as the Accounting Officer for the Environment Agency. The Chief Executive's relevant responsibilities as Accounting Officer, including responsibility for the propriety and regularity of the public finances and for the keeping of proper records, are set out in the non-departmental public bodies Accounting Officers' Memorandum, issued by the Treasury and published in Government Accounting.



**BARBARA YOUNG**  
**CHIEF EXECUTIVE AND ACCOUNTING OFFICER**  
11 July 2007



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

##### **Scope of responsibility**

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the Environment Agency's policies, aims and objectives, whilst safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting. I am personally accountable to the Board, Parliament and the National Assembly for Wales 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 Welsh Assembly Government 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 2007 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 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 being 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 of the delivery of its objectives. The strategy promotes the taking of well-managed risks that balance 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 2007 the Directors prioritised action in the areas of optimising service delivery, managing the impact of Government reviews and budget settlement for future years, achieving efficiency improvements, internal change programmes, flood risk and drought

management and securing the right skills within the workforce. 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 our 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 our decision-making. The Environment Agency continues to work to enhance our ability to communicate effectively on environmental risk and engage with our stakeholders.

The management team takes very seriously the ability of the Environment Agency to recover from an emergency and to provide the full range of the Environment Agency's services as soon as possible. Business continuity planning therefore continues to have a high priority at all levels.

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

#### **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 is a member of the Board. The Board has a number of sub-committees including the Audit and Risk Committee providing oversight on matters of corporate governance and internal control.

The Chief Executive is the Accounting Officer and has a team of Directors that provide leadership and direction to the organisation. The Environment Agency is audited by the National Audit Office and has an internal audit function that reports to the Chief Executive. 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.

#### **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 our 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.

#### **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 and HM Treasury requirements. All programmes and projects have clear accountability frameworks and make use of OGC Gateway Review methodologies to manage risk and focus on the successful delivery of benefits.

#### **Change Management**

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

#### **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 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 in 2006-07 are: the security around information technology systems, arrangements for testing business continuity planning and implementation of a new fixed asset register. Actions have been taken or put in place to ensure that these risks once recognised are being appropriately managed.

Following issues raised in 2005-06 in relation to information technology system security, subsequent internal audits and management reviews have identified some continuing weaknesses. The Environment Agency is continuing to develop a structured and overarching approach to system security. Within this framework the importance of a risk-based approach and management review is being emphasised. The appointment of senior personnel dedicated to system security is further enhancing the effectiveness of controls in this area. Subsequent 2006-07 internal audits have identified additional weaknesses in information technology system security. The development and implementation of the revised overarching approach to system security will take time to embed. The new IT security risk register is in place and actions are being taken to manage known IT security issues.

Effective business continuity planning is critical to ensuring the continuous delivery of a number of vital services that the Environment Agency provides and business continuity plans exist for many systems. In 2005-06 a national project provided a framework that was then used by business units to develop business continuity plans. A programme of testing the plans has commenced during 2006-07 and will be completed in the new financial year.

A new fixed asset register was implemented in December 2006 following final acceptance from the provider of the Agency's enterprise wide management information systems Oracle that they would be unable to provide an acceptable register for the Environment Agency. As this was introduced late in the year, further work is required to ensure that all individual assets are fairly stated in the asset register.



**BARBARA YOUNG**  
**ACCOUNTING OFFICER**  
**11 July 2007**

## **V 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 2007 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 Cashflow 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, certain information given in the Annual Report, which comprises the Overview, Our Performance in 2006-07 and Foreword 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. 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.

### **Audit Opinion**

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 2007 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 given within the Annual Report, which comprises the Overview, Our Performance in 2006-07 and Foreword 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.



**John Bourn**  
**Comptroller and Auditor General**  
**National Audit Office**  
**157-197 Buckingham Palace Road**  
**Victoria**  
**London**  
**SW1W 9SP**

**17th July 2007**

VI INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31 March 2007

	See Note	2006-07 Total £'m	2005-06 (Restated) Total £'m
<b>Income</b>			
Income from activities	2	378.0	344.8
Capital grants and contributions		12.3	7.7
		<u>390.3</u>	<u>352.5</u>
<b>Expenditure</b>			
Staff costs	3	451.3	434.1
Depreciation	7	77.9	70.0
Capital works expensed in year		202.4	207.1
Other operating costs	4	333.0	327.2
		<u>1064.6</u>	<u>1038.4</u>
Net operating deficit		(674.3)	(685.9)
Notional cost of capital	5	(74.0)	(76.6)
Interest receivable	6	5.6	7.5
Sales of Assets		3.0	2.8
Financing income on pension schemes assets and liabilities	17(e)	8.1	1.2
Deficit for the year after charging notional cost of capital		(731.6)	(751.0)
Reversal of notional cost of capital		74.0	76.6
Deficit for the year before reserve transfers		(657.6)	(674.4)
Transfer to / (from) reserves:			
Capital reserve	12(a)	10.5	(11.7)
Pensions reserve	17(e)	44.0	51.1
Retained deficit after reserve transfer		<u>(603.1)</u>	<u>(635.0)</u>

Note:

Prior year comparatives have been restated due to changes in accounting policy as set out in Notes 1(c) and 17(e). Note 1(c) explains that grant-in-aid is now shown as a transfer to the income and expenditure reserve. If grant-in-aid received of £603.1m had been included in the income and expenditure account, the retained deficit after reserve transfer would have been reduced to £0.

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

The notes on pages 44 to 61 form part of these accounts.

**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED 31 March 2007**

	See Note	2006-07 Total £'m	2005-06 (Restated) Total £'m
Deficit for the year		(657.6)	(674.4)
Actuarial (loss) / gain recognised in the Active pension scheme	17(f)	(270.0)	18.5
Unrealised surplus on revaluation of tangible fixed assets	12(a)	81.5	75.2
Adjustments to fixed assets	12(a)	9.1	(19.4)
<b>Total losses since the last annual report</b>		<b>(837.0)</b>	<b>(600.1)</b>

Note:

Prior year comparatives have been restated due to changes in accounting policy as set out in Note 1(c) and 17(e).

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

The notes on pages 44 to 61 form part of these accounts.

VII BALANCE SHEET AT 31 March 2007

	See Note	31 March 2007 Total £'m	31 March 2006 (Restated) Total £'m
<b>Fixed assets</b>			
Tangible assets	7	2,388.4	2,309.6
<b>Current assets</b>			
Debtors	8	72.9	104.8
Short term Deposits	21	94.4	115.8
<b>Total current assets</b>		167.3	220.6
Creditors – amounts falling due in less than one year	9	(212.6)	(274.2)
<b>Net current assets/(liabilities)</b>		(45.3)	(53.6)
<b>Total assets less current liabilities</b>			
Creditors – amounts falling due in more than one year	9	(8.6)	(4.9)
Provisions for liabilities and charges	10	(10.8)	(2.2)
<b>Net assets excluding net pension assets</b>		2,323.7	2,248.9
<b>Unfunded pensions – liabilities</b>	17(c)	(25.4)	(22.3)
<b>Funded pensions – (liabilities) / assets</b>	17(c)	(219.2)	48.7
<b>Net assets including net pension assets</b>		2,079.1	2,275.3
<b>Financed by</b>			
Deferred grants and contributions	11	61.2	66.5
<b>Reserves</b>			
Capital reserve	12(a)	663.1	688.9
Revaluation reserve	12(a)	1,660.1	1,554.2
Pensions reserve	17(d)	(244.6)	26.4
Income and expenditure reserve	12(b)	(60.7)	(60.7)
		2,079.1	2,275.3

Note:

Prior year comparatives have been restated due to a change in accounting policy as set out in Note 1(c). The reserves have been renamed to provide a clearer understanding of their nature. The grant-in-aid reserve has been integrated into the income and expenditure reserve.

