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changing... tackling... protecting... reducing...
creating a better place... influencing...
inspiring... advising... managing... adapting...

Annual report and accounts 2004/5

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

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

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

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**Environment Agency
Annual report and accounts 2004/5**

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Section one

Overview

Foreword

Last year may have been the tipping point for climate change, the moment when public opinion underwent a significant shift. The issue has been subject to prolonged debate among scientists and those with an interest in the environment for a decade or more. But this was the year when global warming and its consequences became a general topic of conversation.

People now talk about climate change and, broadly, accept that it is something that can be curbed - if not wholly prevented. There has been recognition at the top level that climate change is at the very least one of the greatest challenges to the future security of the world. With the Kyoto Protocol finally coming into force in February 2005 it seems that minds are, at last, concentrated on this most pressing of issues.

But people believe what their eyes tell them rather more than what others tell them. So, for us here in the UK it has been images on television and in newspapers that have convinced us that worrying things are happening to powerful natural systems. And the grainy amateur video footage of destruction as it happened in Boscastle last summer was surely one of the biggest wake-up calls yet.

Our recent report *The Climate is changing: time to get ready* spelled out the pace of change. Today's 10-year-olds have seen more extreme weather during their short lives than earlier generations experienced throughout whole lifetimes. How we harness people's concern and turn it into positive action remains to be seen, but engagement is vital if the UK is to make the creation of a low carbon future a national priority.

Although we have made long-term progress towards our national target of reducing greenhouse gas emissions, in recent years that progress has stalled and emissions have actually gone up. The increase was mostly due to demand for energy. We may all be aware that our climate is changing but we don't necessarily think that there is any connection with the way we live our lives.

Clearly, we need a new focus in energy policy of demand reduction as well as innovative ways of cutting emissions, such as the greenhouse gas Emissions Trading Scheme.

In the meantime, we are continuing to do everything we can to protect people from flooding. Major increases in Government flood defence funding meant that we were able to improve protection to almost 30,000 properties in England and Wales last year. We are also streamlining the way we manage flood risks, becoming more efficient in the way we use our resources and more effective on the ground. Last year this saved us £3.6 million, which went straight back into high-priority work.

There were other high-profile environmental issues last year that to many people probably felt a little closer to home. One of the Environment Agency's top priorities was to get to grips with fly-tipping. It is a perfect example of how environmental quality affects quality of life – where a piece of land becomes a fly-tipping hotspot it is worrying and dispiriting to the surrounding community.

Rubbish is now illegally dumped somewhere in England and Wales every 35 seconds. Although much of this is small-scale household waste, there is evidence that fly-tipping is increasingly profitable to criminals and that in many cases it is an organised business.

This demands a more organised response and last year we worked with Government and local authorities to create a more “joined up” approach to the problem. That included creating the ‘Flycapture’ database, which brings together information about incidents from all local authority areas across England and Wales.

This pooling of information has for the first time established the scale of the fly-tipping scourge and allowed partners to target their efforts, resulting in more prosecutions. The fact that 3.6 million people recently tuned into the BBC's *Dumping on Britain* documentary, which highlighted the Environment Agency's efforts to tackle the problem, shows just how much concern there is.

Like all the environmental issues we deal with, there are symptoms of the waste problem to cope with and, more fundamentally, there are underlying causes to address.

During the last year there has been new interest in the question of waste, partly driven by strict - but welcome - new rules on the disposal of hazardous waste. The rules mean that landfill site operators are no longer able to bury hazardous waste with other types. It has brought to public attention just how unsustainable our dependence on landfill is. Our attitudes to waste need to shift dramatically. Reducing, re-using and recycling must become second nature and disposal a last resort.

In other areas we are already witnessing dramatic shifts in attitudes, though. Thousands of new homes are to be built in the south east of England over coming years and there is now a very useful dialogue about how to build houses that are far less wasteful in the way they use natural resources, both during construction and during their useful life.

We have also seen planners give more consideration to flood risk when making decisions about applications to build on floodplains. All the indications from the latest climate change research indicates that flooding will become more of a problem in coming decades so it makes sense not to be creating more at-risk households.

And there has also been progress in the area of land use. Reforms of the Common Agricultural Policy have brought changes in the way agriculture is supported that shift the emphasis away from production and towards good practice and improved environmental management.

This is a timely change as the UK now faces a tough challenge if we are to meet high standards set by the new Water Framework Directive (WFD). Land use has a direct bearing on the environmental health of our rivers, wetlands and coastal waters.

We welcomed the wide-ranging programme of environmental improvement approved by Ofwat in December, which allows £3.5 billion of investment by water companies over five years. However we argued that more investment was called for and believe that the £3.5 billion represents the bare minimum required to comply with European law.

Our fresh approach to regulation was endorsed by the review of regulation carried out by Philip Hampton and published by the Chancellor in March (*Reducing administrative burdens: effective inspection and enforcement*). It recommends a simplification of the way Britain is regulated and urges that environmental issues will be controlled by five agencies responsible for food safety, the countryside, animal health, environmental protection and agriculture. We will play a leading role in this new set-up and will bring to it an enthusiasm for the smarter, risk-based approach we have helped pioneer.

We have also continued to put environmental value at the heart of everything we do. Last year we saved over £26 million by finding new and better ways of working, including £10.7 million from better procurement practices and contracts.

As a champion of the environment we are leading by example in the way we manage our own environmental impacts. We are delighted to have achieved EMAS accreditation in 2004/5. It is the highest environmental standard any organisation can achieve, and only 65 others have done so in the UK. In just four years we have reduced energy use per staff member by 18 per

cent and the amount of office waste going to landfill by over 30 per cent. To eliminate the impacts publishing a separate Environmental Report has on the environment, this year we incorporate all environmental performance information into this document (pages 49-50).

I am delighted that last year we were recognised as an Investor in People. This is a rare achievement for an organisation of our size – many organisations apply for accreditation by department or section. More than anything it demonstrates just how dedicated we are to managing and supporting our staff in their work. Nothing is more important than their health and safety. Last year our record continued to improve – there were only 121 recorded injuries involving time off work and the corresponding injury rate improved by eight per cent on the previous year. In October 2004 we were prosecuted for two offences relating to a tree work incident and fined £16,000. The court commented favourably on the action that we had already taken to make sure that similar incidents never happen again.

There is clearly a great deal to do on every front, but we have shown that we can adapt well to meet new challenges – a testament to the energy, commitment and versatility of our staff. Creating a better place is what we are about and I am confident that we will build on our achievements in giving others a better quality of life.

Sir John Harman, Chairman

Giving others a better quality of life – an overview of last year’s progress

Where a generation ago we might have talked about wealth or career success, today the rather intangible concept of ‘quality of life’ is our personal measure of progress. What adds up to ‘life quality’ is debatable, but most people would probably agree that the quality of their environment is the foundation.

What the Environment Agency does is vital to ensuring a sound foundation – air that is fit to breathe, a community free from fly-tipped rubbish, clean rivers and beaches that children can play on safely.

This report looks at last year’s progress towards the eight environmental goals set out in our Corporate Strategy and looks at what we have done to adapt our organisation to best meet the challenges of today and of the years to come.

An enhanced environment for wildlife

The natural web of life is complex and we are a part of the whole in just the same way as wild animals and plants. The Environment Agency works to improve habitats in rural and urban areas for the benefit of all species.

Working with a wide range of partners, such as English Nature, the Wildlife Trusts and the Countryside Council for Wales, we completed around 400 projects last year to improve habitats. These habitat improvements offer a double ‘payback’ for the investment put in, supporting the diversity of nature and also offering people opportunities to enjoy the great outdoors.

Much of the work we do focuses on aquatic habitats. Continuing improvements in river water quality have resulted in growing populations of animals, birds and plants that rely on a healthy river environment. Last year the National Otter Survey for Wales reported that otters were present at 71 per cent of river and wetland sites investigated – exceeding the Biodiversity Action Plan target of 70 per cent by 2010.

During the year we worked with the Biodiversity Action Plan Steering Group to propose urgent action to protect chalk rivers, such as the Hampshire Avon and the Frome. Our report *The State of England’s Chalk Rivers* published in July 2004 established that nearly a third are in poor or very poor condition.

Another report, *Our nation’s fisheries*, presented the most comprehensive survey ever of the state of freshwater fish species in England and Wales. It found that fish populations are thriving with eight different species or more caught at one-in-two sites investigated. Not all the news offered by the report is positive however. Salmon stocks are seriously depleted across England and Wales and eel numbers are critically low.

Cleaner air for everyone

Air quality has continued to improve. The long-term trend is that polluting emissions from industry in England and Wales are improving.

Much of the progress has come as a result of a clean-up in the industries that we regulate. For example, concentrations of the gas sulphur dioxide (SO₂) – which can be harmful to human health and causes acid rain – are a quarter of what they were 15 years ago.

Coal and oil-fired power stations are one major source of pollutants. Last year we worked with the power generators on a new regulatory framework for 2005-07 that should reduce the total amount of SO₂ emitted by more than a fifth. However emissions of nitrogen oxides have increased, due largely to increased demand for electricity from coal fired power stations in 2004/5.

Big reductions in industry's emissions now mean it makes a relatively small contribution to most kinds of air pollution. Sources of pollution that are not within our control are now the main cause of poor air quality; better controls on transport, especially cars and lorries, are needed if air quality targets are to be met in future.

During last year we also revised the protocol that we use when considering applications to use waste as a substitute fuel in cement and lime kilns. The new protocol makes more stringent demands on kiln operators to spell out the environmental benefits that come from using waste as fuel rather than fossil fuels and to fully consult local people.

Bad smells are another aspect of air quality that concerns communities. We investigate odour problems where they become a nuisance and prosecute where necessary. In one case last year the operator of a Lancashire landfill was fined £33,500 for failing to control smells and dust at the site.

Improved and protected inland and coastal waters

Routine testing during the year saw the water environment continuing to turn in good results. Water at 98.6 per cent of designated beaches was clean enough to meet European 'mandatory' standards, a figure that compares well with 66.5 per cent in 1988.

There was a slight downturn in the proportion of bathing waters that passed the stricter 'guideline' standard, however. Last year 80.4 per cent met this standard, while in the previous year the proportion was 83 per cent. The dip in numbers may have been caused by wet weather during summer 2004, which highlights the need for more to be done to improve sewage discharges and to prevent diffuse pollution from the land.

Annual monitoring of water quality in 7,000 rivers and canals in England and Wales showed little change against the previous year. Biological quality improved slightly, while there was a small drop in the number of rivers classified as being of good chemical quality. Although there have been vast improvements in water quality since monitoring began in the early 1990s, the rate of improvement has slowed in recent years. Nearly a third of rivers still need work especially in towns and cities, where one in six are classed 'poor' or 'bad'.

Even those classified as 'good' are unlikely to be judged good enough in the coming years as the Water Framework Directive (WFD) becomes the yardstick for water quality. This new EU legislation challenges member states to go much further in improving the water environment, including tackling diffuse pollution, and calls for a more integrated approach to the way they manage water and land. Work to prepare for WFD has involved the assessment of all 11 river basin districts in England and Wales, and results from this indicate that many rivers would fail the WFD's tough test of good health.

A £3.5 billion five-year clean-up programme, approved by Ofwat in December, will begin to address some of the issues identified by the river basin assessments. The programme promises a significant reduction in sewer overflows in bad weather as well as the restoration of river and wetland habitats, but is the minimum that will allow us to comply with European law.

Our work with water companies and others is also helping us to understand where the water environment is being damaged by abstraction of water. Government has instructed us that if we need to take action to restore river flows or to improve a wetland then any compensation due to abstraction licence holders must come from abstraction charges. We plan to complete consultation on a new scheme of charges in 2005/6.

Restored, protected land with healthier soils

There has been important progress towards improving the way we manage our land in England and Wales. Working closely with Defra and Welsh Assembly Government,

landowners and the farming industry we are trying to find new sustainable ways of working that protect habitats, soils and the water environment.

New and revised regulations on agricultural wastes will be introduced in 2005. This means that we are now bringing up to 162,000 farms into regulation. To achieve the greatest possible environmental gain we are applying a risk-based approach to the problems of pollution from farms with effort targeted on those businesses that are most likely to pollute water. As well as inspecting individual farms we are working with partner organisations to identify pollution risks and to manage them at river catchment level with pilot projects on river systems in England.

We have welcomed the introduction of the new regime of farm subsidy payments, which move the emphasis away from rewarding production to good stewardship of the countryside.

One important aspect of these new arrangements is the emphasis given to improving the management of soil on farms. Our *State of soils* report, published in 2004, highlighted neglect and a lack of understanding of soils that threaten permanent damage to one of our most important natural resources. As a member of the Soil Action Plan Advisory Forum we have been helping develop a soil action plan for England and hope to play a similar role in Wales in due course.

State of soils looks at the way intensive agriculture takes its toll on soils, but also considers other impacts like demand for raw materials and house building.

We have been playing a leading role in the national debate about how to minimise the environmental impact of new homes, including through the Sustainable Buildings Task Group. The Group, which is co-chaired by our Chairman Sir John Harman, has called for a new national Code for Sustainable Building, which would limit use of natural resources and reduce energy and water consumption.

In urban areas many businesses are now doing more to clean up contaminated land with our help, which allows for sites to be re-used. And, to encourage use of brownfield sites by developers, we have recently changed licensing rules for heavy equipment used by contractors in a way that has removed red tape at the same time as reducing the amount of contaminated soil that goes to landfill.

A greener business world

A smarter approach to the way that we work with business brought results last year. Across the board our approach is to encourage good practice and work with businesses that are good environmental performers while concentrating our efforts where we think there is potential for harm to people's health and to the environment.

Our Operator and Pollution Risk Appraisal system (OPRA) works on this principle and targets our time on industrial processes that pose the greatest environmental risks. Last year 44 per cent of businesses assessed under our Environmental Protection OPRA system scored in the highest 'A' category, up eight per cent from last year.

To encourage good practice we have been working with industry to create environmental improvement plans for business sectors. These Sector Plans are helping us concentrate our resources on the key environmental issues that face different sectors of industry. Plans are now in place for the cement, chemicals, nuclear and water industries and work is underway on plans for agriculture, food and drink and the electrical supply industry.

We have continued to develop our NetRegs website, which is aimed at small and medium-sized businesses and gives clear, easy to use information on environmental regulations. Use of

the site increased over the year to a total of two million page impressions and 28,000 unique visitors per month.

We have also seen the businesses we regulate respond very positively to our promotion of Environmental Management Systems (EMS) – more than half have now adopted one. We have also been able to show business that greater attention to good environmental practice pays. Environment Agency funded research looked at the performance of 15 case study businesses and found that companies that set out to reduce their environmental risks and impact were more profitable, valuable and competitive.

But we have kept up the pressure on ‘cowboy’ operators, who choose to ignore environmental protection laws. Our latest *Spotlight* report on business performance records that 233 prosecutions during the year for companies resulted in total fines of more than £2.3 million.

Wiser, sustainable use of natural resources

The careless way our society uses natural resources and produces ever-increasing volumes of waste remains one of our biggest concerns.

Last year saw a worrying upturn in the number of fly-tipping incidents in England and Wales. To confront the problem we have worked with the Local Government Associations in England and Wales and Defra and Welsh Assembly Government to establish a new database of fly-tipping incidents that provides a national-scale picture of the problem. ‘Flycapture’ shows that fly-tipping incidents in England and Wales are happening at a rate of 75,000 a month and that the cost of clearing up illegally dumped rubbish is running at close to £100 a minute. Almost all English and Welsh local authorities are now using the system.

The database is also being used as an enforcement tool helping us to work with local councils and the police to target fly-tipping hotspots and catch criminals. Its use has resulted in successful prosecutions and in the confiscation of vehicles used by fly-tippers.

Last summer we successfully managed the introduction of new rules on how hazardous waste can be disposed of in landfill sites. Our research has shown that new regulations, increased competition and the rising cost of disposal is forcing companies to be less wasteful than they once were. Last year our study of the impact of the Integrated Pollution Prevention and Control Directive found that between 1998 and 2002 waste going from regulated companies for disposal has fallen by 25 per cent and that waste recovery has gone up by 50 per cent.

Pressure on water resources remains a problem. Some parts of England had six consecutive months of below average rainfall last year making it the driest winter for 100 years.

We were pleased to see that water companies’ final water resources plans will – if followed – meet the needs of their customers for the next five years. We are concerned, however, that many plans focus on creating new resources such as reservoirs rather than on more efficient use of existing ones. As the massive demand for new, affordable homes continues to grow, companies particularly need to increase the use of water meters and promote efficiency more.

Limiting and adapting to climate to change

We highlighted the pace at which our climate is changing in our report *The Climate is changing: time to get ready*, published in March 2005. It shows how the UK’s current generation of 10-year-olds has seen some of the greatest extremes of weather in centuries.

The last decade has seen six of the UK’s hottest years on record, the highest ever recorded temperature (during the heatwave of 2003), record floods and more frequent storm surges on coasts. The report also highlights the potential financial costs of climate change. The cost of repairing flood damage alone in England and Wales is expected to increase from the current £1 billion a year to as much as £25 billion by 2080s.

Adapting to climate change is now a top priority. So too is Britain's part in the global effort to slow the rate of change by delivering the reduction in emissions of greenhouse gases set out in the Kyoto Protocol, which finally came into force last year.

Government's target is to cut carbon dioxide (CO₂) emissions to 20 per cent below 1990 levels by 2010 and by 60 per cent below 1990 levels by the middle of the century. In 2004 greenhouse gases from industries we regulate were 20 per cent below estimated 1990 levels, and releases in 2004 were a further 0.5 per cent down on those of 2003.

However, a new regime that makes CO₂ reduction a priority is now being put in place throughout Europe. In England and Wales, we will administer this Emissions Trading Scheme (ETS) and so far we have issued 832 permits.

Reducing flood risk

Here in the UK the most direct impact on people's lives of climate change is increased flood hazard. Last year, flooding's huge potential to do damage was brought home to us all by the devastation wreaked in and around Carlisle and at Boscastle.

New Government plans will set the direction for those involved in managing flood and coastal erosion risk for the next 20 years and beyond. The proposals include giving the Environment Agency a new strategic overview role for all forms of flooding and coastal erosion in England. They could also involve new responsibilities for managing flood risk from groundwater, surface run-off and urban drainage. Over the coming year Defra will be consulting on the precise nature of this new role.

We have continued to protect homes and businesses by building new defences – last year we improved protection to almost 30,000 properties. Many communities in England and Wales have already benefited from this flood defence work, including Bewdley on the Severn, Lewes in Sussex, Bradford in Devon and Afon Rhydhir in Pwllheli.

Last year we began changing the way we manage flood defence to provide a much more efficient service. This is saving around £3.6 million a year, money that we can channel into new, higher priority work. To help meet the growing need for flood management engineers and address widespread skills shortages we have also launched a pioneering new Foundation Degree course.

One of the most important developments on our website has been the new, accessible flood map that allows users to discover the risk of flooding around their home or business. The map has already proved very useful and popular – daily hit or visit rates have topped a million a day during busy periods. The new map, and continuing work to inform the public about how to prepare for flooding, have done a great deal to raise awareness of the flood issue.

We have continued to push to prevent inappropriate development on floodplains. In 2003/4, 12 per cent of development proposals to which we had objected nevertheless went ahead against our advice. Although fewer planning decisions are being granted for floodplain sites that we believe should not be built on, a small number of applications are still being approved for major floodplain developments, many of them for new homes.

The Office of the Deputy Prime Minister proposes to consult on a new planning policy later in 2005. Subject to the outcome of this consultation, new arrangements could see major developments referred to ministers where the Environment Agency has advised against them on flood risk grounds.

Embracing change

As challenges and priorities change we are constantly re-thinking what we do as an organisation to be sure that we can achieve the best possible outcome for the environment at the least cost to the taxpayer. We look at the systems we use, our ways of working and the services we offer to make sure that all our efforts earn real environmental benefit.

Our common purpose is set out in our Corporate Strategy *Making it happen*, which sets out five roles for our organisation.

- Efficient operator

We are always looking for more efficient ways of providing the best possible service to the people of England and Wales. Last year we achieved efficiency savings of more than £26.5 million – exceeding our target of £20 million. Of that, £10.7 million was saved through a more efficient approach to procurement practices and contracts. We also secured £75 million of additional investment in the environment this year and by working with other organisations have become more successful at winning funds from Europe and the National Lottery.

- Modern regulator

We use our resources sensibly, putting the most effort into working with the poorest performers and where the risk to health and the environment is greatest. At the same time we reward good performers by regulating them with a lighter touch, charging them less and highlighting their achievements. One way in which we applaud good practice is by organising awards. We have just helped launch a Countryside Farmer of the Year competition and continue to run very successful Water Efficiency awards. This year's water winners include a brewer that has re-thought the way it works to cut water used by a quarter and an organic farm business that is set to save thousands of pounds a year by re-using waste water.

- Influential advisor

We work with Government and a range of other organisations to influence policy and to shape new legislation. It is a job that has to be done at local, regional and national level here and at EU level in Brussels. Last year our advice at local level has in many cases influenced planning authorities against allowing new building on floodplains while at Westminster we have played a role in shaping the new integrated agency, Natural England.

- Effective communicator

Last summer we masterminded an extremely successful World Environment Day, which attracted unprecedented public involvement and publicised a range of issues around the impact of personal choice on the wider environment. We also hosted Environment 2004, our third major environmental conference. Attended by well over 500 delegates, the event examined the choices we all make and how they affect the environment. Our focussed, informed reports on key issues, like the recent *The Climate is changing: time to get ready*, attract widespread media interest and play an important part in the national debate on environmental topics. And our new web-based flood map shows how we are making full use of new opportunities to communicate with the public.

- Champion of the environment

Wherever possible we work to make sure that the environment is a priority alongside economic and social issues and that people understand how a good environment is essential to economic and social well being. An important part of this champion role involves setting the best possible example to other businesses and organisations. So, our new area office at Wallingford is a shining example of sustainable design with many 'green' features, including solar panels that produce a fifth of the building's electricity. Meanwhile our overall environmental performance goes from strength to strength – in the last four years we have reduced energy use per person by 18 per cent, water by 8.1 per cent and the amount of office waste going to landfill by over 30 per cent.

Section two

Our achievements in 2004/5 How we performed against actions and targets in our Corporate Plan

Introduction

In this section we report on the progress we are making towards achieving our environmental goals. We describe this progress both for key performance targets, which are the main measures of our success, and other targets. We introduce each section by explaining our long-term vision for each environmental goal and how it links to the five-year strategic targets set out in our Corporate Strategy *Making it happen*.

Our targets are vital. Through them we are challenging ourselves to achieve the best possible results for the environment and create a better place for all.

Key

- ✓ = Target was fully achieved
- ↔ = Target is on course or was substantially achieved
- x = Target was not achieved or only partially achieved

A better quality of life

Our long-term vision: People will have peace of mind from knowing that they live in a healthy environment, rich in wildlife and natural diversity, which they will care for and can use, appreciate and enjoy.

Making it happen: Our strategic targets for 2007

People's experience of the environment and their quality of life will be enhanced as a result of our actions, together with partners, on all of our environmental themes outlined in our vision for the environment, our corporate strategy and in this report.

There will be an enhanced environment for wildlife; cleaner air for everyone; improved and protected inland and coastal waters; restored, protected land with healthier soils; a 'greener' business world and wiser, sustainable use of natural resources. In addition, we will have helped limit and adapt to climate change and managed and limited the risk of floods.

If we can achieve our committed progress on all these themes, we will have contributed to people's quality of life.

Getting there: How we performed last year against specific actions and targets in our Corporate Plan

| Key performance target | | |
|---|--------|---|
| Actions and targets published in our 2004/07 Corporate Plan | Status | Progress |
| 75 per cent of people regard their quality of life as 'good' because the environment is getting better. | ✓ | In last year's survey of 2,000 people 77 per cent agreed, a 4 per cent increase on the previous year. |

An enhanced environment for wildlife

Our long-term vision: Wildlife will thrive in urban as well as rural areas. Habitats will be improved and extended for the benefit of all species, and priority species will no longer be threatened. Everyone will understand the importance of safeguarding biodiversity and protecting wildlife and its habitats.

Making it happen: Our strategic targets for 2007

Protecting and improving priority sites

- Where the Environment Agency, through its own operations or through those it regulates, is a significant contributor to actual or potential damage in 96 high priority Special Protection Areas (SPAs) and Special Areas of Conservation (SACs), remedial action will be identified by 2004. We will have completed the programme of remedial work by 2006. We will complete investigative work to identify the causes of Environment Agency-related impacts on 167 medium priority sites by 2006, and work will have started on half of these sites by 2007.
- Ensure that 85 per cent of Environment Agency-owned Site of Special Scientific Interest (SSSI) land in England and Wales is in favourable condition.

Contributing to the UK Biodiversity Action Plan

Make proportionate progress towards UK Biodiversity Action Plan (UK BAP) targets, in particular for all species and habitats for which we have the lead. For example, by 2005, otters to be present in 75 per cent of river catchments that they occupied in the 1960s.

