Presented pursuant to the Government Resources and Accounts Act 2000 c.20, s.6 (4)

Department for Environment, Food and Rural Affairs

Resource Accounts 2008–09

LONDON: The Stationery Office
HC 453

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(For the year ended 31 March 2009)

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Introduction

Defra's purpose is to secure a healthy environment in which we and future generations can prosper.

This builds on our previous mission of enabling everyone to live within our environmental means – but makes clear the positive benefits for the economy and society of protecting and enhancing the environment. We lead for government on Public Service Agreement (PSA) 28 on the natural environment and are key delivery partners for Department of Energy and Climate Change (DECC) PSA 27 on climate change.

Basis of Accounts

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

Management Commentary

The Department continues to make good progress in achieving its aims and objectives and is well placed to continue this with a new suite of targets developed as part of the 2007 Comprehensive Spending Review (CSR07). The Machinery of Government changes announced in October 2008 which led to the creation of DECC have allowed us to refine our priorities and Departmental Strategic Objectives (DSOs).

DECC was created to tackle the twin challenges of energy security and climate change. Defra is working closely with the new department to reduce greenhouse gas emissions and protect the UK and global environment.

Until October 2008, Defra led on climate change policy (mitigation and adaptation) across government, but with the relevant departments leading their individual climate–related policies. DECC now leads on all mitigation and international adaptation. Defra retains the lead on UK adaptation. Defra leads on specific policies to reduce greenhouse gas emissions in areas we influence, primarily: agriculture, forestry, and soils; waste; some industrial gases; sustainable consumption and production, and the food chain. Our other key role is to ensure that all of the Government's mitigation policy takes account of sustainability and environmental impacts.

Some of the major policies that Defra used to lead on and that are now the domain of DECC include:

- all EU and international negotiations on all aspects of climate change including the EU Emissions Trading Scheme;
- all energy–related domestic policies; and
- carbon budget policies.

For more detailed information on Defra's progress in 2008–09, please see the Defra Departmental Report 2009([1]).

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1 http://www.defra.gov.uk/corporate/deprep/2009/index.htm

Development and Performance of the Department

The table below summarises the Department's progress against the CSR07 PSA and DSOs.

The Assessment framework used is defined by HM Treasury and is based on the performance of the set of indicators underpinning the target.

CSR07 Target	**Assessment**
PSA 28: Secure a healthy natural environment for everyone's wellbeing, health and prosperity, now and for the future	Not yet assessed 1 indicator shows improvement 4 indicators are yet to be assessed
DSO 1: A society that is adapting to the effects of climate change, through a national programme of action and a contribution to international action	Not yet assessed Work is ongoing to develop the Intermediary Output and Indicator framework for this DSO
DSO 2: A healthy, resilient, productive and diverse natural environment	Not yet assessed 5 indicators show improvement 9 indicators are yet to be assessed
DSO 3: Sustainable, low carbon and resource efficient patterns of consumption and production	Not yet assessed 3 indicators show improvement 3 indicators are yet to be assessed 1 indicator is under review
DSO 4: An economy and a society that are resilient to environmental risk	Some progress 3 indicators show improvement 3 indicators are yet to be assessed
DSO 5: Championing sustainable development	Not yet assessed 1 indicator shows improvement 3 indicators are yet to be assessed 1 indicator is under review
DSO 6: A thriving farming and food sector, with an improving net environmental impact	Not yet assessed 3 indicators show improvement 4 indicators are yet to be assessed
DSO 7: A sustainable, secure and healthy food supply	Not yet assessed Work is ongoing to develop the Intermediary Output and Indicator framework for this DSO
DSO 8: Socially and economically sustainable rural communities	Some progress 8 indicators show improvement 4 indicators show no improvement
DSO 9: A respected department, delivering efficient and high quality services and outcomes	No intermediate outcomes have been defined for this DSO.

The "not yet assessed" rating of the majority of the DSOs and PSAs can be attributed to the difficulty in assessing performance so soon into a new reporting period. In most cases, it is too early for us to see the impact of our work in data in this period.

The table below summarises our performance against our outstanding PSA targets from the 2004 Spending Review (SR04). The assessment frameworks used are defined by HM Treasury and are dependent on whether the assessment is final or not.

SR04 Target	Assessment
PSA 3a: Reversing the long-term decline in the number of farmland birds	Slippage
PSA 3b: Sites of Special Scientific Interest (SSSI)	Slippage
PSA 9: To improve the health and welfare of kept animals, and protect society from the impact of animal diseases, through sharing the management of risk with industry • Bovine TB indicator	Met

Although the SR04 reporting period has come to an end, the issues and lessons learned over this period have contributed immensely to the development of our CSR07 commitments.

Future Priorities

Defra has undergone some significant changes in the last year, with the creation of DECC and the taking up of formal responsibility for the coordination of food policy across government. Our new purpose is to secure a healthy environment in which we and future generations can prosper.

Taking these developments into account Defra now has three main tasks:

- secure a healthy environment for us all and deal with the environmental risks;
- promote a sustainable, low carbon and resource efficient economy; and
- ensure a thriving farming sector and a sustainable, healthy and secure food supply.

Better Regulation and Simplification

Defra aims to deliver administration burden reductions of around £130.5m by May 2010. So far we have delivered an 8% administration burden reduction on our baseline figure of £459.7m. This includes 38 new initiatives identified this year, which have delivered or plan to deliver savings of £2.8m in administrative burden reductions and wider savings to business and third sector organisations. We are projected to deliver a further 11% net administrative burden reduction by May 2010, meaning the total administrative burden imposed by Defra will be an estimated £372.6m.

On 10 December 2008, the 3rd Simplification Plan, 'Better Regulation, Better Business,' was published. Our simplification programme has helped in the development of well designed regulation and improved the provision of guidance and advice across our delivery network.

Significant Bodies within the Departmental Boundary

Significant bodies are listed below; additional ones are included in note 38.

Animal Health (AH)

A Great Britain wide organisation dealing with animal health, public health, animal welfare and international trade. AH is primarily responsible for ensuring that farmed animals are healthy, disease–free and well looked after.

Centre for Environment, Fisheries and Aquaculture Science (Cefas)

Provides multi–disciplinary scientific research, consultancy and high value technical services that support delivery of government objectives for the marine environment.

Central Science Laboratory (CSL)

The primary aim is to provide Defra with an efficient and competitive service in scientific support, research and advice to meet both statutory and policy objectives and Defra's PSA targets. On 1 April 2009, CSL merged with Defra's Plant Health Division, Plant Variety Rights and Seeds Office, and GDS to form the new executive agency, The Food and Environment Research Agency (Fera).

Government Decontamination Service (GDS)

The purpose of the GDS is to increase the nation's resilience to the consequences of terrorist or major accidental incidents involving the release of chemical, biological or radiological materials. On 1 April 2009, GDS merged with CSL, Defra's Plant Health Division and Plant Variety Rights and Seeds Office to form the new executive agency, The Food and Environment Research Agency (Fera).

Marine and Fisheries Agency (MFA)

Work includes the delivery of services such as inspections and enforcement, marine environmental work, vessel licensing, quota management, grants and statistics.

Rural Payments Agency (RPA)

RPA administers a wide range of Common Agricultural Policy (CAP) schemes including Single Payment Scheme (SPS), internal market schemes covering dairy products, crops, fruits and vegetables, external trade measures, milk quotas and the Older Cattle Disposal Scheme (OCDS). RPA is also the paying agency for Rural Development Programme for England (RDPE) and its predecessor, England Rural Development Programme (ERDP).

Veterinary Laboratories Agency (VLA)

Provides Defra and other government customers with specialist veterinary research, consultancy, surveillance and laboratory services.

Veterinary Medicines Directorate (VMD)

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

Forestry Commission (FC)

Forestry Commission is responsible for protecting, expanding and promoting the sustainable management of woodland and increasing their value to society and the environment.

Forestry Commission is a Non–Ministerial Department which produces and lays its own set of accounts before Parliament. See Request for Resources 2 on page 43.

Defra's Delivery Partners

For information on all Defra's delivery partners please see the Departmental Report and note 39([2]). Defra's larger delivery partners during 2008–09 were as follows:

- Environment Agency (EA);
- Natural England (NE); and
- British Waterways.

Bodies outside the Departmental Boundary

The public sector bodies which have not been consolidated in these accounts, but for which the Department had lead responsibility during the year, are listed in note 39.

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

Significant Variances against Estimate

Explanation of the Underspend against the Estimate

During the year the Department spent £373m less than the amount in the Spring Supplementary Estimate (SSE). This underspend is split between the Estimate categories Departmental Expenditure Limit (DEL), Annually Managed Expenditure (AME), and Non Budget as detailed in Note 2 to the resource accounts. In addition, an underspend of £4m occurred in respect of Forestry Commission. The Forestry Commission produces and lays its own accounts.

Explanations for the significant variances as shown in Note 2 to the resource accounts are as follows:

Departmental Expenditure Limit

The total underspend is £398m with the significant variances being:

- £167m underspend against EU funded scheme administered by the Rural Payments Agency, due mainly to the effect of exchange rates. Increases in Sterling costs of CAP payments to farmers arising from weakening of the Sterling: Euro exchange rates were included in the SSE, but the subsequent strengthening of sterling resulted in lower costs than anticipated being accrued;
- £80m underspend against EU funded Rural Development Programme for England schemes because of slow uptake (particularly through RDAs).

In DEL budget terms both of these are offset by an equivalent reduction in income received from the EU, but this is CFER income in Estimate terms which results in the reduction in expenditure fully impacting on the outturn. This treatment was agreed with Treasury as part of the arrangements to change the treatment of CAP spend from AME to DEL from 2005–06;

- £46m other RPA, mainly under–consumption against CAP provisions because an increase in disallowance provision was included in the SSE but not actioned due to the uncertainty surrounding the amounts required;
- £41m provision for onerous leases, identified as a result of the IFRS review of the Department's accounts. This resulted in the overspend recorded against 'A Respected Department' in Note 2;
- £31m due to SSE provision for British Waterways Board Cost of Capital Charge not in the accounts;
- £16m saving on Performance Reward grants to Local Authorities;
- £15m reduction in the FMD burial sites provision due to a change in accounting treatment, the costs being accounted for in the year they are incurred;
- £12m Pirbright, the original proposal being re–scoped resulting in lower cost and deferred spending;
- £10m Exchequer funded RDPE grants, again mainly due to slow uptake (particularly through RDAs).

There were numerous smaller variances, totalling £62m (1.5% of SSE DEL).

Annually Managed Expenditure

The total underspend is £95m due to:

- An £84m credit due to the utilisation of the Environment Agency (EA) Closed Pension Scheme (CPS) provision. Although the provision is recorded in the Department's accounts, the credit to the provision resulting from cash contribution to the scheme is held outside of the RfR because it is non–voted;
- £3m saving in the cost of unwinding the discount following receipt of the annual actuarial report and cost of capital credit on the same provision;
- £13m was included in the SSE to cover Defra raising a provision for the cost of closing the FFB pension scheme. This provision was not raised as the cost has been accounted for in FFB's accounts and funded through Grant in Aid (the scheme will be effectively closed this financial year);

offset by:

- £5m, mainly devaluation of freehold property.

Non Budget

The total overspend is £120m due to:

- £86m Net CAP payments to Other Government Departments (OGDs) mainly because payments (and consequently amounts recoverable from the EU) were higher than the amount in the SSE, leading to excess A–in–A which is CFER;
- £34m on Grant in Aid payments to NDPBs, of which £32m relates to Natural England, including a funding increase agreed after the SSE was published for costs brought forward from 2007–08 and additional funding required to cover Genesis recharges from Defra.

Explanation of the variation between the net cash outturn and the Estimate

The full reconciliation of the net resource outturn to the net cash outturn is shown in note 4 of these Resource Accounts.

Reconciliation of Resource Expenditure between Estimates, Accounts and Budgets

Consolidated 12 months to 31 March 2009	2008-09 £000	Restated 2007-08 £000
Net Resource Outturn (Estimates)	5,178,448	4,752,402
Adjustments to remove:		
Forestry Commission on an Estimate basis	(79,401)	(83,632)
cost of capital for Public Corporations	(31,200)	(15,508)
Adjustments to additionally include:		
Consolidated Fund Extra Receipts (CFERs)	(2,209,907)	(1,872,193)
Environment Agency closed pension fund	(84,400)	(89,785)
Other adjustments	(1,533)	5,719
Net Operating Costs (Accounts)	2,772,007	2,697,003
Adjustments to remove:		
capital grants	(165,388)	(160,115)
gains/losses from the sale of capital assets	(419)	(2,178)
voted expenditure outside the Budget	1,614	(5,462)
other Consolidated Fund Extra Receipts - Sugar Levies	10,233	52,527
Adjustments to additionally include:		
resource consumption of Non-Departmental Public Bodies, net of Grant-in-Aid	(237,022)	(63,946)
Levy Funded Bodies resource costs	65,579	62,481
cost of capital for Public Corporations	31,200	15,508
Forestry Commission on a Budget basis	83,328	85,018
Other adjustments	(2,945)	(5,743)
Resource Budget Outturn (Budget)*	2,558,187	2,675,093
of which:		
Departmental Expenditure Limit (DEL)	2,590,452	2,703,596
Annually Managed Expenditure (AME)	(32,265)	(28,503)

* Reported to HM Treasury as the provisional outturn for the Public Expenditure Outturn White Paper. The final Budget Outturn is calculated once all the relevant resource accounts have been laid.

Managing Principal Risks and Uncertainties

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

Investment Strategy

The net book value of the fixed assets controlled by Defra including its Executive Agencies, NDPBs and Public Corporations is approximately £4.5bn. This includes flood and coastal defences held by EA and a major portfolio of land and buildings including internationally important laboratory and research facilities. Assets that are no longer required for the Department's business are sold in accordance with the principles of *Managing Public Money*, which requires the Department to ensure best value for the taxpayer. During 2008–09, the Department disposed of land and buildings worth £30.6m.