The notes on pages 44 to 61 form part of these accounts.

The financial statements on pages 40 to 61 were approved by the Board on 11 July 2007 and were signed on its behalf by:



CHAIRMAN  
11 July 2007



CHIEF EXECUTIVE AND ACCOUNTING OFFICER  
11 July 2007



**VIII CASH FLOW STATEMENT FOR THE PERIOD ENDED 31 March 2007**

	See Note	2006-07 Total £'m	2005-06 (Restated) Total £'m
<b>Net cash inflow/(outflow) from operating activities</b>	13(a)	(551.6)	(557.4)
<b>Returns from investments and servicing of finance</b>			
Interest received		5.6	7.5
<b>Capital expenditure and financial investment</b>	13(b)	(65.7)	(85.0)
<b>Management of liquid resources</b>	13(c)	21.4	(0.1)
<b>Financing</b>	13(d)	603.6	637.7
<b>Increase/(decrease) in cash for year</b>		<b>13.3</b>	<b>2.7</b>

Note:

Prior year comparatives have been restated due to a change in accounting policy as set out in Note 1(c).

The notes on pages 44 to 61 form part of these accounts.

**IX NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended 31 March 2007**

**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 HM Treasury's *Fees and Charges Guide*, and the accounting and disclosure requirements given in Government Accounting and in the Financial Reporting Manual (FReM) 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 costs.

**(b) FRS 18 Account Policy**

FRS 18 requires the Environment Agency to provide a description of those estimation techniques adopted that are significant. A technique would only be significant if the range of values resulting from different reasonable assumptions is so large that the use of a different amount within that range could materially affect the view shown by the financial statements.

The Environment Agency has specific complex disclosures of its functional spend which require direct allocation and apportionment of costs on the basis of estimation. National and regional procedures exist for cost allocations, and these procedures are constantly being refined. A review of estimation techniques used in allocating costs to functions identified that the estimation techniques adopted by the Environment Agency are not significant in accordance with the requirements of FRS 18.

**(c) Change in Accounting Policy**

In accordance with FRS 18 the Environment Agency has reviewed its accounting policies and the following change has occurred during the year.

With effect from the 2006-07 reporting period FReM requires non-departmental public bodies to account for grants and grants-in-aid received for revenue purposes as financing because they are regarded as contributions from a controlling party which gives rise to a financial interest in the residual interest of NDPBs. This is a change in accounting policy from earlier periods when government GIA was recorded as income. The effect of this change on the certified 2005-06 accounts and the impact of the change on the results of the current year are shown below. There is no impact on the net liability position of the Environment Agency as a result of this change in policy:

	At 31 March 2006 (as previously stated) £'m	Impact of adopting the new policy £'m	At 31 March 2006 (re-stated) £'m
Net expenditure for 2005-06	-	(635.0)	(635.0)
	At 31 March 2007 (without applying the new policy) £'m	Impact of adopting the new policy £'m	At 31 March 2007 (applying the new policy) £'m
Retained deficit	-	(603.1)	(603.1)

**Grants and Grant-in-Aid**

Grant-in-Aid and Grants received to finance activities and expenditure which supports the statutory and other objectives of the Environment Agency are treated as financing, and credited to the Income and Expenditure Reserve, because they are regarded as contributions from a controlling party.

Grant relating to capital expenditure used to acquire specific capital items is credited to a government grant reserve. It is released to the expenditure account over the expected useful life of the asset it has been used to acquire and an equal amount transferred from the government grant reserve is released to income.

In compliance with the FReM, Government grant-in-aid for revenue expenditure is treated as financing and credited to the income and expenditure account reserve.

**(d) 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.

**(e) 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.

**(f) Capital 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 make such transfers to/from the income and expenditure account so as to maintain the capital reserve, taken together with the balance of deferred grants and contributions, at a level equal to the book value of its tangible fixed assets. The balance on the income and expenditure account then represents accumulated surpluses/deficits in respect of revenue expenditure and related income.

**(g) 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, 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.

**(h) 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 also revised annually through the use of suitable indices. Depreciation is calculated so as to write off the valuation 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.

Tangible fixed assets are reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. When a review for impairment is conducted, the recoverable amount is assessed by reference to the net present value of expected future cash flows of the relevant income generating unit or disposal value if higher. The discount rate applied is based upon the rates used for the notional cost of capital calculation (see note 4) as notified by HM Treasury.

Any differences between physical assets and asset registers identified as a result of the Environment Agency's continuous programme of asset verification are treated as revaluation adjustments (see note 6) in the fixed asset statements, in the year in which identified.

### **(i) Flood Defence Account**

Any balances at the end of the year will either be held to service short-term liabilities or as amounts repayable to levy/charge payers. The accounting treatment follows the re-classification policy disclosure requirements and complies with FRS 3.

### **(j) Water Resources Account**

Accumulated surpluses/deficits on the water resources account (see Section X(c)) are treated as deferred income/accrued income, taking each regional account separately. Surpluses are credited to the income and expenditure account as water resources costs exceed income from charges to abstractors. Deficits are debited to the income and expenditure account as income from charges to abstractors exceeds costs. Any cash surpluses arising from including a rate of return in charges to abstractors are used to offset grant-in-aid requirements.

### **(k) Environmental Protection Account**

The environmental protection account is divided into two parts. One relates to activities associated with general environment control; the other concerns the monitoring of the activities of environmental licence holders. As regards the latter, the Environment Agency has to ensure that charges cover relevant costs, taking one year with another. Surpluses and deficits on this part of the environmental protection account are treated in the same way as those on the water resources account (see paragraph (j) above).

### **(l) Leases**

Finance leases: where the Environment Agency bears substantially the risks and benefits of owning the leased item, these are capitalised at the start of the lease term at the fair value of the leased asset or, if lower, the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and the lease liability in order 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.

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

### **(m) 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 Financial Reporting Manual which are 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.

### **(n) Pensions**

The Environment Agency makes regular contributions to the Environment Agency's Pension Fund (known as the 'Active Fund') only. They 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. 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's payments are met entirely from grant-in-aid.

**(o) Foreign Currency**

Foreign currency transactions are translated into sterling at a pre-determined rate during the year. Foreign currencies on account at the year-end are translated into sterling at the currency rate of exchange in force at the balance sheet date. Any realised or unrealised exchange gains and losses are recognised in the income and expenditure account.

**(p) 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.

**(q) Public Private Partnership**

PPP transaction are accounted for in accordance with Technical Note 1 (Revised) "How to account for PFI Transactions" as required by the FReM.

The Environment Agency has two PFI contracts for the provision of services and therefore there are no assets recognised for these assets in the balance sheet. Expenditure incurred during the year on both contracts is charged to the income and expenditure account.

**(r) 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 to the amount of the obligation. The Environment Agency makes all appropriate provisions for any reorganisation costs, where a decision has been made during the year to significantly change its operations. This may include the costs associated with the ending of certain environmental operations or a change in geography of operating units.