Protecting and improving fisheries

- Ensure that 13 additional rivers in England and 10 additional rivers in Wales meet salmon conservation limits, and reduce the unreported and illegal salmon catch from 35 tonnes to less than 25 tonnes by 2008.
- Reduce illegal fish movements and the resulting risk of alien species introduction and spread of fish diseases by targeting an additional 170 high-risk fish transfers per annum.

Getting there: How we performed last year against specific actions and targets in our Corporate Plan

| Key performance targets | | |
|--|--------|--|
| Actions and targets published in our 2004/07 Corporate Plan | Status | Progress |
| For high priority sites, we will have identified where remedial actions are required by 31 March 2004 and will implement these, or secure delivery mechanisms, by 31 March 2006. | x | We missed the March 2004 deadline because data was late coming from external contractors. We are now working through the data. |
| For medium priority sites (135 sites in total) we will have completed investigation work by 31 March 2006 and will have begun to implement remedial actions by 31 March 2007. | ↔ | Regions report satisfactory progress overall for the review of consents. |
| By the end of 2004/05 we will have checked at least 67 sites for remedial work. | x | Target failed. Reporting for the Habitats Directive is done in 2004 and 2006. The 2005 target was a half-way figure. |

| | | |
|--|---|---|
| We will take action to reduce the number of Habitat Directive sites identified as being adversely affected by permits issued by the Environment Agency. By the end of the year a minimum of 69 sites will no longer be adversely affected. | ✓ | Target exceeded – 91 sites are no longer affected. |
| We will ensure that at least 80 per cent of the SSSI land we own is in favourable condition by the end of 2004/5. (This applies to SSSI land in England. We are awaiting an SSSI assessment from the Countryside Council for Wales.) | ↔ | We achieved 79 per cent. Three large sites we own remain in unfavourable condition (River Derwent, Ouse Washes, Rye Harbour). |
| As a result of our action, the area of Environment Agency-led BAP habitats will increase by at least 150 hectares (ha). | x | We increased Environment Agency-led habitats by 49.6 ha. If all BAP habitats for which we have actions are included, then the gain is 425 ha. |

Other performance targets

| Actions and targets published in our Corporate Plan 2004/07 | Status | Progress |
|---|--------|--|
| We will evaluate our own policies and procedures to ensure ecological impacts are taken into account. | ↔ | We have started a policy schedule, which will track all policies and processes that need ecological input. |
| We will continue to apply appropriate levels of environmental assessment to our internal works, develop approaches to strategic environmental assessment for our plans and strategies and develop a strategy for the future of our ecological service. | ↔ | We have now established a national environmental assessment service unit, which is responsible for both strategic environmental assessment and Environmental Impacts Assessment (EIA) at project level. Our Ecology Business Group will consider the details of an ecological service in 2005/6. |
| We will progress our consents review programme to the priorities and timetable agreed with Defra, the Welsh Assembly Government, English Nature and the Countryside Council for Wales, agree actions and begin work on agreeing, revoking or modifying existing consents. | ↔ | We are making good progress towards our commitments for reviewing permissions by 2010. |
| We will seek to modify our own operational activities where necessary and work with others to create habitat to compensate for unavoidable damage. | ↔ | We are confident that our own activities are, and will continue to be, compliant with the Habitats Directive. |
| We will control pollution, abstraction and our own operations to protect or restore wildlife interests at SSSIs. With English Nature and the Countryside Council for Wales, we will identify Environment Agency-owned SSSI land which is not in favourable condition and produce a plan to ensure that 90 per cent is recovering or is in favourable condition by 2006/7. We will begin work to get 95 per cent of all SSSIs in favourable condition by 2010. | ↔ | We have not yet been able to identify the full scope of the task because of delays in receiving information, so this has meant some slippage in our planning schedule. |

| Contributing to the UK Biodiversity Action Plan | | |
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| We will contribute towards UK BAP targets for those species and habitats for which we have a lead role. | ✓ | We created 425 hectares of habitat including 175 ha of floodplain grazing marsh and 122 ha of reedbed. Numerous BAP species benefited from actions including the obscure such as greater water parsnip as well as high profile ones such as the otter and water vole. |
| We will take the lead in implementing the 'Water and Wetlands' element of the England Biodiversity Strategy. | ↔ | We have made good progress and started work, with English Nature and the RSPB on a wetland vision map |
| We will implement a biodiversity check for all our policies as part of integrated policy appraisal. | ✓ | This has been completed and will be monitored by our environmental policy section. |
| We will promote the conservation of habitat and wildlife dependent on the aquatic environment in accordance with the UK Ramsar Strategy. | ✓ | We continue to play a major role promoting the conservation and enhancement of wetlands and their wildlife. |
| We will develop river habitat objectives that will encourage improvements for aquatic and wetland wildlife, as required by the England Biodiversity Strategy. | ↔ | We have developed a methodology and jointly with the Scottish Environment Protection Agency, and piloted it on the River Tweed. |
| We will establish a Register of Protected Areas for conserving habitats and species directly dependent on water in preparation for the Water Framework Directive. | ↔ | This work is well under way, with advice being given by English Nature and Countryside Council for Wales |
| We will help to develop EU technical standards, classifications, common implementation strategy and river basin characterisation projects as required by the Water Framework Directive. | ↔ | We have helped to develop methods and guidance standards for lakes, river morphology and aquatic invertebrates in lakes and rivers. We made a significant contribution to the first characterisation phase of the Water Framework Directive and cross-comparison work across European countries to ensure consistency of results. |
| We will have applied ecological criteria to ensure an improvement to biological water quality needed to achieve compliance with River Quality Objectives and will have refined our ecological monitoring and assessment programme to measure and report these changes effectively. | ↔ | Work continues with English Nature and the Countryside Council for Wales to develop environmental quality standards to protect nationally and internationally important water and wetland habitats from nutrient enrichment. |
| Protecting and improving fisheries | | |
| We will have contributed to Government's objectives for managing freshwater fisheries, as laid out in Government's response to the Salmon and Freshwater Fisheries Review. | ↔ | We continue to act on the recommendations within our powers. Several implemented in 2004/5, including introduction of national eel fishing duties and by-laws. |
| We will continue to invest in angling participation schemes and, working with others, improve and develop fisheries, especially near urban areas. | ✓ | Each of our areas ran angling participation events during the year in collaboration with angling governing bodies. Nearly 30,000 anglers were coached. |
| We will protect and enhance river and river bank habitats, seeking external funding to help pay for improvement works. | ✓ | We continued the fisheries development project programme, with 61 habitat improvement projects funded. Most of these were in collaboration with partners. |

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| We will safeguard and increase income from fishing licence sales by combining targeted licence checking with national marketing campaigns. | ↔ | Rod licence checking blitzes were carried out early in the year in conjunction with a marketing campaign. We delivered 94 per cent of the 174,000 target of licence checks and successfully prosecuted over 4,000 licence evaders. |
| We will support Government in promoting a new Fisheries Bill. | ↔ | Liaison with Government continued, although the Fisheries Bill has not yet been published. |
| We will monitor the status of fisheries. | ✓ | National fisheries monitoring programme carried out as part of the five-year cycle. 100 per cent of the planned 2,700 sites were surveyed during the year. |
| We will respond to emergency fish rescues and fish-kill incidents. | ✓ | We responded to 559 of the 560 reports within the customer service standard time. |
| Reducing illegal fish movement | | |
| We will continue to work with the Centre for Environment, Fisheries and Aquaculture Sciences (CEFAS) to manage the fish movements database and website. | ✓ | We continue to jointly manage the live fish movements internet site and database with CEFAS. We are developing an online consenting process for customers. |
| We will use the national enforcement team and improve systems to manage consenting of fish movements and identify high-risk fish transfers. | ✓ | We continue to co-ordinate fish movement consents and advise areas on high-risk transfers. We exceeded our customer service target on response time with 99.6 per cent of the 9,200 applications completed on time. High-risk movements were identified and communicated to staff in our areas offices for audit. |
| We will target an additional 170 high-risk fish transfers per year (baseline 2001). | ✓ | 293 high risk fish transfers (33 per cent of the total consented) were audited during the year. We identified only three offences, one of which resulted in a high-profile prosecution. |
| Increasing salmon stocks | | |
| We will take action to increase the number of principal salmon rivers meeting their conservation limit. | ✓ | The four activities below were carried out with the objective of increasing the number of rivers meeting conservation limits. The Salmon Action Plan actions are targeted at those rivers failing their limits. |
| We will implement a prioritised programme of Salmon Action Plan (SAP) actions, including a minimum of five fish passes a year. | ✓ | We completed 778 projects contributing to SAP actions during the year. Government Grant in Aid funded 30 SAP action projects, resulting in eight fish passes built or restored. |
| We will implement the recommendations of the review of high-impact fisheries enforcement to reduce the numbers of illegally caught salmon. | ✓ | We implemented the recommendations of the review during the year. Our area offices will produce enforcement plans to reduce poaching. We responded to 96 per cent of the reports of illegal fishing within service levels, and all fish dealers were checked at least once. |
| We will promote the voluntary release of rod-caught salmon | ✓ | We continued to promote the catch and release video and leaflet. |
| We will review measures for protecting salmon. | ✓ | The spring salmon measures were reviewed. And apart from some recommendations for local action, no national changes should be made at this time. |

Cleaner air for everyone

Our long-term vision: We will have cleaner and healthier air. The emission of pollutants into the atmosphere will decline greatly, below the level at which they can do significant harm.

Making it happen: Our strategic targets for 2007

Regulating industry

As a minimum, in areas where a European Union standard is exceeded, we will ensure that the activities we regulate do not make a significant contribution to poor air quality.

Helping to deliver the UK Air Quality Strategy

We will also make our contribution to the achievement of the UK air quality objectives.

Getting there: how we performed last year against specific actions and targets in our Corporate Plan

Key performance targets

| Actions and targets published in our 2004/07 Corporate Plan | Status | Progress |
|--|--------|--|
| <p>We will help achieve the objectives of the National Air Quality Strategy by reducing emissions of 'key pollutants' from Environment Agency regulated processes. We will do this through Integrated Pollution Control (IPC) and Integrated Pollution Prevention and Control (IPPC) and we will work to ensure that these reductions continue in the coming years by targeting the industries primarily responsible.</p> <p>Target reductions:</p> <ul style="list-style-type: none"> - Sulphur dioxide (SO₂) emissions to no more than 680 kilo-tonnes - Oxides of nitrogen (NO_x) to no more than 380 kilo-tonnes - Particulate matter (PM₁₀) emissions to no more than 15.4 Kilo-tonnes | ↔ | <p>Coal and oil-fired power stations are the major source of key pollutants from the processes we regulate. During the year we have worked with the power generators and finalised guidance on how they will comply with air quality objectives due to be met in 2005. We have put in place a new regulatory framework for the period 2005-2007. This will reduce the total amount of sulphur dioxide (SO₂) that can be emitted from 515 kt per year to about 399 kt, and cut the allowable emissions rate of SO₂ per unit of electricity generated by power stations without Flue Gas Desulphurisation (FGD).</p> <p>We have met the target reductions for SO₂ and PM₁₀ but releases of NO_x have increased, mainly due to increased electricity generation from coal fired power stations in 2004/05. Future controls on NO_x are planned to deal with this issue.</p> <ul style="list-style-type: none"> - SO₂ 596 vs target 680 - NO_x 434 vs target 380 - PM₁₀ 14.4 vs target 15.4 |

Other performance targets

| Actions and targets published in our 2004/07 Corporate Plan | Status | Progress |
|--|--------|---|
| <p>We will work with Government to implement the Large Combustion Plant (LCP) Directive, which will be in place by 2008. We will implement the directive through a National Emission Reduction plan using emissions trading. This will bring significant reductions in SO₂ and NO_x at the lowest cost.</p> | ↔ | <p>We have implemented the monitoring requirements of the directive for all existing LCPs. We have provided detailed expert advice to Government on a proposal to implement the Directive from 2008 as part of a National Emission Reduction Plan (NERP).</p> |

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| We will provide information on processes we regulate to local authorities, to assist them in managing air quality objectives at a local level. | ✓ | We have provided information about processes that we regulate where we have received requests from local authorities. We have also drawn local authorities' attention to the need to consider emissions from landfill gas engines which can impact on air quality. |
| We will work with others to develop criteria known as Environmental Assessment Levels (EALs) to assess air emissions from industrial processes. | ↔ | We have worked with EPQAS, the Government's expert panel on Air Quality Standards, to assess the impact of air emissions from industrial processes. In 2003 EPAQS supported an American approach for the development of interim EALs for releases to air. |
| We will work with Government to develop air quality guidelines for the protection of human health for a number of halides in 2004. | ✓ | We have developed guidelines with EPQAS for hydrogen chloride, hydrogen fluoride, hydrogen bromide, hydrogen iodide, chlorine and bromine. |
| We will take action to ensure that emissions to air from processes we regulate do not adversely affect wildlife sites of European importance as designated under the EU Habitats Directive. | ↔ | We assessed the impact of industrial processes we regulate on 42 high priority European Habitat sites. We also assessed the impact of approximately 992 installations on all European sites and implemented controls as required. |
| Through the implementation of the EU Solvent Emissions Directive we will ensure companies we regulate limit their emissions of volatile organic compounds and phase out the use of specific solvents. | ↔ | We have informed operators of the requirements of the regulations. All relevant PPC permits contain improvement conditions requiring operators to meet the requirements of this Directive. |

Improved and protected inland and coastal waters

Our long-term vision: Our rivers, lakes, estuaries, groundwater and coastal waters will be far cleaner. They will sustain diverse and healthy ecosystems and support navigation and recreation, including water sports and fishing, to support a thriving and healthy community.

Making it happen: Our strategic targets for 2007

Preparing for the Water Framework Directive

Characterise and quantify pressures and impacts on all surface waters, including rivers, lakes and estuaries.

Achieving water quality standards

- Achieve 91 per cent compliance with River Quality Objectives for 2005, and make progress towards Government target on AMP4 for 2010.
- By 2005, for the coliform parameters in the Bathing Water Directive, achieve at least 97 per cent compliance with the mandatory standards, and 85 per cent compliance with guideline standards as reported by the European Commission.
- Ensure that 95 per cent of inland and coastal waters achieve the requirements of EC use-related Directives, as interpreted by Government.
- To reduce diffuse pollution and eutrophication, 6,000 farms in England and Wales will have nutrient management plans.

Ensuring sustainable abstraction

- Restore 116 sites affected by unsustainable abstraction, prioritise further sites for remediation and begin restoration of these and additional sites.
- Quantitatively characterise and document the resource demand and quality pressures on all groundwater sources.
- Ensure 119 local Catchment Abstraction Management Strategies (CAMS) are in place by 2008.

Developing navigation and recreation

- Deliver waterway regeneration from 20 per cent of major flood defence / navigation capital projects.
- Reduce the backlog of our navigation assets that are not in safe working order by 85 per cent.
- Implement waterway standards for facility provision and service delivery on all of the navigations that we control.
- Increase the number of our sites that provide public access by 7 per cent.
- Increase participation in fishing (rod licence sales increased by 10 per cent) focusing particularly on young people, elderly people and disadvantaged groups such as disabled and unemployed people.

Getting there: how we performed last year against specific actions and targets in our Corporate Plan

Key performance targets

| Actions and targets published in our 2004/07 Corporate Plan | Status | Progress |
|--|--------|---|
| We will increase participation in angling and sell a minimum of 1.221 million rod licences | x | We sold a total of 1.218 million licences this year, 3,000 (0.25 per cent) short of the target. Full season licence sales were up by 4,000. |
| As part of our Restoring Sustainable Abstraction (RSA) programme we will investigate the impact of excessive abstraction by industry and agriculture on river and wetland sites. Where required, remedial action will be sought. By the end of 2004/05 we will implement sustainable regimes at no fewer than 25 RSA sites | ↔ | The RSA Programme was reviewed during 2004/2005 to ensure it will meet the needs of international and national legislation. The review has shown that in 52 cases there were no significant abstraction related problems or that issues had been resolved. |
| We will take action to meet the Government's target to achieve 91 per cent compliance with River Quality Objectives by 2005/06, by implementing actions agreed in AMP3 and by reducing other causes of non-compliance such as pollution from diffuse sources. | ✓ | We will do this by carrying out the work agreed for Ofwat's reviews of water industry process. |
| We will aim to ensure that 99 per cent of designated bathing waters meet the bathing water directive's 'imperative standards' by March 2006. We also aim to achieve a significant improvement in compliance with the directive's stricter 'guideline standards' from 68 per cent in 2003 to 85 per cent by March 2007. | ↔ | Despite a wet summer, which can contribute to pollution, we achieved 98.6 per cent mandatory compliance and 80.4 per cent guideline compliance in 2004. Guideline target is challenging as there is no discretionary expenditure to improve Guideline compliance 2005-2010. |
| We will sample a minimum of 85 per cent of all groundwater monitoring sites to help implement the national groundwater strategy. | x | We achieved 75 per cent because of sample collection problems and difficulties with data supplied by external organisations. |

Other performance targets

| Actions and targets published in our 2004/07 Corporate Plan | Status | Progress |
|--|--------|---|
| We will promote angling opportunities and support the development of novices into responsible anglers. | ✓ | Last year we invested more than £17 million from rod licence sales on fish and fishing. Much of this went on coaching schemes and on improving 59 places where people can fish in towns and cities. |

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| In partnership with the Joint Angling Governing Bodies, we will develop coaching schemes for 25,000 people per year. | ✓ | Each area ran angling participation events during the year. In collaboration with angling governing bodies, nearly 30,000 anglers were coached. |
| We will produce information on where to fish by publishing regional angling guides and using our internet site. | ↔ | Two regional angling guides are current, and we plan to reprint the other six in 2005/6. We will use the data to improve fishing opportunities through our internet database. |
| We will create and develop fisheries close to centres of population. | ✓ | A total of 59 fisheries creation/development projects close to centres of population were funded during the year. 30 were in urban areas. |
| We will promote angling by producing national and regional magazines and attending relevant shows and exhibitions | ✓ | We sent <i>Reel Life</i> magazine to all rod licence holders in May. We also sent out two regional magazines and one in Wales, with other regions producing separate magazines. We attended a selection of events with the aim of increasing participation in angling. |
| Recreation and navigation | | |
| We will contribute to meeting the Government's target to improve the nation's health by increasing the proportion of people taking regular exercise to 70 per cent by 2020. We will follow up recommendations in the Government-commissioned report <i>Water Based Sport and Recreation – the Facts</i> , and develop strategic plans for its implementation in two regions. | ↔ | We are working with Defra, the Department of Culture Media and Sport, Sport England, the Countryside Agency, and others in developing how the outdoors can help to achieve this health target. We will develop strategic plans for two regions in 2005/6. |
| We will ensure land or water in our control is made available, where possible, for recreational and navigation purposes. We will increase the number of our sites where access is provided by 7 per cent by 2007/8, and enable people to obtain up to date information on access opportunities through our internet site. | ↔ | We increased the number of our sites where public access is provided by 6.5 per cent – 39 new sites were opened. We are putting information about our sites on to our website and will have some available by the end of 2005/6. We are also talking with other government agencies to identify ways of making more information on access opportunities available through the web. |
| We will complete an audit of our land holdings and assets by 2007/08. | ↔ | We completed an audit of our 600 sites where we already allow access at the end of March 2005. We will now start to work on a further 600 sites that have been identified as providing the potential for new access. |
| We will implement key recommendations of the Government's <i>Waterways for Tomorrow</i> and support the implementation of the Countryside and Rights of Way Act 2000 | ↔ | <i>Waterways for Tomorrow</i> recommendations are all incorporated within our navigation strategy and reflected within Section 4 Statutory Guidance. |
| We will consult widely on the development of our three strategic navigation initiatives – Thames Ahead, the Fens Waterways Link and developing navigation on the rivers Wye and Lugg. | ↔ | This is being achieved through the development of the Waterway Plans, which have been/are all being published for public consultation in full accordance with Cabinet Office guidelines. |
| We will maintain and improve the condition of our navigation asset infrastructure (locks, weirs, bridges, buildings and so on) to ensure that they are safe to use. | ✓ | Last year we invested £8.2 million in our assets and completed 25 projects. Feasibility and design work has been carried out for a number of projects to be constructed in 05/06. We are starting to reverse the trend of deterioration and wherever possible have improved waterway facilities. |

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| We will continue to work with British Waterways and the Association of Inland Navigation Authorities on implementing common and consistent waterway standards and other joint initiatives such as the Boat Safety Scheme. | ✓ | We have worked with BW on a number of issues, including benchmarking our health and safety risk assessment methodology with theirs and sharing the results. |
| We will ensure that standards applying to a waterway are met by at least 90 per cent by 2007/08. | x | Although we are able to influence whether Waterways Standards are met, achieving them is often outside our direct control because we are generally not the owner of land along the banks of rivers. |
| We will develop waterway plans and strategic environmental assessments for all Environment Agency navigations, and complete these by 2007/08. | ↔ | Waterway Plans have been/are being published during 2005. Defra have indicated that Strategic Environmental Assessment (SEA) is not an appropriate management tool for navigable rivers and work on these has now stopped. |
| We will develop a harmonised charging regime and strategy for future navigation funding and agree this by 2007/08 | ↔ | After full consultation with user representative groups the Standing Joint Committee on Statutory Instruments is now considering our TWAO. |
| We will increase craft registrations and the number of non-powered boat activities by 15 per cent by 2007/08. | ↔ | This objective is largely being achieved through registration offers with incentives and some improved facilities for canoe portage. |
| Ensuring sustainable abstraction | | |
| Under the Asset Management Programme (AMP) programme we have identified a list of sites where action is needed to reduce abstraction. We have programmed the investigation and, where appropriate, the implementation of solutions in 88 National Environment Programme schemes over the next three years. We plan to progress 32 schemes during 2004/05. By March 2005 we aim to have agreed a programme with Ofwat and the water companies under AMP4 to promote sustainable abstraction at further sites, where necessary. | x | Investigations and solutions funded through AMP3 to address the environmental damage caused by water company abstractions had been completed at 73 sites across England and Wales by March 2005, with progress being made at the remaining 50 sites. The programme timetable has slipped due to the need for more detailed investigations, and as a result of local ground and weather conditions. |
| Preparing for the Water Framework Directive | | |
| As the competent authority for implementing the Water Framework Directive we will develop and consult on a draft strategy for river basin management plans | ↔ | The draft River Basin Planning Strategy went out to formal consultation in January 2005. |
| We will carry out preliminary characterisation of river basin districts by December 2004. | ✓ | We submitted the Article Five reports to Defra on 22 December 2004. |
| We will refine characterisation to further establish the pressures and impacts on water bodies. | ↔ | We have agreed on a policy note on further characterisation with Government and the United Kingdom Technical Advisory Group (UK Tag) and we are currently defining the scope of this work. |
| We will establish an ecological-based monitoring programme for established water bodies. | ↔ | We have proposed UK Monitoring guidance with UK TAG. 'Intercalibration sites' that can be compared to with other European member states for consistency are monitored for the European Intercalibration network. |
| We will train staff to further support implementation of the Water Framework Directive (WFD). | ↔ | We have run familiarisation workshops and established regional communications contacts to help the internal flow of information on WFD. We have also carried out a scoping study to identify training needs. |
| We will consult with stakeholders to gain support for our activities relating to implementation of the Water Framework Directive. | ✓ | We have consulted with stakeholders in the following ways: meetings; conferences; presentations; River Basin Planning consultation; external review of risk assessments; Ribble Pilot river basin project; workshops |

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| We will develop guidance and technical advice for implementation of the Water Framework Directive. | ↔ | Technical advice for implementing the directive that we have developed includes UK TAG (United Kingdom Technical Advisory Group) Papers and the Article 5 Report. |
| Negotiating environmental improvements through PR04 (water industry investment plan) | | |
| <p>Through the 2004 Periodic Review we will be seeking to ensure that:</p> <ul style="list-style-type: none"> • assets like pipelines, pumps, sewers and treatment works are kept in good order and operated so that their environmental performance is good and past improvements are maintained; • companies plan to provide enough water for customers, in a way that does not prejudice the needs of other water users and the environment; • the impact of abstractions and discharges on the environment is reduced; • all legal obligations are met including implications of the Strategic Environment Assessment Directive; • water companies complete necessary improvements at lowest cost, whilst demonstrating that they are taking account of the long-term needs of the environment and society. <p>We will provide guidance to ministers to inform decisions, publish the agreed programme of environmental improvements and revise water companies' discharge consents and abstraction licences as appropriate to achieve the agreed programme.</p> | ✓ | <ul style="list-style-type: none"> • The final determination allowed £3.5 billion for environmental improvements. (Note: this figure includes £0.82million for improvements already committed and changes to company abstractions will now be funded through our charging scheme). 97 per cent of the number of schemes (both environmental and drinking water improvements) were funded. Money was also allowed for capital maintenance. • We worked with Ofwat (Office of Water Services) on challenging company costs in final business plans and made further challenges following the draft determinations. • We reviewed companies' final water resources plans and reported to ministers in <i>Maintaining water supply</i>. All companies have plans to allow them to manage water supplies over the next five years or more. Some, however, must act quickly to reduce short-term risks to supply. • We published the full list of schemes to be completed from 2005 to 2010 for the environment programme on our website. We have issued consents for these schemes where possible to meet Government requirements so that companies meet their legal obligations. This is equivalent to nearly 75 per cent of the programme. We will also ensure companies implement their water resources plans. |
| River water quality | | |
| We will continue to support the work of the Standing Committee of Analysts (SCA), which develops guidance on environmental methods for sampling and analysis. | ✓ | During 2004, we published six documents on our National Laboratory Service website (www.environment-agency.gov.uk/nls), available free of charge as downloadable PDF files. |
| Reducing diffuse pollution | | |

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| <p>We need to find innovative ways of managing the risks from diffuse sources, which in many cases are linked to the ways in which land is used and managed.</p> <p>In rural areas, for example, we will apply a risk-based approach to prioritise those farms that have the highest potential for polluting water. We will work with partners to draw up nutrient management plans to control the spreading of manure and fertiliser usage on farms located in Nitrate Vulnerable Zones. We will also be contributing to Defra's strategic review of diffuse water pollution from agriculture, which aims to develop an action plan for its reduction.</p> | <p>↔</p> <p>✓</p> <p>✓</p> <p>↔</p> <p>↔</p> <p>↔</p> | <ul style="list-style-type: none"> • We have been working on a risk-based approach to prioritising farm inspections, due to be ready in July. • We have launched an electronic decision support tool for nutrient management plans, which has been well received by farmers. • We responded to Defra's consultation on <i>Measures to Promote Catchment Sensitive Farming</i> and are working with them on their Catchment Sensitive Farming work programme. • We are testing various approaches through the Multi- Agency catchment Project - working with English Nature, RDS and the National Farming Union on four catchments – Teme, Hampshire Avon, Wensum and Bassenthwaite. In Wales we are running two pilot projects at Deepford Brook in Pembrokeshire and Llyn Tegid. • We are working with English Nature, WAG, RDS & Defra to refine priorities for tackling diffuse agricultural pollution. • We are running a pilot project with Defra in the Ribble and Yorkshire Derwent to measure the effectiveness of the latest Common Agricultural Policy reform including cross compliance and the new agri-environment schemes. |
| <p>In urban areas, we will promote increased use of Sustainable Urban Drainage Systems (SUDS) in new developments and areas where there is limited sewerage capacity. We will work with others to improve knowledge of SUDS and in particular the Office of the Deputy Prime Minister, Defra, the Welsh Assembly Government, OFWAT and the water companies to develop a code of practice for SUDS over the next two years.</p> | <p>↔</p> | <p>The National Sustainable Urban Drainage group which we chair has published an Interim Code of Practice for SUDS and provided support for Defra's SUDS paper in its <i>Making space for water</i> consultation in 2004. SUDS are increasingly mentioned in local planning documents. The Wales SUDS forum, which we chair, is promoting SUDS in collaboration with the national group across Wales. We have also worked closely with Defra to develop a strategy for dealing with diffuse pollution from non-agricultural sources.</p> |

Restored and protected land with healthier soils

Our long-term vision: Land and soil in the countryside and towns will be exposed far less to pollutants. Land and soil will support a wide range of uses, including production of healthy, nutritious food and other crops, without damaging wildlife or human health. Contaminated and damaged land will be restored and protected.