Defra's Asset Management and Investment Strategy outlines the Department's capital investment plans for the 3 years 2008–11. Defra will be providing a total of around £600m each year for investment in flood defences; to provide capital grants to local authorities to invest for example in waste recycling facilities; and to maintain and upgrade the Department's asset base which underpins the work of the Department and its sponsored bodies.

Public Interest

Renew Defra Programme

Our 'Renew Defra' Programme introduced new structures of working, organising the Department on a clear programme and project basis with systems in place to ensure we align our resources to our priorities and are able to adapt those as circumstances change. To cement best practice and to maximise our success, Defra has in place systems to do the right things, operating in the right way to deliver results, including a managed portfolio to approve investment decision making.

Since the launch of the Policy Cycle in June 2008, Defra has put in place approaches, tools and guidance, which continue to be developed, to support the new ways of working. These include a programme of training available to all staff. Our Flexible Staff Resourcing system enables staff to move quickly onto new work as projects come to an end, thus making the best use of staff resource.

Capability Review

The Capability Review, published in March 2009, rated Defra the most improved department in our tranche of reviews and equal second most improved, together with the Department for Work and Pensions, in Whitehall. We increased our overall score by six, including moving up two assessment categories from 'Urgent Development Area' to 'Well Placed' for D1 'Plan, Resource and Prioritise'.

As a result of the review, the Customer Focus and Insight Project was established to drive forward a greater focus on customers across Defra as recommended.

Employee Policy and Achievements

The new personal development and appraisal system has allowed more consistency across the Department in ensuring that every member of staff has clear objectives and a development plan linked to Departmental aims. An evaluation carried out in December 2008 indicated a significant increase in discussions relating to performance and an improvement in our ability to identify a range of performances. As a result of the evaluation we have implemented improvements to develop further our ability to focus on honest discussions, differentiate performance and develop staff.

Employment of Disabled Persons

Defra follows the Civil Service Code of Practice on the Employment of Disabled People which aims to ensure that there is no discrimination on the grounds of disability and that access to employment and career advancement within the Department is based solely on ability, qualifications and suitability for the work. In addition, the Department also operates the 'Two Ticks' scheme whereby job applicants with disabilities are guaranteed an interview if they meet the minimum criteria for that job and reasonable adjustments are put in place to meet the individual needs of disabled job applicants and employees.

Diversity

To ensure that Defra effectively meets the general and specific duties of the equalities legislation it has replaced the Joint Equality Scheme with three separate schemes. These separate schemes provide more focused and targeted activity in respect of disability, race and gender. Defra has also introduced Scrutiny and Advisory Groups of external and internal experts as a mechanism to enhance the execution of the new equality schemes and to ensure a wider perspective is taken into account in carrying out the action plans.

The strengthening of relationships with the staff networks and Trade Unions has enhanced partnership working on diversity initiatives, increasing their impact, effectiveness and reach. There has also been ongoing activity to support the Cabinet Office Diversity Strategy, 'Promoting Equality, Valuing Diversity'.

To further support the mainstreaming of diversity into the core business of Defra, the Diversity Equality Impact Assessment process has been embedded into the Department's policy and project planning processes. There has also been a significant investment in the training of decision makers and policy makers in the use of the revised Defra Equality Impact Assessment tool. This tool enables the potential impact that a policy, process or function may have on different groups to be assessed and addressed, both retrospectively and predictively.

Corporate Social Responsibility and Wellbeing

A corporate strategy for Wellbeing and Corporate Social Responsibility at work was implemented by the Management Board in December 2007. It takes a holistic view of people issues by incorporating them into a framework that supports the key employment aspects of staff recruitment and retention. In this way, it aims to provide a clear rationale for the development and promotion of an ongoing activities programme within Defra that supports the achievement of the organisation's strategic goals. A report on the progress of the strategy during 2008 has now been produced for Director Generals' information.

Estates and Sustainable Operations

As part of the government–wide campaign to reduce government emissions and improve energy efficiency – known as Sustainable Operations on the Government Estate (SoGE) – Defra has completed a number of high profile refurbishment projects over the past few years which have all been acclaimed for sustainability in design, build and operation. For example, 3–8 Whitehall Place achieved a Building Research Establishment's Environmental Assessment Method (BREEAM) rating of excellent and also won the Royal Institution of Chartered Surveyors (RICS) Sustainability Building of the Year Award 2005. The Nobel House refurbishment completed in 2006 achieved the then highest ever BREEAM rating for a project of its type and was awarded the RICS London Regional Award for Sustainable Building. The new Lion House building in Alnwick achieved the highest BREEAM Excellent score of the year 2008. It has also won other awards including the Building Magazine Sustainability Awards "Sustainability Client of the Year" in October 2008 and the Chartered Institute of Building Services Engineers (CIBSE) Low Carbon Performance Award new build of the year in February 2009.

Defra is currently on target to exceed the 2010 SoGE target to reduce carbon emissions by 12.5%, relative to 1999–2000 levels.

The latest trajectory on Defra's performance on CO_2 emissions from business travel indicates that Defra is close to meeting the 2010–11 SoGE target, to reduce carbon emissions from road vehicles used for government administrative operations by 15% relative to 2005–06 levels, and forecast to exceed it. Defra is working towards a new fleet emissions average of 130g/km by 2010 and is exploring the use of Portable Video–Conferencing as a means to effective travel management.

Value for Money (VfM)

The Department has a target of achieving sustained, cash releasing VfM savings worth £381m by the end of the CSR07 period. This is a change from the original Defra target of £379m. At the end of March 2009, the Department had delivered £177.3m of full year savings against its 2008–09 target of £177m. All gains are cash–releasing, sustainable, conform with CSR07 VfM methodology and are reported net of costs. By the end of 2010–11, the Department has confidence in delivering £324.7m against the target of £381m. This forecast does not include options for meeting the additional £75m efficiency contribution which are still to be finalised.

Under the Lyons Relocation Programme, Defra has a target to relocate 390 posts from London and the South East by March 2010. As at 31 March 2009, a total of 413 posts in Defra and its delivery network had been relocated, thus exceeding its 2010 target. The current overall forecast for the number of posts the Department may be able to relocate by March 2010 stands at 776.

Personal Data Related Incidents

Incidents, the disclosure of which would in itself create an unacceptable risk of harm, may be excluded in accordance with the exemptions contained in the Freedom of Information Act 2000 or may be subject to the limitations of other UK information legislation.

No protected personal data related incidents fell within the criteria to be formally reported to the Information Commissioner's Office in 2008–09.

Further action on information risk

The Department will continue to monitor and assess its information risks in order to identify and address any weaknesses and ensure continuous improvement of its systems.

Incidents deemed by the Data Controller not to fall within the criteria for report to the Information Commissioner's Office but recorded centrally within the Department are set out in the table below. Small, localised incidents are not recorded centrally and are not cited in these figures.

Category	Nature of incident	Total
I	Loss of inadequately protected electronic equipment, devices or paper documents from secured Government premises	14
II	Loss of inadequately protected electronic equipment, devices or paper documents from outside secured Government premises	33
III	Insecure disposal of inadequately protected electronic equipment, devices or paper documents	-
IV	Unauthorised disclosure	-
V	Other	-

Sickness Absence

Defra and its Executive Agencies closely monitor sickness absence, including benchmarking sick absence rates against Cabinet Office figures for the Civil Service. Policies and good working practices are in place to reduce sick absence including conducting return–to–work interviews, occupational health professionals advising on the medical and Disability Discrimination Act aspects of cases, training on stress awareness for managers and staff, and support from staff welfare services. A total of 80,088 days (on average 8 days per employee) were lost to sickness in 2008–09.

Public Sector Information Holders

Defra has complied with the cost allocation and charging requirements set out in HM Treasury and Office of Public Sector Information guidance.

Departmental Reporting Cycle

Both the Departmental Report and the Autumn Performance Report provide an opportunity to report on our PSAs, DSOs and VfM targets.

Departmental Report

This report presents an overview and assessment of Defra's performance over the past year and looks ahead to activities and improvements planned for 2009–10 and future years. It sets out progress against each of Defra's PSA targets set as part of CSR07 (and the outstanding SR04 PSA and Efficiency targets). The report also includes other information that is in the public interest. The 2009 report was published on 12 June 2009.

Autumn Performance Report

This report sets out a mid–year update on Defra's progress against the suite of targets developed for the CSR07 period. The 2008 report was published on 15 December 2008.

The latest versions of the Departmental Report and the Autumn Performance Report are published on the Defra website([3]).

Estimates

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

Parliament gives statutory authority for both the consumption of resources and for cash to be drawn from the Consolidated Fund (the Government's general bank account at the Bank of England) by Acts of Parliament known as Consolidated Fund Acts and by an annual Appropriation Act. This process is known as the 'Supply Procedure'. The Main Estimates start the Supply Procedure and are presented by HM Treasury around the start of the financial year to which they relate. HM Treasury presents, alongside the Main Estimates, a set of supplementary budgetary information tables reconciling the Estimates to Departmental Report tables.

The Main Estimate is published at the beginning of the financial year. There are two Supplementary Estimates: Winter and Spring, which are produced in November and January respectively. Details of all Estimates can be found on HM Treasury's website([4]).

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3 http://www.defra.gov.uk/corporate/deprep/default.htm
4 http://www.hm-treasury.gov.uk/psr_estimates_index.htm

Remote Contingent Liabilities

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

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

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

- Defra has a remote liability of £100m from legal action taken by importers of seed potatoes, alleging that the potatoes were diseased on arrival in Argentina. The Argentinean authorities destroyed the potatoes. The Court of Appeal gave a judgement in favour of HM Government in August 2006. The possibility of further appeals is becoming increasingly unlikely as is their chance of success;

- Defra received an EU Article 226 letter dated 4 April 2006 relating to the Drinking Water Directive (98/83/EC). Should the case reach the Article 228 European Court of Justice (ECJ) stage (around 2009–10), the Court would determine the extent of any fines. Defra is unable to quantify these possible fines at this stage, but they may be back–dated and substantial.

Research and Development

Defra invests around £130m a year on research and development (in the natural and physical sciences as well as economics, social research and operational research) to support evidence–based policy development and service delivery. This represents approximately 5% of total Defra programme expenditure. In addition, Defra spends an equivalent sum each year on other non–research science and evidence activities, including monitoring and surveillance, field trials and knowledge transfer; much of this activity is carried out by delivery bodies, such as the Environment Agency and Natural England.

Payment of Suppliers

The standard terms of payment for all contracts is 30 days from receipt of a valid invoice. The government commitment to pay within 10 days does not affect this contractual term, the prompt payment directive is associated with the requirement to pay suppliers earlier to assist cash flow across all Small and Medium Enterprises (SMEs). Defra continues to use the standard terms of payment in all contracts.

The Core–Department uses a 'No Purchase Order No Pay' policy in line with its continuous development of the 'Procure 2 Pay' process. Defra maintains its commitment to the Better Payment Practice Code and is determined to honour these commitments. The current payment performance target for the Core–Department is 100% for all valid payments to be made by the due date. Defra's performance for the year, excluding RPA, was 95.91% (2007–08 94.64%). The total number of supplier invoices paid during the year was 126,304 (2007–08 121,303), with 121,132 (2007–08 114,804) paid on time. £1,546.43 was payable under the Late Payment of Commercial Debts (Interest) Act 1998 (2007–08 £436.71). For RPA, the largest agency, 98% (2007–08 88%) of all invoices relating to running costs were paid within 30 days. No interest was payable under the Late Payment of Commercial Debts (Interest) Act 1998 (2007–08 £Nil).

Going Concern

The balance sheet at 31 March 2009 shows negative Taxpayers Equity of £671,347,000 (Restated 2007–08 £952,093,000). This reflects the inclusion of liabilities falling due in future years, which are to be financed mainly by drawings from the UK Consolidated Fund. Such drawings will be from grants of Supply, approved annually by Parliament, to meet Defra's net cash requirement. Under the Government Resources and Accounts Act 2000, no money may be drawn from the Fund other than that required for the service of the specified year or retained in excess of that need. All unspent monies, including those derived from the Department's income, must be surrendered to the Fund.

In common with other government departments, the future financing of Defra's liabilities is accordingly to be met by future grants of Supply and the application of future income, both to be approved annually by Parliament. Such approval for amounts required for 2009–10 has already been given and there is no reason to believe that future approvals will not be forthcoming. It has accordingly been considered appropriate to adopt a going concern basis for the preparation of these financial statements.

Events Since the Balance Sheet Date

Details of the events since the balance sheet date are included within note 35.

Pension Liabilities

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

Auditor

The Comptroller and Auditor General is the auditor for the Department's Accounts. All external audit remuneration is for audit work undertaken on the Accounts. The notional cost for the audit of the Core account was £320,000 and for the Consolidated account was £30,000. In addition to this, a separate notional fee of £40,000 in relation to International Financial Reporting Standards audit work has also been recognised.

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

The Comptroller and Auditor General also undertakes value for money examinations under Section 6 of the National Audit Office Act 1983.