**(s) 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 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

	Total	FRM	WR	EP	Fish	Rec & Con	Nav
	£'m	£'m	£'m	£'m	£'m	£'m	£'m
<b>Income from activities</b>							
Abstraction charges	123.1	-	123.1	-	-	-	-
Navigation licence income	4.9	-	-	-	-	-	4.9
Fishing Licence Duties	20.9	-	-	-	20.9	-	-
EP Charges	166.2	-	-	166.2	-	-	-
Flood Risk Management	33.7	33.7	-	-	-	-	-
Recreation & Conservation	0.1	-	-	-	-	0.1	-
Grants:							
EU	1.7	0.4	-	1.0	0.3	-	-
Other	3.7	1.1	0.4	2.0	0.1	0.1	-
Other Income	23.7	10.2	1.1	11.1	0.7	0.2	0.4
<b>Income from activities</b>	<b>378.0</b>	<b>45.4</b>	<b>124.6</b>	<b>180.3</b>	<b>22.0</b>	<b>0.4</b>	<b>5.3</b>
Capital Grants & Contributions:							
CWEIY	10.0	9.6	-	0.3	0.1	-	-
Amortisation	2.3	2.1	-	0.1	-	-	0.1
<b>Total Income</b>	<b>390.3</b>	<b>57.1</b>	<b>124.6</b>	<b>180.7</b>	<b>22.1</b>	<b>0.4</b>	<b>5.4</b>
<b>Expenditure</b>							
Staff Costs	451.3	202.7	47.7	176.0	17.3	3.7	3.9
Depreciation and CWEIY	280.3	250.3	9.9	11.5	1.5	0.6	6.5
Other Operating Costs	333.0	128.2	60.1	123.7	12.7	3.9	4.4
<b>Total Operating Costs</b>	<b>1064.6</b>	<b>581.2</b>	<b>117.7</b>	<b>311.2</b>	<b>31.5</b>	<b>8.2</b>	<b>14.8</b>
<b>Operating Surplus / (Deficit)</b>	<b>(674.3)</b>	<b>(524.1)</b>	<b>6.9</b>	<b>(130.5)</b>	<b>(9.4)</b>	<b>(7.8)</b>	<b>(9.4)</b>
Notional Cost of Capital	(74.0)	(57.2)	(8.4)	(3.0)	(0.7)	(0.3)	(4.4)
Interest receivable	5.6	5.4	-	0.2	-	-	-
Sale of assets	3.0	2.0	0.2	0.3	0.2	-	0.3
Financing Income on pension schemes assets & liabilities	8.1	8.1	-	-	-	-	-
<b>Surplus / (Deficit) after charging notional cost of capital</b>	<b>(731.6)</b>	<b>(565.8)</b>	<b>(1.3)</b>	<b>(133.0)</b>	<b>(9.9)</b>	<b>(8.1)</b>	<b>(13.5)</b>
Reversal of notional cost of capital	74.0	57.2	8.4	3.0	0.7	0.3	4.4
<b>Surplus / (Deficit) for year before reserves transfers</b>	<b>(657.6)</b>	<b>(508.6)</b>	<b>7.1</b>	<b>(130.0)</b>	<b>(9.2)</b>	<b>(7.8)</b>	<b>(9.1)</b>

Grant-in-aid is now shown as a transfer to the income and expenditure reserve as set out in Note 1(c). If grant-in-aid received of £603.1m had been included in the income and expenditure account, the retained surplus / Deficit for the year before reserve transfer would have been reduced to £10.5m.

### Abbreviations

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

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

	Total £'m	WR £'m	Environmental Protection				WM £'m	Fish £'m	Nav £'m
			WQ £'m	PIR £'m	RSR £'m	PPC £'m			
Income									
Fees and Charges	<b>315.1</b>	123.1	61.4	8.8	8.6	33.8	53.6	20.9	4.9
Expenditure	<b>336.5</b>	124.6	62.1	10.0	9.1	32.8	51.6	31.5	14.8
(Under) / Over recovery	<b>(21.4)</b>	(1.5)	(0.7)	(1.2)	(0.5)	1.0	2.0	(10.6)	(9.9)
Sale of assets	<b>0.7</b>	0.2	-	-	-	-	-	0.2	0.3
Capital grants	<b>3.2</b>	1.5	-	-	-	-	-	1.2	0.5
Surplus/(Deficit) for the year	<b>(17.5)</b>	<b>0.2</b>	<b>(0.7)</b>	<b>(1.2)</b>	<b>(0.5)</b>	<b>1.0</b>	<b>2.0</b>	<b>(9.2)</b>	<b>(9.1)</b>

The above table is for Fees and Charges purposes. All 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 in note 2 and therefore the table is not intended to meet the requirements of SSAP25 *Segmental Reporting*.

The financial objectives for each of the above 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
Water Resources	WR	Abstraction charges
Environmental Protection		
Water Quality	WQ	Charging for Discharges (CFD)
Process Industry Regulation	PIR	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	Integrated Pollution Prevention and Control (PPC)
Waste Regulation	WM	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
Fisheries	Fish	Fishing Licences
Navigation	Nav	Boat Licences

	2006-07 £'m	2005-06 (Restated) £'m
<b>3. Information Regarding Employees</b>		
Salaries and wages	299.8	298.8
Social security costs	24.6	25.4
Contribution to pension schemes (defined benefit scheme)	39.1	32.5
Amounts payable under the voluntary severance scheme	1.2	0.2
	364.7	356.9
Other staff related costs:		
Agency staff	10.6	12.4
Secondments	0.2	-
Restructuring costs	3.6	-
Other staff related costs	43.6	29.9
FRS 17 Pension charge	52.1	52.3
	474.8	451.5
Less amounts charged to capital projects	(24.0)	(17.9)
	450.8	433.6
Amounts payable to Board members (see table on page 30)	0.5	0.5
<b>Total</b>	<b>451.3</b>	<b>434.1</b>

The Environment Agency has re-categorised certain costs that are now disclosed within Other Operating Cost to give more clarity and better understanding to the notes.

Average number of full time equivalent employees during the year:

	2006-07 Number	2005-06 (Restated) Number
Executive managers	157	148
Staff and other employees	10,245	9,882
Manual employees	1,437	1,499
Temporary employees	489	478
Inwardly posted employees	8	-
	778	774
Employment agency staff		
<b>Total</b>	<b>13,114</b>	<b>12,781</b>

The 2005-06 comparatives have been restated to reflect the average number of full-time equivalent employees, rather than average number of total employees as previously stated. The comparatives are also revised for consistency with employee categories disclosed in 2006-07.

Information on the emoluments of Board members is given in the Report of the Remuneration Committee in Section II.