Making it happen: Our strategic targets for 2007

Dealing with contaminated land

Secure the substantial remediation and/or investigation of 80 'Special Sites'.

Promoting sustainable agriculture

We will seek to improve the sustainability of agriculture by helping to develop specific agri-environment and other measures for the protection of land and natural resources within National Rural Development Plans and by supporting the development and introduction of an environmental management system approach for farms.

Protecting soil

Implement our Soil Strategy.

Controlling pollution from industry

Contribute to a reduction in acidification by reducing SO₂ from major coal and oil fired power stations by 50 per cent from a 2000 baseline, and implementing the requirements of the Large Combustion Plant and National Emission Ceilings Directives.

Influencing planning

- All new development strategies of local planning authorities will be influenced by our input to minimise environmental impacts.
- 95 per cent of our representations on planning applications will influence planning decisions.
- Contribute to Local Strategic Partnerships, focusing on the 50 per cent where we can most benefit social and environmental capital, including disadvantaged communities and ethnic minorities.

Getting there: How we performed last year against specific actions and targets in our Corporate Plan

| Key performance targets | | |
|---|--------|--|
| Actions and targets published in our Corporate Plan 2004/07 | Status | Progress |
| By the end of 2004/05 we will have cleaned up at least 28 special sites (cumulative) | x | Local authorities in England and Wales have asked us to make 132 inspections of potential special sites to date. Progress on these inspections has been slower than hoped, resulting in 22 special site designations so far. This means that we have not been able to meet the planned target. We are forming a Working Group to review this issue. |
| We will reduce the number of soil pollution incidents to no more than 47 | ✓ | Target achieved – there were 14 soil pollution incidents last year |
| <p>Acid deposition, resulting from emissions of sulphur dioxide (SO₂) and nitrogen oxides (NO_x), damages soils and vegetation as well as watercourses and buildings. We have assessed the need to reduce emissions to better protect soils and vegetation and have set targets for their reduction.</p> <p>Target reductions:</p> <ul style="list-style-type: none"> - Sulphur dioxide (SO₂) emissions to no more than 680 kilo-tonnes - Oxides of nitrogen (NO_x) to no more than 380 kilo-tonnes | ↔ | <p>Releases from the coal and oil-fired power stations are the major source of key pollutants from the processes we regulate. We have implemented a new regulatory framework for the period 2005-2007. This will reduce the total amount of SO₂ that can be emitted from 515kt per year to about 399 kt and cut the allowable emissions rate of SO₂ per unit of electricity generated by power stations without Flue Gas Desulphurisation. We have met the target reductions for SO₂ and PM₁₀ but releases of NO_x have increased, mainly due to increased electricity generation from coal fired power stations in 2004/5. Future controls on NO_x are planned to deal with this issue.</p> <p>Progress against targets:</p> <ul style="list-style-type: none"> - SO₂ 596 vs target 680 - NO_x 434 vs target 380 |

Other performance targets

| Actions and targets published in our Corporate Plan 2004/07 | Status | Progress |
|--|--------|---|
| We will use the Pollution Prevention and Control (PPC) regulations to protect land against future contamination from industrial processes. | ↔ | There is some evidence to suggest that we are successfully protecting land under the PPC regime. However there have been some uncertainties around the precise definition of this activity and the subsequent reporting data. Improved data collection is required to ensure that this target is being met. |

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| The European Commission has proposed a directive to establish a comprehensive community-wide regime for the prevention and remedying of environmental damage. We will continue to support Defra on negotiation of the directive until it is agreed and will then work closely with them to develop appropriate legislation to transpose the directive into UK law and to implement and enforce it. | ↔ | The Environmental Liability Directive must be implemented by 30 April 2007. Defra has set up a project to look at this. The Directive cuts across different aspects of the environment so transposing it into UK law will be complex. We are helping Defra, mainly by providing information on pollution incidents in England and Wales. We are also describing how our regulatory regimes work in practice. |
| Land contaminated by radioactive substances comes under specific regulation. We will continue to develop the technical tools necessary for the future implementation of regulations for such sites. | x | The regulatory regime for radioactive contaminated land has not yet been introduced by Defra. Therefore, we have not been able to develop the technical tools. At present we are actively contributing to the development of the regulations and statutory guidance. |
| Promoting sustainable agriculture | | |
| New and revised regulations, principally to control the impact of agricultural wastes and nitrate fertilisers, will bring up to 162,000 farmers into regulation in 2005. We will ensure the regulations are implemented in a proportionate manner. | ↔ | Nitrate Vulnerable Zone inspections are underway in the extended Nitrate Vulnerable Zone areas using a risk based approach. Agricultural wastes regulations are expected in Sept 2005. |
| We will work with Defra, the Welsh Assembly Government and other partners to ensure that reform of the Common Agricultural Policy and review of the Rural Development Regulation help to reduce poor environmental practice on farms, and support farm businesses that produce environmental goods. | ✓ | We have worked with Defra, WAG and others to introduce cross-compliance, which is laying the foundations for better management of farmland soil. There are measures to protect water and soils and to help with flood prevention in the new Environmental Stewardship Scheme. Similar measures are underway in Wales – Tir Cynnal sees improved resource management on farms, particularly for manure and pesticides. |
| We are developing an Environmental Management System for Farms (EMSF) to help manage their environmental impacts and associated regulations in an integrated manner. This work contributes to the development of Defra's 'whole farm approach' and modernising environmental regulation strategy. EMSF will be modular, straightforward and non-bureaucratic. It will minimise duplication of effort and contribute to effective risk-based regulation. | ↔ | Good progress made. We piloted three modules within Defra's Whole Farm Appraisal with generally good feedback. Three additional modules have been drafted during the last year |
| Protecting soil | | |
| We will support Defra and the Welsh Assembly Government in implementing the Soil Action Plan for England and the Soil Strategy for Wales. These documents set out the Government's priorities for protecting, restoring and managing soils in England and Wales. | ✓ | We have provided input to the Soil Action Plan for England through the Soil Action Plan Advisory Forum and contributed to a wide range of the actions. In Wales a soil strategy is expected to form part of WAG's Environment Strategy, which will be due for consultation in July 2005. |
| We will contribute to the development of a draft EC directive on soil monitoring and EC communications on soil erosion, soil organic matter and soil contamination. | ✓ | We provided UK representatives for two of the working groups and we have worked closely with Government and partners to contribute to the development of this work by the commission. |
| Influencing planning | | |
| Bring in new electronic planning consultation tools | ↔ | Our electronic planning project business case was authorised in November 2004, and will lead to the development of a web-based consultation tool. |

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| Use our web site to provide details of Environment Agency objections on development on flood plains. | ↔ | Details of objections lodged each month are published on our website. |
| Positively influence planning decisions for 80 per cent of planning applications that have matters that concern us. | New target | Last year 86.5 per cent of planning decisions by local planning authorities were influenced by Environment Agency Advice. |
| Begin to contribute to the statutory Sustainability Appraisal (including Strategic Environmental Assessment) of Development Plans | ↔ | Procedures and guidance for our role in external Strategic Environmental Assessments (SEA) have been prepared and approved. Training has been provided to Planning Liaison Officers. We produced 'Dos and Don'ts' for SEA as guidance for local planning authorities which was well received. |
| Influence 85 per cent of new development plans to minimise environmental impacts. | New target | We influenced 100% of adopted plans of local planning authorities to minimise environmental impacts. |
| Local strategic partnerships (LSPs) | | |
| We will work with those LSPs where we can make the greatest difference, especially in low quality and degraded environments, and we will ensure that we include the interests of disadvantaged communities and minority groups in our work. To do this we will take a proactive, collaborative approach. | ↔ | We work with many LSPs and Community Strategy Partnerships in Wales. Our previous target was 50 per cent involvement and this was achieved in 2003/04. This is a qualitative measure and to date no systematic recording of qualitative information has been undertaken. |
| We will work with LSPs to ensure that they address environmental issues in their plans and community strategies, and ensure we play a full role in implementing them. | ↔ | See report above. |

A greener business world

Our long-term vision: Environmental concerns will be at the heart of business thinking and operations. Industry and business will value the services that come from a rich and diverse natural environment. In the process, they will reap the benefits of sustainable business practices, improve competitiveness and value to shareholders, and secure trust in the wider community.

Making it happen: Our strategic targets for 2007

Improving regulations and controls

- Implement improvement programmes for priority industries and substances.
- Achieve an 85 per cent reduction in the number of point source discharges from industrial processes causing acute toxic effects.

Reducing pollution

- Achieve a 15 per cent reduction in significant breaches of Environment Agency permit conditions.
- Achieve a 12 per cent reduction in Category 1, 2 and 3 pollution incidents from all sectors.
- Reduce emissions of radioactive substances to achieve the requirements of the UK radioactive substances national discharge strategy within the required timescale.

Providing guidance for businesses

Reduce the environmental footprint of 150 SME sub-sectors by providing access to guidance on reducing their environmental impact and meeting their environmental obligations.

Getting there: How we performed last year against specific actions and targets in our Corporate Plan

Key performance targets

| Actions and targets published in our 2004/07 Corporate Plan | Status | Progress |
|--|--------|---|
| <p>We will continue to use our Operator and Pollution Risk Appraisal system (OPRA) to target our inspection and compliance assessment resources at those industrial processes posing the greatest environmental risks.</p> <p>In 2004/5 we aim that none of our Process Industry Regulation (PIR)-permitted businesses will be in the worst (highest-risk) OPRA category (band E) and no more than 5 per cent will be in band D (the next highest risk grouping). For waste management licensed sites we aim to reduce OPRA scores (risk ratings) at the 10 per cent poorest performing sites.</p> | ↔ | <p>Since the targets were set we have increased the scope of our OPRA system as more processes become regulated. EP OPRA considers information about the operator's ability to comply as well as its past performance. The results for sites measured by EP OPRA are:</p> <ul style="list-style-type: none"> - 5% are band D – on target - 3% are band E – target failed, but about half of them are new sites <p>79% of the worst performing waste management licensed sites improved last year.</p> |
| <p>We will encourage companies to implement environmental management systems (EMS). We aim to increase the proportion of Environment Agency-regulated industry that has a certified or in-house EMS by five per cent per annum over the next three years - at least 53 per cent of PIR-permitted business will have EMS.</p> | ✓ | <p>Target met for PIR with 53 per cent of sites having an environmental management system.</p> |
| <p>We have set targets to achieve a progressive reduction in the number of serious (category 1) and significant (category 2) pollution incidents, so that by 2005/6 there will be 10 per cent fewer incidents than in 2001/2. Our target for 2004/5 is to reduce the number of incidents to no more than 1,447.</p> | ✓ | <p>We dealt with 1129 substantiated air, land and water incidents. 111 of these were category 1 and 1018 were category 2 incidents.</p> |

Other performance targets

| Actions and targets published in our 2004/07 Corporate Plan | Status | Progress |
|---|--------|--|
| <p>We will bring more sectors under PPC regulation in accordance with the statutory timetable agreed with Defra.</p> <p>We will issue PPC permits for:</p> <ul style="list-style-type: none"> - Food and drink sector (250 permits) - Surface treatment of metals and plastic sector (150 permits) Landfills (300 permits) | ↔ | <p>We continue to process the applications from sectors in the order required by the Regulations. We issued:</p> <ul style="list-style-type: none"> - 71 permits of 260 applications received to date for the food and drink sector - 103 permits of 124 applications received to date for the surface treatment of metals and plastic sector - 112 permits of 369 applications received to date for landfills <p>We are streamlining our internal permitting systems and continue to reduce the time taken to issue permits.</p> |

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| In line with statutory requirements and our Customer Charter, we will determine applications for PPC permits within four months of receipt of a fully completed application. For complex applications, or where lengthier determination times are anticipated, we will discuss the determination process with individual applicants from the outset and regularly appraise them of progress. | ↔ | Of the 888 permits issued to 12 April 2005, 96 were issued in four months. The average time for industry permits is 6.5 months, which includes the amount of time taken by operators to provide information to us in response to notices. The average time for landfill sites is 11.5 months. This is due to complexities that are beyond our direct control. We seek the agreement of operators for an extension to the determination period where it is needed. |
| Once Defra's review of waste permitting has been completed, we will introduce a new system to replace the Waste Management Licensing regime (including exemptions). This will be proportionate and risk-based and should ease the regulatory burden on the Environment Agency and waste businesses alike without compromising the protection of human health and the environment. | x | While the waste permitting review came to an end we successfully lobbied for a wider project to incorporate both waste and PPC. This project is now underway and the Welsh Assembly Government is involved. |
| Implementing our chemicals strategy | | |
| Over the next three years we will prepare pollution reduction programmes for priority substances, recognising the UK Government's EU obligations. We will focus on key industrial chemicals, such as dioxins and tributyltin, and commonly used pesticides in 2004/05. Progress with actions set out in our strategy on endocrine-disrupting substances in the environment will be reported in 2004 and 2007. | ↔ | Following consultation, a draft pollution reduction programme for dioxins is being finalised as part of the UK National Implementation plan for the Stockholm Convention on Persistent Organic Pollutants. Programmes for tributyl tin and mercury are nearing completion. An endocrine disruptors demonstration programme will be part of the water industry's environmental programme 2005-2010 and we will be communicating on this and other aspects of our strategy in 2005. |
| Following the introduction of new regulations in summer 2004, we will enforce marketing and use restrictions on specific chemicals where environmental risks have been identified. | x | New regulations have not yet been introduced. |
| Direct toxicity assessment | | |
| As sectors come under PPC we will require process operators to provide toxicity information, where appropriate, as a part of their licence review or new application. We will prioritise effluents with known acute toxicity where additional DTA information will be required to clarify their environmental risk in 2004. | ↔ | All appropriate operators within the chemical sector that applied for a PPC permit have been asked to provide information on the toxicity of their effluents. If they are unable to provide this information, an improvement condition is included in the permit requiring them to conduct DTA testing. Other sectors will be required to conduct DTA if we are concerned about the toxic effects of their effluent. |
| Regulating nuclear sites | | |
| We will implement the Nuclear Sector Plan in partnership with the nuclear industry in 2004/05. Amongst other things, the plan will set out the mechanisms for progressing and monitoring the National Discharge Strategy and will set targets for individual sites and sub-sectors of the industry. | x | Sector plan updated for anticipated launch later this year but we are still awaiting senior management approval for chemicals and cement sector plans. Meanwhile a "shadow-reporting" exercise is underway with the nuclear industry. |

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| <p>We will continue to work with the DTI and other regulators to prepare for the start of Nuclear Decommissioning Authority (NDA) operations in 2005</p> | <p>✓</p> | <p>The NDA came into operation on 1st April 2005 after much work involving the Environment Agency, the DTi and other regulators. This included :</p> <ul style="list-style-type: none"> • Reviewing proposed work plans for the decommissioning and clean-up of the NDA sites. • The development of tools and guidance such as mechanism for prioritisation of NDA work and a specification for the production of an Integrated Waste Strategy. • Support to the development of initial contracts • The development of a Memorandum of Understanding between ourselves and the NDA <p>We successfully completed transfers of the first three authorisations to take place under the Energy Act 2004.</p> |
| <p>Sector Plans</p> | | |
| <p>We will continue to use environmental improvement plans for business sectors (sector plans) to help us to target our regulatory effort on the key environmental issues facing each sector and ensure that we make best use of the regulatory tools that are available to us. In 2004/5 we will implement plans for cement, chemicals, nuclear and the water industry, and develop plans for agriculture, food and drink and the electrical supply industry.</p> | <p>✓</p> | <p>Sector plans for the cement, chemicals and nuclear industries were produced ready for launch later this year. We aim to start wider discussions on these in the summer. Work has commenced on sector plans for the water, dairy, food and drink and power generation industries.</p> |
| <p>We will build up a rolling programme over 5 years (from 2003/4) to cover sectors with a significant impact on the environment for which we have a lead, or major, regulatory responsibility.</p> | <p>↔</p> | <p>We are reviewing the need for additional sector plans. In principle the programme will include sub-sectors of the waste management industry and agriculture sub-sectors other than dairy.</p> |
| <p>We will produce smaller scale plans for sectors regulated under PPC, which will focus on permitting priorities, as each sector is phased in under the regulations.</p> | <p>✓</p> | <p>PPC permitting plans have been produced for chemicals, food and drink, surface treatment, waste incineration, non-landfill waste and combustion sectors. We are developing one for the pig and poultry sector.</p> |
| <p>Providing guidance for businesses</p> | | |
| <p>Subject to attracting additional funding and support, we will continue development of the <i>NetRegs</i> website to provide businesses (particularly SMEs) with clear and concise information on how to comply with environmental regulations.</p> | <p>✓</p> | <ul style="list-style-type: none"> • Funding from the Environment Agency and our partners consolidated for next year. • Sector and management guideline information updated throughout the year. • Successful launches in each country in May 2004. • Web site usage increased over the year to the total of 2 million page impressions and 28,000 unique visitors per month. |
| <p>Under the Chemicals Essentials programme, we will continue to work with the Health and Safety Executive to develop a 'one-stop' health, safety and environment assessment tool, available on the internet, for SMEs and other businesses. A report describing how the tool will operate will be published in 2004.</p> | <p>↔</p> | <p>We successfully launched a CD-Rom demonstration version of Chemical Essentials at a workshop with industry and government representatives. However, it is still at a demonstration stage and we need further funding to ensure that the development of Chemicals Essentials will continue.</p> |
| <p>Reducing pollution</p> | | |
| <p>We will implement our compliance classification scheme, which will be used to inform appropriate compliance and enforcement action where permit breaches occur. We will introduce our Compliance Assessment Planning process as we introduce PPC.</p> | <p>✓</p> | <p>We have implemented our compliance classification scheme and introduced compliance assessment planning for PPC.</p> |

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| <p>The success of our pollution reduction measures will continue to be demonstrated in our Pollution Inventory and other information that is available in the <i>What's in your backyard?</i> section of our web site.</p> | <p>✓</p> | <p>The Pollution Inventory data for 2003 was launched in July 2004. The release of chemicals and radioactive sites as well as waste transfers are available from the <i>What's in your backyard?</i> section of our web site.</p> |
| <p>We will clarify the respective roles of the Environment Agency and local authorities in dealing with large-scale illegal waste management and fly-tipping. We will also continue to work with the National Fly-tipping Prevention Group to find better ways of preventing and tackling these problems.</p> | <p>✓</p> | <p>The Environment Agency and the Local Government Associations in England and Wales have revised the Fly-tipping Protocol. This is being implemented and provides detailed guidance on the respective roles of the Environment Agency and local authorities in tackling fly-tipping.</p> <p>We are continuing to work with the National Fly-tipping Prevention Group. We have successfully pressed Government for a number of legislative changes to assist local authorities and us in tackling fly-tipping. These are included in the recent Clean Neighbourhoods and Environment Act 2005.</p> |
| <p>From April 2004, we shall be using <i>Flycapture</i>, the national fly-tipping database to collate data on the scale and nature of illegal dumping and fly-tipping in England and Wales. We will be working with local authorities to ensure that this national database is used widely and, subject to funding from Defra, we will continue to maintain and develop <i>Flycapture</i> so that it continues to meet local authority and Environment Agency needs.</p> | <p>✓</p> | <p>The <i>Flycapture</i> database is in use. Environment Agency data is transferred on a monthly basis. As of March 2005, 100 per cent of local authorities in England were registered as users of <i>Flycapture</i> and around 90 per cent were submitting data. By March 2005, 90 per cent of local authorities in Wales were registered as users and more than 80 per cent were submitting data.</p> |
| <p>Through effective partnerships with local authorities and landowners, we will tackle the increasing problem of large-scale and organised illegal waste management including the dumping of certain hazardous wastes and fly-tipping. The nature of future campaigns will be kept under review, informed by trends in pollution incidents</p> | <p>✓</p> | <p>Several agreements are now in place that set-out local working arrangements between the Environment Agency and local authorities. We also continuing to work with landowners through the National Fly-tipping Prevention Group and locally in relation to specific incidents.</p> |
| <p>Our priorities for preventing pollution and minimising waste in 2004/05 will focus on hazardous waste, construction waste and tyres. We will work with others to encourage minimisation of hazardous wastes arising from targeted business sectors and to reduce the environmental impact of construction activities.</p> | <p>✓</p> <p>↔</p> <p>↔</p> | <p>Tyres: Our waste tyres programme concluded in Autumn 2004. It included a stakeholder dialogue programme with the sector (externally funded) which has helped clarify waste permitting and compliance issues. We helped tackle several tyre stockpiles in Norfolk, Doncaster and Lincolnshire and carry out a campaign across London to reduce fly-tipping.</p> <p>Construction: We helped initiate a programme to reduce construction fly-tipping. Activities included supporting the development, launch and use of Site Waste Management Plans and electronic tracking of wastes from ex-development sites. In Wales we are conducting a construction and development waste survey, funded by the Welsh Assembly Government.</p> <p>Hazardous waste: We have secured EU funding for a partnership project (HAZRED) to look into sector-based hazardous waste reduction plans. The project focuses on business sectors impacted by the Hazardous Waste Regulations and Landfill Directive. We have successfully influenced the work programme of Envirowise to focus on hazardous waste.</p> <p>SMEs: Our new SME strategy will see two pilot projects on agriculture and construction launched. We have used Customs & Excise Business Advice Open Days, attracting over 800 SMEs, to emphasise changes in hazardous waste management.</p> |

| Supporting Government | | |
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| We will support the Government through the 'Greening Government' initiative. | ✓ | We have supported the Government's 'Greening Government' initiative by giving advice including setting up a sustainable procurement task force. |
| We will support the Welsh Assembly Government's drive to minimise public sector waste and improve waste management. | ✓ | We have reduced the amount of waste in Wales per full time employee by 20.9 per cent since 2001/2 despite an increase in the number of full time employees. This is above WAG's target. |

Wiser, sustainable use of natural resources

Our long-term vision: Everyone will take responsibility for minimising the waste they produce. Waste will increasingly be seen as a potential resource. Intensive re-use and recycling of materials and efficient use of energy will become the norm. More products will be designed, marketed and licensed to minimise environmental costs in their manufacture, use and end-of-life fate. Water will be an acknowledged valuable resource and will be used wisely by everyone.