Management

Ministers

The Ministers who had responsibility for the Department during the year were:

Secretary of State	Rt Hon Hilary Benn MP
Minister for Sustainable Food and Farming and Animal Health	Lord Rooker (until 5 October 2008)
Minister for Climate Change, Biodiversity and Waste	Joan Ruddock MP (until 5 October 2008)
Minister of State for the Environment	Phil Woolas MP (until 5 October 2008)
Minister for Marine, Landscape and Rural Affairs	Jonathan Shaw MP (until 5 October 2008)
Minister for the Natural and Marine Environment	Huw Irranca–Davies MP (from 6 October 2008)
Minister for Sustainable Development and Energy Innovation	Lord Hunt (from 6 October 2008)
Minister for Farming and the Environment	Jane Kennedy MP (from 6 October 2008)

Management Board members

The Management Board comprised the following members of staff during 2008–09:

Permanent Secretary	Helen Ghosh
Director General: Strategy and Evidence Group	Bill Stow
Director General: Food and Farming Group	Katrina Williams
Director General: Climate Change Group	Mike Anderson (until 2 October 2008)
Director General: Natural Environment Group	Peter Unwin
Solicitor and Director General: Legal Group	Gill Aitken
Chief Scientific Advisor	Professor Robert Watson
Chief Veterinary Officer	Fred Landeg (until 30 April 2008)
Director General: Finance Group	Stephen Park (Interim Finance Director General until 30 June 2008)
	Ian Watt (from 1 May 2008 until 21 January 2009)

Non–Executive members of the Management Board

Bill Griffiths
Poul Christensen
Alexis Cleveland

Management Board directorships and other significant interests

Any potential conflict of interest is handled in line with the Civil Service Code. Details of Management Board directorships and other significant interests, including Non–Executives, are given in note 34.

Helen Ghosh 16 July 2009
Accounting Officer for the Department for Environment, Food and Rural Affairs

Corporate Governance

Requirements of the Code

The Department is required to give a clear account of how far it has complied with key aspects of the 'Code of Good Practice' on corporate governance in Central Government Departments for the year ended 31 March 2009 in accordance with DAO (GEN) 09/05([5]) – Corporate Governance in Central Government Departments. The Accounting Officer confirms that Defra complies with the Code.

Operation and Decision Making Practice

The Secretary of State for Environment, Food and Rural Affairs is responsible and answerable to Parliament for all the policies, decisions and actions of the Department including its Executive Agencies. Under the Secretary of State, the Permanent Secretary, as Defra's Accounting Officer, is also personally responsible and accountable to Parliament for the management and organisation of the Department, including the use of public money and the stewardship of its assets.

The Permanent Secretary chairs Management Board meetings([6]). She ensures that the Board makes effective decisions which are communicated to the Department and provides direction to the implementation of decisions. Where appropriate, Ministers may provide guidance to assist the Board in their discussion and decision making in particular through discussion at the weekly Business Meeting which is held jointly between them and Executive Board members. Aside from the general principles set out in HM Treasury's code of good practice in corporate governance, the Board's objectives in 2008–09 were to:

- work together to create a more effective Board, living out the agreed Board behaviours, giving precedence to Board activities and focusing our approach on what is good for Defra as a whole;

- ensure delivery of the Renew Programme objectives for April 08 (and into the CSR period), and in particular:

    - establish and operate Departmental business planning and performance management systems which ensure that the Department can deliver its strategic outcomes, maintain its licence to operate and live within its financial means for 2008–09 and the CSR period;
    - monitor and manage headcount so that we achieve agreed headcount reductions by April 2008; and
    - put in place people policies and processes which will enable flexible deployment of staff; talent to be recognised and developed; increased differentiation in recognition and reward systems and greater diversity.

The Board also agreed ways in which it would measure success against these objectives including 360 degree reporting; staff and stakeholder surveys; ongoing feedback to each other; and performance against actual deliverables and milestones.

The Board meets monthly (excluding August) and occasionally for ad–hoc meetings to discuss specific issues. It receives monthly written reports from all sub–groups when they have met. A monthly Finance Report is presented to the Board on the allocation and use of the Department's financial resources.

[5] DAO (Dear Accounting Officer) (GEN) 09/05 is online at: http://www.hm-treasury.gov.uk

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

The Department has developed a new Performance Programme, with tools to measure and monitor progress on departmental outcomes and objectives. The Board now reviews the Corporate Dashboard and Board Programmes on a quarterly basis. Performance update reports are discussed monthly, and Senior Responsible Owners (SROs) are regularly challenged, through both formal and informal mechanisms, on their performance in delivering on the Department's objectives and the other expectations on them outlined in their Delegated Authority Documents.

Defra has an internal audit service which operates in accordance with Government Internal Audit Standards.

Management Board sub–groups

The Management Board sub–groups in 2008–09 were the:

- Central Approvals Panel;
- Audit and Risk Committee;
- Senior Appointments Board;
- Strategy Group;
- Renew Benefits Sponsorship Group;
- Defra Network Delivery Group;
- Corporate Resources Group (suspended since 2007 and formally disbanded in December 2008).

Central Approvals Panel

From 1 April 2008, the Central Approvals Panel has been the decision making body within Defra responsible for resource re–allocation. The role of which is to review and challenge business cases in the following circumstances:

- for proposed new activities within Board programmes, or within Group programmes which have been escalated by local panels;

- at specific points in the project lifecycle of Board programmes and at additional stages in the project as the Panel deems necessary; and

- considering requests for additional resources which are in excess of delegated ceilings for Board programmes, or which cannot be met within Groups' existing resources.

The Central Approvals Panel either approves allocation of resources to the initiative or rejects the business case resulting in funding not being allocated and is also responsible for stopping or reshaping activities should their business case no longer justify expenditure, or should priorities change. The Corporate Portfolio and Performance Management Team (CPPT) provides analytical support to and administers the process on behalf of the Central Approvals Panel.

Similar arrangements are in place to manage the portfolio of activities at Group level.

Audit and Risk Committee

The Audit and Risk Committee (ARC) considers and advises the Accounting Officer and the Management Board on the following:

- internal audit matters that include the appointment of the Head of Internal Audit, terms of reference for internal audit, work prioritisation and planning, resource requirements, and audit reports;
- Defra's Annual Resource Accounts, the accounting policies and the external audit Management Letter;
- the strategic processes for risk management, control and governance and the Statement on Internal Control;
- oversight of the management process for risk;
- consideration of the National Audit Office (NAO) plans for Financial and VfM audits, the results of their work, their reports and follow up action;
- arrangements for combating fraud;
- awareness of external impacts on Defra's control environment to include auditing and accounting standards, Government and Parliament, the EU and other stakeholders; and
- engagement with Defra's Executive Agencies, NDPBs and Public Corporations to provide assurance and advice to the Accounting Officer on control, risk and governance issues as they impact on Defra as a whole.

The Committee comprises four Non–Executives, one of whom acts as Chair and is also a Non–Executive member of the Management Board. The Permanent Secretary appoints members of the ARC.

Senior Appointments Board

The Senior Appointments Board oversees the appointment to Senior Civil Service (SCS) posts within Core–Defra and its Executive Agencies. It is also responsible for succession planning and talent management of the SCS cadre and its feeder grades, and doubles up as the SCS Pay Committee.

Strategy Group

The Strategy Group advises the Management Board and Ministers on Defra's strategy, with particular reference to policy and delivery priorities, future thinking and horizon scanning, the evidence base, strategic communications and stakeholder relations. It keeps the strategy under review and assures the Management Board and Ministers of the overall coherence and relevance of Defra's strategy.

Renew Benefits Sponsorship Group

The Renew Benefits Sponsorship Group([7]) was established as a sub–group of the Defra Management Board to oversee realisation of the benefits from the Renew programme, beyond the closure of the Renew change programme on 30 September 2008. During the latter part of the period the Group was supported by a lower level Renew Benefits Management Group, consisting of representatives of corporate programmes with responsibility for the design and measurement of progress indicators, the management of risks and issues and the management of interdependencies; together with a cross–section of policy and executive agency officials.

[7] Shortly after the end of the financial year these special post–Renew arrangements were wound up on the basis that Renew benefits were now embedded in, and capable of being monitored by the Management Board from, existing departmental programmes.

Defra Network Delivery Group

The purpose of the Defra Network Delivery Group is to bring together Chief Executives (or their nominated and empowered representatives) from organisations across Defra's delivery network to take shared decisions to commit joint investment, resources and funding for specific collaborative action to deliver business functions and services to customers.

Non–Executive members of the Management Board

The Non–Executive Directors (NEDs) of the Management Board provide an independent view on departmental performance; on financial controls and risk management; and have a role in challenging the policy formulation process. Currently, three NEDs sit on the Management Board. The NEDs are appointed by the Permanent Secretary.

Working Relationships with Arms Length Bodies (ALBs)

Defra is actively ensuring good governance and strong working relationships with its Delivery Network of ALBs. This drives more effective partnerships between policy and delivery, which underpins achieving the Departmental Strategic Objectives (DSOs). During February and March 2009, the Cabinet Office conducted its Capability Re–review of Defra([8]). The Re–review reported that since Defra's first review in 2006, "Defra had set out an ambitious organisational vision and made significant progress in implementing it"; that "Defra remains well regarded by stakeholders for its use of analysis and its scientific evidence base. It has improved relationships with its major delivery bodies"; and the Re–review went on to say that "It will be important for the Department to make full use of the mechanisms it has put in place in order to prioritise future activity effectively. It needs to place a greater focus on building the capability, and managing the performance, of the wider delivery network".

Defra is developing an action plan in response to the Capability Re–review recommendations which will build on work that has been undertaken during 2008–09. This has included improving and clarifying Defra's relationships with its delivery bodies and promoting a partnership approach, by:

- defining and clarifying governance structures and accountabilities;
- holding conferences for delivery body Chairs and Chief Executive Officers (CEOs). These have led to a number of 'Deals' being developed between Defra and individual delivery bodies to shape corporate behaviours needed for effective partnership working;
- working to align ALBs' business plans with the DSOs;
- implementing the policy cycle, which was developed to provide a common approach to policy development across the Department and embed both a customer focus and the involvement of delivery partners throughout the policy making process;
- the development of a set of tools and techniques to improve Defra's insight about its customers – these will shortly be rolled out to staff and will provide practical support to policy development, delivery management and more effective engagement with customers;
- managing a formal programme for bi–annual engagement between Defra Ministers and the Management Board and the Environment Agency, Natural England, Rural Payments Agency and Animal Health (the 'Big 4' delivery bodies);
- supporting the Defra Network Delivery Group as a forum for collaborative discussion of issues and agreement of investments that affect the delivery network; and
- promoting best practice in working with ALBs, and guidance on merging and de–merging delivery bodies and functions.

[8] The report on Defra's Capability Re–Review is available online at http://www.civilservice.gov.uk/cross-government/capability/introduction.aspx

Remuneration Report

Remuneration Policy

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

Defra's Remuneration Committee is made up as follows:

Chair	Helen Ghosh
Members	Gill Aitken
	Peter Unwin
	Bill Stow
	Bill Griffiths
	Robert Watson
	Katrina Williams (from 1 April 2008)
	Ian Watt (from 12 May 2008 to 21 January 2009)

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

Directors, excluding the Permanent Secretary, are eligible to be considered for individual levels of non–pensionable, discretionary bonus. All bonuses are paid in arrears in the financial year after that in which they were earned. For 2007–08 this was up to a maximum of 20% of their salary which was performance related and approved by the Remuneration Committee. For 2007–08, bonuses were paid from a bonus pot of 8.6% of the total salary bill and paid to approximately 65–70% of the SCS in Defra and its Executive Agencies. The Permanent Secretary is eligible to be considered for a non–pensionable, non–consolidated bonus award calibrated against achievement of objectives, which for 2007–08 was subject to a maximum of 15% of salary. Such awards are made by the Permanent Secretaries' Remuneration Committee which comprises the Chairman of the SSRB (who acts as Chair), two other members of the SSRB, the Cabinet Secretary and the Permanent Secretary of HM Treasury. Ministerial salaries are determined by the Cabinet Office, under the Ministerial and Other Salaries Act 1997.

Service Contracts

Civil Service appointments are made in accordance with the Civil Service Commissioners' Recruitment Code, which requires appointment to be on merit on the basis of fair and open competition but also includes the circumstances when appointments may otherwise be made.

Unless otherwise stated below, the officials covered by this report hold appointments which are open–ended. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme.

Further information about the work of the Civil Service Commissioners can be found on the Civil Service Commissioners website([9]). All Defra Management Board members are on permanent Civil Service contracts with the exception of Robert Watson who is on a Fixed Term contract due to end on 16 September 2010, Ian Watt who was also on a Fixed Term contract, but his appointment ended early on 21 January 2009 and Stephen Park, who was employed as a contractor and whose appointment ended on 30 June 2008.

9 http://www.civilservicecommissioners.org

Salary and Pension Entitlements

The following sections provide details of the remuneration and pension interests of the Ministers and Management Board members of the Department. The following tables in the Remuneration Report have been subject to audit.

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

Ministers

	Salary as defined below	Prior year salary as defined below	Real increase in pension at age 65	Total accrued pension at age 65 as at 31 March 2009	CETV at 31 March 2008 *	CETV at 31 March 2009	Real increase in CETV **
	£	£	£000	£000	£000	£000	£000
Ministers							
Rt Hon Hilary Benn MP	79,326	51,269	0-2.5	5-10	103	128	12
Lord Hunt *** *(From 3 October 2008)*	51,286	-	0-2.5	10-15	231	246	7
Huw Irranca-Davies MP *(From 3 October 2008)*	12,855	-	0-2.5	0-5	19	23	2
Jane Kennedy MP *(From 3 October 2008)*	16,936	-	0-2.5	5-10	113	125	8
Ministers who have served during 2008-09, but are not in post as at 31 March 2009 were:							
Joan Ruddock MP *(until 2 October 2008)*	16,163	22,794	0-2.5	0-5	11	19	6
Phil Woolas MP *(until 2 October 2008)*	24,218	26,595	0-2.5	5-10	68	75	4
Jonathan Shaw MP *(until 2 October 2008)*	18,372	20,583	0-2.5	0-5	13	17	2
Lord Rooker *(until 2 October 2008)*	65,492	124,827	0-2.5	15-20	335	352	14

Full year equivalents for part year officials for 2008-09 were:

	2008-09	2007-08
Lord Hunt	121,323	-
Lord Rooker	121,323	-
Phil Woolas MP	40,646	39,893
Jonathan Shaw MP	30,851	30,280
Joan Ruddock MP	31,174	30,280
Huw Irranca-Davies MP	30,851	-
Jane Kennedy MP	40,646	-

* The figure may be different from the closing figure in last year's accounts. This is due to the CETV factors being updated to comply with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008.
** After adjustment for inflation and changes in market investment factors.
*** Following the creation of DECC, Lord Hunt assumed a joint role as minister for both Defra and DECC. The figures in this table show his remuneration for his ministerial responsibilities for both Defra and DECC.