<b>4 Other Operating Costs</b>	2006-07 £'m	2005-06 £'m
Other operating costs is arrived at after charging:		
Administration cost	12.4	9.6
Training costs	12.6	12.6
Fees and commissions	62.4	85.4
Information technology	28.7	30.3
Transport and plant	21.7	19.1
Travel and subsistence	28.6	30.0
Utilities	30.2	25.4
Building costs	15.5	17.5
Provision for liabilities and charges	5.0	1.5
Public Private Partnership costs	9.8	7.7
Bank and interest charges	0.1	-
External Auditor's remuneration:		
Audit work	0.3	0.2
Non-audit work	-	-
Research and development	7.1	8.2
Operating lease rentals:		
Plant & Machinery	19.5	19.4
Other	11.2	11.0
Provision for bad and doubtful debt	2.0	1.3
Bad debt write-off	2.8	2.2
Hired and contracted services	44.0	38.3
Losses and special payments	1.3	1.7
Disposal of tangible fixed assets at book value	3.1	5.6
Impairment losses	0.1	-
Other costs	14.6	0.2
<b>Total</b>	<b>333.0</b>	<b>327.2</b>

External Auditor's remuneration includes the audit fee for the statutory audit £240,000 and for work on the certification of EU funding grant claims £0.1m.

Government Accounting requires disclosure showing the losses and special payments by category, type and value where they exceed £250,000 in total and similarly, for any individual items. The following table provides a list by category and type of losses. There are no individual amounts in excess of £250,000.

<b>Category / Type</b>	<b>Number</b>	<b>Value £'m</b>
Write-off of sundry debts	547	0.9
Loss of assets	344	0.4
Other (Cash losses; fruitless payments; Unenforceable claims; special payments; and gifts)	60	-
<b>Total</b>	<b>951</b>	<b>1.3</b>

<b>5 Notional Cost of Capital</b>	2006-07 £'m	2005-06 £'m
Cost of capital charge	74.0	76.6

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) of the annual average value of assets and liabilities in the Balance Sheet.

<b>6 Interest Receivable</b>	2006-07 £'m	2005-06 £'m
Interest receivable from short-term fixed interest deposits	5.6	7.5

**7 Tangible Fixed Assets**

(a) Analysis by Type

	<b>At Valuation</b>					
	Total £'m	Freehold Land £'m	Freehold Buildings £'m	Operational Assets £'m	Plant and Machinery £'m	Vehicles £'m
<b>Cost or Valuation</b>						
At 1 April 2006	4,031.2	61.1	3,253.8	-	443.4	46.9
Acquisitions	68.7	2.9	22.0	-	8.5	3.1
Disposals	(24.8)	(1.4)	(1.5)	-	(4.6)	(4.0)
Indexation	139.7	2.5	129.0	-	5.8	0.6
Reclassification	-	(0.8)	(3,351.9)	3,388.3	(37.0)	1.1
Revaluation adjustment	(3.1)	14.7	1.4	-	-	-
<b>At 31 March 2007</b>	<b>4,211.7</b>	<b>79.0</b>	<b>52.8</b>	<b>3,388.3</b>	<b>416.1</b>	<b>47.7</b>
<b>Depreciation</b>						
At 1 April 2006	1,721.6	-	1,284.5	-	354.3	27.2
Provided during the year	77.9	-	45.5	-	9.9	4.4
Disposals	(21.7)	-	(0.7)	-	(4.3)	(3.9)
Indexation	58.2	-	52.3	-	4.7	0.4
Reclassification	-	-	(1,367.8)	1,396.8	(29.5)	0.4
Revaluation adjustments	(12.7)	-	(12.3)	-	-	-
<b>At 31 March 2007</b>	<b>1,823.3</b>	<b>-</b>	<b>1.5</b>	<b>1,396.8</b>	<b>335.1</b>	<b>28.5</b>
<b>Net Book Value</b>						
<b>At 31 March 2007</b>	<b>2,388.4</b>	<b>79.0</b>	<b>51.3</b>	<b>1,991.5</b>	<b>81.0</b>	<b>19.2</b>
At 1 April 2006	2,309.6	61.1	1,969.3	-	89.1	19.7

b) Details of Valuation:

All of the Environment Agency's land and administration buildings except assets under construction were re-valued at 1 April 2006 on the basis of open market value. The valuations of land and administrative buildings were carried out by a number of firms of Chartered Surveyors (See Note 22). Plant and machinery, fixtures and fittings are valued at 1996 based upon replacement costs and were revalued internally at 31 March 2007 using suitable indices. The effects are shown in the indexation and disposals.

c) Dwellings are included at a net book value of £2.2m and £8.9m for Land and Buildings respectively.

d) Freehold Buildings include a leasehold property having a net book value of £4.0m with a 25 years extension to the existing occupational lease term.

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

<b>8 Debtors</b>	31 March 2007 £'m	31 March 2006 £'m
<b>Within one year:</b>		
Trade debtors	7.6	9.9
Other debtors:		
Grants	1.9	1.5
VAT	19.8	26.7
Employee loans	0.1	0.1
Other	2.6	1.5
Prepayments	17.9	20.7
Accrued income:		
Water resources	5.3	4.9
Environmental protection	7.9	29.3
Other	9.6	10.0
	<u>72.7</u>	<u>104.6</u>
<b>More than one year:</b>		
Employee loans	0.2	0.2
<b>Total</b>	<u><b>72.9</b></u>	<u><b>104.8</b></u>

<b>9 Creditors</b>	31 March 2007 £'m	31 March 2006 £'m
<b>Within one year:</b>		
Bank overdraft	20.9	34.2
Trade creditors and accruals	59.9	56.3
Other creditors	1.7	4.6
Capital creditors and accruals	30.6	48.6
Deferred income:		
Flood risk management	11.7	21.4
Water resources	4.6	3.9
Environmental protection	2.7	23.5
Tax and social security	7.8	7.6
FRS 17 – Pension costs	44.0	51.1
Customer deposits and receipts in advance	28.7	23.0
	<u>212.6</u>	<u>274.2</u>
<b>More than one year:</b>		
Capital creditors and accruals	0.7	0.6
Other creditors and accruals	7.9	4.3
<b>Total</b>	<u><b>8.6</b></u>	<u><b>4.9</b></u>

<b>10 Provisions for Liabilities and Charges</b>	Re- structuring £'m	Insurance Claims £'m	2006-07 £'m	2005-06 £'m
At 1 April	-	2.2	2.2	0.7
Increase/(reversal) charged to the income and expenditure account	3.6	5.0	8.6	1.5
Utilised during the year	-	-	-	-
At 31 March	<u><b>3.6</b></u>	<u><b>7.2</b></u>	<u><b>10.8</b></u>	<u><b>2.2</b></u>

Restructuring provision relate to the re-organisational cost to be incurred within the next eighteen months. The insurance provision relates to claims against the Environment Agency, which can take up to five years before settlement is reached.

<b>11 Deferred Grants and Contributions</b>	2006-07 £'m	2005-06 £'m
At 1 April	66.5	66.7
Amounts receivable in the year	0.5	2.7
Amortisation in year	(2.3)	(2.3)
Disposals/Adjustments	(3.5)	(0.6)
At 31 March	61.2	66.5

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

<b>12 Reserves and Retained Surpluses</b>	Capital £'m	Revaluation £'m	2006-07 Total £'m	2005-06 Total £'m
<b>(a) Capital Reserve</b>				
At 1 April	688.9	1,554.2	2,243.1	2,175.6
Transfer (to)/from income and expenditure reserve	(10.5)	-	(10.5)	11.7
Revaluation surplus on tangible fixed assets	-	81.5	81.5	75.2
Revaluation adjustment	(15.3)	24.4	9.1	(19.4)
At 31 March	663.1	1,660.1	2,323.2	2,243.1

As part of the reconciliation work on fixed assets the opening revaluation reserve balance has been recalculated. This is now shown as a separate item within reserve.