Making it happen: Our strategic targets for 2007

Managing water resources

Reduce the likelihood of water supply shortages, while avoiding the growth in environmental damage.

Managing waste

- Encourage a reduction in the generation and subsequent landfilling of industrial and commercial waste to 85 per cent of 1998 levels by 2005, and explore more demanding targets through monitoring and possible review of the National Waste Strategies for England and Wales by 2007.
- Ensure that tyres, liquid wastes, clinical waste and other dangerous wastes are excluded from landfills progressively from 2002, in line with the UK's Landfill Directive timetable.
- Secure an overall 15 per cent reduction in waste production by Environment Agency regulated processes.
- Work with others to influence a reduction in household waste. Provide information and tools to local authorities to secure more sustainable management of municipal solid waste in accordance with the *Waste Strategy 2000*.
- Monitor levels of environmental crime and set targets for a year-on-year reduction, targeting the activities causing the greatest environmental harm and impact on compliant businesses.
- To minimise the environmental costs of manufacturing, ensure at least 97 per cent compliance with the targets for relevant producer responsibility schemes.
- By 2005, all our public registers will be available online. By 2007, we will provide simple access to the non-confidential data and information that the Environment Agency uses to support its decisions and policy making.

Getting there: How we performed last year against specific actions and targets in our Corporate Plan

Key performance targets

| Actions and targets published in our 2004/07 Corporate Plan | Status | Progress |
|---|--------|--|
| We will continue the publication of our Catchment Abstraction Management Strategy (CAMS) documents. By the end of the year we will have published a cumulative total of at least 53 CAMS. | x | We completed 40 CAMS. We noted during the year and took action to ensure completion of the CAMS programme by March 2008. |
| <p>We will reduce waste disposal and increase waste recovery or re-use from processes regulated under IPC and PPC.</p> <p>Targets:</p> <p><u>Waste Disposal</u> Non-special waste <= 8,414 kilo tonnes Special waste <= 946 kilo tonnes</p> <p><u>Waste recovery or reuse</u> Non-special waste <= 5,171 kilo tonnes Special waste <= 457 kilo tonnes</p> | ↔ | <p>The recycling targets have been satisfactorily achieved:</p> <p><u>Waste disposal</u> Non special waste - 5861 kilo tonnes Special waste - 659 kilo tonnes</p> <p><u>Waste recovery or reuse</u> Non-special waste - 7032 kilo tonnes Special waste - 467 kilo tonnes</p> |

Other performance targets

| Actions and targets published in our 2004/07 Corporate Plan | Status | Progress |
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| We will consult with key stakeholders on a number of issues, including limiting the time that abstraction licenses can run. | ↔ | We consulted a wide range of stakeholders on a number of issues including setting further exemptions, deregulation and our proposals for water resources management arrangements. |
| We will consult on a new scheme of abstraction charges, which we will introduce in 2005/06. | x | After an initial consultation in 2004, we are due to complete consultation in autumn 2005 and introduce a new charging scheme in 2006/7. We still need to resolve a number of issues including the issue of deficit funding for compensation. |

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| <p>We will work to ensure that the companies' plans improve the environment and offer good value for money. We will make sure water companies deliver their current investment programme (AMP3) and plan for the next round of water company investment (AMP4).</p> | <p>↔</p> | <p>As part of the planning process for the fourth Asset Management Plan (AMP4), we reviewed water companies' water resource plans to ensure the proposed Water Resources Environment Programme was integral to each. The environment programme was also subject to benefit-cost assessment.</p> <p>AMP4 (April 2005 - March 2010) will see nearly £50 million of investment by water companies in the Water Resources Environment Programme. We will investigate unsustainable abstraction and identify possible solutions.</p> <p>We will now use our statutory powers to deal with unsustainable water company abstractions rather than funding from water customers' bills. Use of these powers can incur the liability to pay compensation. We will use the National Abstraction Charges Scheme to fund such payments and have set up a project to pilot the use of these statutory powers.</p> <p>We have made steady progress with the current (AMP3) Water Resources National Environment Programme. To address the environmental damage caused by water company abstractions we completed work at 73 sites across England and Wales by March 2005, and made progress at the remaining 50 sites. There has been slippage in the programme due to the need for more detailed investigations, and as a result of local ground and weather conditions.</p> |
| <p>We will review progress made against water companies' final water resources plans for the period 2004/2005 and report to Government on the annual review of water companies' water resources plans in December 2005.</p> | <p>✓</p> | <p>We are on target to publish the 2004-05 review at the end of 2005.</p> |
| <p>We will report to Government presenting our findings on water companies' final water resources plans in early summer 2004 to inform the next periodic review.</p> | <p>✓</p> | <p>We published the Report in July 2004.</p> |
| <p>The focus of our work in the fourth periodic review of water company prices is water companies' supply-demand balance. We will scrutinise water companies' plans and advise Ministers in England and Wales on the companies' proposals, paying particular attention to security of supply.</p> | <p>✓</p> | <p>In our report to Ministers we made recommendations about individual water companies' plans. We wrote to water companies with more detailed comments, and have worked with water companies through the year to help them to improve their plans.</p> |
| <p>Drought management</p> | | |
| <p>We will review water companies' drought plans and comment to Government by March 2006.</p> | <p>↔</p> | <p>On course, though timing of the legislation means our final report will be in 2006-07.</p> |
| <p>Catchment Abstraction Management Strategies (CAMS)</p> | | |
| <p>We will review the CAMS process following the first round of strategy implementation.</p> | <p>↔</p> | <p>We are carrying out a review of completed CAMS results to improve the process and use the data for Water Framework Directive objectives.</p> |
| <p>We will ensure that strategies from CAMS and catchment flood management plans (CFMPs) link up with UK targets to secure biodiversity gain, where possible</p> | <p>↔</p> | <p>Links between CAMS & CFMPs will be developed during 2005/6</p> |
| <p>Strategy implementation</p> | | |
| <p>We will develop a communications strategy and action plan to improve understanding of water use and the natural environment.</p> | <p>✓</p> | <p>We have developed this communications strategy and action plan.</p> |

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| We will review the policy and process guidance to planners of the scope for incorporating cost-effective water efficiency measures in new developments | ↔ | We have worked with Government on water efficiency measures in new developments, looking at inclusion of water efficiency standards in building regulations. |
| We will identify some of the constraints and barriers limiting the opportunities for greater sharing of water resources between water companies, reporting on current water transfer arrangements and potential opportunities for improvement | ✓ | Report completed. We also developed and published policy on the use of new powers to suggest bulk supplies between water companies. |
| We will review future water demand for navigation purposes in preparation for the introduction of abstraction licences for navigation under the Water Act 2003. | x | We made no progress due to lack of money and staff time. |
| Reducing water use | | |
| We will integrate efficient water use into abstraction licensing and IPPC permitting procedures. | ↔ | We have included outline proposals on water efficiency in the consultation document on Time Limited Licences. We will develop them after we consider the consultation responses. We prepared our proposals on abstraction licensing for consultation in 2005 and are implementing the recommendations of the review into resource efficiency in IPPC. |
| We will promote best practice across all users of water, for example through our Water Efficiency Awards. | ✓ | We successfully hosted a well-attended Water Efficiency Awards ceremony and launched our publication of water conservation case studies. |
| With Ofwat we will review the role and potential contribution of water efficiency and demand management to meeting future supply and demand balances. The study will be a strategic overview of existing regulatory measures and incentives. | ✓ | We completed the joint review of demand management for Defra. Our proposals include a collaborative investigation into incentives to encourage demand management. |
| We will continue to challenge water companies with unacceptable levels of leakage as well as undertaking research on tariffs and metering. | ↔ | After leakage continued to rise, we challenged water companies on their leakage strategies as part of our assessment of their water resources plans. We initiated research into current approaches to household metering. |
| We aim to see real reductions in water use, year on year, across England and Wales. We have set a target of 0.5 per cent per annum, allowing for weather conditions (for example, the impact of a dry year) and changing socio-economic influences. | x | Abstraction has risen each year since 1999 and latest data show a three per cent rise between 2001 and 2002. The long-term decline in non-household water consumption continues (approximately 2.5 per cent over the last five years) but household consumption increased by three per cent due to a drier than average year. |
| Trading in water | | |
| We will publish our proposals for trading in water rights, following our recent consultation | ↔ | Following the consultation on water rights trading we have been working on finalising the guidance on how to trade in abstraction licences. We will release guidance in line with the legislative timetable for the Water Act. |
| Waste reduction and resource efficiency | | |
| We will publish the results of the second national waste survey, which will give information on the production and management of different waste streams. | ↔ | We completed the survey and made the results available. Full publication of the survey was delayed until after the general election. |
| We will update strategic waste management assessments. | ↔ | We remain on course to release these in 2005/6. |
| As part of a European project, we will produce web-based life-cycle and ecodesign tools for small and medium-sized businesses to help them reduce waste and other environmental impacts through better designed products. | ✓ | Our contractual commitments to the EU were fully met. We have produced web-based life-cycle and ecodesign tools which are available on the web (www.ecosmes.net). |

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| We will implement those aspects of the Waste Emissions Trading Act for which we are the responsible body. | ✓ | We ensured Landfill Scheme (LAS) in Wales and Landfill Trading Scheme (LATS) in England were operational on schedule. |
| We will release a new version of our life-cycle software for waste management and incorporate its use into guidance to assist local authorities in developing strategies for managing municipal waste, including the new statutory joint strategies, where applicable. | ↔ | We are on schedule to complete this work during 2005/6. |
| We will work with the Department of Trade and Industry and Defra on the implementation of the Waste Electrical and Electronic Equipment (WEEE) Directive and on the negotiation of the European Commission's proposal for a batteries directive. | ↔ | Work is still continuing on WEEE directive implementation. The Batteries Directive is unlikely to be concluded until 2006. |
| We will work with Defra on the waste permitting review. | ✓ | While the waste permitting review came to an end we successfully lobbied for a wider project to incorporate both waste and PPC. This project is now underway. |
| Our existing responsibilities for monitoring and enforcing the Packaging Waste Regulations will increase as a result of changes in new legislation with effect from 1 January 2004, which includes corresponding increases in cost recovery charges. | ✓ | We will continue to work with Defra to improve the quality, formatting and timeliness of packaging data submissions and we will seek to ensure cost recovery charges are made transparent. |
| By June 2004 we will determine all completed Waste Management Licence permit applications from registered exempt dismantling sites for End of Life Vehicles. | x | By June 2004 we had only determined 50 per cent of site licences due to slow progress in sites conforming to de-pollution requirements and problems with planning status of sites. |
| We will continue to support regional technical advisory boards in developing and implementing their strategic planning guidance. | ✓ | We have worked closely with Regional Technical Advisory Boards and Office of the Deputy Prime Minister on the development and implementation of strategic planning guidance. |
| We will prepare for the implementation of the revised Hazardous Waste Regulations including the development of associated IT systems. | ✓ | We have developed new IT and customer support systems for the efficient and effective management of the new hazardous waste regulations. These have cheaper user costs for more than 100,000 hazardous waste producers and managers. |

Limiting and adapting to climate change

Our long-term vision: We want to see society as a whole taking into account, and prepared for, the probable changes to our climate. We want to see deep cuts in the emission of greenhouse gases such as carbon dioxide. The Environment Agency can contribute by regulating greenhouse gas emissions from industrial plants, by ensuring that water is conserved, and that increasing flood risk is minimised.

Making it happen: Our strategic targets for 2007

Reducing greenhouse gas emissions

- Reduce greenhouse gas emissions from Environment Agency-regulated processes to contribute to the achievement of the UK Government's target of reducing emissions of greenhouse gases by 12.5 per cent below 1990 levels between 2008 and 2012.
- Reduce carbon dioxide emissions from Environment Agency-regulated processes to contribute to the achievement of the UK Government's target of reducing emissions of carbon dioxide by 20 per cent below 1990 levels by 2010.
- Promote the uptake of efficiency measures and renewable energy by supporting local initiatives and advising Government.

Planning for climate change

- Ensure plans are in place to adapt water supply systems to expected climate change.
- Ensure plans are in place to adapt flood management systems to expected climate change.

Getting there: How we performed last year against specific actions and targets in our Corporate Plan

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| Key performance targets |
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| Actions and targets published in our Corporate Plan 2004/07 | Status | Progress |
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| We will play our part in delivering the UK Government's target Kyoto commitment of reducing emissions of greenhouse gases by 12.5 per cent below 1990 levels between 2008 and 2012. We will also contribute to achieving the Government's target of reducing carbon dioxide by 20 per cent below 1990 levels by 2010, and by 60 per cent below 1990 levels by mid-century. | ↔ | In 2004 greenhouse gases from processes we regulate were 20 per cent less than the estimated 1990 release. Releases in 2003 were six per cent higher than in 2002, while 2004 releases were 0.4 per cent down on 2003. This decrease was due mainly to reduced output. |

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| Other performance targets |
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| Actions and targets published in our Corporate Plan 2004/07 | Status | Progress |
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| We will collate and publish data on the emissions of greenhouse gases from Environment Agency-regulated processes. | ✓ | We have collated emissions of greenhouse gases from the activities we regulate – the data is published on our <i>What's in your backyard?</i> web pages and in our <i>Spotlight on business</i> report. |
| We will undertake the role of the Competent Authority for the EU Emissions Trading Scheme in England and Wales. We will have issued permits to existing processes, such as power stations and iron and steel manufacturing sites by March 2004, and to new process from 2004/05. We will assess compliance, levy financial penalties for non-compliance and administrate the trading registry from 2005. | ✓ | We issued 832 permits to operators in England and Wales and are prepared for our role as EU Emissions Trading Scheme Registry administrator. |
| We will contribute to achieving the objectives and targets of the Government's Energy White Paper (EWP) by working with the cross-departmental Government body, the Sustainable Energy Policy Network (SEPN). | ✓ | We are an established member of the Government's SEPN, and also sit on its regional working group to feed in our support for local and regional goals of the EWP. |
| We will strengthen our support for initiatives to implement renewable energy and energy efficiency measures at a regional level. | ↔ | We have strengthened support for two renewable energy sources we regulate with: <ul style="list-style-type: none"> • BEAT (Biomass Environmental Assessment Tool), an expert system developed for use by staff dealing with biomass developments; • Our hydropower response, reviewed by a national co-ordination group to improve consistency. We input to regional energy strategies and sponsor energy efficiency initiatives such as the Kyoto Club. |

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| We will incorporate the requirements of the Ozone Depleting Substances Regulations for the manufacture, use and destruction of these substances at sites we regulate in PPC permits and waste management licences. | ✓ | We have reviewed our commitment under the Regulations and have prepared guidance for our inspectors to enforce the Regulations. We have referred to the special requirements of the Regulations in the Chemical Sector plan under PPC. |
| We will develop plans to extend our enforcement of the ozone regulations as well as to implement the proposed associated regulations dealing with hydrofluorocarbons (HFCs), perfluorocarbons (PFCs) and sulphur hexafluoride, which are expected to come into force in 2005. | ✓ | We continue to participate fully in the group established to advise on the negotiation of the proposed Regulations. |
| We will consolidate the use of climate change scenarios in flood risk management and water resources. | ↔ | We worked with UK Water Industry Research to develop more sophisticated methods for assessing the impact of climate change. We are now using new scenarios and developing frameworks ahead of the next major climate change scenarios in 2007. |
| We will contribute to policy guidance and information on planning for climate change for use by regional and local planners on flood and coastal risk management. | ↔ | We are developing guidance. Work is underway to clarify policy messages and provide input to planning. |
| We will review our monitoring and reporting systems to see where they can provide information on climate trends. | ✓ | We have published our first national report on climate change: <i>The climate is changing – time to get ready</i> |
| To support the delivery of the Water Framework Directive, we will develop our understanding of how climate change impacts on River Basin Management Plans. | ↔ | We held a workshop on climate change and reviewed the links to the Water Framework Directive. We are considering the use of the River Basin Management Planning process to introduce climate change scenarios into water management plans. |
| We will develop strategic adaptation plans for all regions for water resources and flooding. We will do this through regional partnerships and by establishing links with statutory planning processes. | ↔ | We are closely involved in all regional partnerships in England and Wales and we lead or sponsor many activities, including work on rural economies in Wales, severe droughts in East Anglia and the North West. We continue to input to regional planning documents. |
| We will be in a more informed position to deliver an up to date assessment of the risk to the water supply posed by climate change. This will be facilitated by the review of water company water resource plans for AMP4. | ↔ | We developed new guidance for water companies to use in their water resources plans. We assessed the companies' water resources plans to ensure that all were using this guidance. Where climate change impacts are significant, we expect water companies to carry out further work looking at different scenarios. |
| We will consider the risks posed by climate change to a wider range of Environment Agency functions, including biodiversity, waste management, air quality, recreation and navigation. We will start a thematic research and development programme to assess these risks and underpin evidence-based responses to them over time. | ↔ | A targeted programme of research is underway, including input to national research in (freshwater) biodiversity impacts, work on river types and review of risks posed to Water Framework Directive objectives. |
| We will develop a system to ensure that climate change is taken into account in the ongoing, internal development of policies and processes on the basis of existing information. | ↔ | We are developing our own climate change strategy and procedures, which will ensure that climate change is taken into account in the ongoing, internal development of policies and processes. |

Reducing flood risk

Our long-term vision: Flood warnings and sustainable defences will continue to prevent deaths from flooding. Property damage and distress will be minimised. Environmental benefits from natural floods will be maximised. The role of wetlands will be recognised. Flood risks due to land use and climate change will be assessed and used to influence planning decisions.

Making it happen: our strategic targets for 2007

Reducing the risk of flooding

- Achieve a reduction in the proportion of properties within the flood plain exposed to a ‘high risk’ of flooding.
- Produce Catchment Flood Management Plans for all principal catchments in England and Wales.
- Seek to influence planning activities to prevent 100 per cent of inappropriate development inside floodplains.

Improving the condition of flood defences

By 2005, for flood defence systems in urban areas, ensure 50 per cent (70 per cent by 2008) are in good condition or better, and no more than 5 per cent (3 per cent by 2008) are in poor condition or worse.

Providing effective flood warning

- Improve the coverage of flood warning services to 77 per cent of properties in flood risk areas.
- Ensure that 75 per cent of residents in flood risk areas will take effective action.

Getting there: how we performed last year against specific actions and targets in our Corporate Plan

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| Key performance targets |
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| Actions and targets published in our 2004/07 Corporate Plan | Status | Progress |
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| Provide improved flood defences to protect an additional 28,163 houses. | ✓ | 29,948 homes benefited from improved flood defences during the year. |
| Increase to at least 73 per cent in England and 56 per cent in Wales the proportion of properties (homes and businesses) within the indicative floodplain which are offered an appropriate flood warning service. | ↔ | We have made rapid progress in expanding the flood warning service and failed to meet the England target by only one per cent. We increased coverage by six per cent, the best annual increase since reporting began. In Wales, however, we fell eight per cent short of our target. |
| Increase to at least 58 percent in England and 70 per cent in Wales the percentage of people in the floodplain who receive an appropriate flood warning service and take effective action to help themselves and reduce flood damage. | ✓ | The results of a national survey of flooded properties show that 80 per cent of people flooded took effective action to reduce flood damage. But this is in response to flooding rather than the risk of flooding – only 16 per cent of people living in all flood risk areas would know how to respond to a flood. |

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| Other performance targets |
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| Actions and targets published in our 2004/07 Corporate Plan | Status | Progress |
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| <p>During 2004/05 we will start to deliver an increased flood risk management programme supported by the extra Government investment that was announced in SR2002.</p> | ↔ | <p>We are on track to achieve the agreed outcomes of the SR2002 programme.</p> |
| <p>We will start bringing in our flood risk management strategy and, in further developing this strategic approach, we will work closely with Defra to help produce a new cross-Government Strategy for Flood and Coastal Erosion Risk Management in England.</p> | ↔ | <p>We are successfully introducing our flood risk management strategy and continue to work closely with Defra and WAG on flood risk management and coastline protection.</p> |
| <p>We will work to deliver the activities aimed at modernising and improving flood risk management by:</p> <ul style="list-style-type: none"> • Continuing to develop and starting to use flood risk assessment methods. • Improving and rationalising our flood mapping and giving greater access to more relevant and accurate information on flood risk via our website. <p>Enhancing our flood warning service by using new technologies to warn people about possible floods.</p> | ↔ | <p>We are developing a new appraisal tool called multi-criteria analysis that will help us to channel investment where the need is greatest. Our new flood maps are available on our web site and are very popular.</p> |
| <p>We will take a more strategic approach to managing flood risk by continuing a programme of catchment flood management plans (CFMPs) to identify long-term sustainable policies to manage flood risk at a river catchment level. We will seek to integrate these with the requirements of the Water Framework and Habitats Directives. On the coasts, we will extend this approach through local involvement in developing Shoreline Management Plans (SMPs) and, where appropriate, their associated Coastal Habitat Management Plans.</p> | ↔ | <p>The programme of developing CFMPs has continued but progress is slower than planned. We have taken action to bring the programme back on track this year. No CFMPs were scheduled to be finished this year. We have commenced 28 CFMPs. They are at various stages of completion within the CFMP process. We are producing our plans to work alongside the Water Framework and Habitats Directives. We continue to have an active local involvement in pilot SMPs.</p> |
| <p>We will work closely with the water companies to ensure a more strategic and integrated approach is taken on urban flooding.</p> | ✓ | <p>Working with Defra we have made significant progress in raising the issue of urban flooding in <i>Making Space for Water</i>. We were instrumental in the Government committing to a series of pilot projects to assess integrated drainage planning to effectively tackle urban flooding.</p> |
| <p>Many of our activities in managing flood risk provide opportunities to contribute to wider sustainable development objectives. Where these benefits can be justified on cost grounds, or attract funding resources from others, we will seek to:</p> <ul style="list-style-type: none"> ▪ Promote biodiversity through protecting and improving habitats. ▪ Use robust environmental assessment and implement the requirements of the new Strategic Environmental Assessment (SEA) Directive. ▪ Increase access and recreational facilities. ▪ Work with regional development agencies and local authorities to link flood risk management improvements to wider regeneration schemes. | ✓ | <p>We have approved a policy of non-statutory Strategic Environmental Assessment for Catchment Flood Management Plans, Shoreline Management Plans and Flood Risk Management Strategies.</p> <p>We are revising Environmental Impact Assessment procedures to use a risk-based approach to determine the need and extent of environmental assessment for individual projects.</p> <p>We will continue to work with Regional Development Agencies to explore access and recreational benefits when developing flood risk management schemes.</p> |

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| As a result of flood management activities we will create areas of new potential Biodiversity Action Plan (BAP) habitats. In 2004/05 we will create 100 hectares of saltmarsh and mudflat and 100 hectares of other habitat. | ↔ | Out of a total of 425 hectares of new BAP habitat, last year we created 180 hectares as a result of flood management activities. This was mainly freshwater grazing marsh and reedbed, however - progress on saltmarsh and mudflat habitat was minimal. Expanding this kind of intertidal habitat relies heavily on the timing of managed realignment schemes. |
| We will continue to support a research and development programme in collaboration with others to make the best use of science, engineering and technology to deliver benefits through enhanced performance, reduced costs, new knowledge, tools and techniques. | ✓ | <p>We have successfully conducted a joint programme of research and development with Defra and other funders. New knowledge, tools and techniques from the programme are being used to support all areas of Flood and Coastal Erosion Risk Management.</p> <p>We supported the <i>Foresight Future Flooding</i> study, led by the Office of Science and Technology. This provided a strong evidence base on how flood risks will grow over the next 30-100 years, and the key role of science, engineering and technology in meeting these challenges.</p> <p>We helped to launch the Flood Risk Management Research Consortium, which will provide 'blue sky' research through to 'user-focussed' products by 40 scientists.</p> |
| Reducing the risk of flooding | | |
| Implement the outcome of the Funding Review including Government Grant in Aid (for all expenditure in England and for capital expenditure in Wales) and streamline the approvals and funding processes for asset management to facilitate faster delivery. | ✓ | Government Grant in Aid was introduced in April 2004 and, as part of the Funding Review, is successfully speeding up the approvals and funding processes for asset management. |
| Introduce the initiatives arising out of the Funding Review to streamline the processes for investing in flood risk management and improve our efficiency. | ↔ | All the relevant strands of the Funding Review project are on schedule as planned. |
| Replace the Indicative Floodplain Map on our website with a new flood map showing the probability of flooding, taking into account the presence and effect of flood defence systems by the end of 2004. | ✓ | We made excellent progress with our flood mapping strategy including creating new internet-based flood-risk maps. These were published on our website in October and the public looked at more than 1,000,000 maps on day one. |
| Develop a method to assess flood risk across England and Wales, and inform decision-making, that will enable us to track the long-term flood risk. | ↔ | We are developing investment tools and techniques to make better use of Government Grant in Aid. Our new appraisal tool, multi-criteria analysis, should be ready to support Defra's Spending Review 2006 submission. |
| Review investment programmes to identify opportunities to support regeneration projects and our objectives of sustainable construction and environmental improvement. | ✓ | We have reviewed our investment plan to ensure that our flood risk management programme will achieve Defra's targets for improving flood defences in urban areas and creation of BAP habitats. |
| Develop national policies and processes for funding and using local flood protection measures. | ↔ | We have made significant progress in introducing national policies and processes across our flood risk management service. |
| Make the organisational arrangements necessary for us to perform the new duty of enforcing the Reservoirs Act 1975 in England and Wales, as provided for by the Water Act 2003, which amended the 1975 Act. We will ensure that flood plans exist for all reservoirs covered by the Act. | ✓ | We have successfully taken on the enforcement role for reservoirs from local authorities. This involved transfer of all the records and the setting up of a new computer system. We have achieved this on time and within budget with support from Defra, LGA and the British Dam Society. |