Senior Officials

Officials	Salary as defined below £000	Prior year salary as defined below £000	Real increase in pension and related lump sum at pension age £000	Total accrued pension at pension age as at 31 March 2009 and related lump sum £000	CETV at 31 March 2008 * £000	CETV at 31 March 2009 £000	Real increase in CETV ** £000
Helen Ghosh *Permanent Secretary*	150-155	145-150	0-2.5 plus 2.5-5 lump sum	30-35 plus 95-100 lump sum	554	616	17
Bill Stow *Director General*	145-150	135-140	(2.5)-0 plus (2.5)-0 lump sum	65-70 plus 195-200 lump sum	1,546	1,584	(15)
Katrina Williams *Director General*	115-120	5-10	2.5-5 plus 7.5-10 lump sum	30-35 plus 95-100 lump sum	423	510	48
Peter Unwin *Director General*	140-145	135-140	0-2.5 plus 0-2.5 lump sum	50-55 plus 160-165 lump sum	996	1,092	(4)
Gill Aitken *Solicitor and Director General*	125-130	115-120	0-2.5 plus 2.5-5 lump sum	20-25 plus 65-70 lump sum	333	386	23
Professor Robert Watson *Chief Scientific Advisor*	140-145	70-75	2.5-5 no lump sum	0-5 no lump sum	27	78	44
Management Board members who have served during 2008-09, but were not in post as at 31 March 2009 were:							
Fred Landeg *(until 30 April 2008)* *Chief Veterinary Officer*	15-20	45-50	0-2.5 plus 0-2.5 lump sum	35-40 plus 115-120 lump sum	902	916	9
Mike Anderson *(until 2 October 2008)* *Director General*	65-70	105-110	0-2.5 no lump sum	10-15 no lump sum	103	124	12
Ian Watt *(from 1 May 2008 to 21 January 2009)* *Director General*	100-105	-	0-2.5 no lump sum	0-5 no lump sum	-	31	29

Full year equivalents for part year officials were:

	2008-09	2007-08
Mike Anderson	120-125	110-115
Robert Watson	-	135-140
Fred Landeg	110-115	95-100
Katrina Williams	-	100-105
Ian Watt	150-155	-

* The figure may be different from the closing figure in last year's accounts. This is due to the CETV factors being updated to comply with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008
** after adjustment for inflation and changes in market investment factors

Stephen Park, the interim Finance Director General until 30 June 2008 is excluded from the above table as his services were provided via a third party. During the period from 1 April 2008 to 30 June 2008 payments totalling £142,467 were made to the third party in respect of his services.

Ian Watt's 3 year fixed term contract was terminated on the 21st January 2009. He received a payment of £75,000, compensation equivalent to 6 months notice under mutual agreement.

Salary

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

This report is based on payments made by the Department and thus recorded in these accounts. In respect of Ministers in the House of Commons, departments bear only the cost of the additional ministerial remuneration, the salary for their services as a Member of Parliament (£63,291 from 1 April 2008), and various allowances to which they are entitled are borne centrally. However, the arrangement for Ministers in the House of Lords is different in that they do not receive a salary but rather an additional remuneration, which cannot be quantified separately from their ministerial salaries. This total remuneration, as well as the allowances to which they are entitled, is paid by the Department and is therefore shown in full in the figures above.

In addition to the above, Poul Christensen and Bill Griffiths were paid a total of £24,785 for their services and expenses as Non–Executive board members. Alexis Cleveland did not receive any payment.

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

Benefits in Kind

The monetary value of benefits in kind covers any benefits provided by the Department and treated by HM Revenue and Customs as a taxable emolument. No Management Board members were in receipt of any benefits in kind during 2008–09 (2007–08 £Nil).

Pension Benefits

Ministerial Pensions

Pension benefits for Ministers are provided by the Parliamentary Contributory Pension Fund (PCPF). The scheme is made under statute (the regulations are set out in Statutory Instrument SI 1993 No 3253, as amended). Those Ministers who are Members of Parliament may also accrue a MP's pension under the PCPF (details of which are not included in this report). The arrangements for Ministers provide benefits on an 'average salary' basis, taking account of all service as a Minister. The accrual rate has been 1/40th since 15 July 2002 (or 5 July 2001 for those that chose to backdate the change) but Ministers, in common with all other members of the PCPF, can opt for a 1/50th accrual rate for a lower rate of employee contribution.

Benefits for Ministers are payable at the same time as MPs' benefits become payable under the PCPF or, for those who are not MPs, on retirement from ministerial office from age 65. Pensions are increased annually in line with changes in the Retail Prices Index (RPI). Members pay contributions of 6% of their ministerial salary if they have opted for the 1/50th accrual rate or 10% of salary if they have opted for the 1/40th accrual rate. There is also an employer contribution paid by the Exchequer representing the balance of cost as advised by the Government Actuary. This is currently 26.8% of the ministerial salary.

The accrued pension quoted is the pension the Minister is entitled to receive when they reach 65, or immediately on ceasing to be an active member of the scheme if they are already 65.

Civil Service Pensions

Pension benefits are provided through the Civil Service pension arrangements. From 30 July 2007, civil servants may be in one of four defined benefit schemes; either a 'final salary' scheme (classic, premium or classic plus); or a 'whole career' scheme (nuvos). These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, classic plus and nuvos are increased annually in line with changes in the RPI. Members who joined from October 2002 could opt for either the appropriate defined benefit arrangement or a good quality 'money purchase' stakeholder pension with a significant employer contribution (partnership pension account).

Employee contributions are set at the rate of 1.5% of pensionable earnings for classic and 3.5% for premium, classic plus and nuvos. Benefits in classic accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum. Classic plus is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per classic and benefits for service from October 2002 worked out as in premium. In nuvos a member builds up a pension based on his pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and, immediately after the scheme year end, the accrued pension is uprated in line with RPI. In all cases members may opt to give up (commute) pension for lump sum up to the limits set by the Finance Act 2004.

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

The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of classic, premium and classic plus and 65 for members of nuvos.

Further details about the Civil Service pension arrangements can be found on the Civil Service website([10]).

Cash Equivalent Transfer Values (CETV)

A CETV is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the pension benefits they have accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. CETVs are calculated in accordance with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

Regarding the Management Board, the CETV figures include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their buying additional pension benefits at their own cost.

[10] http://www.civilservice-pensions.gov.uk

Real Increase in CETV

For the Management Board, this reflects the increase in CETV effectively funded by the employer. It does not include the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

For Ministers, this is effectively the element of the increase in accrued pension funded by the Exchequer. It excludes increases due to inflation and contributions paid by the Minister and are calculated using common market valuation factors for the start and end of the period.

Helen Ghosh 16 July 2009
Accounting Officer for the Department for Environment, Food and Rural Affairs

Statement of Accounting Officer's Responsibilities

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

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

- observe the Accounts Direction issued by HM Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards, as set out in the *Government Financial Reporting Manual* have been followed, and disclose and explain any material departures in the Accounts;
- prepare the Accounts on a going concern basis.

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

Statement on Internal Control

Scope of Responsibility and Accountability Arrangements

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of Defra's policies, aims and objectives, whilst safeguarding the public funds and Departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in *Managing Public Money*([11]).

Defra delivers its aims and objectives in partnership with its Agencies, NDPBs, Public Corporations and other delivery partners. Accounting Officers for Defra's Agencies and sponsored public bodies are appointed in accordance with the requirements of *Managing Public Money*. Each is responsible for the operation of a system of internal control and is required to sign a statement on internal control which is reproduced in the body's annual accounts. These statements contribute to the assurances supporting my Statement on Internal Control (SIC). I have seen statements for 2008–09 from all of the Department's Executive Agencies and NDPBs.

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 effectively, efficiently and economically. The system of internal control has been in place in Defra for the year ended 31 March 2009 and up to the date of approval of the annual report and accounts, and accords with HM Treasury guidance.

Capacity to Handle Risk

I believe that our risk handling capacity has improved in the last two years, and that risk management is now better integrated into the regular working of the Department. The Defra Management Board has collective responsibility for managing the overall portfolio of risk and for encouraging a supportive risk management culture throughout the Department. The Board is chaired by me and comprises the senior staff of the Department and three non–executive members. A full time Risk Co–ordinator provides advice, guidance and support across the full range of risk activity within the Department.

This year to promote risk handling capacity at Board level, we have put in place processes to help the Board maintain a coherent picture of risk. This recognises that risk comes at us from a range of directions, with a range of timescales. There are four elements to the coherent picture, which are updated regularly: short–term risks to the Department's portfolio (flagged via the corporate performance management system); short–term cross–cutting risks and 'hot topic' concerns; medium–term risks to Defra's priorities and strategic objectives; and long–term unknowns and areas of uncertainty.

In December 2008, Defra established with Cranfield University, as part of a three year partnership with three national Research Councils, a Collaborative Centre of Excellence in Understanding and Managing Natural and Environmental Risks. This gives us access to a professor level Centre Director and a post–doctorate team, to help us build risk appraisal capability in policy teams and at senior levels.

[11] Available online at http://www.hm-treasury.gov.uk

The Risk and Control Framework

A rhythm of risk review has been established at Management Board level which places risk on the Board's agenda at regular intervals. This includes: an annual discussion of longer–term horizon scanning concerns and trends; a six monthly 'What keeps you awake?' session, to unearth the more personal concerns of Board members; a six monthly review of the Department's portfolio to consider the way in which resources are aligned to priorities; a quarterly review of progress against DSOs, Board level programmes and a range of support activities; and a monthly review of exception reports from SROs. This rhythm is supported by information from the Department's corporate performance management framework, described in the 'Planning and Performance Management' section below.

At lower levels, the key mechanisms for controlling risk include Approvals Panels which scrutinise business cases for programmes, projects and ongoing activities. This control is supported by SROs and their programme/project boards applying PPM techniques and by the planned roll out of a consistent approach to programme assurance. Activity managers manage day–to–day delivery, and as part of this, assess policy and delivery risk.

Review of Effectiveness of Internal Control

As Accounting Officer I have responsibility for reviewing the effectiveness of the system of internal control. My review is informed by the work of internal auditors and by executive managers within the Department who have responsibility for the development and maintenance of the internal control framework and who provide me with a formal annual assurance statement on the system of internal control and report areas of weakness. I also take account of comments made by external auditors in their management letter and other reports. I have been advised by the Management Board and the Audit and Risk Committee (ARC) on the implications of the result of my review, and a plan to address weaknesses and ensure continuous improvement of the system is in place.

I believe that improvements have been made to our internal controls during 2008–09, particularly in key areas such as corporate performance management and financial controls. I reported at the end of 2007–08 that we had introduced major changes to the way that Defra operates. These changes included reorganising the Department around programme activity; introducing flexible staffing processes enabling people to be moved to where they are needed; and new arrangements to develop the skills and capabilities of our staff. During 2008–09 the changes have been implemented and the department continues to work on the challenge of embedding them. I believe that in most areas we now have satisfactory and strengthening levels of internal control, and in many areas, good levels of control. Important indicators of these controls include the setting of a balanced budget for 2009–10 well before the start of the financial year in a difficult budgetary context, and the completion of both our 2008–09, as well as 2007–08, accounts to meet HM Treasury's Faster Close timetable. In March 2009 the Cabinet Office, reporting on Defra's Capability Re–review([12]), identified the Department as one of the most improved in Whitehall, and confirmed that Defra had improved its management of resources, and strengthened its corporate performance management.

A potential risk to internal controls arose in October 2008 when parts of Defra were transferred to the new Department of Energy and Climate Change (DECC). The changes required were, however, managed without compromising these controls. Budgets were transferred, Departmental Estimates adjusted, and annual accounts produced which properly reflected the changes. The Capability Re–review highlighted that following the creation of DECC, Defra acted quickly to restate its strategic vision and purpose. This resilience in the face of change is itself a demonstration of improved internal controls.

Areas for continuing development in 2009–10 include further raising of financial and risk management capability in the Core Department and our delivery partners; improving controls over our main Oracle financial system; testing Business Continuity Plans, and also our ability to handle major animal disease outbreaks; and delivering the benefits of our Renew change programme whilst simplifying the internal processes it has introduced.

[12] The report on Defra's Capability Re-Review is available online at http://www.civilservice.gov.uk/cross-government/capability/introduction.aspx

Governance and Strategy

The Management Board provides strategic leadership for the Department and is accountable for our performance, risk management and internal control. It continues to improve its focus on strategy, leadership, and performance management, and is more visible in its oversight of key programmes. The Capability Re–review recognised that progress has been made since 2007 in strengthening the Management Board as an effective corporate team. Its role has been redefined and its membership has been refreshed through recruitment and promotion. The main Board is supported by a structure of subcommittees which are described in detail in the Corporate Governance section of these accounts.

I believe that the Department has a clear focus and set of priorities. Our strategic priorities are formalised in a PSA and DSOs for the Comprehensive Spending Review period from 2008 to 2011. As indicated earlier, we moved quickly to refocus and refresh these strategic priorities following the creation of DECC.

Planning and Performance Management

With the reorganisation of the department around programme activity, we have introduced Portfolio Management which operates at two main levels. At the ‘macro’ level it provides, through six monthly Management Board reviews of the portfolio, a strategic view of the allocation of all resources in the Department. At the ‘micro’ level the allocation and re–allocation of resources between programmes is managed by Central and Local Approval Panels. Through this Portfolio approach, we now operate a system of ‘continuous business planning’ rather than a more traditional annual business planning ‘round’. We also launched in June 2008 a new Defra ‘policy cycle’ to introduce a single consistent approach to developing and implementing policy across the Core–Department.