The transfer from income and expenditure account is calculated as follows:

	31 March 2007 £'m	31 March 2006 £'m
Purchase of fixed assets	68.7	87.8
Grants and contributions (net)	1.8	(0.5)
Depreciation (including capitalised depreciation)	(77.9)	(70.1)
Disposals	(3.1)	(5.5)
	(10.5)	11.7

<b>(b) Income and Expenditure Reserve</b>	2006-07 Total £'m	2005-06 (Revised) Total £'m
At 1 April	(60.7)	(32.0)
Grant-in-aid received in year	603.1	618.0
Net expenditure	(657.6)	(686.1)
Transferred to/(from) capital reserve	10.5	(11.7)
Transferred from pensions reserve	44.0	51.1
At 31 March	(60.7)	(60.7)

	Total £'m	Defra (GIA) £'m	Defra (FDGIA) £'m	Defra (Other) £'m	NAW £'m
Grant-in-aid received in year	590.8	112.6	419.2	10.4	48.6
Transferred to Grant-in-aid reserve	(603.1)	(124.9)	(419.2)	(10.4)	(48.6)
To cover unfunded pensions	12.3	12.3	-	-	-
	-	-	-	-	-

**13 Notes to the Cash Flow Statement**

	31 March 2007 Total £'m	31 March 2006 Total £'m	
<b>(a) Reconciliation of operating deficit to net cash inflow</b>			
Operating deficit	(674.3)	(685.9)	
Depreciation	77.9	70.0	
Amortisation of deferred grants and contributions	(2.3)	(2.3)	
Disposal of tangible fixed assets at book value	3.1	5.6	
Total operating charge on pension schemes	52.1	52.3	
Decrease/(increase) in debtors	31.9	(14.2)	
(Decrease)/increase in creditors	(48.6)	19.7	
Increase/(decrease) in provisions	8.6	(2.6)	
	<u>(551.6)</u>	<u>(557.4)</u>	
<b>(b) Capital expenditure and financial investment</b>			
Payments to acquire tangible fixed assets	(68.7)	(87.8)	
Receipts from sale of tangible fixed assets	3.0	2.8	
	<u>(65.7)</u>	<u>(85.0)</u>	
<b>(c) Management of liquid resources</b>			
Deposits with the Debt Management Agency:			
At 1 April 2006	115.8	115.7	
At 31 March 2007	94.4	115.8	
	<u>21.4</u>	<u>(0.1)</u>	
<b>(d) Analysis of financing</b>			
Capital grants and contributions for the purchase of:			
Tangible fixed assets	0.5	2.7	
Government grant-in-aid	603.1	635.0	
	<u>603.6</u>	<u>637.7</u>	
<b>(e) Analysis of Changes in Net Funding</b>			
<b>Net Debt</b>	1 April 2006 £'m	Cash flow £'m	31 March 2007 £'m
Bank overdraft	(34.2)	13.3	(20.9)
<b>Liquid resources:</b>			
Deposits included in cash	115.8	(21.4)	94.4
<b>Net Funding</b>	<u>81.6</u>	<u>(8.1)</u>	<u>73.5</u>

	31 March 2007 £'m	31 March 2006 £'m
--	-------------------------	-------------------------

**14 Contingent Liabilities**

The Environment Agency has the following contingent liabilities:-

(a) Contaminated assets	2.2	5.3
(b) Contractors' claims	2.1	3.9
(c) Insurance claims	5.2	1.5
(d) Public and employer liability claims	-	0.1
(e) Other	2.4	-
	11.9	10.8

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 2007 £'m	31 March 2006 £'m
--	-------------------------	-------------------------

**15 Capital Commitments**

Contracted for but not provided in the financial statements	130.9	142.0
---	-------	-------

	31 March 2007 £'m	31 March 2007 £'m	31 March 2006 £'m	31 March 2006 £'m
--	-------------------------	-------------------------	-------------------------	-------------------------

**16 Operating Leases**

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

Leases expiring:

Within one year	0.6	2.1	0.1	1.8
In the second to fifth years inclusive	1.2	12.7	1.8	13.8
Over 5 years	9.0	-	8.5	-
	10.8	14.8	10.4	15.6

**17 Pension Obligations**

The Environment Agency operates a defined benefit pension scheme for employees and transferees from the former Defra, NRA, HMIP, LWRA and other local waste regulation authorities. It is a statutory scheme, administered in accordance with the Local Government Pension Scheme Regulations 1997. In 2006-07 the total pension cost for the Environment Agency was £39.1m (2005-06 £32.5m). 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 2004. 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 6.2 per cent per annum, that salary increases would average 4.9 per cent per annum and that present and future pensions would increase at the rate of 2.9 per cent per annum.

At the date of the last actuarial valuation, the market value of the assets of the pension scheme was £983.0m. The actuarial value of the assets (using the projected unit method) was sufficient to cover 94 per cent of the benefits, which had accrued to members. The Environment Agency has accepted their recommendation in respect of future employer contributions and has applied a rate of 200 per cent of members' contributions for the period 2005-06, and will apply 225 per cent for 2006-07 and 250 per cent for 2007-08 respectively.

## FRS 17 Disclosure

The table below sets out the disclosures 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 2006 updated to 31 March 2007.

### (a) Financial Assumptions

The main financial assumptions used at 31 March 2007 for this purpose are as follows:

	2006-07 Per cent Per Annum	2006-07 Real per cent Per Annum	2005-06 Per cent Per Annum	2005-06 Real Per cent Per Annum
Price Inflation	2.75	-	3.1	-
Rate of increase in Salary	4.25	1.5	5.1	2.0
Rate of increase in Pension	2.75	-	3.1	-
Discount Rate	4.6	1.8	6.0	2.8

### (b) Expected Return on Assets

Asset Class	2006-07 Rate per Annum	2005-06 Rate per Annum
Equities	7.8	7.4
Bonds	4.9	4.9
Property	5.8	5.5
Cash	4.9	4.6

### (c) Assets and Liabilities of the Fund at 31 March 2007

	2006-07 Fund Value £'m	2006-07 Return £'m	2005-06 Fund Value £'m	2005-06 Return £'m
Equities	1042.7	81.3	907.6	67.2
Bond	342.7	16.8	338.9	16.6
Property	76.4	4.4	60.4	3.4
Cash	58.6	2.9	82.2	3.8
<b>Total value of assets (a)</b>	<b>1,520.4</b>	<b>105.4</b>	<b>1,389.1</b>	<b>91.0</b>
Present value of scheme liabilities				
Employee Members	1,318.2		977.1	
Deferred Pensioners	112.4		81.0	
Pensioners	309.0		282.3	
Unfunded liabilities	25.4		22.3	
<b>Total value of liabilities (b)</b>	<b>1,765.0</b>		<b>1,362.7</b>	
<b>Pension Assets/(Liabilities)</b>	<b>(244.6)</b>		<b>26.4</b>	

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

	£'m 2006-07	£'m 2005-06
At 1 April	26.4	18.1
Contributions Paid	40.8	36.6
Contributions in respect of unfunded benefits	1.3	1.3
Employer additional contributions	0.9	2.9
Current Service Cost	(51.1)	(50.7)
Curtailments	(0.2)	(0.6)
Past Service Cost	(0.8)	(0.9)
Financing Income	8.1	1.2
Actuarial Loss	(270.0)	18.5
<b>Surplus/(Deficit) at 31 March</b>	<b>(244.6)</b>	<b>26.4</b>

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

	£'m 2006-07	£'m 2005-06
<b>Amounts Charged to Operating Profit:</b>		
Service cost	51.1	50.8
Past service cost	0.8	0.9
Curtailments and settlements	0.2	0.6
<b>Total Operating Charge (A)</b>	<b>52.1</b>	<b>52.3</b>
<b>Amounts Credited to Other Finance Income:</b>		
Expected return on pension scheme assets	90.9	74.7
Interest on pension scheme liabilities	(82.8)	(73.5)
<b>Net Return (B)</b>	<b>8.1</b>	<b>1.2</b>
<b>Net Revenue Account Cost (A) – (B)</b>	<b>44.0</b>	<b>51.1</b>

The total for income from activities has been re-presented to exclude an amount equal to the net revenue cost. This is now shown as a transfer to the pensions reserve.