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| Decrease the proportion of major infrastructure within the flood plain that is at risk of not being available for its intended use at times of flood. | x | The baseline for major infrastructure at risk in the flood plain will be available in 2005/6. |
| Decrease the proportion of major environmental assets within the floodplain that is at risk of being damaged by flooding. | x | The baseline for the environmental assets at risk in the floodplain at risk will be available in 2005/6. |
| Improving flood defences | | |
| Ensure 50 per cent of urban flood defence systems are in good condition or better, and no more than 5 per cent are in poor condition or worse. | ↔ | Preliminary figures on all assets show that we are on target. Currently not all regions are able to report on urban systems alone. |
| Improve the planning, inspection and targeting of investment on assets according to flood risk to ensure that 50 per cent of flood defences and structures in urban areas will be in good condition or better. | ↔ | We have now identified urban and rural flood risk management systems across the country and are assessing the level of risk to people and property in each. We are producing performance specifications for each system that will allow us to better target work on our assets according to flood risk. |
| Providing effective flood warning | | |
| Launch a new multi-media warning system. | x | We have made significant progress over the last year. We have developed the system and are testing it ready for use in September 2005. |
| Introduce a nationally consistent approach to flood warning information systems. | ✓ | We have made excellent progress towards achieving a nationally consistent flood warning service through the new Flood Warning Levels of Service Work Instruction. We have also developed and improved the highly popular flood warning internet site to include additional flood warning information and a link to the flood map. |
| Introduce a national flood forecasting system (NFFS). | ✓ | We have successfully developed and tested NFFS. We are accelerating the programme by six months for the first three regions to use the system. The business case for the remaining five regions has been approved to an accelerated programme. Costs are in line with budget. |
| Controlling development on the floodplain | | |
| We will improve the regulation and management of flood defence through working with local planning authorities in relation to development on the flood plain. We will achieve a further minimum 20 per cent reduction in the number of local authority planning permissions granted against Environment Agency advice on development in the flood plain. This is building on the 10 per cent reduction in 2003/4. In 2004/5 at least 85 per cent of our objections to major development will be sustained. | ↔ | We are making good progress in influencing many local planning authorities and developers across England and Wales to avoid inappropriate development in flood risk areas. The number of our objections being over-ruled by local planning authorities is down. We have been working hard with local planning authorities and our involvement in planning appeals has increased dramatically. Our success in influencing the appeal decision has also increased resulting in a significant reduction in appeal decisions going against our advice. |
| Improving economic return and efficiency | | |
| Optimise economic return from relevant Flood Risk Management activities (net present value) to £780 million | ✓ | We are working with Defra to develop new high level OPMs which will enable us to report on the economic benefit from across all of our FRM activities. |
| Improve the effectiveness and efficiency of investment in asset management by £16,000 per property. | ✓ | Target achieved. |
| Improve efficiency by reducing the cost of decision-making and overheads and savings from procurement best practice by £10 million. | ✓ | Target achieved. Through efficiencies from NCPMS and corporate projects we have ensured that we are on target. |

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| As part of the above target, reduce the cost of developing and implementing capital flood defence schemes, as a percentage of total relevant costs (taken year on year) by 5 per cent. | ✓ | Baseline in May 04 calculated at 42 per cent of total programme costs. Target achieved as we are now running at 30 per cent of total programme cost. |
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Building the future Environment Agency

Modernising regulation

| Performance targets | | |
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| Actions and Targets published in our 2004/07 Corporate Plan | Status | Progress |
| We will use Operator Pollution Risk Appraisal (OPRA) for Pollution Prevention and Control, as well as a new risk-based charging scheme to help modernise the way we regulate. | ✓ | EP OPRA is in full use now for PPC and is the basis for a risk based charging scheme, which is now also in place. |
| We will expand our use of OPRA to regulating radioactive substances and waste licensing. | ↔ | OPRA is now used for waste. We have not extended OPRA to radioactive substances as we have realised it will bring greater benefits to other areas of our work. |
| We will introduce a single administration system for all permit applications. This will improve the service we are able to provide to customers and help to reduce the costs of this service. | ✓ | The Permit Administration System (PAS) is our new single administration system. We will also use this system for waste regulation to include online applications, automated registrations and online payment. We have also incorporated reservoirs into PAS with considerable savings and others will follow. |
| We will enforce revised, streamlined legislation for waste permits (excluding landfills and PPC activities), commencing with permits for waste from electrical and electronic equipment. | ↔ | We were unable to streamline the legislation due to waste permitting stalling. It is now up and running again as EPP (the wider Environmental Permitting Programme). In the meantime we are streamlining wherever we can without the use of legislative change. |
| We will use new, standardised systems for waste management licensing (WML), including end-of-life-vehicles (ELV) and electrical goods, to help reduce the costs of implementing new requirements to regulate the disposal of these goods. | ✓ | We did use standardised systems for ELV as envisaged in this objective. Our aims have moved on and we are standardising much more for the coming year over a range of WML processes. |
| We will use improved technology to improve remote access to information for our staff. As a result, we will be able to respond more effectively to pollution incidents and breaches in permit conditions. | x | We have carried out a range of studies and pilots. However benefits realisation assessments we made during the year showed that other things have priority. |

Sharpening efficiency

| Performance targets | | |
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| Actions and targets published in our 2004/07 Corporate Plan | Status | Progress |
| We will work to ensure that efficiency becomes embedded within the culture of the organisation. | ↔ | Our Efficiency Strategy was agreed by the Board in July 2005. Implementation of the strategy is included in the Innovation and Improvement Business Plan. |
| Our strategy will be to deliver against a single efficiency programme that will deliver efficiency | ✓ | We achieved efficiency savings of £26.58 million against the target of £20 million. These savings included: |

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| savings of at least £20 million in 2004/05. These savings will stem from: <ul style="list-style-type: none"> - Brite reorganisation £3.3 million - Other business reviews £4 million - Procurement £3 million - IS/IT £8 million - Commercial Income £1.7 million | | <ul style="list-style-type: none"> - Brite reorganisation £3.3 million - Regional and local efficiencies £4.78 million - Better procurement practices and contracts £10.7 million - Incident and Flood Risk Management £3.6m |
| When undertaking specific business reviews we will consider market testing and contracting out against internal service improvements where appropriate. | ↔ | All feasibility studies consider contracting out when identifying the best solution. Benchmarking studies have taken place within procurement, information technology, our National Capital Programme Management Service and our National Laboratory Service to ascertain current market practices, costs and measures. |
| We will develop a business information model based on Activity Based Costs, which will enable us to measure the cost of our work relative to outputs delivered. | ↔ | We have developed a business information model that enables us to look at costs by activity. |
| Our new integrated management information system, PIMS/FIMS (now renamed 1B1S) will enable us to set benchmarks and improve our ability to identify and demonstrate efficiency improvements, particularly those related to productivity. | ↔ | The first part of the 1B1S system is in place and has already supported many core processes in England and Wales throughout 2004/5. The benefits are already very clear and improved management information provides the opportunity for considerably more. |
| We will increase efforts to raise extra funds from external sources and aim to bring in at least £65 million from these sources by 2005/06. | ✓ | We have secured £75 million of additional investment in the environment this year. By working with others we have increased our success in winning funds from Europe and the National Lottery. We have also influenced a wide range of partners to make investments in areas of the environment in line with our goals. |
| We will look to maximise income through taking a more commercial approach to the use of our assets. We already generate about £1m each year but are looking to increase this to at least £4m by 2005/06. | ↔ | We are on track to generate at least £4 million by 2005/6 following the completion of a successful strategic review of our commercial opportunities. |

Driving corporate performance

| Performance targets | | |
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| Actions and targets published in our 2004/07 Corporate Plan | Status | Progress |
| We will develop our performance management process, with supporting systems, to ensure that our management decisions and actions focus on our Corporate Strategy | ↔ | We have redesigned our Balanced Scorecards to ensure they are effectively linked so that management focus at all levels will be towards achieving the corporate strategy. |
| We have adopted Balanced Scorecards (BSCs) and we will improve our use of them, so that performance management is fully integrated into our overall management review process. | ↔ | We have refreshed our scorecards to ensure they are in line with best practice for Balanced Scorecards. We have made changes to ensure that scorecards are subject to more frequent and systematic scrutiny. |
| The introduction of better scorecard technology will enable us to accelerate further the collection of management data to provide the organisation with more timely information on which to make both strategic and operational decisions. | ↔ | We have developed technology to support data gathering and reporting of management information and provide this on a more timely basis. |

Developing people

| Performance targets | | |
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| Actions and targets published in our 2004/07 Corporate Plan | Status | Progress |
| Improving organisational effectiveness and staff capability | | |
| <p>We will improve overall organisational effectiveness and staff capability through:</p> <ul style="list-style-type: none"> ▪ An organisation development programme which produces local actions with support and sponsorship from senior managers and which will, over a period of time, involve all employees; ▪ Supporting effective people management and performance review; ▪ Providing training, development and learning opportunities. | <p>x</p> <p>✓</p> <p>✓</p> | <p>The launch of this programme was delayed until 2005.</p> <p>Management processes have improved to the point where 91% of our employees have active development plans. Career development guide published in September 2004.</p> |
| We will improve our capacity to coach people to perform better. | ↔ | We are building coaching skills into development programmes for Managers and Team Leaders. |
| We will aim to achieve Investors in People (IIP) accreditation by March 2005. | ✓ | Achieved in November 2004 |
| Health and safety | | |
| <p>We will continue to reduce the number of accidents involving our staff at work.</p> <p>We will continue to set challenging targets and ensure that health and safety is a management and leadership priority. We expect all regions and areas to approach the level of performance of those with the best record over a period of years.</p> <p>We will review our Health and Safety strategy, which we adopted in 1998, and build on the successful features of our performance in the last five years to improve our overall record.</p> | <p>↔</p> <p>↔</p> <p>✓</p> | <p>We saw a small reduction in time-losing accidents, but the rate of improvement slowed.</p> <p>Targets set and met by most regions, with significant improvement in some regions.</p> <p>The Board agreed a new strategy early in 2004.</p> |
| Recruitment | | |
| We will continue to identify where we are having difficulty in recruiting staff and take action to address problems. This will involve extending to other groups of staff the national campaigns that we have developed for recruiting Environment Officers. | ✓ | We have reduced turnover in the South East from 15 per cent to 10. We ran successful national campaigns for a variety of staff groups. |
| Increasing the diversity of our workforce | | |
| We will tap into new labour markets by driving ahead with our diversity strategy. When the Environment Agency was formed 1.6 per cent of staff were from ethnic minorities. We are now recruiting 4-5% of new starters from ethnic minorities, but we can only increase this by appealing to wider communities. We are setting ourselves targets at local level and areas, regions and head office will work towards achieving these. | ✓ | We have doubled applications from black and minority ethnic (BME) applicants, and increased BME employees by 40 per cent since 2003. |

Supporting technology

| Performance targets | | |
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| Actions and targets published in our 2004/07 Corporate Plan | Status | Progress |
| Our Information Systems Strategy will be implemented so that all investment is targeted to meet our business priorities. | ✓ | We have continued to rigorously prioritise all new investment in information technology to address clear business objectives. |
| Improvements in technology will underpin many of the initiatives being developed to change the ways in which we work. In particular, a significant part of our efficiency programme will be delivered through changes in technology. And new or improved systems will enable us to modernise the way we regulate. | ✓ | We have achieved over £3 million of efficiency savings from the effective use of technology to support improvements in business activities. |
| We will achieve significant efficiencies through IT-enabled business change | ✓ | We have achieved over £3 million of efficiency savings from the effective use of technology to support improvements in business activities. |
| We will develop information systems to enable our staff to work effectively and efficiently from a range of locations. | ↔ | We are deploying 'hand held' devices to flood defence officers to record the results of their inspections. This saves time travelling back to the office to enter data and reduces errors. |
| We will provide stakeholders with access to our key services and information electronically, in line with the Government's information age targets. | ↔ | We are providing an increasing number of our services electronically. In 2004/5 we launched Flycapture, which allows local authorities to record all incidents of fly-tipping so that action to prevent fly-tipping can be co-ordinated more effectively. We also launched a new set of flood risk maps on our website. |

Shaping the organisation

| Performance targets | | |
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| Actions and targets published in our 2004/07 Corporate Plan | Status | Progress |
| We will open a National Customer Contact Centre that will deliver an improved service for customers, including more enquiries answered on the spot, consistent responses to enquiries and 'ownership' of enquiries from start to end. | ✓ | The National Customer Contact Centre became operational in April 2004 with the transfer of all calls completed by August 2004. The Contact Centre has a Welsh Language Service managed by a team working from our Bangor office with access to the same systems and knowledge. Over 60% of all telephone enquiries are resolved at the first point of contact compared to an initial target of 30%. |
| We are reviewing the way we respond to environmental incidents. We will use our knowledge and experience to develop ways to tackle incidents when they occur. | ↔ | In July 2004 we started to put in place our 'Incident and Flood Risk Management change programme'. By October we had completed the first phase, which included removing the client contractor split and moving a number of people into higher priority work by ceasing some activities that we no longer needed. This released around £1.5 million a year of funding to help with higher priority activity. We are now into the second phase, which will take three years. It will provide a consistent and effective service across England and Wales, and achieve further efficiencies by restructuring our flood risk management business. |
| Our investment in a new system to manage information on people and finance (which is now called 1B1S) will help us to make best possible | ↔ | The first part of the 1B1S system is in place and has already supported many core processes in England and Wales throughout 2004/5. The benefits are already very clear and |

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|--|---|---|
| use of our resources. | | improved management information provides the opportunity for considerably more. |
| We will develop a five-year plan for science that will ensure that our science programme strikes a balance between strategic and short-term research and development and focuses on those issues where science can make the greatest contribution to our activities. | ↔ | In December 2004 we published our Science Strategy setting out a 5-year (and beyond) plan for science. We are now developing thematic science programmes. |

Communicating and influencing

| Performance targets | | |
|---|--------|---|
| Actions and targets published in our 2004/07 Corporate Plan | Status | Progress |
| We will make sure that our key stakeholders understand what the Environment Agency is and what it can do to protect and enhance the environment. We will communicate, in a clear, timely and consistent way, what needs to be done in relation to the issues that most affect the environment. | ↔ | <p>We developed and put into effect communications strategies in key areas – for example raising awareness of major changes in waste legislation from summer 2004.</p> <p>We ran a World Environment Day campaign that encouraged people to make small changes in their behaviour for the good of the environment. By June 2004 we received more than 30,000 pledges amounting to a collective saving of nearly 140 million litres of water, over one and a half million kilograms of carbon dioxide and nearly three-quarters of a tonne of plastic bags</p> |
| We will ensure that our communications activity is proactive, linked across the organisation - nationally, regionally and locally – and works in partnership with Government and other organisations that share our interests. We will support this approach with improvements in our communications with different audiences | ↔ | <p>Our regions and areas have developed plans to influence and work with local stakeholders towards a better local environment.</p> <p>We have worked in partnership with Defra and others to shape a range of environmental legislation, including the Water Act, the Homes, Planning and Energy Bill and the Sustainable Communities Bill, and in developing a climate change communications strategy.</p> <p>We have also worked with Defra to influence the shape of new EU environmental legislation and networked with other environmental regulators who are trying to solve common problems. Beyond the EU we have worked with DFID and Defra on an international programme to share expertise and secure resources for environmental projects in Kenya, South Africa and Bulgaria.</p> |
| We will ensure that our staff have the right communications skills and tools. In particular, we will seek ways of improving our ability to translate our technical and scientific expertise into effective communication and advice. We will make the most of all opportunities offered by new media as well as more traditional methods of communication. We will equip our staff with clear messages and a good understanding of the views and needs of stakeholders and customers. | ↔ | <p>We put about 2500 staff through our communications training and development programme. We also launched a plain English campaign to ensure that all our written communication is clear and easily understood.</p> <p>We ran an extensive research programme to find out about our key stakeholders' views and needs, and to assess the impact of some of our communications. Most held a favourable opinion of us, but we are addressing specific issues through development plans.</p> |
| We will make sure that our response to our customers is smart, efficient and helpful, and that we work more effectively with communities on the environmental issues that matter to them. | ↔ | We put a customer relations strategy in place and started to run a customer focus programme across the organisation, including training, Customer Focus Week, and reorganisation to set up dedicated local teams. We started to identify systems and processes we could change or set up to achieve higher levels of customer satisfaction. |

| | | |
|--|---|--|
| | | We ran a programme to help staff work more effectively with communities. We trained 350 staff through the programme, which established networks of expertise and supplied a toolkit. |
| We will develop relationships with our network of stakeholders through our community, and other, liaison arrangements. We will look at these to make sure we are grounding our decision-making in reality, making our solutions fit locally, and seeking feedback on our operations. Our aim will be to build trust with all those we work with and for. | ↔ | We improved our approach to managing consultations. We provided all staff with access to a telephone translation service (Language Line) enabling them to engage with, and respond to, people with different language needs more effectively. |

Leading the way

Progress against our internal environmental management targets

| What we said we would do | Status | Progress |
|--|--------|---|
| Cleaner air for everyone | | |
| Reduce total transport emissions by 30% from 2001/2002 levels. | ✓ | We have reduced total transport emissions by 41%. For a very small proportion of our data we have had to make assumptions about vehicle emissions. Where this is the case, it has been based on the worst case scenario. |
| Improving and protecting inland and coastal waters | | |
| Ensure that all category 1 and 2 Environment Agency caused incidents during 2004/05 are investigated and the findings reviewed by Operations Management Team (OMT) by the end of April 2005. | ✓ | Target achieved. During the year we were responsible for 52 environmental incidents of which four were category 2. All were successfully investigated and reviewed by OMT and the lessons learned will be incorporated in our operations and audited. |
| A 'greener' business world | | |
| Carry out risk assessments for sustainability on all our procurement contracts worth over £25,000. | ✓ | Target achieved. |
| Carry out in-depth environmental audits of 20 of our key suppliers to enhance our programme for supplier development. | ✓ | Target achieved. We carried out 20 on-site environmental audits on our key-suppliers during the year. |
| Make sure we complete our environmental audit programme. | ✓ | Target achieved. All our significant sites have had an environmental audit from which we have produced action plans. |
| Be registered by the Eco-Management Audit Scheme (EMAS). | ✓ | Target achieved. Our successful registration demonstrates that all elements of our Management System and EMAS statement met the standards EMAS require. |
| Wiser, sustainable use of natural resources | | |
| Use at least 60 per cent of recycled aggregates. | x | Overall achieved 49 per cent. The type of schemes and availability of suitable secondary aggregates influence achievement of the measure. 58 per cent of aggregates purchased from primary sources relate to only two schemes. |
| Ensure all the timber we use is from sustainably managed sources. | ✓ | Target achieved. |
| Reduce construction wastes to landfill to an average of 10 per cent of every 400 tonnes of waste a construction project produces per £1 million spent (excluding projects involving existing contaminated land). | x | Target not achieved. On average 32 per cent (1213 tonnes per £1 million) of the total waste went to landfill. With the introduction of Site Waste Management Plans we aim to identify potential wastes earlier in the planning process to improve the management of construction wastes and maximise the recycling opportunities. |

| | | |
|---|---|---|
| Make sure all projects over £25,000 have an Environmental Impact Assessment. | ↔ | Target almost achieved. Only one project did not have an Environmental Impact Assessment. |
| All our sites with 20 or more full time employees must meet our standard office model target for waste management and recycling by March 2005. | ✓ | Target achieved. We have also reduced our office waste going to landfill by over 30 per cent from the 2001/02 baseline. |
| Reduce the amount of water our buildings use by 10 per cent from the 2000/01 baseline by March 2006. | ↔ | Good progress made. We have reduced water use by 8.1 per cent (per person) from the 2000/01 baseline. |
| Limiting and adapting to climate change | | |
| All the electricity we buy will continue to come from renewable sources. This means a reduction in carbon dioxide emissions of around 17,500 tonnes per year compared with fossil-fuel generated electricity. | ✓ | Target achieved. We buy electricity from renewable sources for the vast majority of sites that we own. Small sites such as gauging stations are added to the renewable electricity contract as the contracts come up for renewal. |
| Reduce the amount of energy our buildings use by 10 per cent from a 2000/01 baseline by March 2006. | ✓ | Target achieved. We have reduced energy use by 18 per cent (per person) from the 2000/01 baseline. |
| Monitoring and reporting | | |
| We will continue to produce an annual environmental report that will report on our own environmental performance targets, and introduce sustainability reporting for our 2004/05 reports. | ✓ | Target achieved. We have included our environmental report in this year's Annual Report and Accounts. We will also produce a separate EMAS statement. |

Section three

Financial statements for the year ended 31 March 2005

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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, Transport and the Regions (DETR) 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 2004/05 its principal sponsor in Government remained the Department for Environment Food and Rural Affairs (Defra), which was responsible for supervision of the Environment Agency's financial controls through the Financial Memorandum. Defra oversees the environmental policy framework within which the Environment Agency operates, and policy on all its functions, except that the National Assembly for Wales (NAW) is responsible for the policy and oversight of all of the Environment Agency's functions discharged in Wales.

In April 2004 new arrangements came into force for funding flood risk management activities by way of a new funding stream in the form of Flood Defence Grant-in-Aid (FDGIA) replacing the capital grants regime previously received from Defra and income previously received from local authority flood defence levies. Local authorities will retain a residual levy setting power in England to pay for local priorities not covered by the nationally agreed programme. The Environment Agency continued to receive levies and grants from Local authorities and the NAW towards the cost of capital projects.

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 NAW (for the Environment Agency's 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 the National Assembly for Wales with the consent of the Treasury, under section 45 of the Environment Act 1995.

The term 'Service Accounts' used in the financial statements incorporates the water resources, environmental protection, fisheries, navigation, recreation and conservation functions.

Results

The Environment Agency had an operating deficit from continuing activities for the year of £11.3m. Interest receivable of £3.7m, financing income on pension scheme assets and liabilities of £5.6m, and transfers of £2.0m from capital reserve, resulted in a nil balance on the income and expenditure account.

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% 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.

Water Resource outturn for the year resulted in a break-even position leaving the brought forward / carry forward balance remaining at £0.7m. Water resources closing cash in hand totalled £11.3m. An amount of £4.5m was required to cover creditors, accruals, and receipts in advance due to abstractors

Grant-aided functions

The principal financial duty for each of the grant-aided functions is to balance cash income (including grant-in-aid) and 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% of the total grant-in-aid provision, as approved by Parliament. Any amount in excess of 2% is taken into account in the payment of the following year's grant-in-aid. 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 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.

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

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 | 263.1 | 149.5 | 113.6 |
| Fisheries | 32.1 | 17.6 | 14.5 |
| Recreation & Conservation | 11.2 | 0.9 | 10.3 |
| Navigation | 16.3 | 6.5 | 9.8 |
| Flood Risk Management | 424.7 | 65.3 | 359.4 |
| Sub-total | 747.4 | 239.8 | 507.6 |
| Unfunded pensions | 12.3 | - | 12.3 |
| Total | 759.7 | 239.8 | 519.9 |

Environmental protection

Under the accruals convention, income from monitoring and consenting exceeded expenditure from charge payers within the environmental protection function by £0.8m. As a consequence, this in-year surplus decreased the accumulated deficit of £6.1m brought forward from 2003/04 to £5.3m.

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 from the new funding arrangement in the form of FDGIA (£359.4m) which replaces the capital grants previously received from Defra and income previously received from local authority flood defence levies. Funding from levies on constituent local authorities, which have representatives on each Committee, amounted to £24.4m. The Environment Agency received capital grants of £3.7m from NAW towards the cost of capital projects in Wales.

During 2003/04, 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.

Agreement was reached in 2002/03 with Treasury in respect of the fluctuations of flood defence S47 balances and its impact on Departmental Expenditure Limit under Resource Accounting and Budgeting. Treasury supported the proposal that S47 balances should be accounted for in working capital rather than reserves. The impact of this agreement on the flood defence S47 balance this year resulted in a transfer to working capital of £3.2m.

Fixed assets

The movements in fixed assets during the year are set out in note 5 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 and records impairments of fixed assets and complies with FRS 11, Impairment of Fixed Assets and Goodwill.