With the move to Portfolio Management, the application of Programme and Project Management (PPM) methodologies is key to delivery. Our internal auditors have confirmed that during 2008–09, new programme and project controls have been implemented and we need an embedding phase during 2009–10. As part of this, we will be rolling out a new approach to programme assurance across Defra. This will help SROs to assure the Management Board that they can deliver the outcomes of their programmes.

A system of corporate performance monitoring was introduced in April 2008. The Management Board has designated 12 major programmes as ‘Management Board programmes’. They have their own SROs but the Board closely monitors performance. All other Defra programmes are designated as ‘Group programmes’ and their performance is monitored by the Director Generals, as are ongoing functions and a few stand–alone projects. Each quarter the Management Board dedicates a meeting to examine the performance of the Management Board programmes; performance against the Departmental Strategic Objectives, each of which has a designated owner; and performance of the components of the Corporate Management Dashboard, which tracks key measures of operational effectiveness. There is also a rolling programme requiring SROs to discuss progress on their programmes with the Management Board.

Taken together, these developments have enhanced internal control and management through more extensive and consistent use of recognised PPM techniques. This in turn will help the planning and delivery of policy programmes, and the effective scrutiny of business cases before investment decisions are made. Visibility of the performance and delivery of our programmes will also be enhanced.

We have also continued to strengthen the way we manage our delivery partner relationships. Formal governance structures and accountabilities have been improved. We have agreements in place between Defra and its key delivery bodies to promote partnership working. A Defra Network Delivery Group provides a forum for discussion at Chief Executive level and we have an established cycle of six monthly discussions between Defra Ministers, Management Board and the 'Big Four' delivery partners([13]). I recognise, however, that more needs to be done. The Cabinet Office Capability Re–review, whilst acknowledging that Defra had improved relationships with its major delivery bodies, recommended that the Department "needs to place a greater focus on building the capability, and managing the performance, of the wider delivery network"([14]). We are developing an action plan in response to these recommendations.

Change Management

I believe that the Department has demonstrated the ability to introduce significant changes without negative impacts on internal controls. Our ambitious Renew change programme had strong internal governance arrangements and was subject to external scrutiny. The Capability Re–review confirmed that it had succeeded in laying the foundations of Defra's new operating model and that the Department had demonstrated an "appetite for transformational change". The programme was closed in September 2008, and we continue to evaluate the impact of its benefits through a measure in the Corporate Management Dashboard. Challenges were also created by the merger of existing Executive Agencies into a new delivery body, the Food and Environment Research Agency (FERA) which was vested on 1 April 2009. This change was again successfully managed, and in 2009–10 we are taking forward further changes to our delivery network, for example, the creation of a new Marine Management Organisation (MMO).

Effectiveness of Risk Management

I believe that the developments outlined above under 'Capacity to handle risk' and 'The risk and control framework', have improved risk awareness and management during 2008–09, although further embedding is needed to ensure consistent risk management practice. The Management Board's refreshed focus on risk, the increased use of project management working across Defra and the support from the Cranfield Risk Centre should all help to continue the improvements in the coming year.

Emergency Preparedness

In last year's Statement, I raised concerns about the Department's ability to cope with larger outbreaks of animal disease, particularly the number and resourcing of the Local Disease Control Centres (LDCCs) we might require. We have put in place improvements in local communications, both ensuring that a number of communications channels appropriate to the intended audience are used (including the website, SMS services, voicemail and direct mail) and creating a specific role within the Defra Press Office to liaise directly with local media, as well as regular press briefings for local journalists to be held at LDCCs during an outbreak. The Animal Health agency revised its structure in early 2009, aligning itself in England with the Government Offices in the Regions. Animal Health delivery structures are now aligned with other local emergency response structures, thereby increasing flexibility and resilience. Animal Health has robust contingency plans for the deployment of frontline staff. The new arrangements are being tested through regular local and regional exercises, and a national exercise is planned for 2009–10 which will assess our ability to manage complex outbreaks. During 2008–09 we introduced a Flexible Staff Resourcing system with an integrated emergency resourcing capacity which will be maintained and developed to improve our ability to increase staff levels in an outbreak.

[13] The 'Big Four' delivery partners are the Environment Agency, Natural England, the Rural Payments Agency, and Animal Health.
[14] Capability Re-review Report, 'Progress and next steps', March 2009, page 12.

We have also made improvements in our preparedness for flooding, based in part on lessons learned from the Summer 2007 floods. Our Lead Department Plan has been updated and we have strengthened the team responsible for developing, testing and (if necessary) leading our response to flooding events. We have also improved our ways of working with the Environment Agency, the Cabinet Office's Civil Contingencies Secretariat and others. These strengthened arrangements have been put to the test in 2008–09 in localized flooding incidents, and we are planning a national exercise in March 2011.

Information Risk Management

The Defra Network is making good progress in improving its management of information risks, recognising that, although we handle less protected personal or otherwise sensitive information than some other Government Departments, protecting and using the information with which we are entrusted to its fullest potential will help us to improve policy making and public and internal services.

A Management Board level Senior Information Risk Owner (SIRO) is responsible for information risk in the Core–Department and smaller Defra organisations. The largest Executive Agencies and NDPBs (Animal Health, Natural England, the Environment Agency and the Rural Payments Agency) have also appointed their own SIROs with Information Asset Owners (IAOs) also taking responsibility for key information assets. Across the Network, IAOs have been contributing to a quarterly information risk assessment process alongside IT and other security experts looking at overarching information risks.

Regular assessments against the mandatory minimum measures of the Data Handling Report have confirmed that we are making good progress and that compliance has been achieved against the vast majority of measures. For the future a new Information Assurance Programme will ensure that the Defra Network has the strategic capability and resources to ensure that proportionate measures are brought forward to address gaps, and that continuing training and awareness raising develop and embed a strong culture of safely exploiting our information assets.

All staff in Core Defra have been encouraged to undertake an e–learning package to ensure they understand their responsibilities for protecting and sharing data. By June 2009 over 83% had done so successfully and this training is being rolled out by other bodies across the Defra network.

Corporate Support Systems

I identified in previous Statements concerns about the control regime operated in respect of the Oracle financial system. Auditors have confirmed that whilst improvements have been made during 2008–09, they still have concerns about access controls and the level of manual work–arounds to overcome these. However, they have found no evidence that these weaknesses have been exploited, or that new issues have emerged, and they have confirmed that further remedial actions are planned or underway to address the remaining weaknesses.

Financial Management

In my 2007–08 Statement, I identified concerns about financial management among the Department's 'Significant Control Issues'. Past problems have in fact had an impact on these accounts as the Comptroller & Auditor General has qualified them for regularity to reflect the crystallisation of EU disallowance penalties resulting from inaccurate payments made by the Rural Payments Agency in previous years. I believe, however, that financial management has improved in the last two years, and that controls have strengthened. We have made changes to ensure that only the resources available to the Department are allocated to budget holders; improved the quality and timeliness of month end financial reporting; and addressed specific weaknesses in our financial systems and processes. Our management of budgets is based on a system of delegated authority supported by regular monitoring of management information. We allocated budgets for 2008–09 against programmes and projects which ensured that they were better aligned to our objectives and, as indicated earlier, we have established Approvals Panels to make resource prioritisation decisions. These changes have become part of normal business, and have strengthened our resource management through their emphasis on living within a finite budget for a portfolio of business. There are further improvements that we need to make in the coming year particularly in expenditure forecasting (there were some issues in the first half of 2008–09 about the evidence of budget and expenditure monitoring at lower working levels of financial management); the quality of management information; and continuing to raise financial management capabilities across the Department including our Agencies and sponsored bodies. I acknowledge in particular that RPA have faced problems, described in more detail below, including the overpayment of grants and substantiation of the resulting debtor balances. I am content, however, that work is planned to address these issues.

The economic situation and the impact of this on public spending will also present challenges. We will need to ensure that we have the expertise and processes in place to deliver further significant efficiency and value for money savings. There is also potential for negative impacts on the pension funds of a number of our delivery bodies which, if they occur, will need careful management.

Significant Issues

The Rural Payments Agency

I mentioned above the financial management problems at RPA, and there are significant issues that still need to be tackled. There have been major improvements during the last two years, particularly in the speed and quality of direct payments made to farmers. Under the Single Payments Scheme (SPS), for example, for SPS 2008, as with SPS 2006 and 2007, RPA have met the EC target of making at least 96.154% of total payments by 30 June. Weaknesses in financial management and accounting remain, however, and we will be undertaking work with RPA in the coming year to identify and tackle these issues, and to improve the financial management capability of the agency as part of a wider review.

The Comptroller & Auditor General has qualified the RPA accounts for regularity to reflect the crystallisation of EU disallowances in respect of inaccurate payments made to farmers in earlier years. As indicated, improvements have now been made to the accuracy of payments, but concerns remain about the quality of the underlying SPS mapping information within the Rural Land Register (RLR) which means that the risk of inaccurate payments and future disallowance penalties remains. To address this risk, a major update of the RLR data is already underway during 2009 together with an upgrade of the underlying IT system. This work is scheduled to be completed in time for the launch of SPS 2010.

One consequence of inaccurate SPS payments is a significant debtors balance of approximately £22 million within RPA's accounts and which relates to overpayments made to farmers. This is of similar value to that reflected in 2007–08, while RPA have already recovered some £20 million during the year and continue to work to recover the remainder. However, for the current year, NAO have been unable to obtain assurance over this balance and, as a consequence, the Comptroller & Auditor General has placed a limitation of scope on the Agency's accounts in respect of this balance. The balance is not material in Defra's consolidated accounts.

The Comptroller & Auditor General has also qualified both RPA's and Defra's accounts on the grounds of disagreement with RPA's interpretation of FRS 23 "The effects of changes in foreign exchange rates". Specifically, he has disagreed with RPA's interpretation setting out that the Agency has not applied the appropriate spot rate on recognition of foreign currency transactions in respect of Agency reimbursement from the EC, instead applying an average rate across the year for the SPS. The resulting non–compliance will affect the mix of income and exchange gains and losses within the OCS but not the net impact. The Chief Executive of RPA has consulted with RPA's Audit and Risk Committee who have reviewed these accounts and concluded that on balance the Agency has not complied in full with FRS 23. However, it is quite clear that restating the accounts in accordance with FRS 23 will not be straightforward but will require a fundamental review of the Agency accounting principles and the accounting records which will require detailed discussions with Defra, NAO and Treasury together with liaison with the auditors of the EC accounts and potentially with the European Court of Auditors. In these circumstances the ARC has agreed that he should sign the accounts on the basis (with the exception of the limitation of scope on debtors and the effects of not implementing FRS23 as described in the previous paragraph) that they otherwise provide a true and fair view.

Helen Ghosh 16 July 2009

Accounting Officer for the Department for Environment, Food and Rural Affairs

The Certificate of the Comptroller and Auditor General to the House of Commons

I certify that I have audited the financial statements of the Department for Environment, Food and Rural Affairs for the year ended 31 March 2009 under the Government Resources and Accounts Act 2000. These comprise the Statement of Parliamentary Supply, the Operating Cost Statement and Statement of Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement and the Statement of Operating Costs by Departmental Aim and Objectives and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Accounting Officer and auditor

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

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

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000. I report to you whether, in my opinion, the information which comprises the Management Report and Corporate Governance, included in the Annual Report, is consistent with the financial statements. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

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

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

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

Basis of audit opinions

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

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

Qualified opinion arising from disagreement about accounting treatment

The Defra resource account consolidates the Rural Payments Agency. The Rural Payments Agency has not applied Financial Reporting Standard (FRS) 23 'the effects of changes in foreign exchange rates' as stipulated in the accounting standard. The Agency has not applied the spot exchange rate on recognition of foreign currency transactions in respect of Agency reimbursement from the EC, instead effectively applying an average of the spot rate across the year for the Single Payment Scheme and the rate inherent within the other scheme arrangements. This non–compliance has the effect of omitting the full impact of exchange rate movements from the financial statements.

The full application of FRS 23 would have a material impact on the valuation of debtors, recognised foreign exchange gains and losses in scheme expenditure and scheme income, and gains arising on the revaluation of the EC debtor.

Except for the financial effects of not applying the appropriate exchange rates in accordance with FRS 23, in my opinion:

- the financial statements give a true and fair view, in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by HM Treasury, of the state of the Department's affairs as at 31 March 2009, and the net cash requirement, net resource outturn, net operating cost, operating costs applied to objectives, recognised gains and losses and cash flows for the year then ended;

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

- information which comprises the Management Report and Corporate Governance included within the Annual Report, is consistent with the financial statements.

Qualified opinion on Regularity

As disclosed in the Notes to the accounts, the Department has incurred the cost of £92.2 million of disallowance penalties on the Arable Area Payments Scheme, Fruit and Vegetable grant schemes relating to 2003 to 2006, Export Funds, Cross Compliance 2006, Exceptional Measures and Livestock Premium, Bovines and Ovines 2003 and 2004. The European Commission has imposed these disallowance penalties due to identified weaknesses in the Department's and the Rural Payment Agency's control systems.

The £92.2 million disallowance penalties represent a material loss to the UK Exchequer. I consider that this loss falls outside of Parliament's intentions in relation to the proper administration of European funding. I have therefore concluded that this expenditure has not been applied to the purposes intended by Parliament and is not in conformity with the authorities which govern it.

In my opinion, except for confirmed disallowance penalties of £92.2 million, in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Report

My report on these financial statements is on pages 40 to 42.

Amyas C E Morse 20 July 2009

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

The Report of the Comptroller and Auditor General to the House of Commons

Administration of the Common Agricultural Policy in England

The Single Payment Scheme (SPS) was introduced by member states of the European Union as part of the 2003 Common Agricultural Policy (CAP) reforms which replaced 11 separate crop and livestock based production subsidies with a single payment based on land area.