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

	£'m 2006-07	£'m 2005-06
Actual return less expected return on pension scheme assets	12.3	177.4
Experience gains and losses arising on the scheme liabilities	(1.1)	0.7
Changes in financial assumptions underlying the present value of the scheme liabilities	(281.2)	(159.6)
<b>Actuarial Gain/(Loss) in Pension Plan</b>	<b>(270.0)</b>	<b>18.5</b>
Increase/(Decrease) in irrecoverable surplus from membership fall and other factors	-	-
Actuarial Gain/(loss) recognised in STRGL	<b>(270.0)</b>	<b>18.5</b>

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

Difference between the expected and actual return on assets	12.3	177.4
Value of assets	1,520.4	1,389.1
Percentage of scheme assets	<b>0.8</b>	<b>12.8</b>
Experience gains/(losses) on scheme liabilities	(1.1)	0.7
Total present value of liabilities:	1,765.0	1,362.7
<b>Percentage of the total present value of the liabilities</b>	<b>0.1</b>	<b>0.1</b>
Actuarial gains/(losses) recognised in STRGL	(270.0)	18.5
Total present value of liabilities	1,765.0	1,362.7
<b>Percentage of the total present value of liabilities</b>	<b>15.3</b>	<b>1.4</b>

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



**18 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.

**19 Related Party Disclosures and Whole of Government Accounting****(a) Related Party Disclosures**

Financial Reporting Standard number 8 (FRS 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 the Treasury.

The aggregate value of the relevant transactions in 2006-07 was:

	£'m
Controlling parties:	
Defra grant-in-aid	129.4
Defra fisheries grant-in-aid	5.9
NAW grant-in-aid	22.7
NAW flood defence grants	25.9
Defra flood defence grant-in-aid	419.2
Other related parties:	
Levies on local authorities	21.9
Charges to the British Waterways Board	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 by 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 2007 were:

	2006-07 £'m	2005-06 £'m
Creditors		
Other Government Departments	0.7	1.8
Local Authorities	5.7	7.2
Public Corporations and Trading Funds	0.5	0.4
Debtors		
Other Government Departments	0.6	0.5
Local Authorities	0.4	-
Public Corporations and Trading Funds	0.1	0.5

## 20 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 of circa £100m over 20 years. The contract is the largest ever signed by the Environment Agency.

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

The contract features target price incentives within the bounds of an overall fixed budget. The first six years have seen the completion of a large number of maintenance projects, valued at £7m. New defences at Reedham and St Olaves, valued at £0.5m each, and seven major improvements works schemes worth £26m have been completed. Site works are underway at a further seven locations.

The latest 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

### (b) Pevensey Bay Sea Defences

The PPP contract for the Pevensey Bay Sea Defences has been running since 1 June 2000. This is the seventh year of the 25-year indexed contract currently valued at £36.2m (at January 2007 prices excluding Sovereign Harbour Trust contributions).

The PPP contractor continued to maintain the beach satisfactorily and met all the required levels of service. Activities included the importation of 18,500 cubic metres of shingle from off-shore sources and the transfer of 12,700 cubic metres around Sovereign Harbour.

Annual Commitments for the Broadland and Pevensey contracts are as follows:

	2006-07 £'m	2005-06 £'m
Included in the income and expenditure 2006-07 accounts	9.8	7.7
Commitments within one year	12.2	8.8
The Environment Agency was committed to make the following payments during the next year in respect of PPP contracts which expire within:		
11–15 years	10.2	6.9
16-20 years	2.0	1.9

## 21 FRS 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 the normal operational activities of the Environment Agency. 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**

All of the Environment Agency's financial assets and liabilities carry either nil rate, floating rate on Euro deposits or in the case of short term deposits, fixed rates of interest which in view of such deposits' duration do not expose the Environment Agency therefore to significant interest rate risk. There is an option to fix interest rates on payments for the Broadland Flood Alleviation Project. This option is usually exercised to reduce the interest rate risk.

**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. However, in overall terms the transactions as outlined are not considered material in the context of the overall activity of the Environment Agency. The Environment Agency is not therefore exposed to significant exchange rate risk.

**Financial Assets/Liabilities**

The table below shows the Environment Agency interest rate risk profile of financial assets and liabilities as at 31 March 2007. All balances are shown in sterling.

Assets / (liabilities)	Floating Rate £'m	Fixed Rate £'m	Total £'m
Short term investments		94.4	94.4
Cash at bank – Euro	0.4	-	0.4
Short term bank overdraft (net of Euro bank balance)	-	(21.3)	(21.3)

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

**22 Valuers of Fixed Assets**

The following firms of Chartered Surveyors performed the valuations of land and administrative buildings as at 1 April 2006: Lambert Smith Hampton; Carter Jonas & Co. UK; Smith Gore & Co. UK; Dixon Webb LLP; Stratton & Holborow; Savills; J.H. Walter; Gwynfor Williams; Llewellyn Humphreys.

**23 Post balance sheet events**

There are no post balance sheet events to record.

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. This is the date on which the certified financial statements are despatched by the Environment Agency to the Secretary of State for Defra. The authorised for issue date is 16 July 2007.

**X SUPPORTING STATEMENTS (Unaudited)**

**(a) Analysis of Receipts and Payments for the Year Ended 31 March 2007**

	Total	Flood Risk Management	Water Resources	Environmental Protection
	£'m	£'m	£'m	£'m
<b>Receipts</b>				
Precepts & levies	21.9	21.9	-	-
Abstraction charges	123.4	-	123.4	-
Navigation licence receipts	4.3	-	-	-
Other operating receipts	251.7	24.5	0.6	201.8
Capital grants and contributions:				
Defra	0.2	-	-	-
NAW	-	-	-	-
ERDF	2.8	2.5	-	-
Other	7.5	7.1	-	0.2
Interest received	6.5	5.4	1.0	0.1
Grant-in-aid	603.1	445.1	1.0	121.1
<b>Total receipts</b>	<b>1021.4</b>	<b>506.5</b>	<b>126.0</b>	<b>323.2</b>
<b>Payments</b>				
Operating costs	745.1	272.7	134.8	296.4
Fixed assets including capital works expensed in year	271.1	231.8	12.1	14.8
Water resources interest paid to Defra in year	1.0	-	1.0	-
Unfunded pensions	12.3	-	-	-
Water resources cash surpluses applied to grant-aided functions in year	-	-	(12.0)	12.0
<b>Total payments</b>	<b>1029.5</b>	<b>504.5</b>	<b>135.9</b>	<b>323.2</b>
Cash surpluses	(8.1)	2.0	(9.9)	-
Net funding at 1 April 2006	81.6	65.3	15.5	-
<b>Net funding at 31 March 2007</b>	<b>73.5</b>	<b>67.3</b>	<b>5.6</b>	<b>-</b>
<b>Analysis of net funding at 31 March 2007</b>				
Flood defence balance	67.3	67.3	-	-
Water resources purposes	5.6	-	5.6	-
Special funds	0.6	-	-	-
Carried forward for general purposes (for grant-aided functions)	-	-	-	-
<b>Net funding at 31 March 2007</b>	<b>73.5</b>	<b>67.3</b>	<b>5.6</b>	<b>-</b>