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.

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 2004/05, which has reflected that the Environment Agency is compliant with the Treasury Guidance and Turnbull guidance on internal control. The Accounting Officer has provided the statement required by this guidance in Section II.

Board composition and Executive Directors

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

The Accounting Officer of Defra designated the Chief Executive as the Environment Agency's Accounting Officer. On 31 March 2005, the Board comprised eleven 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 National Assembly for Wales, 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 Chairman was re-appointed for a further four-year term to 31 December 2007. The Environment Agency has eight 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 2005. It is accountable to the Secretary of State for every aspect of the operation of the Environment Agency and the National Assembly 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 Committee, Pensions Committee, and Remuneration Committee; and five advisory groups on Agriculture & Countryside, Industry, Resources, Water & Flood Risk Management and Urban Environment. A recently established Flood Defence Finance Committee 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 Treasury's model code. A register of Board members' interests is updated and maintained at the Environment Agency's London Head Office and is readily available for inspection.

Board committees

The Audit Committee comprises five Board members and is currently chaired by Mr Peter Matthews. It 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, together with any such work carried out by auditors from Government Departments and the National Audit Office.

The Pensions Committee comprises four 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 III.

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 in the year was £8.6m.

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 becomes 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 raising employment standards and implementing best practice employment policies throughout the Environment Agency.

Health and 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 ourselves; 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. Creditor days, calculated according to the formula in the Companies Act 1985 (Directors Report) (Statement of Payment Practice) Regulations 1997 (SI 1997/571), were 38.0 days for 2004/05 (2003/04 30.7 days). The Environment Agency has complied with the Better Payment Practice Code.

Environmental policy and 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.

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.

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 influence 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 have also worked with Envirowise, the UK accounting bodies, and several hundred businesses to develop and implement good practice guidance to promote this. We have also built environmental accounting into our new financial accounting system 1B1S and this will improve and 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.

Contaminated assets – Disclosure under FRS 12

The Environment Agency has a property estate of some 15,300 hectares and 204 built properties. The March 2001 quinquennial property valuation identified a possible contingent liability of between £14m and £30m associated with potential historical contamination at 151 of our office or 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 £9m and £23m. The investigations are continuing and we will continue to review our liability figure as each site and phase of the work is completed.

Future developments

In consultation with others we have set out a shared vision for the environment we want to see in the long-term. We plan to turn this vision into reality through our corporate strategy, which sets out priorities and targets to achieve specific environmental outcomes over a five-year cycle. Our Corporate Plan, which we update each year to reflect our funding position, sets out priorities and milestones geared towards achieving these five-year strategic targets.

During the latter half of 2005 we will be consulting on our next corporate strategy looking at priorities over the 5-year period 2006 to 2011. We will also be preparing our input to the Government's next spending review (SR2006) which will underpin our resource position for the next three years, and we will be agreeing with our Government sponsors key targets for inclusion in our corporate plan. These will form the benchmarks that we will use to measure our progress and effectiveness in the short-term.

Auditors

Following the recommendation of Lord Sharman in his report 'Holding to Account' to the House of Commons, the Comptroller and Auditor General of the National Audit Office was appointed as the statutory external auditor of the Environment Agency on 1 April 2003.

A handwritten signature in black ink that reads "Barbara Young". The signature is written in a cursive, flowing style.

BARBARA YOUNG
CHIEF EXECUTIVE AND ACCOUNTING OFFICER ON BEHALF OF THE ENVIRONMENT AGENCY
13 July 2005

II 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. To that end I share with the Board of the Environment Agency responsibility for maintaining a sound system of internal control and the mechanism by which both the Board and I assure ourselves that it is working effectively are the same. I am personally accountable to the Board and to Parliament, and the Board are accountable to Government.

Through the publication of the Annual Report and Corporate Plan, the Environment Agency reports on progress made and sets out how it proposes to allocate the resource made available to it. Defra and the Welsh Assembly Government approve the Corporate Plan. As part of this process, the Environment Agency will communicate its policies, aims and objectives and those areas it perceives represent the greatest risk to the achievement of them.

The Environment Agency's aims and objectives in the delivery of Government policy and key issues to these are discussed as appropriate at regular meetings of officials including my own with Defra's Accounting Officer 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 2005 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

Capacity to handle risk

The Environment Agency has a statement setting out its strategic approach to risk management that has been agreed with its Board and Directors. The Directors' Group assess and prioritise the Environment Agency's key corporate risks with individual Directors then taking on the role of risk champions. The Audit 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. Staff have access to guidance on the application of risk assessment. The Environment Agency has post-project appraisal and lessons learned processes in place, all designed to improve knowledge sharing across the organisation.

The risk and control framework

The Environment Agency's risk management strategy recognises that effective risk management is a key component to 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 mandatory to ensure risks 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, 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 2005 the Directors prioritised action in the areas of optimising service delivery, managing the impact of Government reviews and internal change programmes and securing the right skills within the workforce.

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

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 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 reviews performance. The Board receives reports from the Audit Committee on the standards of corporate governance and internal control operating in the Environment Agency.
2. The operation of the Audit Committee, a subcommittee of the Board, which meets quarterly. The principal aims of the Audit Committee are to consider the Annual Report and 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 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. In 2004/5 the evidence base upon which this assessment was based was materially increased.
5. Acting on the recommendations made by external auditors in their management letters and other regulatory compliance reports.

Areas that presented significant internal control issues in 2004/5 are: the implementation of a new financial and human resources management system, the security around information technology systems and arrangements for business continuity planning. Actions were taken to ensure that these risks once recognised were appropriately managed.

In April 2004, the Environment Agency implemented a major new financial and human resources management system. The successful development and implementation of the system necessitated seeking approval for additional expenditure from Defra who were regularly briefed on progress. Issues with system stability and availability to users meant that contingency plans had to be employed to maintain operational capability. Finance and Human Resources teams worked to maintain internal controls and minimise the risk of disruption to organisational performance. Where control issues were highlighted senior management attention was focussed on addressing these issues. Management continues to monitor and address residual issues as well as continuing to develop the system and deliver benefits from the investment.

The continuing investment in major information technology systems and reviews of the web-site firewall; anti virus controls; voice systems and 3rd party and Internet connections raised issues with the current approach to system security. Although management have addressed individual issues rapidly and effectively it is important to keep on top of the ever-changing nature of the risk of attack. There is therefore a need for a more structured and overarching approach to system security including greater emphasis on the role of management review. Action plans are in place to mitigate known risks.

Effective business continuity planning is critical to ensuring the continual delivery of a number of vital services that the Environment Agency provides and business continuity plans already exist for many systems. It was recognised that plans

were of variable quality and did not necessarily consider dependencies between plans. In order to improve their effectiveness in 2004/5 a business continuity planning policy was developed. Work commenced on assessing risks, prioritising systems and evaluating the gap between existing plans and the new standards. In 2005/6, work will continue to ensure that individual plans sit within a co-ordinated framework and that all key plans have been tested.

A handwritten signature in black ink that reads "Barbara Young". The script is cursive and fluid, with the first letters of "Barbara" and "Young" being capitalized and prominent.

BARBARA YOUNG
ACCOUNTING OFFICER
13 July 2005

III 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 the Department of the Environment, Food and Rural Affairs.
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;
 - (g) receive annual statement of expenses incurred by Board members.

Business conducted in year

The Remuneration Committee met four times during the year ended 31 March 2005. It agreed the bonuses of the Chief Executive and other executive directors for 2003/04 and the Chief Executive's appraisal for 2003/04, and objectives for 2004/05. The Committee approved the 2004 pay awards to the executive directors. The 2004 pay award to the Chief Executive was discussed with Defra.

During the year, the Committee also:

- advised on the general approach of the 2004 and 2005 pay review, and the pay strategy for 2005/06;
- monitored progress on management and succession planning in the Environment Agency's employment;
- reviewed the Terms of Reference of the Remuneration Committee; and
- reviewed the expenses paid to non-executive Board members.

Remuneration of Non-Executive Board Members

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

Board Members' remuneration

The following table provides details of the appointment and emoluments of Board members:

| Board Member | Date of Appointment or Re-appointment | Period of appointment (years) | Time commitment (days per month) | Remuneration in 2004/05 £ | Remuneration in 2003/04 £ |
|---------------------------------|---------------------------------------|-------------------------------|----------------------------------|------------------------------|------------------------------|
| Sir John Harman | 01 Jan 2004 | 4 | 3½ days per week | 92,916 | 83,625 |
| Mr Peter Bye DL(i) | 01 Sep 2003 | 3 | 7 | 23,597 | 16,961 |
| Mr Edward Cattle CBE | 15 Sep 2003 | 3 | 6 | 22,310 | 18,226 |
| Mr Andrew Dare CBE (ii) | 01 Feb 2002 | 3 | 6 | 18,591 | 21,871 |
| Mr John Edmonds | 01 Jun 2002 | 3 | 6 | 22,310 | 16,403 |
| Professor Richard Macrory (iii) | 01 Jan 2002 | 3 | 5 | 13,942 | 18,226 |
| Mr Peter Matthews | 15 Sep 2003 | 3 | 6 | 22,310 | 20,959 |
| Ms Sara Parkin OBE | 15 Sep 2003 | 3 | 5 | 18,590 | 18,226 |
| Mr Richard Percy | 01 Nov 2003 | 3 | 5 | 18,590 | 7,594 |
| Professor Donald Ritchie | 01 Jul 2001 | 3 | 8 | 33,465 | 36,383 |
| Mr Malcolm Smith (iv) | 01 Sept 2004 | 3 | 7 | 15,184 | - |
| Dr Lyndon Stanton | 01 Jun 2002 | 3 | 6 | 22,310 | 20,859 |
| Councillor Kay Twitchen (v) | 01 April 2004 | 3 | 4 | 14,875 | - |
| Mr Gareth Wardell (vi) | 08 Aug 2000 | 4 | 7 | 9,176 | 24,955 |
| Professor Lynda Warren | 10 Oct 2003 | 3 | 7 | 26,030 | 25,517 |
| Barbara Young (vii) | 27 Nov 2000 | 5 | Full Time | 144,281 | 140,901 |
| Total | | | | 518,477 | 470,706 |

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

- (i) Mr Peter Bye time commitment changed to 7 days per month from 1 February 2005
- (ii) Mr Andrew Dare retired from the Board on 31 January 2005.
- (iii) Professor Richard Macrory retired from the Board on 31 December 2004.
- (iv) Mr Malcolm Smith was appointed to the Board with effect from the 1 September 2004.
- (v) Councillor Kay Twitchen was appointed to the Board with effect from 1 April 2004.
- (vi) Mr Gareth Wardell retired from the Board on 7 August 2004.
- (vii) Barbara Young's total emoluments are disclosed in the Executive Director's table on page 63.

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.

| Executive Director | Date of Appointment | Total Emoluments (Range £'000) | Accrued Pension at 31/03/05 (Range £'000) | Real Increase in Accrued Pension During the Year (Range £'000) | Accrued Lump Sum at 31/03/05 (Range £'000) | Real increase in Lump Sum During the Year (Range £'000) | CETV at 31/03/05 £'000 | CETV at 31/03/04 £'000 | Real increase in CETV £'000 | Benefits in Kind (£) |
|---|---------------------|-----------------------------------|--|---|---|--|---------------------------|---------------------------|--------------------------------|-------------------------|
| Barbara Young, Chief Executive | 27 Nov 2000 | 185 – 190 | 65 – 70 | 0 - 2.5 | 195 – 200 | 2.5 - 5.0 | 831 | 743 | 65 | - |
| Mr Chris Bale, Director of Performance and Innovation | 08 Sep 2003 | 125 – 130 | 50 – 55 | 20.0 - 22.5 | 150 - 155 | 65.0 – 67.5 | 222 | 5 | 217 | 2,988 |
| Mr Giles Duncan, Director of Human Resources | 08 Aug 1995 | 130 – 135 | 30 – 35 | 0 - 2.5 | 135 – 140 | 0 – 2.5 | 502 | 444 | 44 | 2,907 |
| Mr David King, Director of Water Management | 08 Jul 2002 | 125 – 130 | 40 – 45 | 0 – 2.5 | 135 – 140 | 0 – 2.5 | 514 | 460 | 40 | 4,232 |
| Dr Paul Leinster, Director of Operations | 01 Mar 2004 | 150 – 155 | 35 – 40 | Nil | 105 - 110 | Nil | 282 | 244 | 30 | 4,892 |
| Mrs Helen McCallum Director of Corporate Affairs | 03 Jul 2001 | 115 – 120 | 45 – 50 | 0 - 2.5 | 140 - 145 | 0 – 2.5 | 400 | 348 | 41 | - |
| Mr Ric Navarro, Director of Legal Services | 08 Aug 1995 | 95 – 100 | 35 – 45 | Nil | 110 - 115 | Nil | 494 | 446 | 34 | 1,710 |
| Mr Nigel Reader, Director of Finance | 08 Aug 1995 | 130 – 135 | 55 – 60 | 0 - 2.5 | 175 – 180 | 2.5 – 5.0 | 707 | 627 | 60 | 2,194 |
| Ms Patricia Henton, (i) Director of Environmental Protection | 07 Mar 2005 | 5 – 10 | 40 – 45 | 40.0 - 42.5 | 120 - 125 | 122.5 - 125 | 417 | - | 417 | - |

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

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 17% 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 £56,292. She is eligible for compensation for early termination of her appointment. The level of compensation is dependent on the circumstances of the loss of office, the Chief Executive's salary, and the unexpired period of her term of office.

(i) Ms Patricia Henton was appointed Director of Environmental Protection on 7 March 2005.

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% of basic pay. They are also ordinary members of the Environment Agency's Active Fund pension scheme

A handwritten signature in black ink, appearing to read 'John Harman', with a large, stylized initial 'J'.

JOHN HARMAN
CHAIRMAN
13 July 2005

IV Statement of the Environment Agency's and Chief Executive's responsibilities

Under section 45 of the Environment Act 1995, Defra 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 the 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.

The maintenance and integrity of the Environment Agency website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.



BARBARA YOUNG
CHIEF EXECUTIVE AND ACCOUNTING OFFICER
13 July 2005

V The certificate of the Comptroller and Auditor General

Certificate and report of the comptroller and auditor general to the house of commons, the board of the Environment Agency, the Secretary of State for Environment, Food and Rural Affairs and the national assembly for Wales.

I certify that I have audited the financial statements on pages 71 to 93, under the Environment Act 1995 as amended by the Government Resources and Accounts Act 2000 (Audit of Public Bodies) Order 2003. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 68 to 70.

Respective responsibilities of the Environment Agency, the Chief Executive and Auditor

As described on page 65, the Environment Agency and Chief Executive are responsible for the preparation of the financial statements in accordance with the Environment Act 1995 and directions made thereunder by the Secretary of State and for ensuring the regularity of financial transactions. The Environment Agency and Chief Executive are also responsible for the preparation of the Foreword. My responsibilities, as independent auditor, are established by statute and http://merlin/circulars/ac_fin/ac1101.htm - annex4note11b. I have regard to the standards and guidance issued by the Auditing Practices Board and the ethical guidance applicable to the auditing profession.

I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Environment Act 1995 and directions made thereunder by the Secretary of State, and whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the Environment Agency has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

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 certificate if I become aware of any apparent misstatements or material inconsistencies with the financial statements.

I review whether the statement on pages 58 to 60 reflects the Environment Agency's compliance with Treasury's guidance on the Statement on Internal Control. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered whether the Accounting Officer's Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Environment Agency's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Environment Agency and Chief Executive in the preparation of the financial statements, and of whether the accounting policies are 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 are free from material misstatement, whether caused by error, or by fraud or other irregularity 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 have also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In my opinion:

- the financial statements give a true and fair view of the state of affairs of the Environment Agency at 31 March 2005 and of the deficit before reserve transfers, total recognised gains and losses and cash flows for the year then

ended and have been properly prepared in accordance with the Environment Act 1995 and directions made thereunder by the Secretary of State; and,

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

I have no observations to make on these financial statements.

A handwritten signature in black ink that reads "John Bourn". The signature is written in a cursive style with a large initial 'J' and 'B'.

JOHN BOURN
COMPTROLLER AND AUDITOR GENERAL
NATIONAL AUDIT OFFICE
LONDON
15 July 2005

VI 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 the National Assembly for Wales under section 45 of the Environment Act 1995.

(b) Accounting conventions

The financial statements are prepared in accordance with the historical cost convention modified by the revaluation of tangible fixed assets, and generally accepted accounting principles in the United Kingdom, with the following exceptions, as required by the Accounts Direction:

- i The income and expenditure account includes a notional cost of capital, at a rate of 3.5% of the net current value of environmental protection, fisheries, recreation and conservation assets, at 3.5% on the net current cost value of assets transferred to the former NRA on 1 September 1989 and at 3.5% on assets acquired since then on water resources and navigation functions.
- ii A note on historical cost profits as required by FRS3 is not included, reflecting the approach set out in the Treasury document 'Executive Non-Departmental Public Bodies: Annual Reports and Accounts Guidance'.
- iii Revaluation gains on fixed assets paid for from Government grant are taken to the grant reserve in the balance sheet. This is contrary to the Companies Act 1985, which requires such gains to be credited to the revaluation reserve.
- iv On the disposal of a fixed asset paid for wholly by Government grant, an amount equal to the profit or loss on disposal is transferred from the grant reserve to the income and expenditure account. Where government grant is only used to pay for part of the cost of the asset, the amount of the transfer is reduced in proportion. These requirements are different from those in accounting standard FRS 3 which says that an amount transferred to a reserve, other than from the income and expenditure account, should not be recognised in subsequent income and expenditure accounts.
- v Government grants used to pay for fixed assets are credited to a grant reserve, rather than deferred income which is the normal practice under accounting standard SSAP 4.

(c) FRS 18 Accounting policy

In accordance with FRS 18 the Environment Agency has reviewed its accounting policies and no change has occurred during the year.

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.

(d) Income

Income represents total income, exclusive of VAT, receivable in the year for functions undertaken and grant-in-aid received from Defra and NAW. Grant-in-aid has been received from Defra in respect of capital and revenue expenditure on environmental protection, navigation, recreation, conservation and Fisheries activities in England, and from NAW in respect of those activities plus fisheries in Wales.

(e) Capital grants and contributions

Government grants used to pay for fixed assets are credited to a grant reserve. This is different from accounting standard SSAP 4 which says that such grants should be credited to deferred income. Other grants that relate to specific capital expenditure are treated as deferred income, which is 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 river bank, channel and related works which are of no realisable value to the Environment Agency or works on structures and properties belonging to third parties where the 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 every five years. Other tangible fixed assets are valued at net current replacement cost. Their values are revised annually through the use of suitable indices. Depreciation is calculated so as to write off the 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:

- Buildings 10-60 years
- Vehicles and mobile plant 3-20 years
- Operational structures 20-100 years
- Computer hardware, software and 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 3) as notified by Defra.

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 adjustments in the fixed asset statements, in the year in which identified.

(i) Flood defence account

To eliminate fluctuations in Departmental Expenditure Limits, S47 balances are accounted for in working capital rather than reserves. The Environment Agency therefore, recognises only as much income from levy as it needs in order to provide its flood risk management service in the year. Any excess of income is therefore treated as deferred until such time as it needs to be spent. The resulting impact of the change will be that the Environment Agency does not have a retained surplus/deficit after reserve transfers.

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 XI(c)) are treated as amounts recoverable from/sums repayable to abstractors, taking each regional account separately. These are credited to the income and expenditure account as water resources costs exceed income from charges to abstractors. Deficits are treated as amounts due from abstractors and are charged to the income and expenditure account as income from charges 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

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 if it meets the criteria specified in H M Treasury's Resource Accounting 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 pensions 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 rates ruling at 31 March, any realised or unrealised exchange gains and losses are recognised in the income and expenditure account.

(p) Investments

These comprise short-term loans to the National Loan Fund and are included at book value.

VII Income and expenditure account for the year ended 31 March 2005

| | See Note | 2004-05 Total £m | 2003-04 Total £m | 2004-05 Service Accounts £m | 2003-04 Service Accounts £m | 2004-05 Flood Defence £m | 2003-04 Flood Defence £m |
|--|-------------|------------------------|------------------------|--------------------------------------|--------------------------------------|-----------------------------------|-----------------------------------|
| Income | | | | | | | |
| Income from activities | | 334.5 | 592.6 | 283.5 | 281.5 | 51.0 | 311.1 |
| Government grant-in-aid | | 513.9 | 155.2 | 158.3 | 155.2 | 355.6 | - |
| Capital grants and contributions | | 7.5 | 70.8 | 0.3 | 0.2 | 7.2 | 70.6 |
| | | <u>855.9</u> | <u>818.6</u> | <u>442.1</u> | <u>436.9</u> | <u>413.8</u> | <u>381.7</u> |
| Expenditure | | | | | | | |
| Staff costs | 1 | 389.8 | 333.9 | 267.2 | 219.4 | 122.6 | 114.5 |
| Depreciation and capital works expensed in year | | 219.8 | 218.0 | 22.8 | 21.7 | 197.0 | 196.3 |
| Operating cost on pension scheme | 14(d) | 33.9 | 34.7 | 21.0 | 21.5 | 12.9 | 13.2 |
| Other operating costs | | 223.7 | 249.0 | 125.2 | 164.0 | 98.5 | 85.0 |
| | | <u>867.2</u> | <u>835.6</u> | <u>436.2</u> | <u>426.6</u> | <u>431.0</u> | <u>409.0</u> |
| Operating (deficit)/surplus | 2 | (11.3) | (17.0) | 5.9 | 10.3 | (17.2) | (27.3) |
| Notional cost of capital | 3 | (78.5) | (121.2) | (17.5) | (21.6) | (61.0) | (99.6) |
| Interest receivable | 4 | 3.7 | 4.4 | 0.9 | 1.2 | 2.8 | 3.2 |
| Financing income on pension schemes assets and liabilities | 14(e) | 5.6 | 2.7 | 3.5 | 0.9 | 2.1 | 1.8 |
| Deficit for the year after charging notional cost of capital | | (80.5) | (131.1) | (7.2) | (9.2) | (73.3) | (121.9) |
| Reversal of notional cost of capital | | 78.5 | 121.2 | 17.5 | 21.6 | 61.0 | 99.6 |
| Deficit for the year before reserve transfers | | (2.0) | (9.9) | 10.3 | 12.4 | (12.3) | (22.3) |
| Transfers from/(to) reserves | | | | | | | |
| Capital reserve | 10(a) | 2.0 | 9.9 | (10.3) | (12.4) | 12.3 | 22.3 |
| Retained surplus/(deficit) after reserve transfers | | - | - | - | - | - | - |
| Balance brought forward | | - | - | - | - | - | - |
| Balance carried forward | | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |

Note:

As a result of following the recommendations of Treasury to adopt the original disclosure requirements of FRS 17, the Environment Agency's income from activities and grant-in aid has been increased by £10.8m and £17.5m respectively. A corresponding entry is made to the expenditure account in respect of operating costs on the pension scheme of £33.9m and a financing income on pension scheme assets and liabilities of £5.6m.