The Rural Payments Agency (RPA) experienced considerable difficulties in capturing and processing the data required to process payments particularly for the first two years of the scheme. The Agencies difficulties have resulted in the European Commission proposing financial penalties. In anticipation of these penalties the Department retains a provision in its accounts in respect of SPS 2005 and 2006. The Department has also been carrying provisions in its accounts in anticipation of financial penalties for SPS predecessor schemes and for some smaller on–going schemes.

Disallowance Penalties

The Commission confirmed on 9 July 2008 a decision on disallowance relating to the Arable Area Payments Scheme (AAPS). This was the largest of the SPS predecessor schemes in England with payments of £1.1 billion each year to some 47,000 farmers. Farmers claimed area based payments for growing certain arable crops – cereal, oil seeds, linseed and protein crops – on eligible land. The Commission has determined that the RPA had not accurately determined the area eligible for payments and had not undertaken the required field visits at appropriate times. The penalty amounts to £55 million and has been paid by deduction from subsequent scheme claims made to the Commission by the RPA.

Other disallowance penalties on SPS predecessor schemes and some smaller on–going schemes, which impact on the 2008–2009 accounts, have also been imposed by the EU in recent decisions. These penalties total £15 million and relate to Export Funds (£9.3 million), Cross Compliance 2006 (£4.8 million), Exceptional Measures (£0.9 million) and Livestock Premiums, Bovines and Ovines 2003 and 2004 (£0.06 million).

Disallowance penalties of £22.2 million have also impacted on the RPA accounts for 2008–2009 in respect of fruit and vegetable operational funds and product groups. This payment is reflected in the consolidated Defra resource account.

Disallowance Provisions

I have accordingly qualified my audit opinion on this account on the grounds of regularity due to confirmed disallowance penalties of £92.250 million. This loss falls outside of parliament’s intentions in relation to the proper administration of European funding.

The Department’s accounts show a provision of £246.625 million for potential disallowance provisions on the Single Payment Scheme and other potential remaining liabilities. The Commission has proposed a disallowance penalty of 5% (approximately £131.7 million) of total scheme expenditure for SPS 2005 and 2006. The current provision is sufficient to cover this liability. No proposal for disallowance in respect of SPS 2007 and SPS 2008 has been made however we consider that the provision in total is sufficient to cover these. The Department is in negotiation with the Commission to agree the disallowance penalties to be imposed for the scheme years 2005 and 2006.

Administration of the Single Payment Scheme

The difficulties experienced by the Rural Payments Agency have led to two value for money reports by the National Audit Office. Our first report([15]) in October 2006 was critical of the implementation of the Single Payment Scheme, but it noted that the Agency's management team instigated recovery action which the Agency expected to be fully implemented by April 2008. Our second report([16]) in December 2007 noted that the new management team had instilled a clearer sense of direction and drive amongst the staff to improve performance. The errors in the first year of the scheme (the 2005 scheme) were, however, largely repeated in the second year (the 2006 scheme) and the Agency had not yet recovered the sums from those farmers who were overpaid.

The balance of overpayments in respect of the Single Payment Scheme is £22 million. The Agency is undertaking work to establish accurate records of the amounts owed by individual farmers and will subsequently invoice for the amounts due. At this point there remains however such a degree of uncertainty that I have been unable to obtain assurance over this balance and I have placed a limitation of scope on my audit opinion on the Agency's accounts in respect of this balance. The balance is not material to the consolidated Defra resource account and therefore I have not qualified my opinion on the Defra resource account in this respect.

I intend to report in more detail in the autumn on the actions of the Rural Payments Agency to resolve problems in administering the Single Payment Scheme since my predecessor's report of December 2007.

Application of Financial Reporting Standard 23 'The effects of changes in foreign exchange rates'

The Defra resource accounts consolidates the results of its agencies, the most significant being the Rural Payments Agency. The department and its agencies are required to produce accounts in accordance with HM Treasury's 'Financial Reporting Manual'. The Financial Reporting Manual interprets General Accepted Accounting Practice for use in the public sector. The Financial Reporting Manual requires entities to apply Financial Reporting Standard 23 'The effects of changes in foreign exchange rate' and the Financial Reporting Standards 25, 26 and 29 relating to financial instruments in full from 2008–09 onwards. HM Treasury wrote to all central government bodies and instructed them to consider the potential impact of these standards by 31 December 2008.

The Rural Payments Agency has significant exposure to exchange rate risk as it pays out European Union scheme funds (the most significant of which is the Single Payment Scheme) to English farmers in sterling – but has the cash reimbursed in euro. To manage this risk the agency use a forward exchange contract to hedge their SPS–related euro income. As a result of the potentially significant impact which the application of these standards would have on the Agency the NAO recommended that the new standards be addressed as early as possible. The Rural Payments Agency should have addressed these in the autumn of 2008 and submitted their final consideration of these standards by 31 December 2008 in line with the HM Treasury timetable.

The Rural Payments Agency relies on a small number of key staff within the finance function and was not able to address these issues in a timely manner. The Agency presented an initial consideration of the new accounting standards in April and presented their detailed approach to implementing FRS 23 in June 2009, some six months after the HM Treasury deadline.

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[15] *The Delays in Administering the 2005 Single Payment Scheme in England,* HC 1631 Session 2005-06, 18 October 2006.
[16] *A progress update in resolving the difficulties in administering the Single Payment Scheme in England*, HC 10 Session 2007-08, 12 December 2007.

I do not consider that the Rural Payments Agency's application of FRS 23 conforms to the standard. In particular, the Rural Payments Agency has not applied the spot exchange rate on recognition of foreign currency transactions in respect of Agency reimbursement from the European Commission (EC). The approach adopted by the Rural Payments Agency does not reflect the full volatility of rates experienced in 2009. The effect of the Agency's treatment is to omit material gains/losses arising on retranslation of claims during the year. The full application of FRS 23 as stipulated in the Standard would have a material impact on the valuation of the EC debtor, recognised foreign exchange gains and losses in scheme expenditure and scheme income, and gains arising on the revaluation of the EC debtor. This does not impact on the amounts received by farmers.

Defra and the Rural Payments Agency acknowledge that the accounts do not comply in full with FRS 23. The Rural Payments Agency considers that restating the accounts in accordance with FRS 23 would require a fundamental review of the Agency accounting principles and the accounting records and work will be undertaken during 2009–2010 in order to resolve this issue. I have therefore qualified my opinion on the basis of a disagreement on the application of FRS 23 in these accounts.

The Department has informed me that they plan to commission an external review of the financial management of the Agency imminently, which will consider the capacity and capability of the finance function within the Agency.

Amyas C E Morse 20 July 2009

Comptroller and Auditor General

National Audit Office

151 Buckingham Palace Road

Victoria

London SW1W 9SS

Statement of Parliamentary Supply

Consolidated Summary of Resources Outturn 2008–09

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

Request for Resources 2: Direction of the delivery of the Government's Strategy for Trees, Woods and Forests in England and taking the lead in development and promotion of sustainable forest management across Great Britain.

		2008-09							Restated 2007-08
		Estimate			Outturn			Net total outturn compared with Estimate:	Outturn
	Note	Gross expenditure	A-in-A	Net total	Gross expenditure	A-in-A	Net total	saving /(excess)	Net total
		£000	£000	£000	£000	£000	£000	£000	£000
Request for Resources 1	2, 3	6,384,742	1,138,979	5,245,763	6,011,986	1,138,979	4,873,007	372,756	4,464,755
Request for Resources 2		84,729	-	84,729	80,812	-	80,812	3,917	72,894
Total resources		**6,469,471**	**1,138,979**	**5,330,492**	**6,092,798**	**1,138,979**	**4,953,819**	**376,673**	4,537,649
Non-operating cost A-in-A				**31,300**			**31,300**	**-**	9,942

Note – All Defra outturn is reported against Request for Resources 1. Request for Resources 2 relates to the Forestry Commission, and is more fully reported upon in their separate accounts. The following statements and notes in these accounts relate to Defra only (except note 4).

Net Cash Requirement 2008–09

		2008-09			Restated 2007-08
	Note	Estimate	Outturn	Net total Outturn compared with Estimate: saving /(excess)	Outturn
		£000	£000	£000	£000
Defra			4,802,945		4,913,002
Forestry Commission			54,829		53,805
Net cash requirement	4	**5,454,440**	**4,857,774**	**596,666**	4,966,807

Summary of the income payable to the Consolidated Fund

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

		2008-09 Forecast		2008-09 Outturn	
	Note	Income	*Receipts*	Income	*Receipts*
		£000	*£000*	£000	*£000*
Defra	5	2,280,950	*2,481,849*	2,105,750	*2,041,820*
Forestry Commission		-	-	701	*701*
Total		**2,280,950**	***2,481,849***	**2,106,451**	***2,042,521***

Explanations of variances between Estimate and outturn are given in the Management Commentary on pages 7–8.

The notes on pages 49 to 92 form part of these accounts.

Operating Cost Statement

for the year ended 31 March 2009

		2008-09						Restated 2007-08	Restated 2007-08
		Core-Department			**Consolidated**			Core-Department	Consolidated
	Note	**Staff costs £000**	**Other costs £000**	**Income £000**	**Staff costs £000**	**Other costs £000**	**Income £000**	£000	£000
Administration costs									
Staff costs	9.1	124,851			216,468			145,147	236,106
Other administration costs	10		200,100			338,074		243,960	365,565
Operating income	12.1			(28,847)			(78,855)	(42,115)	(75,268)
								346,992	526,403
Programme costs									
Request for Resources 1									
Programme costs*	11		2,336,149			5,091,840		2,190,668	4,714,048
Income***	12.1			(325,369)			(3,138,863)	(272,768)	(2,911,469)
								1,917,900	1,802,579
Frontline services									
Staff costs*	9.1	1,926			191,665			4,399	192,081
Programme costs*	11		16,873			175,066		26,148	181,596
Income	12.1			(18,615)			(23,388)	(1,180)	(5,656)
								29,367	368,021
Total		**126,777**	**2,553,122**	**(372,831)**	**408,133**	**5,604,980**	**(3,241,106)**		
Net operating cost**	3.1, 13			**2,307,068**			**2,772,007**	2,294,259	2,697,003

* The total programme expenditure for Consolidated is £5,458,571,000 (Restated 2007–08 £5,087,725,000). The total programme expenditure for the Core–Department is £2,354,948,000 (Restated 2007–08 £2,221,215,000).

** Some EU receipts are treated as negative public expenditure and reduce the burden on the UK Exchequer, for 2008–09 these were: Consolidated £Nil (2007–08 £Nil), Core–Department £Nil (2007–08 £Nil).

*** Defra acts as an agent for the EU in making payments to third parties, income relating to this for 2008–09 was: Consolidated £3,059,690,000 (2007–08 £2,821,045,000).

Statement of Recognised Gains and Losses

for the year ended 31 March 2009

	2008-09		2007-08	
	Core-Department	**Consolidated**	Core-Department	Consolidated
	£000	**£000**	£000	£000
Net gain/(loss) on revaluation of fixed assets	(6,694)	(11,767)	17,586	38,345
Net gain/(loss) on revaluation of investments	(36)	(36)	(20)	(23)
Actuarial gain/(loss)	66,018	66,018	(90,626)	(90,626)
Recognised gains and losses for the financial year	**59,288**	**54,215**	(73,060)	(52,304)

The cumulative impact of the Machinery of Government change relating to the creation of DECC is (£581.9m). See note 36.

The notes on pages 49 to 92 form part of these accounts.

Balance Sheet

as at 31 March 2009

	Note	31 March 2009 Core-Department £000	31 March 2009 Consolidated £000	Restated 31 March 2008 Core-Department £000	Restated 31 March 2008 Consolidated £000
Fixed assets					
Tangible assets	14	356,269	911,770	408,842	964,289
Intangible assets	15	2,696	6,216	9,791	12,131
Investments	16	6,001	6,151	7,708	7,858
		364,966	924,137	426,341	984,278
Debtors falling due after more than one year	18.1	3,635	3,670	2,501	2,545
Current assets					
Stocks	17	10,043	27,922	4,836	8,451
Debtors	18.1	367,467	1,215,245	301,488	1,418,472
Cash at bank and in hand	19	728,819	1,120,495	103,026	813,281
		1,106,329	2,363,662	409,350	2,240,204
Creditors falling due within one year	20.1	(1,144,018)	(2,425,266)	(686,900)	(2,509,874)
Financial liabilities due within one year	30	-	(75,828)	-	(84,610)
Net current assets/(liabilities)		(37,689)	(137,432)	(277,550)	(354,280)
Total assets less current liabilities		330,912	790,375	151,292	632,543
Creditors falling due after more than one year	20.1	(17,086)	(120,422)	(13,987)	(50,239)
Provisions for liabilities and charges	21.1	(339,616)	(363,302)	(424,063)	(451,464)
		(356,702)	(483,724)	(438,050)	(501,703)
Net assets/(liabilities) excluding pension liability		(25,790)	306,651	(286,758)	130,840
Pension liability	21.1.2	(977,998)	(977,998)	(1,082,933)	(1,082,933)
Net assets/(liabilities) including pension liability		**(1,003,788)**	**(671,347)**	(1,369,691)	(952,093)
Taxpayers' equity					
General fund	22	(1,074,470)	(873,058)	(1,486,829)	(1,211,780)
Revaluation reserve	23	70,682	201,711	117,138	259,687
		(1,003,788)	**(671,347)**	(1,369,691)	(952,093)

Helen Ghosh 16 July 2009

Accounting Officer for the Department for Environment, Food and Rural Affairs

The notes on pages 49 to 92 form part of these accounts.

Consolidated Cash Flow Statement

for the year ended 31 March 2009

	Note	**2008-09** £000	Restated 2007-08 £000
Net cash outflow from operating activities	24.1	(2,691,459)	(2,098,075)
Capital expenditure and financial investment	24.2	(72,257)	(99,311)
Receipts due to the Consolidated Fund which are outside the scope of the Department's activities	8	2,591	3,717
Payments of amounts due to the Consolidated Fund		(2,048,993)	(2,388,665)
Net financing	24.4	5,117,332	5,214,889
Increase in cash in the period	24.5	**307,214**	632,555

The notes on pages 49 to 92 form part of these accounts.