	Fisheries	Recreation & Conservation	Navigation	Pensions
	£'m	£'m	£'m	£'m
<b>Receipts</b>				
Precepts & levies	-	-	-	-
Abstraction charges	-	-	-	-
Navigation licence receipts	-	-	4.3	-
Other operating receipts	22.0	0.5	2.3	-
Capital grants and contributions:				
Defra	-	-	0.2	-
NAW	-	-	-	-
ERDF	0.3	-	-	-
Other	0.2	-	-	-
Interest received	-	-	-	-
Grant-in-aid	5.9	6.9	10.8	12.3
<b>Total receipts</b>	<b>28.4</b>	<b>7.4</b>	<b>17.6</b>	<b>12.3</b>
<b>Payments</b>				
Operating costs	27.1	7.0	7.1	-
Fixed assets including capital works expensed in year	1.5	0.4	10.5	-
Water resources interest paid to Defra in year	-	-	-	-
Unfunded pensions	-	-	-	12.3
Water resources cash surpluses applied to grant-aided functions in year	-	-	-	-
<b>Total payments</b>	<b>28.6</b>	<b>7.4</b>	<b>17.6</b>	<b>12.3</b>
Cash surpluses	(0.2)	-	-	-
Net funding at 1 April 2005	0.8	-	-	-
<b>Net funding at 31 March 2007</b>	<b>0.6</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Analysis of net funding at 31 March 2007</b>				
Flood defence balance	-	-	-	-
Water resources purposes	-	-	-	-
Special funds	0.6	-	-	-
Carried forward for general purposes (for grant-aided functions)	-	-	-	-
<b>Net funding at 31 March 2007</b>	<b>0.6</b>	<b>-</b>	<b>-</b>	<b>-</b>

(b) **Flood Risk Management Income and Expenditure Account for Year Ended 31 March 2007**

	Anglian		North East		North West	Midlands	
	Central	Eastern	Northern	Northumbria	Yorkshire		
	£'m	£'m	£'m	£'m	£'m	£'m	
<b>Income</b>							
Grant in aid	26.5	40.7	30.1	10.8	36.7	42.5	58.1
Local authority levies	0.9	1.7	1.3	1.2	0.6	3.2	3.0
General drainage charges	0.8	1.1	1.1	-	-	-	-
Internal drainage boards	1.7	0.4	2.2	-	1.0	-	0.9
Contributions from beneficiaries	-	-	-	-	-	-	-
Other grants	-	0.3	-	-	0.1	0.2	-
Other income	0.5	0.4	0.5	0.1	0.6	0.3	-
Capital grants and contributions	0.3	4.6	0.1	0.1	0.5	0.3	0.9
Sale of Assets	0.1	0.2	0.1	-	0.1	0.1	0.4
Interest receivable	0.4	0.6	0.4	0.1	0.3	0.4	0.8
<b>Total income, including interest</b>	<b>31.2</b>	<b>50.0</b>	<b>35.8</b>	<b>12.3</b>	<b>39.9</b>	<b>47.0</b>	<b>64.1</b>
<b>Expenditure</b>							
Main river:							
Inland waters	9.9	9.2	10.9	4.0	14.2	8.6	18.7
Tidal waters	1.5	6.9	3.4	0.4	0.6	0.4	2.1
Sea defence	0.2	1.1	-	-	0.1	1.0	0.5
Flood warning	0.5	0.6	0.5	0.8	1.7	1.4	0.7
Local Levy Expenditure	0.3	0.2	1.0	0.8	-	2.1	0.2
Other works	3.5	5.1	3.9	1.3	4.2	15.3	11.6
Depreciation and expenditure on capital works expensed in year	17.0	26.3	18.2	5.3	18.7	18.8	29.9
Internal drainage boards	1.2	0.3	0.7	-	-	-	-
<b>Total expenditure</b>	<b>34.1</b>	<b>49.7</b>	<b>38.6</b>	<b>12.6</b>	<b>39.5</b>	<b>47.6</b>	<b>63.7</b>
<b>(Deficit)/surplus for year</b>	<b>(2.9)</b>	<b>0.3</b>	<b>(2.8)</b>	<b>(0.3)</b>	<b>0.4</b>	<b>(0.6)</b>	<b>0.4</b>
Transfer from/(to) capital reserves	1.6	(2.6)	0.4	0.1	(0.4)	0.5	(0.6)
Surplus/(deficit)	(1.3)	(2.3)	(2.4)	(0.2)	-	(0.1)	(0.2)
Balances brought forward							
Local Levy Balances	1.8	3.2	1.7	0.6	0.3	(0.1)	0.4
S47 Balances	-	-	-	-	-	-	-
<b>Balances carried forward</b>							
Local Levy Balances	0.9	1.2	(0.5)	0.5	0.3	-	0.5
S47 Balances	(0.4)	(0.3)	(0.2)	(0.1)	-	(0.2)	(0.3)
Analysis of:							
Capital expenditure	15.8	27.7	18.8	5.6	18.6	18.2	30.1
Grants receipts	-	4.8	0.1	0.1	0.3	0.3	0.7
<b>Local Levy Position</b>							
Balances bought forward	1.8	3.2	1.7	0.6	0.3	(0.1)	0.4
Plus Income	1.0	1.9	1.3	1.2	0.5	3.4	3.0
Less Expenditure	1.9	3.9	3.5	1.3	0.5	3.3	2.9
Balances carried forward	0.9	1.2	(0.5)	0.5	0.3	-	0.5

Notes:

1. The Flood Defence account benefited from proceeds on the sale of assets amounting to £2.0m.
2. Expenditure includes an amount of £34.0m in respect of contracted services.
3. The amounts shown for Wales relate to the Environment Agency's Wales Region, which operates within a boundary drawn from river catchments as opposed to the NAW political boundary.