Statement of total recognised gains and losses for the year ended 31 March 2005

| | See Note | 2004-05 Total £m | 2003-04 Total £m | 2004-05 Service Accounts £m | 2003-04 Service Accounts £m | 2004-05 Flood Defence £m | 2003-04 Flood Defence £m |
|--|-------------|------------------------|------------------------|--------------------------------------|--------------------------------------|-----------------------------------|-----------------------------------|
| (Deficit)/surplus for the year | | (2.0) | (9.9) | 10.3 | 12.4 | (12.3) | (22.3) |
| Actuarial gain recognised in the Active pension scheme | 14(f) | 41.9 | 109.4 | 26.0 | 67.8 | 15.9 | 41.6 |
| Unrealised surplus on revaluation of tangible fixed assets | 5(a) | 63.1 | 67.9 | 11.8 | 12.0 | 51.3 | 55.9 |
| Adjustments to fixed assets | 5(a) | 78.5 | (0.5) | 32.7 | 0.5 | 45.8 | (1.0) |
| Total (losses)/gains since the last annual report | | 181.5 | 166.9 | 80.8 | 92.7 | 100.7 | 74.2 |

Note:

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

VIII Balance sheet at 31 March 2005

| | See Note | 31 March 2005 | 31 March 2004 | 31 March 2005 | 31 March 2004 | 31 March 2005 | 31 March 2004 |
|---|-------------|------------------|------------------|---------------------|---------------------|------------------|------------------|
| | | Total | Total | Service Accounts | Service Accounts | Flood Defence | Flood Defence |
| | | £m | £m | £m | £m | £m | £m |
| Fixed assets | | | | | | | |
| Tangible assets | 5 | 2,242.3 | 2,102.5 | 499.2 | 442.7 | 1,743.1 | 1,659.8 |
| Current assets | | | | | | | |
| Debtors | 6 | 90.6 | 78.0 | 67.8 | 52.4 | 22.8 | 25.6 |
| Short term Deposits | 19 | 115.7 | 82.7 | 7.8 | 11.4 | 107.9 | 71.3 |
| Total current assets | | 206.3 | 160.7 | 75.6 | 63.8 | 130.7 | 96.9 |
| Creditors – amounts falling due in less than one year | 7 | (229.0) | (174.7) | (92.4) | (82.3) | (136.6) | (92.4) |
| Net current assets/(liabilities) | | (22.7) | (14.0) | (16.8) | (18.5) | (5.9) | 4.5 |
| Total assets less current liabilities | | 2,219.6 | 2,088.5 | 482.4 | 424.2 | 1,737.2 | 1,664.3 |
| Creditors – amounts falling due in more than one year | | (4.5) | (4.0) | (1.7) | (2.7) | (2.8) | (1.3) |
| Provisions for liabilities and charges | | (4.8) | (7.2) | (2.7) | (4.0) | (2.1) | (3.2) |
| Net assets excluding pension assets | | 2,210.3 | 2,077.3 | 478.0 | 417.5 | 1,732.3 | 1,659.8 |
| Pensions assets/(liabilities) | | 18.1 | (27.2) | 11.2 | (16.9) | 6.9 | (10.3) |
| Net assets including pension assets | | 2,228.4 | 2,050.1 | 489.2 | 400.6 | 1,739.2 | 1,649.5 |
| Financed by | | | | | | | |
| Deferred grants and contributions | 9 | 66.7 | 66.6 | 7.1 | 5.4 | 59.6 | 61.2 |
| Reserves | | | | | | | |
| Capital reserve | 10(a) | 2,175.6 | 2,035.9 | 492.1 | 437.3 | 1,683.5 | 1,598.6 |
| Grant-in-aid reserve | 10(b) | (32.0) | (25.2) | (21.2) | (25.2) | (10.8) | - |
| Pensions reserve | 10 | 18.1 | (27.2) | 11.2 | (16.9) | 6.9 | (10.3) |
| Income and expenditure account | | - | - | - | - | - | - |
| | | 2,228.4 | 2,050.1 | 489.2 | 400.6 | 1,739.2 | 1,649.5 |

The financial statements on pages 71 to 93 were approved by the Board on 13 July 2005 and were signed on its behalf by:



Chairman



Chief Executive and Accounting Officer

IX Cash flow statement for the year ended 31 March 2005

| | See Note | 2004-05 Total £m | 2003-04 Total £m | 2004-05 Service Accounts £m | 2003-04 Service Accounts £m | 2004-05 Flood Defence £m | 2003-04 Flood Defence £m |
|--|-------------|------------------------|------------------------|--------------------------------------|--------------------------------------|-----------------------------------|-----------------------------------|
| Reconciliation of operating deficit to net cash inflow | | | | | | | |
| Operating (deficit)/surplus | | (11.3) | (17.0) | 5.9 | 10.3 | (17.2) | (27.3) |
| Depreciation and capital works expensed in year (net of grants) | | 214.5 | 149.1 | 22.6 | 21.6 | 191.9 | 127.5 |
| Other non-cash movements | | 3.4 | 2.0 | 3.3 | 1.2 | 0.1 | 0.8 |
| (Surplus) on sale of fixed assets | | (1.4) | (2.6) | (0.5) | (0.1) | (0.9) | (2.5) |
| (Increase) in debtors | | (12.5) | (13.9) | (15.3) | (12.9) | 2.8 | (1.0) |
| (Decrease)/increase in creditors | | 25.9 | 1.4 | 11.0 | 4.2 | 14.9 | (2.8) |
| Net cash inflow from operating activities | | 218.6 | 119.0 | 27.0 | 24.3 | 191.6 | 94.7 |
| Returns from investments and servicing of finance – interest received | | 3.7 | 4.4 | 0.9 | 1.2 | 2.8 | 3.2 |
| Capital expenditure and financial investment | | | | | | | |
| Management of liquid resources | 21(a) | (216.5) | (210.9) | (34.3) | (34.7) | (182.2) | (176.2) |
| Financing | 21(b) | (33.0) | 5.2 | 5.0 | 7.1 | (38.0) | (1.9) |
| | 21(c) | 7.6 | 76.2 | 2.0 | 0.8 | 5.6 | 75.4 |
| Increase/(decrease) in cash for year | | (19.6) | (6.1) | 0.6 | (1.3) | (20.2) | (4.8) |
| Reconciliation of net cash flow to movement in net funding | | | | | | | |
| Increase/(decrease) in cash for year | 21(d) | (19.6) | (6.1) | 0.7 | (1.3) | (20.3) | (4.8) |
| Cash (outflow)/inflow from (decrease)/increase in liquid resources | | 33.0 | (5.2) | (5.0) | (7.1) | 38.0 | 1.9 |
| Change in net funding | | 13.4 | (11.3) | (4.3) | (8.4) | 17.7 | (2.9) |
| Net funding at 1 April 2003 | | 65.4 | 76.7 | 9.6 | 16.7 | 55.8 | 60.0 |
| Net funding at 31 March 2004 | | 78.8 | 65.4 | 5.3 | 8.3 | 73.5 | 57.1 |

X Notes to the financial statements

| | 2004-05 £m | 2003-04 £m |
|--|-------------------|-------------------|
| 1. Information Regarding Employees | | |
| Salaries and wages | 290.4 | 267.5 |
| Social security costs | 23.3 | 21.7 |
| Contribution to pension schemes (defined benefit scheme) | 29.4 | 24.8 |
| Other staff related costs | 65.1 | 31.9 |
| Amounts payable under the voluntary severance scheme | 0.4 | 1.4 |
| Sub-total | 408.6 | 347.3 |
| Less amounts charged to capital projects | (19.3) | (13.9) |
| | 389.3 | 333.4 |
| Amounts payable to Board members (see table on page 55) | 0.5 | 0.5 |
| Total | 389.8 | 333.9 |
| Average number of persons employed during the year: | | |
| | 2004-05 Number | 2003-04 Number |
| Executive managers | 134 | 125 |
| Other non-manual employees | 10,929 | 9,683 |
| Manual employees | 1,723 | 1,670 |
| Total | 12,786 | 11,478 |

The number for other non-manual employees includes 798 in respect of outside contractors and Environment Agency staff. No comparative figures are available for 2003/04.

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

| | 2004-05 £m | 2003-04 £m |
|--|---------------|---------------|
| 2 Operating deficit | | |
| The operating deficit is arrived at after charging: | | |
| Auditors' remuneration: | | |
| Audit work | 0.2 | 0.2 |
| Non-audit work | - | 0.1 |
| Research and development | 8.6 | 10.5 |
| Operating lease rentals: | | |
| Plant & Machinery | 15.7 | 7.2 |
| Other | 10.0 | 9.3 |
| Provision for bad and doubtful debt | (0.1) | (0.7) |
| Bad debt write-off | 0.2 | 0.7 |
| Hired and contracted services | 35.2 | 159.1 |
| Travel, transport, subsistence and hospitality costs: | | |
| Board members | 0.1 | 0.1 |
| Employees | 27.8 | 11.7 |
| Losses and special payments, (as defined in government accounting) amounts to 1,037 in number (1,438 in 2003/04) including 1 amount in excess of £25,000 | 1.3 | 1.2 |
| Depreciation of tangible fixed assets | 65.2 | 68.5 |
| Capital works expensed in year | 154.6 | 149.6 |
| (Surplus)/deficit on sale of fixed assets | (1.4) | (2.6) |

3 *Notional cost of capital*

The Accounts Direction issued by the Secretary of State for the Environment, Food and Rural Affairs, with the consent of the Treasury, requires the inclusion of a notional cost of capital for each class of business, to the extent that there is no real charge for this. The notional cost of capital is calculated, for each class of business, as a percentage of the net current cost value of assets, as directed by Defra. For the year ended 31 March 2005, the percentages and amounts included were as follows:

| | Net current cost value of assets £m | Rate of return 3.5% £m | Total notional cost of capital £m |
|--------------------------|---|---------------------------------|---|
| Service accounts | | | |
| Water resources: | 266.2 | 9.3 | 9.3 |
| Environmental Protection | 87.0 | 3.1 | 3.1 |
| Fisheries | 21.3 | 0.7 | 0.7 |
| Recreation | 5.1 | 0.2 | 0.2 |
| Conservation | 2.5 | 0.1 | 0.1 |
| Navigation: | 117.1 | 4.1 | 4.1 |
| Sub-total | 499.2 | 17.5 | 17.5 |
| Flood defence | 1,743.1 | 61.0 | 61.0 |
| Total | 2,242.3 | 78.5 | 78.5 |

| | 2004-05 £m | 2003-04 £m |
|---|---------------|---------------|
| 4 <i>Interest receivable</i> | | |
| Interest receivable from short-term fixed interest deposits | 3.7 | 4.4 |

5 Tangible fixed assets

(a) Analysis by type

| | At valuation | | | | | | | At cost |
|--------------------------------|----------------|---------------|--------------------|---------------------|-------------|-----------------------|--------------|---------------------------|
| | Total | Freehold Land | Freehold Buildings | Plant And Machinery | Vehicles | Fixtures and Fittings | IT Equipment | Assets Under Construction |
| | £m | £m | £m | £m | £m | £m | £m | £m |
| Cost or valuation | | | | | | | | |
| At 1 April 2004 | 3,786.3 | 58.9 | 2,977.0 | 453.9 | 27.1 | 112.3 | 84.6 | 72.5 |
| Acquisitions | 64.1 | 0.9 | 3.2 | 1.3 | (0.1) | 0.2 | 0.1 | 58.5 |
| Disposals | (2.8) | (0.1) | (1.0) | (0.7) | (1.0) | - | - | - |
| Indexation | 96.1 | - | 94.0 | 1.4 | 0.2 | 0.3 | 0.2 | - |
| Reclassification | - | 1.1 | 14.4 | 2.9 | 6.2 | 4.7 | 11.4 | (40.7) |
| Revaluation adjustment | 76.7 | - | 62.6 | 18.3 | 1.3 | (5.6) | 0.1 | - |
| At 31 March 2005 | 4,020.4 | 60.8 | 3,150.2 | 477.1 | 33.7 | 111.9 | 96.4 | 90.3 |
| Depreciation | | | | | | | | |
| At 1 April 2004 | 1,683.8 | - | 1,144.8 | 370.7 | 15.9 | 80.3 | 72.1 | - |
| Provided during the year | 65.2 | - | 40.9 | 9.6 | 3.3 | 5.6 | 5.8 | - |
| Disposals | (2.0) | - | (0.4) | (0.6) | (1.0) | - | - | - |
| Indexation | 33.0 | - | 32.1 | 0.6 | 0.1 | 0.1 | 0.1 | - |
| Reclassification | - | - | (0.2) | (0.4) | 0.3 | 0.2 | 0.1 | - |
| Revaluation adjustments | (1.9) | - | 1.0 | 1.4 | (0.1) | (4.2) | - | - |
| At 31 March 2005 | 1,778.1 | - | 1,218.2 | 381.3 | 18.5 | 82.0 | 78.1 | - |
| Net book value | | | | | | | | |
| At 31 March 2005 | 2,242.3 | 60.8 | 1,932.0 | 95.8 | 15.2 | 29.9 | 18.3 | 90.3 |
| Net book value at 1 April 2004 | 2,102.5 | 58.9 | 1,832.2 | 83.2 | 11.2 | 32.0 | 12.5 | 72.5 |
| (b) Details of valuation: | | | | | | | | |

All of the Environment Agency's Land and Property Holdings except assets under construction were re-valued at 1 April 2002 on the basis of open market value for existing use. The valuations of land and administrative buildings were carried out by a number of firms of Chartered Surveyors. Plant and machinery, fixtures and fittings and operating structures (also classified under freehold buildings) were valued internally at 1 April 1996 based upon replacement costs and were revalued internally at 31 March 2005 using suitable indices, the effects as shown in the indexation line above.

(c) Analysis by function

| | Total | Flood Defence | Service Accounts Total | Water Resources | Environmental Protection | Fisheries | Recreation | Conservation | Navigation |
|--------------------------------|----------------|------------------|------------------------------|--------------------|-----------------------------|-------------|------------|--------------|--------------|
| | £m | £m | £m | £m | £m | £m | £m | £m | £m |
| Cost or valuation | | | | | | | | | |
| At 1 April 2004 | 3,786.3 | 2,901.2 | 885.1 | 458.2 | 169.6 | 34.7 | 9.2 | 2.5 | 210.9 |
| Acquisitions | 64.1 | 33.5 | 30.6 | 9.2 | 11.8 | 1.6 | 0.2 | 1.4 | 6.4 |
| Disposals | (2.8) | (2.3) | (0.5) | (0.1) | (0.3) | (0.1) | - | - | - |
| Indexation | 96.1 | 77.0 | 19.1 | 11.3 | 1.2 | 0.6 | 0.2 | - | 5.8 |
| Reclassification | - | 1.3 | (1.3) | (1.5) | 0.3 | - | - | (0.1) | - |
| Revaluation adjustments | 76.7 | 46.5 | 30.2 | 22.0 | (0.4) | (0.6) | 0.1 | (0.5) | 9.6 |
| At 31 March 2005 | 4,020.4 | 3,057.2 | 963.2 | 499.1 | 182.2 | 36.2 | 9.7 | 3.3 | 232.7 |
| Depreciation | | | | | | | | | |
| At 1 April 2004 | 1,683.8 | 1,241.4 | 442.4 | 224.1 | 87.8 | 14.4 | 4.4 | 1.3 | 110.4 |
| Provided during the year | 65.2 | 46.7 | 18.5 | 8.6 | 6.4 | 0.9 | 0.2 | 0.1 | 2.3 |
| Disposals | (2.0) | (1.6) | (0.4) | (0.1) | (0.2) | (0.1) | - | - | - |
| Indexation | 33.0 | 25.7 | 7.3 | 4.0 | 0.6 | 0.1 | 0.1 | - | 2.5 |
| Reclassification | - | 1.0 | (1.0) | (3.2) | 2.1 | 0.3 | (0.1) | (0.1) | - |
| Revaluation adjustments | (1.9) | 0.9 | (2.8) | (0.5) | (1.5) | (0.7) | - | (0.5) | 0.4 |
| At 31 March 2005 | 1,778.1 | 1,314.1 | 464.0 | 232.9 | 95.2 | 14.9 | 4.6 | 0.8 | 115.6 |
| Net book value | | | | | | | | | |
| At 31 March 2005 | 2,242.3 | 1,743.1 | 499.2 | 266.2 | 87.0 | 21.3 | 5.1 | 2.5 | 117.1 |
| Net book value At 1 April 2004 | 2,102.5 | 1,659.8 | 442.7 | 234.1 | 81.8 | 20.3 | 4.8 | 1.2 | 100.5 |

| | 2004-05 £m | 2003-04 £m |
|---|----------------------------|---------------------|
| 6 Debtors | | |
| Within one year: | | |
| Trade debtors | 12.8 | 8.4 |
| Other debtors: | | |
| Grants | 1.0 | 7.9 |
| VAT | 20.6 | 16.6 |
| Employee loans | 0.2 | 0.3 |
| Other | 1.0 | 1.3 |
| Water resources expenditure recoverable from abstractors | 0.8 | 0.8 |
| Environmental protection expenditure recoverable from licence holders | 33.5 | 26.2 |
| Prepayments | 12.3 | 10.5 |
| Accrued income | 8.1 | 5.9 |
| | 90.3 | 77.9 |
| More than one year: | | |
| Employee loans | 0.3 | 0.1 |
| Total | 90.6 | 78.0 |
| | 2004-05 £m | 2003-04 £m |
| 7 Creditors | | |
| Within one year: | | |
| Bank overdraft | 36.9 | 17.3 |
| Trade creditors | 26.2 | 32.1 |
| Accruals and other creditors | 5.9 | 6.5 |
| Capital creditors | 33.8 | 34.9 |
| Flood Defence income repayable to levy/charge payers | 39.1 | 25.3 |
| Water Resources income repayable to abstractors | 1.5 | 1.5 |
| Environmental protection income repayable to licence holders | 28.3 | 20.1 |
| Grant-in-aid income repayable to Defra | - | 1.7 |
| Tax and social security | 7.3 | 8.8 |
| FRS 17 – Pension costs | 28.3 | 20.6 |
| Customer deposits and receipts in advance | 21.7 | 5.9 |
| | 229.0 | 174.7 |
| More than one year: | | |
| Capital creditors | 1.4 | 1.2 |
| Other creditors | 3.1 | 2.8 |
| Total | 233.5 | 178.7 |
| | 2004-05 £m | 2004-05 £m |
| 8 Provisions for liabilities and charges | | |
| | Added Years Pensions | Insurance claims |
| At 1 April 2004 (as previously reported) | - | 1.2 |
| Prior Year adjustment | 6.0 | - |
| Charged to the profit and loss account | - | - |
| Utilised during the year | (1.9) | (0.5) |
| At 31 March 2005 | 4.1 | 0.7 |

Note: The added years pension provision relates to ongoing commitments on early departure lump sum payments. Commitments expected to extend to 2015. Insurance provisions relate to claims against the Environment Agency, which can take up five years before settlement is reached.

| | 2004-05 £m | 2003-04 £m |
|--|---------------|---------------|
| 9 Deferred grants and contributions | | |
| At 1 April 2004 | 66.6 | 62.0 |
| Amounts receivable in the year | 2.3 | 7.2 |
| Amortisation in year | (2.2) | (1.9) |
| Disposals/Adjustments | - | (0.7) |
| At 31 March 2005 | 66.7 | 66.6 |

Note: In addition to the deferred grants and contributions received in respect of tangible fixed assets, there were grants and contributions receivable of £5.3m relating to capital works expensed in the year.

| | Total £m | Service Accounts £m | Flood Defence £m |
|--|-------------|---------------------------|------------------------|
| 10 Reserves and retained surpluses | | | |
| (a) Capital reserve | | | |
| At 1 April 2004 | 2,035.9 | 437.3 | 1,598.6 |
| Transfer to income and expenditure account | (2.0) | 10.3 | (12.3) |
| Revaluation surplus on tangible fixed assets | 63.1 | 11.8 | 51.3 |
| Adjustment to fixed assets | 78.6 | 32.7 | 45.9 |
| At 31 March 2005 | 2,175.6 | 492.1 | 1,683.5 |

Note:

The capital reserve includes an amount totalling £553.0m in respect of revaluation surpluses accumulated to 31 March 2005.

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

| | Total £m | Service Accounts £m | Flood Defence £m |
|---|-------------|---------------------------|------------------------|
| Purchase of fixed assets | 64.1 | 30.6 | 33.5 |
| Grants and contributions (net) | (0.1) | (1.7) | 1.6 |
| Depreciation (including capitalised depreciation) | (65.2) | (18.5) | (46.7) |
| Disposals | (0.8) | (0.1) | (0.7) |
| At 31 March 2005 | (2.0) | (10.3) | 12.3 |

| | Total £m | Service Accounts £m | Flood Defence £m |
|--|-------------|---------------------------|------------------------|
| (b) Grant-in-aid reserve | | | |
| At 1 April 2004 | (25.2) | (25.2) | - |
| Transfer to income and expenditure account | (6.8) | 4.0 | (10.8) |
| At 31 March 2005 | (32.0) | (21.2) | (10.8) |

Note:

The Environment Agency's grant-aided functions are partly funded from charges and partly from Government grant-in-aid. Consequently, the grant awarded is not easily attributable to revenue or capital expenditure. As allowed under NDPB's annual report and accounts guidance the balance remaining on the income and expenditure account is transferred to the grant-in-aid reserve.

Note: The transfer to income and expenditure account is calculated as follows:

| | Total £m | Defra (GIA) £m | Defra (FDGIA) £m | Defra (Other) £m | NAW £m |
|--|-------------|----------------------|------------------------|------------------------|-----------|
| Grant-in-aid received in year | 518.2 | 132.8 | 359.4 | 6.3 | 19.7 |
| Grant-in-aid balances brought forward | 1.7 | 1.6 | - | 0.1 | - |
| Grant released to income and expenditure account | (501.6) | (119.9) | (355.6) | (6.4) | (19.7) |
| To cover unfunded pensions | (12.3) | (12.3) | - | - | - |
| | 6.0 | 2.2 | 3.8 | - | - |
| | | | | - | - |
| Grant-in-aid surpluses carried forward | (3.2) | - | (3.2) | - | - |
| Adjustment to Grant-in-aid reserves | (9.6) | 1.8 | (11.4) | - | - |
| | (6.8) | 4.0 | (10.8) | - | - |

11 *Contingent liabilities*

The Environment Agency has the following unprovided contingent liabilities:-

| | 2004-05 £m | 2003-04 £m |
|--|---------------|---------------|
| (a) Staff bridging loan guarantees | - | 0.7 |
| (b) Public and employer liability claims | 1.1 | 5.2 |
| (c) Insurance claims | 3.7 | - |
| (d) Contractors' claims | 4.0 | 7.4 |
| (e) Contaminated assets | 23.2 | - |
| | 32.0 | 13.3 |

12 *Capital commitments*

Contracted for but not provided in the financial statements

| 2004-05 £m | 2003-04 £m |
|---------------|---------------|
| 72.9 | 47.9 |

13 *Operating leases*

At the 31 March 2004 the Environment Agency had annual commitments under operating leases as follows:

Leases expiring:

| | 2004-05 Land & Buildings £m | 2004-05 Other £m | 2003-04 Land & Buildings £m | 2003-04 Other £m |
|--|--------------------------------------|------------------------|--------------------------------------|------------------------|
| Within one year | 0.5 | 2.9 | - | 1.8 |
| In the second to fifth years inclusive | 0.6 | 11.8 | 0.5 | 7.2 |
| Over 5 years | 9.3 | - | 7.8 | - |
| | 10.4 | 14.7 | 8.3 | 9.0 |

14 *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 2004/05 the total pension cost for the Environment Agency was £29.4m (2003/04 £24.8m). 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 annum, that salary increases would average 4.9% per annum and that present and future pensions would increase at the rate of 2.9% 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% 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% of members' contributions for the period 2005/06, and will apply 225% for 2006/07 and 250% for 2007/08 respectively.

At the year end, the Environment Agency had accrued a total of £4.9m relating to the future liabilities for enhancements to ex-employees' pension arrangements which had been approved up to that point in accordance with the Environment Agency's and its predecessors' voluntary severance schemes.

FRS 17 Disclosure

The table below set 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 2004 updated to 31 March 2005.

(a) Financial assumptions

The main financial assumptions used at 31 March 2005 for this purpose are as follows:

| | 2004/05 Per annum | 2004/05 Real per annum | 2003/04 Per annum | 2003/04 Real per annum |
|-----------------------------|-------------------------|------------------------------|-------------------------|------------------------------|
| Price inflation | 2.9% | | 2.9% | |
| Rate of increase in salary | 4.9% | 2.0% | 4.9% | 2.0% |
| Rate of increase in pension | 2.9% | | 2.9% | |
| Discount rate | 6.5% | 3.5% | 6.5% | 3.5% |

(b) Expected return on assets

| Asset Class | Rate per annum | Rate per annum |
|-------------|----------------|----------------|
| Equities | 7.7% | 7.7% |
| Bonds | 4.8% | 5.1% |
| Property | 5.7% | 6.5% |
| Cash | 4.8% | 4.0% |

(c) Assets and liabilities of the fund at 31 March 2005

| | Fund Value £'m | Return £'m | Fund Value £'m | Return £'m |
|---------------------------------------|-----------------------|--------------------|-----------------------|--------------------|
| Equities | 709.0 | 54.6 | 736.4 | 56.7 |
| Bonds | 312.2 | 15.0 | 195.9 | 10.0 |
| Cash | 90.5 | 4.3 | 48.1 | 1.9 |
| Total value of assets (a) | <u>1,111.7</u> | <u>73.9</u> | <u>980.4</u> | <u>68.6</u> |
| Present value of scheme liabilities | | | | |
| Employee Members | 743.0 | | 765.9 | |
| Deferred Pensioners | 64.2 | | 39.7 | |
| Pensioners | 265.1 | | 181.6 | |
| Unfunded liabilities | 21.3 | | 20.4 | |
| Total value of liabilities (b) | <u>1,093.6</u> | | <u>1,007.6</u> | |
| Pension assets/(liability) | <u>18.1</u> | | <u>(27.2)</u> | |

(d) Movement in surplus/(deficit) during the year

| | £'m 2004/05 | £'m 2003/04 |
|---|--------------------|----------------------|
| At 1 April | (27.2) | (130.9) |
| Contributions paid | 30.3 | 25.0 |
| Contribution in respect of unfunded benefits | 1.4 | 1.3 |
| Current service cost | (32.9) | (32.2) |
| Curtailments | (0.5) | (2.3) |
| Past service cost | (0.5) | (0.2) |
| Financing income | 5.6 | 2.7 |
| Actuarial loss | 41.9 | 109.4 |
| Surplus / (deficit) at the end of year | <u>18.1</u> | <u>(27.2)</u> |

(e) Analysis of financing income:

| | | |
|--|------------|------------|
| Expected return on pension scheme assets | 71.6 | 58.6 |
| Interest on pension scheme liabilities | (66.0) | (55.9) |
| Net return | 5.6 | 2.7 |

| | £'m 2004/05 | £'m 2003/04 | £m 2002/03 |
|---|----------------|----------------|---------------|
| (f) Analysis of amount recognised in STRGL | | | |
| Actual return less expected return on assets | 43.0 | 131.6 | |
| Experience gains and losses arising on the Scheme liabilities | (1.1) | (22.2) | |
| Actuarial loss recognised in STRGL | 41.9 | 109.4 | |

(g) History of experience gains and losses

Difference between the expected and actual return on assets:

| | | | |
|-----------------------------|------|-------|-------|
| Amount (£m) | 43.0 | 131.6 | 294.1 |
| Percentage of scheme assets | 3.9% | 13.4% | 38.0% |

Experience gains and losses on scheme liabilities:

| | | | |
|--|------|------|------|
| Amount (£m) | 1.1 | 22.2 | 6.6 |
| Percentage of the present value of the liabilities | 0.1% | 2.2% | 0.7% |

Total amount recognised in STRGL:

| | | | |
|--|------|-------|-------|
| Amount (£) | 41.9 | 109.4 | 287.5 |
| Percentage of the present value of liabilities | 3.8% | 10.9% | 31.8% |

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.