Consolidated Statement of Operating Costs by Departmental Strategic Objectives

for the year ended 31 March 2009

During 2008–09, the Departments objectives were as follows:

DSO 1: A society that is adapting to the effects of climate change, through a national programme of action and a contribution to international action;

DSO 2: A healthy, resilient, productive and diverse natural environment;

DSO 3: Sustainable, low carbon and resource efficient patterns of consumption and production;

DSO 4: An economy and a society that are resilient to environmental risk;

DSO 5: Championing sustainable development;

DSO 6: A thriving farming and food sector with an improving net environmental impact;

DSO 7: A sustainable, secure and healthy food supply;

DSO 8: Socially and economically sustainable rural communities;

DSO 9: A respected department delivering efficient and high quality services and outcomes.

	2008-09			2007-08		
	Gross	**Income**	**Net**	Gross	Income	Net
	£000	**£000**	**£000**	£000	£000	£000
DSO 1	24,941	(62)	24,879	8,403	(1)	8,402
DSO 2	1,229,519	(304,537)	924,982	1,059,453	(244,033)	815,420
DSO 3	158,636	(4,941)	153,695	250,511	(4)	250,507
DSO 4	962,306	(36,750)	925,556	918,866	(29,787)	889,079
DSO 5	6,611	30	6,641	9,612	(1,083)	8,529
DSO 6	3,220,463	(2,827,765)	392,698	2,969,553	(2,656,716)	312,837
DSO 7	2,342	-	2,342	4,543	-	4,543
DSO 8	93,765	(24,770)	68,995	132,837	(17,163)	115,674
DSO 9	314,530	(42,311)	272,219	335,618	(43,606)	292,012
	6,013,113	**(3,241,106)**	**2,772,007**	**5,689,396**	**(2,992,393)**	**2,697,003**

For a description of the methodology used see note 1.20 and for a further breakdown see note 25.

Defra's Departmental Strategic Objectives were set as part of the Comprehensive Spending Review 2007 (CSR07) and subsequently modified following the creation of the Department of Energy and Climate Change (DECC). The part II table of the Main Estimate has also been structured to align with Defra's DSOs.

The notes on pages 49 to 92 form part of these accounts.

Notes to the Departmental Resource Accounts

1 Statement of Accounting Policies

The financial statements have been prepared in accordance with the 2008–09 *Government Financial Reporting Manual* (FReM) issued by HM Treasury. The accounting policies contained in the FReM follow UK generally accepted accounting practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector.

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

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

1.1 Accounting Convention

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

1.2 Basis of Consolidation

These accounts comprise a consolidation of those entities that fall within the departmental boundary as defined in the FReM. Transactions between entities included in the consolidation have been eliminated. A list of those entities within the departmental boundary is given in note 38.

The Department is excluded from the requirement to fully consolidate the Forestry Commission and its related bodies. The Forestry Commission is consolidated in these accounts to the extent that it is included within the Statement of Parliamentary Supply and the Reconciliation of Resources to Cash Requirement (note 4).

1.3 Scheme Costs and Grants

1.3.1 For each of the schemes administered by RPA, with the exception of the SPS, an accrual point has been established according to the applicable scheme rules and regulations. SPS expenditure is accrued evenly over each calendar year to which it applies. Where a payment obligation is identified to fall on or before the balance sheet date, it is shown as a creditor in the current year's financial statements with the EC funded element offset as a debtor. Similarly any elements paid in advance of these accrual points are treated as prepayments with an offsetting creditor.

With the exception of intervention income, EC income is accrued where the related expenditure has been accrued and is deferred where the related expenditure has been prepaid. Funding of Rural Development expenditure under the Rural Development Programme for England (RDPE) is managed by RPA on behalf of Defra, but scheme income and expenditure is reported in the Core–Department Resource Account.

Other UK paying agencies make payments to claimants under European Agricultural Guarantee Fund (EAGF) and European Agricultural Fund for Rural Development (EAFRD). These payments are pre–funded by RPA and subsequently recovered from the EC.

The Core–Department maintains a provision for potential disallowance penalties, which covers all UK paying agencies for probable liabilities incurred up to 31 March 2006 and England only for liabilities arising thereafter. The Core–Department also accrues for liabilities arising from the EC's non–reimbursement of any late payments made under the SPS.

All RPA's scheme expenditure is pre–funded by the UK Exchequer. Subsequent receipts reclaimed from the EC budget (subject to retentions for National Modulation) are surrendered to HM Treasury as Consolidated Funds Extra Receipts when received.

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

1.3.2 Modulation

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

The National Modulation is managed on Defra's behalf with the cash retained on the RPA bank account. The funds are accounted for as deferred income to fund future Rural Development expenditure in Defra's account.

SPS 2005 and SPS 2006 payments to which National Modulation applies are reclaimed on a gross basis from the EC, but the net amounts are paid to traders or farmers. The modulation amounts applicable to England are retained by RPA. If the funds are not employed on the prescribed RD measures within four years of the end of the EAGF year in which they were retained, then they must be repaid to the EAGF.

From SPS 2007 onwards scheme payments are reclaimed net of all modulation. National Modulation funds for the UK are reclaimed from the EC when the Rural Development expenditure is incurred.

EC Modulation reduces the net amounts paid to traders and farmers with the funds retained in the first instance by the EC. However, the EC has committed at least 80% of these funds to be available to cover Rural Development expenditure in the UK. Compulsory Modulation will be reclaimed from the EC when the Rural Development expenditure is incurred.

Within these accounts SPS is reported net of Compulsory Modulation and National Modulation for SPS 2007 and subsequent years.

1.4 Tangible Fixed Assets

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

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

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

Further details are provided in note 14.

1.5 Intangible Fixed Assets

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

1.6 Depreciation

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

Freehold buildings	4 to 60 years
Property on historic lease	Remaining life of lease
Scientific equipment	5 to 15 years
Information technology	2 to 12 years
Furniture and fittings	3 to 30 years
Vehicles, plant and machinery	4 to 25 years
Office equipment	5 to 11 years
Intangible assets	2 to 20 years
Vessels	15 to 30 years

Further details are provided in note 14 and 15.

1.7 Financial Assets

The Department holds a small quantity of shares in a number of public limited companies (plc), the entire share capital of Cefas Technology Limited and a National Loan Fund (NLF) loan, which in turn, has been lent to British Waterways. The plc shares are revalued at the share price on the London Stock Exchange on an annual basis.

1.8 Stocks and Works in Progress

1.8.1 The Core–Department, CSL, AH and VLA recognise stock in their accounts. These are brought into the consolidated accounts at the lower of cost (or at current replacement cost where materially different) or net realisable value. The Core–Department only records stock over £250,000 due to the non–cost effectiveness of collecting this information.

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

Further details are provided in note 17.

1.9 Research and Development

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

1.9.1 The product or service is supplied on a full cost recovery basis.

1.9.2 Development expenditure meets all of the following criteria:

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

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

1.10 Operating Income

Operating income relates directly to the operating activities of the Department. It includes income appropriated–in–aid of the Estimate, income due to the Consolidated Fund (which in accordance with the FReM is treated as operating income) and receipts from the EU. All RPA scheme income with the exception of Other Paying Agencies income is paid directly to HM Treasury and is treated as Consolidated Funds Extra Receipts.

1.11 Administration and Programme Expenditure and Income

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

1.12 Capital Charge

A charge reflecting the cost of capital utilised by the Department is included in operating costs. The charge is calculated at the real rate set by HM Treasury, currently 3.5% (2007–08 3.5%), on the average carrying amount on all assets less liabilities, except for donated assets, cash balances with the Office of the Paymaster General and amounts due from or to the Consolidated Fund and liabilities in respect of advances outstanding from the Contingencies Fund. Core–Department cost of capital has been analysed between administration and programme. The programme element relates to EA closed pension fund. The capital charge for RPA has been allocated to programme.

1.13 Foreign Exchange

Transactions which are denominated in a foreign currency are translated into sterling at the exchange rate ruling at the date of each transaction. Balances held in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. In advance of the introduction of International Financial Reporting Standards (IFRS) in government departments next year, UK Generally Accepted Accounting Practice has incorporated a number of IFRS standards covering financial instruments. Financial Reporting Standard 23 "The effects of changes in foreign exchange rates" has been interpreted in accordance with Defra's existing accounting policies.

1.14 Pensions

Pension benefits are provided through the civil service pension arrangements, full details can be found in the Remuneration Report and in note 9.

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

Where the Department is responsible for pension schemes from delivery bodies, it has fully adopted FRS 17 Retirement Benefits. The Department recognises a liability in respect of any deficit, being the excess of the present value of the scheme's liabilities over the value of the assets in the scheme, to the extent that the Department has a legal or constructive obligation to make good the deficit in the scheme. Further information is provided in note 21.

1.15 Early Retirement Costs

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

Further information is provided in note 21.

1.16 Provisions

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

The Department considers that an obligation arises in relation to payments made on schemes regulated by the EC when a breach in the EC's regulations has been identified, and moreover that it is probable this breach will lead to financial corrections, known as disallowances and a reliable estimate can be made. Further information is provided in note 21. The Department no longer makes provisions relating to the risk of disallowance in respect of the UK Devolved Administrations.

1.17 Leases

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

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

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

1.18 Value Added Tax (VAT)

Most of the activities of the Department are outside the scope of VAT and in general output tax does not apply and input tax on purchases is not recoverable. Some recoveries of input tax do take place under the contracted out services provisions applicable to government departments. Irrecoverable VAT is charged to the relevant expenditure category or included in the capitalised purchase cost of fixed assets. Where output tax is charged, or input tax is recoverable, the amounts are stated net of VAT.

1.19 Contingent Liabilities

In addition to contingent liabilities disclosed in accordance with FRS 12, Provisions, Contingent Liabilities and Contingent Assets, the Department discloses, for Parliamentary reporting and accountability purposes, certain statutory and non–statutory contingent liabilities where the likelihood of a transfer of economic benefit is remote.

Where the time value of money is material, contingent liabilities which are required to be disclosed under FRS 12 are stated at discounted amounts and the amount reported to Parliament separately noted. Contingent liabilities that are not required to be disclosed by FRS 12 are stated at the amounts reported to Parliament. Further information is provided in notes 31 and 32.

1.20 Consolidated Statement of Operating Costs by Departmental Strategic Objectives

The Consolidated Statement of Operating Costs by Departmental Strategic Objective (DSO) reports expenditure and income against each of the Department's nine DSOs, which were set in CSR07 and were slightly amended following the creation of the Department of Energy and Climate Change.

The expenditure and income for the Core–Department is mapped using the scheme code (objective code) to one of the Defra's nine DSOs. A similar mapping is used to map the Agency expenditure and income to the relevant DSO.

1.21 Financial Instruments

Following HM Treasury guidance regarding the adoption of financial instrument standards in central Government for 2008–09, Defra has revised its accounting policy to comply with FRS 25, 26 and 29 as applicable to the Department.

Derivative financial instruments are initially recognised at fair value at the date a derivative contract is entered into and are subsequently re–measured to their fair value at each balance sheet date.

The gain or loss resulting from derivatives is included in Operating Cost Statement and recognised in the Operating Cost Statement immediately unless the derivative is designated and effective as a hedging instrument. The designation of contracts as hedging instruments has not been made in these accounts and hedge accounting has not been applied.

Further information is provided in note 30.

2 Analysis of Net Resource Outturn by Section

	2008-09								2007-08
	Outturn						Estimate		
	Admin	Other current	Grants	Gross resource expenditure	A-in-A	Net total	Net total	Net total outturn compared with Estimate	Restated Prior Year Outtun
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Request for resources 1:									
Spending in Departmental Expenditure Limits (DEL)									
A Healthy Natural Environment	42,983	617,203	107,078	767,264	(58,195)	709,069	856,622	147,553	578,868
Sustainable Consumption and Production	6,007	45,125	107,504	158,636	(4,941)	153,695	201,554	47,859	250,507
Addressing Environmental Risk and Emergencies	33,223	308,055	48,113	389,391	(36,750)	352,641	354,383	1,742	428,672
A Thriving Farming and Food Sector	34,676	54,003	1,151	89,830	(15,416)	74,414	79,692	5,278	84,358
Championing Sustainable Development	1,751	4,270	-	6,021	30	6,051	6,549	498	8,529
Strong Rural Communities	1,896	34,422	51,047	87,365	(19,125)	68,240	76,188	7,948	125,159
A Respected Department	255,702	58,587	49	314,338	(42,106)	272,232	229,526	(42,706)	292,564
Rural Payments Agency: EC Funded	-	1,823,790	6,385	1,830,175	-	1,830,175	1,996,982	166,807	1,639,359
Rural Payments Agency: Running Costs	-	239,848	-	239,848	(460)	239,388	229,937	(9,451)	241,025
Rural Payments Agency: Other	-	-	-	-	-	-	55,750	55,750	(7,784)
Area Based Grants: Defra	-	-	2,997	2,997	-	2,997	3,000	3	2,797
Adapting to Climate Change	6,047	11,532	7,362	24,941	(62)	24,879	39,737	14,858	8,402
A Sustainable, Secure and Healthy Food Supply	650	1,692	-	2,342	-	2,342	3,715	1,373	4,543
Total	**382,935**	**3,198,527**	**331,686**	**3,913,148**	**(177,025)**	**3,736,123**	**4,133,635**	**397,512**	**3,656,999**
Request for resources 1:									
Spending in Annually Managed Expenditure (AME)									
A Healthy Natural Environment	-	(36,308)	(27,100)	(63,408)	-	(63,408)	37,300	100,708	(78,560)
Addressing Environmental Risk and Emergencies	4,199	528	-	4,727	-	4,727	-	(4,727)	
Rural Payments Agency: Running Costs	-	748	-	748	-	748	-	(748)	(12,400)
Total	**4,199**	**(35,032)**	**(27,100)**	**(57,933)**	**-**	**(57,933)**	**37,300**	**95,233**	**(90,960)**
Request for resources 1:									
Non-budget									
A Healthy Natural Environment	-	-	521,731	521,731	-	521,731	485,799	(35,932)	426,195
Addressing Environmental Risk and Emergencies	-	-	568,188	568,188	-	568,188	563,287	(4,901)	460,407
A Thriving Farming and Food Sector	-	-	11,737	11,737	-	11,737	17,591	5,854	6,153
Strong Rural Communities	-	-	6,400	6,400	-	6,400	6,526	126	7,538
Rural Payments Agency: EC Funded	-	1,048,125	-	1,048,125	(961,954)	86,171	-	(86,171)	(1,577)
Championing Sustainable Development	-	-	590	590	-	590	1,625	1,035	-
								-	
Total	**-**	**1,048,125**	**1,108,646**	**2,156,771**	**(961,954)**	**1,194,817**	**1,074,828**	**(119,989)**	**898,716**
Resource Outturn	**387,134**	**4,211,620**	**1,413,232**	**6,011,986**	**(1,138,979)**	**4,873,007**	**5,245,763**	**372,756**	**4,464,755**
Netted off expenditure	192	935	-	1,127	(1,127)	-			
Net control agencies internal income	167,216	(167,216)	-	-	-	-			
Operating income not classified as A in A	-	-	-	-	(2,101,000)	(2,101,000)			
Net Operating Cost	**554,542**	**4,045,339**	**1,413,232**	**6,013,113**	**(3,241,106)**	**2,772,007**			
Programme grants and other current expenditure (Note 25)		4,045,339	1,413,232	5,458,571					

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

Detailed explanations of significant variances between Estimate and Net Resource Outturn are shown in the Management Commentary on pages 7–8.