	Southern	South West South West	South West Wessex	Thames	Wales	TOTAL
	£'m	£'m	£'m	£'m	£'m	£'m
<b>Income</b>						
Grant in aid	47.7	17.8	31.6	76.7	26.0	445.2
Local authority levies	1.2	0.4	2.8	5.6	-	21.9
General drainage charges	-	-	-	-	-	3.0
Internal drainage boards	1.2	-	0.5	-	0.6	8.5
Contributions from Beneficiaries	0.1	0.1	0.2	-	-	0.4
Other Grants	-	-	-	0.5	-	1.1
Other income	0.4	0.1	0.3	4.0	1.0	8.2
Capital grants and Contributions	0.6	0.5	0.1	0.6	3.1	11.7
Sale of assets	1.0	-	0.2	0.3	0.2	2.7
Interest receivable	0.5	0.2	0.4	1.0	0.3	5.4
<b>Total income, including interest</b>	52.7	19.1	36.1	88.7	31.2	508.1
<b>Expenditure</b>						
Main river:						
Inland waters	6.4	5.9	11.3	23.6	10.1	132.8
Tidal waters	0.8	0.6	1.2	7.9	1.3	27.1
Sea defence	2.1	1.0	1.2	-	0.4	7.6
Flood warning	1.9	1.0	2.0	0.7	1.0	12.8
Local Levy Expenditure	-	-	0.7	1.2	-	6.5
Other works	17.2	3.0	3.3	23.7	4.4	96.5
Depreciation and expenditure on capital works expensed in year	23.7	11.7	8.8	56.8	15.1	250.3
Internal drainage boards	0.3	-	-	-	-	2.5
<b>Total expenditure</b>	52.4	23.2	28.5	113.9	32.3	536.1
<b>(Deficit)/surplus for year</b>	0.3	(4.1)	7.6	(25.2)	(1.1)	(28.0)
Transfer from/(to) capital reserves	(0.2)	3.8	(7.8)	24.1	(0.6)	18.3
Surplus/(deficit)	0.1	(0.3)	(0.2)	(1.1)	(1.7)	(9.7)
Balances brought forward						
Local Levy Balances	1.2	1.0	3.8	5.4	-	19.3
S47 Balances	-	-	-	-	2.1	2.1
<b>Balance carried forward</b>						
Local Levy Balance	1.6	0.8	3.8	4.9	-	14.0
S47 Balances	(0.3)	(0.1)	(0.2)	(0.6)	0.4	(2.3)
Analysis of:						
Capital expenditure						
Grants receipts	23.9	10.9	13.7	32.2	16.3	231.8
	0.5	0.4	0.1	0.7	3.1	11.1
<b>Local Levy Position</b>						
Balances brought forward	1.2	1.0	3.8	5.4	-	19.3
Plus Income	1.1	0.5	3.1	6.7	-	23.7
Less Expenditure	0.7	0.7	3.1	7.2	-	29.0
Balances carried forward	1.6	0.8	3.8	4.9	-	14.0

(c) Water Resources Account by Region for the Year Ended 31 March 2007

	Total	Anglian	North East		North West	Midland	Southern	South West	Thames	Wales
			Northumbria	Yorkshire						
	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m
Accumulated surplus/(deficit) At 1 April 2006	(0.9)	(3.2)	0.3	0.2	0.8	1.2	0.6	0.9	(0.8)	(0.9)
Income receivable	125.7	20.7	19.2	6.6	9.2	17.5	10.7	9.4	15.9	16.5
	124.8	17.5	19.5	6.8	10.0	18.7	11.3	10.3	15.1	15.6
Expenditure	125.5	20.8	18.6	6.5	9.3	18.0	10.4	9.2	16.2	16.5
<b>At 31 March 2007</b>	<b>(0.7)</b>	<b>(3.3)</b>	<b>0.9</b>	<b>0.3</b>	<b>0.7</b>	<b>0.7</b>	<b>0.9</b>	<b>1.1</b>	<b>(1.1)</b>	<b>(0.9)</b>

Notes:

Expenditure shown in the table includes a rate of return charge. Each region of the Environment Agency maintains its own water resources account and operates a national charging scheme with regional unit rates which are determined from local circumstances and approved by the Board. The amounts shown for Wales relate to the Environment Agency's Wales Region, which operates within a boundary drawn from river catchments as opposed to the NAW political boundary.

(d) Environmental Protection

	Total	General Environmental protection	Cost recovery activities
	£'m	£'m	£'m
Income receivable	314.5	148.8	165.7
Expenditure including current cost depreciation and rate of return	313.9	148.8	165.1
<b>Deficit for the year</b>	<b>0.6</b>	<b>-</b>	<b>0.6</b>
Accumulated deficit at 1 April 2006	(5.8)		(5.8)
<b>At 31 March 2007</b>	<b>(5.2)</b>	<b>-</b>	<b>(5.2)</b>

Cost recovery activities relate to the granting and monitoring of consents, licences and authorisations. General environmental pollution control comprises the remaining activities of the environmental protection function. Charges to applicants for and holders of consents, licences and authorisations have to provide for current cost depreciation and a 3.5% rate of return on relevant assets.

The accumulated deficit on cost recovery activities represents the net aggregate balances on the accounts of ten separate charging schemes.



**(e) Grant-in-aid Received in the Year**

The following statement shows the amount of grant-in-aid received from the Defra and NAW according to the budgetary provision in Class III, Vote 3, Class XIV, Vote 2 and Class X, Vote 2 of the parliamentary supply estimates, respectively.

	TOTAL £'m	Defra (GIA) £'m	Defra (FDGIA) £'m	NAW £'m	Defra (Other) £'m
Grant-in-aid received in year:	590.8	112.6	419.2	48.6	10.4
Balance brought forward	-	-	-	-	-
Transfer to grant-in-aid reserve	(603.1)	(124.9)	(419.2)	(48.6)	(10.4)
Surplus for the current year to be used to fund grant-aided functions in 2007-08	-	-	-	-	-
Defra grant-in-aid to be carried forward to 2007-08	-	-	-	-	-
Grant-in-aid received for unfunded pensions	12.3	12.3	-	-	-
Grant-in-aid included in income and expenditure account	-	-	-	-	-

**(f) Other Grants Received**

Project specific grants included in Supporting Statement XI(a) were received from the following sources:

	£'m
Defra	1.5
European Union	1.7
	<hr/>
	3.2
	<hr/>

Printed in the UK for The Stationery Office Limited  
on behalf of the Controller of Her Majesty's Stationery Office  
*ID5572472 07/07*

Printed on Paper containing 75% recycled fibre content minimum.

**Would you like to find out more about us,  
or about your environment?**

**Then call us on**

**08708 506 506** (Mon-Fri 8-6)

**email**

**[enquiries@environment-agency.gov.uk](mailto:enquiries@environment-agency.gov.uk)**

**or visit our website**

**[www.environment-agency.gov.uk](http://www.environment-agency.gov.uk)**

**incident hotline 0800 80 70 60** (24hrs)

**floodline 0845 988 1188**



**Environment first:** This publication is printed on paper made from 100 per cent previously used waste. By-products from making the pulp and paper are used for composting and fertiliser, for making cement and for generating energy.

Published by TSO (The Stationery Office) and available from:

**Online**

**[www.tsoshop.co.uk](http://www.tsoshop.co.uk)**

**Mail, Telephone, Fax & E-mail**

TSO

PO Box 29, Norwich, NR3 1GN

Telephone orders/General enquiries: 0870 600 5522

Order through the Parliamentary Hotline Lo-call 0845 7 023474

Fax orders: 0870 600 5533

E-mail: [customer.services@tso.co.uk](mailto:customer.services@tso.co.uk)

Textphone 0870 240 3701

**TSO Shops**

16 Arthur Street, Belfast BT1 4GD

028 9023 8451 Fax 028 9023 5401

71 Lothian Road, Edinburgh EH3 9AZ

0870 606 5566 Fax 0870 606 5588

**The Parliamentary Bookshop**

12 Bridge Street, Parliament Square,

London SW1A 2JX

**TSO@Blackwell and other Accredited Agents**

ISBN 978-0-10-294514-0



9 780102 945140