15 Corporation Tax and Value Added Tax

On the 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.

16 *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 2004/05 was:

| | £'m |
|--|-------|
| Defra grant-in-aid | 133.6 |
| Defra fisheries grant-in-aid | 6.3 |
| NAW grant-in-aid | 20.5 |
| NAW flood defence grants | 3.7 |
| Defra food defence grant-in-aid | 312.9 |
| Defra flood defence grants | 46.0 |
| Levies on local authorities | 44.2 |
| Charges to the British Waterways Board | - |

FRS 8 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.

Additionally, the Accounts Direction requires disclosure of transactions of the type referred to in paragraph 4(i) of schedule 2. There were no disclosures notified to the Environment Agency by employees or Board members during the year.

(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 31st March 2005 were:

| | |
|------------------------------|-----|
| Creditors | £m |
| Other Government Departments | 0.3 |
| Debtors | £m |
| Other Government Departments | 3.0 |
| Local Authorities | 0.3 |

17 *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 May 2001 following a detailed negotiated tendering process with the private sector 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 four years have seen the completion of almost 300 maintenance projects, valued at £5.5m. New defences at Reedham and St Olaves, valued at £0.5m each, and five major improvements works scheme worth £7.5m have been completed. Site works are underway at a further six 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) Pevensy Bay sea defences

The PPP contract with Pentium Coastal Defence Ltd for the Pevensy Bay Sea Defences has been running since 1 June 2000. This is the fifth year of the 25-year contract currently valued at £32.3m.

The PPP contractor continued to maintain the beach satisfactorily and met all the required levels of service. Activities included the importation of 18000 cubic metres of shingle from off-shore sources and the transfer of 6000 cubic metres around Sovereign Harbour. The first contract price increase (other than indexation) occurred this year as a result of a change in the Crown Estate Royalties. This is expected to add £38,000 to the total contract cost. The total estimated contract service payments to the PPP contractor over the 25 year contract period for the two dates are: 31 March 2004 - £34.3m and £34.9m at 31 March 2005.

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

| | 2004/05 £m | 2003/04 £m |
|---|---------------|---------------|
| Included in the income and expenditure 2004/05 accounts | 10.7 | 4.2 |
| Commitments within one year | 8.7 | 7.3 |

18 Flood defence S47 balance restated

To eliminate fluctuations in Departmental Expenditure Limits, S47 balances are accounted for in working capital rather than reserves. The Environment Agency in agreement with Treasury will recognise only as much income from levy as it needs in order to provide service to Local Authorities. Any excess of income is therefore treated as deferred within working capital until such time as it needs to be spent. The resulting impact of the change will be that the Environment Agency does not have a retained surplus/deficit in the income and expenditure account.

Any balances at the end of the year will either be held to service short-term liabilities or as amounts repayable to levy and or charge payers.

19 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 Environment Agency's net revenue resource requirements are mainly 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, 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.

Foreign currency risk

The Environment Agency undertook a number of foreign currency transactions to convert grant receivable 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 claim is settled. 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 2005. All balances are shown in sterling.

| Assets / (liabilities) | Floating Rate £m | Fixed Rate £m | Total £m |
|---------------------------|---------------------|------------------|-------------|
| Short term investments | - | 115.7 | 115.7 |
| Cash at bank – Euro | 1.0 | - | 1.0 |
| Short term bank overdraft | - | (36.9) | (36.9) |

20 *Post balance sheet events*

There are no post balance sheet events to record.

21 Notes to the cash flow statement

| | 2004-05 Total £m | 2003-04 Total £m | 2004-05 Service Accounts £m | 2003-04 Service Accounts £m | 2004-05 Flood Defence £m | 2003-04 Flood Defence £m |
|---|------------------------|------------------------|--------------------------------------|--------------------------------------|-----------------------------------|-----------------------------------|
| (a) Capital expenditure and financial investment | | | | | | |
| Payments to acquire tangible fixed assets | (64.1) | (65.4) | (30.6) | (32.0) | (33.5) | (33.4) |
| Receipts from sale of tangible fixed assets | 2.2 | 4.1 | 0.6 | 0.8 | 1.6 | 3.3 |
| Payments relating to capital works expensed in year | (154.6) | (149.6) | (4.3) | (3.5) | (150.3) | (146.1) |
| | (216.5) | (210.9) | (34.3) | (34.7) | (182.2) | (176.2) |
| (b) Management of liquid resources | | | | | | |
| Deposits with National Loans Fund: | | | | | | |
| At 1 April 2004 | 82.7 | 87.9 | 11.5 | 18.6 | 71.2 | 69.3 |
| At 31 March 2005 | 115.7 | 82.7 | 6.5 | 11.5 | 109.2 | 71.2 |
| | (33.0) | 5.2 | 5.0 | 7.1 | (38.0) | (1.9) |
| (c) Financing | | | | | | |
| Capital grants and contributions for the purchase of: | | | | | | |
| Tangible fixed assets | 2.4 | 7.2 | 1.8 | 0.7 | 0.6 | 6.5 |
| Capital works expensed in year | 5.2 | 69.0 | 0.2 | 0.1 | 5.0 | 68.9 |
| | 7.6 | 76.2 | 2.0 | 0.8 | 5.6 | 75.4 |
| (d) Analysis of changes in net funding | | | | | | |
| | 1 April 2004 £m | Cash flow £m | 31 March 2005 £m | | | |
| Net cash: | | | | | | |
| Cash at bank and in hand | 82.7 | | 115.7 | | | |
| Less: deposits treated as liquid resources | 82.7 | | 115.7 | | | |
| | - | | - | | | |
| Bank overdraft | (17.3) | (19.6) | (36.9) | | | |
| | (17.3) | (19.6) | (36.9) | | | |
| Liquid resources: | | | | | | |
| Deposits included in cash | 82.7 | 33.0 | 115.7 | | | |
| Net funding | 65.4 | 13.4 | 78.8 | | | |

XI Supporting statements

(a) Analysis of receipts and payments for the year ended 31 March 2005

| | Total | Flood Defence | Total Service Accounts | Water Resources | Environmental Protection |
|--|--------------|---------------|---------------------------|-----------------|-----------------------------|
| | £m | £m | £m | £m | £m |
| Receipts | | | | | |
| Precepts & levies | 44.2 | 44.2 | - | - | - |
| Abstraction charges | 119.4 | - | 119.4 | 119.4 | - |
| Navigation licence receipts | 3.3 | - | 3.3 | - | - |
| Other operating receipts | 194.4 | 23.4 | 171.0 | - | 149.5 |
| Capital grants and contributions: | | | | | |
| Defra | (0.7) | (0.7) | - | - | - |
| NAW | 0.3 | 0.3 | - | - | - |
| ERDF | 0.7 | 0.7 | - | - | - |
| Other | 12.3 | 12.3 | - | - | - |
| Interest received | 3.7 | 2.8 | 1.0 | 1.0 | - |
| Grant-in-aid | 520.9 | 359.4 | 161.5 | 1.0 | 113.6 |
| Total receipts | 898.6 | 442.4 | 456.1 | 121.4 | 263.1 |
| Payments | | | | | |
| Operating costs | 654.7 | 241.9 | 412.8 | 107.3 | 258.0 |
| Fixed assets including capital works expensed in year | 217.2 | 182.8 | 34.4 | 10.1 | 12.3 |
| Water resources interest paid to Defra in year | 1.0 | - | 1.0 | 1.0 | - |
| Unfunded pensions | 12.3 | - | 12.3 | - | - |
| Water resources cash surpluses applied to grant-aided functions in year | - | - | - | 7.2 | (7.2) |
| Total payments | 885.2 | 424.7 | 460.5 | 125.6 | 263.1 |
| Cash surpluses | 13.4 | 17.8 | (4.4) | (4.2) | - |
| Net funding at 1 April 2004 | 65.4 | 55.7 | 9.6 | 8.1 | - |
| Net funding at 31 March 2005 | 78.8 | 73.5 | 5.3 | 3.9 | - |
| Analysis of net funding at 31 March 2005 | | | | | |
| Flood defence balance | 73.5 | 73.5 | - | - | - |
| Water resources purposes | 3.9 | - | 3.9 | 3.9 | - |
| Special funds | 1.4 | - | 1.4 | - | - |
| Carried forward for general purposes (for grant-aided functions) | - | - | - | - | - |
| Net funding at 31 March 2005 | 78.8 | 73.5 | 5.3 | 3.9 | - |

| | Fisheries | Recreation & Conservation | Navigation | Pensions |
|---|-------------|---------------------------|-------------|-------------|
| | £m | £m | £m | £m |
| Receipts | | | | |
| Precepts & levies | - | - | - | - |
| Abstraction charges | - | - | - | - |
| Navigation licence receipts | - | - | 3.3 | - |
| Other operating receipts | 17.5 | 0.9 | 3.2 | - |
| Capital grants and contributions: | | | | |
| Defra | - | - | - | - |
| NAW | - | - | - | - |
| ERDF | - | - | - | - |
| Other | - | - | - | - |
| Interest received | - | - | - | - |
| Grant-in-aid | 14.5 | 10.3 | 9.8 | 12.3 |
| Total receipts | 32.0 | 11.2 | 16.3 | 12.3 |
| Payments | | | | |
| Operating costs | 30.0 | 9.3 | 8.2 | - |
| Fixed assets including capital works expensed in year | 2.1 | 1.9 | 8.1 | - |
| Water resources interest paid to Defra in year | - | - | - | - |
| Unfunded pensions | - | - | - | 12.3 |
| Water resources cash surpluses applied to grant-aided functions in year | - | - | - | - |
| Total payments | 32.1 | 11.2 | 16.3 | 12.3 |
| Cash surpluses | (0.1) | - | - | - |
| Net funding at 1 April 2004 | 1.5 | - | - | - |
| Net funding at 31 March 2005 | 1.4 | - | - | - |
| Analysis of net funding at 31 March 2005 | | | | |
| Flood defence balance | - | - | - | - |
| Water resources purposes | - | - | - | - |
| Special funds | 1.4 | - | - | - |
| Carried forward for general purposes (for grant-aided functions) | - | - | - | - |
| Net funding at 31 March 2005 | 1.4 | - | - | - |

(b) *Flood defence income and expenditure account for year ended 31 March 2005*

| | Anglian | | | | | North East | | North West | Midlands | Southern | | |
|--|-------------|-------------|-------------|-------------------|----------------|-------------|-------------|--------------|-------------|-----------------|--------------|-------------|
| | Essex | Great Ouse | Lincs | Norfolk & Suffolk | Welland & Nene | Yorkshire | Northumbria | | | Hampshire & IOW | Sussex | Kent |
| | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m |
| Income | | | | | | | | | | | | |
| Grant in aid | 10.5 | 15.4 | 19.0 | 19.3 | 8.2 | 29.9 | 11.5 | 30.5 | 41.2 | 7.7 | 21.8 | 23.1 |
| Local authority levies | 1.2 | 0.9 | 0.8 | 0.9 | 0.6 | 0.8 | 0.8 | 2.6 | 2.7 | 0.6 | 0.4 | 1.1 |
| General drainage charges | 0.6 | 0.8 | 0.8 | 0.9 | 0.4 | - | - | - | - | - | - | - |
| Internal drainage boards | - | 2.3 | 1.9 | 0.9 | 0.7 | 1.0 | - | - | 0.8 | - | 0.2 | 1.0 |
| Contributions from beneficiaries | - | - | - | - | - | - | - | - | - | - | - | - |
| Other income | - | - | - | - | - | - | - | - | - | - | - | - |
| Capital grants and contributions | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 1.6 | - | 0.2 | 0.4 | 0.2 | 0.1 | 0.2 |
| Sale of Assets | (0.2) | - | (0.2) | (0.3) | 0.1 | 0.7 | - | 0.2 | 0.2 | 0.1 | - | 0.1 |
| Interest receivable | - | 0.1 | 0.1 | - | - | 0.1 | - | 0.5 | 0.1 | - | 0.1 | 0.1 |
| | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.1 | 0.1 | 0.4 | 0.1 | - | 0.1 | 0.1 |
| Total income, including interest | 12.5 | 19.9 | 22.8 | 22.1 | 10.4 | 34.2 | 12.4 | 34.4 | 45.5 | 8.6 | 22.7 | 25.7 |
| Expenditure | | | | | | | | | | | | |
| Local Levy Expenditure | 0.8 | (0.5) | - | - | 0.1 | 0.7 | 0.3 | 2.5 | 1.9 | 0.4 | - | 1.1 |
| Main river: | | | | | | | | | | | | |
| Inland waters | 4.1 | 5.9 | 4.8 | 3.3 | 3.7 | - | - | 7.4 | 15.4 | 0.8 | 1.6 | 3.0 |
| Tidal waters | 1.7 | 1.0 | 0.2 | 1.6 | 0.6 | - | - | 0.3 | 1.8 | 0.1 | 0.3 | 0.7 |
| Sea defence | 0.5 | 0.1 | 0.6 | 1.7 | 0.1 | - | - | 0.9 | 0.4 | 0.1 | 0.7 | 0.9 |
| Flood warning | - | - | - | - | - | - | - | 1.7 | 0.5 | 0.4 | 0.6 | 0.7 |
| Other works | 0.2 | 0.5 | 0.6 | 0.1 | - | 12.9 | 4.2 | 10.2 | 2.8 | 2.6 | 6.7 | 5.2 |
| Depreciation and expenditure on capital works expensed in year | | | | | | | | | | | | |
| Internal drainage boards | 3.2 | 5.9 | 12.7 | 15.5 | 2.6 | 20.5 | 7.4 | 12.1 | 19.3 | 3.9 | 13.3 | 11.0 |
| | - | 0.9 | 0.8 | 0.5 | 0.1 | - | - | - | - | - | 0.1 | 0.2 |
| Total expenditure | 10.5 | 13.8 | 19.7 | 22.7 | 7.2 | 34.1 | 11.9 | 35.1 | 42.1 | 8.3 | 23.3 | 22.8 |
| (Deficit)/surplus for year | 2.0 | 6.1 | 3.1 | (0.6) | 3.2 | 0.1 | 0.5 | (0.7) | 3.4 | 0.3 | (0.6) | 2.9 |
| Transfer from/(to) capital reserves | (0.6) | (1.6) | (0.5) | (0.3) | (0.9) | - | - | - | (2.4) | (1.6) | (0.4) | (1.6) |
| Surplus/(deficit) | 1.4 | 4.5 | 2.6 | (0.9) | 2.3 | 0.1 | 0.5 | (0.7) | 1.0 | (1.3) | (1.0) | 1.3 |
| Balances brought forward | | | | | | | | | | | | |
| S47 balances | 0.1 | 0.2 | 0.2 | 3.1 | 0.1 | 0.4 | 1.0 | 1.1 | 0.2 | 1.6 | 1.8 | 0.4 |
| Local Levy Balances | - | - | - | - | - | - | - | - | - | - | - | - |
| Balances carried forward | | | | | | | | | | | | |
| S47 balances | 1.1 | 3.3 | 2.0 | 1.3 | 1.9 | 0.4 | 1.0 | 0.3 | 0.4 | 0.1 | 0.4 | 1.7 |
| Local Levy Balances | 0.4 | 1.4 | 0.8 | 0.9 | 0.5 | 0.1 | 0.5 | 0.1 | 0.8 | 0.2 | 0.4 | - |
| Analysis of: | | | | | | | | | | | | |
| Capital expenditure | 3.9 | 4.4 | 10.8 | 14.7 | 4.0 | 24.6 | 6.2 | 11.8 | 17.0 | 2.1 | 11.1 | 12.5 |
| Grants receipts – Defra | 1.2 | 1.2 | 6.3 | 8.8 | 1.6 | 10.6 | 1.8 | 4.0 | 5.0 | 0.4 | 7.5 | 7.5 |
| Grants receipts – NAW | - | - | - | - | - | - | - | - | 0.2 | - | - | - |

Notes:

1. The Flood Defence account benefited from proceeds on the sale of assets amounting to £2.8m.
2. Expenditure includes an amount of £52.6m in respect of contracted services.

| | South West | | | Thames | Wales | | | | | | TOTAL £m | |
|--|---------------------|-----------------|----------|---------------|-------|-----|----------------|------------------------|--------------|-------------------|-------------|-------|
| | Avon & Dorset | Bristol Avon | Somerset | South West | Wye | Usk | Glam- organ | South West Wales | Gwyn -edd | Dee & Clwyd | | |
| | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | | |
| Income | | | | | | | | | | | | |
| Grant in aid | 0.3 | 4.3 | 1.2 | 39.2 | 72.5 | - | - | - | - | - | - | 355.6 |
| Local authority levies | 0.6 | 0.4 | 1.2 | 0.4 | 8.4 | 2.4 | 2.1 | 4.2 | 3.0 | 3.5 | 4.6 | 44.2 |
| General drainage charges | - | - | - | - | - | - | - | - | - | - | - | 3.5 |
| Internal drainage boards | - | - | 0.4 | - | - | - | 0.5 | - | - | - | - | 9.7 |
| Contributions from beneficiaries | - | - | - | - | - | - | - | - | - | - | - | - |
| Other income | - | - | 0.1 | 0.1 | 7.4 | - | - | - | - | 0.6 | 0.1 | 12.0 |
| Capital grants and contributions | - | - | - | - | 0.2 | 0.4 | 1.2 | 0.5 | 0.2 | 0.2 | 0.7 | 4.1 |
| Sale of assets | - | - | 0.1 | 0.1 | 0.3 | - | - | - | - | - | - | 1.6 |
| Interest receivable | - | 0.1 | 0.1 | 0.1 | 0.6 | - | - | - | - | - | - | 2.8 |
| Total income, including interest | 0.9 | 4.8 | 3.1 | 39.9 | 89.4 | 2.8 | 3.8 | 4.7 | 3.2 | 4.3 | 5.4 | 433.5 |
| Expenditure | | | | | | | | | | | | |
| Local Levy Expenditure | - | - | 0.3 | (0.3) | 5.7 | - | - | - | - | - | - | 13.0 |
| Main river: | | | | | | | | | | | | |
| Inland waters | - | - | - | - | 32.0 | - | - | - | - | - | - | 82.0 |
| Tidal waters | - | - | - | - | 10.5 | - | - | - | - | - | - | 18.8 |
| Sea defence | - | - | - | - | - | - | - | - | - | - | - | 6.0 |
| Flood warning | - | - | - | - | 1.6 | - | - | - | - | - | - | 5.5 |
| Other works | 9.3 | 7.8 | 14.8 | 14.2 | 23.0 | 1.5 | 1.7 | 3.1 | 2.5 | 3.0 | 3.6 | 130.5 |
| Depreciation and expenditure on capital works expensed in year | | | | | | | | | | | | |
| Internal drainage boards | - | - | - | - | 14.0 | 0.5 | 2.7 | 1.3 | 0.3 | 0.4 | 1.5 | 148.1 |
| | - | - | - | - | - | - | - | - | - | - | - | 2.6 |
| Total expenditure | 9.3 | 7.8 | 15.1 | 13.9 | 86.8 | 2.0 | 4.4 | 4.4 | 2.8 | 3.4 | 5.1 | 406.5 |
| (Deficit)/surplus for year | (8.4) | (3.0) | (12.0) | 26.0 | 2.6 | 0.8 | (0.6) | 0.3 | 0.4 | 0.9 | 0.3 | 27.0 |
| Transfer from/(to) capital reserves | - | - | - | - | (2.3) | - | 0.1 | (0.1) | - | (0.1) | - | 12.3 |
| Surplus/(deficit) | (8.4) | (3.0) | (12.0) | 26.0 | 0.3 | 0.8 | (0.5) | 0.2 | 0.4 | 0.8 | 0.3 | 14.7 |
| Balances brought forward | | | | | | | | | | | | |
| S47 balances | (0.2) | 2.5 | 1.1 | 1.6 | 5.7 | 0.4 | 0.8 | 1.0 | 0.4 | 0.4 | 0.5 | 24.4 |
| Local Levy Balances | - | - | - | - | - | - | - | - | - | - | - | - |
| Balances carried forward | | | | | | | | | | | | |
| S47 Balances | (9.2) | (0.9) | (11.8) | 26.9 | 3.3 | 1.2 | 0.3 | 1.2 | 0.8 | 1.2 | 0.8 | 27.7 |
| Local Levy Balances | 0.6 | 0.4 | 0.9 | 0.7 | 2.7 | - | - | - | - | - | - | 11.4 |
| Analysis of: | | | | | | | | | | | | |
| Capital expenditure | 4.76 | 0.7 | 5.65 | 7.75 | 30.6 | 2.1 | 1.0 | 0.6 | 0.5 | 1.2 | 1.7 | 179.5 |
| Grants receipts – Defra | 0.9 | 0.2 | 3.5 | 4.3 | 4.0 | 1.3 | - | - | - | - | - | 70.1 |
| Grants receipts – NAW | - | - | - | - | - | - | 0.4 | 0.1 | 0.3 | 0.2 | 0.7 | 1.9 |

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.

(c) Water resources account by region for the year ended 31 March 2005

| | Total | Anglian | North North- umbria | East York- shire | North West | Midlands | Southern | South South West | West Wessex | Thames | Wales |
|---|------------|------------|---------------------------|------------------------|---------------|------------|------------|------------------------|----------------|--------------|--------------|
| | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m |
| Accumulated surplus/(deficit) At 1 April 2004 | 0.7 | 0.1 | 0.3 | 0.2 | - | 0.3 | 0.6 | (0.1) | - | (0.2) | (0.5) |
| Income receivable | 116.0 | 18.9 | 16.1 | 9.4 | 8.1 | 15.9 | 9.3 | 7.5 | 1.7 | 14.9 | 14.2 |
| | 116.7 | 19.0 | 16.4 | 9.6 | 8.1 | 16.2 | 9.9 | 7.4 | 1.7 | 14.7 | 13.7 |
| Expenditure | 116.0 | 18.7 | 16.0 | 9.5 | 8.1 | 16.0 | 9.4 | 7.5 | 1.7 | 15.0 | 14.2 |
| At 31 March 2005 | 0.7 | 0.3 | 0.4 | 0.1 | - | 0.2 | 0.5 | (0.1) | - | (0.3) | (0.5) |

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 | 280.5 | 140.6 | 139.9 |
| Expenditure including current cost depreciation and rate of return | 279.7 | 140.6 | 139.1 |
| Deficit for the year | 0.8 | - | 0.8 |
| Accumulated deficit at 1 April 2004 | (6.1) | | (6.1) |
| At 31 March 2005 | (5.3) | - | (5.3) |

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: | 505.9 | 120.5 | 359.4 | 19.7 | 6.3 |
| Balance brought forward | 1.7 | 1.6 | - | - | 0.1 |
| Transfer from grant-in-aid reserve | (2.8) | (2.2) | (0.6) | - | - |
| Surplus for the current year to be used to fund grant-aided functions in 2005/2006 | (3.2) | - | (3.2) | - | - |
| Defra grant-in-aid to be carried forward to 2005/2006 | - | - | - | - | - |
| Grant-in-aid received for unfunded pensions | 12.3 | 12.3 | - | - | - |
| Grant-in-aid included in income and expenditure account | 513.9 | 132.2 | 355.6 | 19.7 | 6.4 |

(f) Other grants received

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

| | £m |
|---------------------------|-------|
| Defra (Class III, Vote 3) | - |
| NAW (Class XIV, Vote 1) | 3.7 |
| European Community Funds | 0.7 |
| | <hr/> |
| | 4.4 |
| | <hr/> |

(g) Performance against total administrative cost limit

Prior to the start of each financial year, or as soon as possible thereafter, the Environment Agency agrees with Defra a limit on the expenditure it may incur on Total Administrative Cost (TAC) in accordance with the Financial Memorandum.

The following table shows the limit agreed and outturn for 2004-05 as follows:

| | £m |
|------------------------------|-------|
| TAC limit agreed for 2004-05 | 113.0 |
| TAC outturn for 2004-05 | 109.0 |
| | <hr/> |
| Variance | 4.0 |
| | <hr/> |

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