3 Reconciliation of Outturn to Net Operating Cost and against Administration Budget

3.1 Reconciliation of Net Resource Outturn to Net Operating Cost

	Note	2008-09 Estimate	2008-09 Outturn	2008-09 Outturn compared with Estimate	Restated 2007-08 Outturn
		£000	£000	£000	£000
Net resource outturn	2	5,245,763	4,873,007	372,756	4,464,755
Non-supply income (CFERs)	5	(2,280,950)	(2,101,000)	(179,950)	(1,767,752)
Net operating cost		**2,964,813**	**2,772,007**	**192,806**	2,697,003

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

3.2 Outturn against Final Administration Budget

	2008-09 Budget	2008-09 Outturn	Restated 2007-08 Outturn
	£000	£000	£000
Gross Administration Budget	437,905	387,134	436,035
Income allowable against the Administration Budget	(127,322)	(78,663)	(75,197)
Net outturn against final Administration Budget	**310,583**	**308,471**	360,838

4 Reconciliation of Resources to Cash Requirement

	Note	2008-09 Estimate	2008-09 Defra Outturn	2008-09 Forestry Commission Outturn	2008-09 Total Outturn	2008-09 Net total outturn compared with Estimate: saving/(excess)	Restated 2007-08 Outturn
		£000	£000	£000	£000	£000	£000
Resource outturn	2	5,330,492	4,873,007	80,812	4,953,819	376,673	4,537,649
Capital							
Acquisition of fixed assets	24.3	123,693	90,037	2,674	92,711	30,982	112,557
Non-operating cost A-in-A							
(Proceeds of fixed asset disposals)		(31,300)	(31,300)	-	(31,300)	-	(9,942)
Accruals adjustments							
Non-cash items		(258,445)	(185,664)	(5,559)	(191,223)	(67,222)	(258,521)
Changes in working capital other than cash		200,000	(76,662)	(589)	(77,251)	277,251	500,488
Changes in creditors falling due after more than one year		-	(71,079)	(333)	(71,412)	71,412	(32,366)
Use of provision		90,000	204,606	385	204,991	(114,991)	134,857
Timing between accrual and cash VAT		-	-	59	59	(59)	(185)
Non-cash inter-country transfers		-	-	453	453	(453)	343
Other adjustments							
Adjustment of Forest Enterprise net deficit to financing		-	-	(23,073)	(23,073)	23,073	(18,073)
Net cash requirement		**5,454,440**	**4,802,945**	**54,829**	**4,857,774**	**596,666**	4,966,807

5 Analysis of income payable to the Consolidated Fund

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

		Forecast 2008-09		Outturn 2008-09	
	Note	**Income**	***Receipts***	**Income**	***Receipts***
		£000	***£000***	**£000**	***£000***
Operating income & receipts - excess A-in-A		-	-	87,785	*87,785*
Other operating income & receipts, not classified as A-in-A		2,280,950	*2,481,849*	2,013,215 *	*1,949,260*
		2,280,950	***2,481,849***	**2,101,000**	***2,037,045***
Non operating income & receipts - excess A-in-A	7	-	-	2,184	*2,184*
Other non-operating income & receipts not classified as A-in-A	8	-	-	2,566	*2,591*
Total income payable to the Consolidated Fund		**2,280,950**	***2,481,849***	**2,105,750**	***2,041,820***

* This figure differs from the amount that will actually be paid to the Consolidated Fund, as per note 22. This is due to EU income of £217.6m accrued by RPA, but which will not be recognised as a creditor to the Consolidated Fund until formally claimed from the EU. Additionally, the amount repayable to the Consolidated Fund has been reduced in respect of EU non–reimbursement of late payments (£67.4m), income recognised under FRS 23 that will not be realised as cash (£6.6m), and other income previously recognised that is now unrecoverable (£3k).

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

	Note	**2008-09**	Restated 2007-08
		£000	£000
Operating income	12	3,241,106	2,992,393
Income authorised to be A-in-A		(1,138,979)	(1,223,681)
Netted-off gross expenditure in net sub head		(1,127)	(960)
Operating income payable to the Consolidated Fund	5	**2,101,000**	1,767,752

7 Non–Operating Income — Excess A–in–A

	2008-09	2007-08
	£000	£000
Proceeds from the disposal of fixed assets	2,184	-
Non-operating income - excess A in A	**2,184**	-

8 Non–Operating Income not Classified as A–in–A

The following amounts are not regarded as income in 2008–09 for the Department and are surrendered to the Consolidated Fund:

	2008-09	
	Income	*Receipts*
	£000	*£000*
Gangmaster Licensing Authority - surrender to Department of surplus funds	1,610	*1,665*
Environment Agency - surrender to Department of surplus funds	781	*781*
Energy Savings Trust - surrender to the Department of surplus funds	7	*7*
Miscellaneous non-operating receipts	168	*138*
Total amounts surrendered to the Consolidated Fund	**2,566**	***2,591***

9 Staff Numbers and Related Costs

9.1 Staff Costs Comprise:

	2008-09					Restated 2007-08
	Permanent employed staff	Others	Ministers	Special advisors	Total	Total
	£000	£000	£000	£000	£000	£000
Salaries and wages	296,793	29,635	249	113	**326,790**	343,028
Social security costs	23,084	97	24	10	**23,215**	25,194
Other pension costs	58,152	7	2	26	**58,187**	60,050
Sub-total	**378,029**	**29,739**	**275**	**149**	**408,192**	428,272
Less: recoveries in respect of outward secondments	(1,005)	-	-	-	**(1,005)**	(4,234)
Total net costs	**377,024**	**29,739**	**275**	**149**	**407,187**	424,038
Of which:						
Core-Department	**120,240**	**5,262**	**275**	**149**	**125,926**	145,468

Out of the total, £1,005,000 (£910,000 Core–Department) recoveries in respect of outward secondments have been netted off, £59,000 (£59,000 Core–Department) has been charged to capital and the balance of £408,133,000 (£126,777,000 Core–Department) has been charged in the Operating Cost Statement.

Principal Civil Service Pension Scheme

Pension benefits for most employees of the Department are provided through the PCSPS. The PCSPS is an unfunded multi–employer defined benefit scheme. Defra is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out at 31 March 2007. Details can be found in the publications within the Cabinet Office Civil Superannuation Resource Accounts([17]).

[17] http://www.civilservice-pensions.gov.uk

For 2008–09, employer's contributions of £57,775,000 (Restated 2007–08 £59,921,000) were payable to the PCSPS at one of four rates in the range 17.1% to 25.5% of pensionable pay, based on salary bands. The scheme's Actuary reviews employer contributions usually every four years following a full scheme valuation. From 2009–10, the rates will be in the range 16.7% to 24.3%. The contribution rates are set to meet the cost of the benefits accruing during 2008–09 to be paid when the member retires, and not the benefits paid during this period to current pensioners.

Other Pension Schemes

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employer's contributions of £382,000 for 2008–09 (2007–08 £414,000) were paid to one or more of the panel of three appointed stakeholder pension providers. Employer contributions are age–related and range from 3% to 12.5% of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay. In addition, employer contributions of £24,000 for 2008–09 (2007–08 £30,000), 0.8% of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees. Contributions due to the partnership pension providers at the balance sheet date were £39,000. Contributions prepaid at that date were £Nil.

Nine individuals (2007–08 six individuals) retired early on ill health grounds: the total additional accrued pension liabilities in the year amounted to £19,526 (2007–08 £15,000).

Loans are made to staff to cover season ticket advances and to relocate. As at 31 March 2009, there were no outstanding balances to Management Board Members.

9.2 Average Number of Persons Employed

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

	2008-09					Restated 2007-08
Departmental Strategic Objective	**Permanent employed staff**	**Others**	**Ministers**	**Special advisors**	**Total**	Total
	Number	**Number**	**Number**	**Number**	**Number**	Number
DSO 1	84	4	-	-	**88**	95
DSO 2	1,094	45	-	-	**1,139**	1,172
DSO 3	84	-	-	-	**84**	89
DSO 4	3,032	75	-	-	**3,107**	3,284
DSO 5	65	7	-	-	**72**	102
DSO 6	3,939	476	-	-	**4,415**	5,010
DSO 7	11	-	-	-	**11**	29
DSO 8	32	-	-	-	**32**	59
DSO 9	1,702	149	4	2	**1,857**	2,071
Staff engaged on capital projects	-	2	-	-	**2**	4
Total	**10,043**	**758**	**4**	**2**	**10,807**	11,915
Of which:						
Core-Department	**2,491**	**192**	**4**	**2**	**2,689**	3,231

10 Other Administration Costs

	Note	**2008-09 Core-Department £000**	**2008-09 Consolidated £000**	Restated 2007-08 Core-Department £000	Restated 2007-08 Consolidated £000
Rentals under operating leases		16,769	17,552	19,304	20,072
PFI service charges		-	-	15	15
Travel, subsistence and hospitality		5,497	9,501	5,420	9,083
Consumables		-	22,862	-	24,411
Vessels		-	4,170	-	3,551
IT Services/software/hardware		38,036	40,454	45,653	46,933
Estate management		35,864	73,826	53,720	88,420
Consultancy/subcontracting		21,209	34,902	24,378	34,728
Training		2,161	3,088	2,822	4,059
Early retirement		-	85	15,499	15,608
Exchange rate (gains)/losses		-	(388)	-	(95)
Other		22,011	26,375	17,195	17,503
Non-cash items					
Depreciation		30,456	52,287	35,532	55,995
Amortisation		3,080	3,157	1,131	1,207
Profit on the disposal of fixed assets		(8,041)	(8,041)	(3,618)	(3,618)
Loss on the disposal of fixed assets		7,309	7,438	5,129	5,230
Impairment		-	2,818	13,887	16,715
Downward revaluation		87	2,930	(116)	(263)
Cost of capital charge		3,263	18,573	(4,611)	10,382
Auditors' remuneration & expenses		390	590	350	512
Provisions provided for in year		22,009	25,843	11,833	14,616
Unwinding of discount on provisions	21.1	-	42	-	64
Other non-cash items		-	10	437	437
Total		**200,100**	**338,074**	243,960	365,565

Following the Machinery of Government change regarding DECC, the Core–Department administration cost of capital figure has been calculated on an annual basis for 2008–09.

11 Programme Costs

11.1 Analysis of Programme Costs

	2008-09 Core-Department	2008-09 Consolidated	Restated 2007-08 Core-Department	Restated 2007-08 Consolidated
	£000	**£000**	£000	£000
Rentals under operating leases	8	6,224	18	5,433
Interest charges	935	935	889	889
Research and development expenditure	117,024	117,024	77,784	77,784
Travel, subsistence and hospitality	134	9,732	231	7,043
Consumables	-	751	-	5,390
IT Services/software/hardware	8,284	63,639	7,254	54,558
Estate management	(193)	17,250	26	12,385
Consultancy/subcontracting	131	12,696	1,894	29,022
Training	17	5,660	53	6,266
Early retirement	-	-	15,803	15,803
Exchange rate (gains)/losses	(8,186)	20,249	-	9,417
Other	266,151	133,382	433,803	294,919
Non-cash items				
Depreciation	5,876	33,671	(90)	21,448
Amortisation	2,857	3,946	337	1,900
Loss on the disposal of fixed assets	5	863	40	527
Downward revaluation	-	784	-	47
Cost of capital charge	(36,313)	(24,852)	(35,375)	(19,605)
Auditors' remuneration and expenses	-	620	-	565
Provisions provided for in year	63,278	71,596	35,213	41,520
Other non-cash items	-	(25)	-	29
Grants & subsidies: EU				
Net (gain)/loss on movement in fair value of derivative	-	(8,782)	-	84,610
Net loss/ (gain) on restatement of Debtor due from EAGF	-	20,931	-	(91,541)
Other EU grants & subsidies expenditure	248,021	3,082,739	229,627	2,879,708
Grants & subsidies: Other	1,684,993	1,697,873	1,449,309	1,457,527
Total	**2,353,022**	**5,266,906**	2,216,816	4,895,644

The depreciation reflects a recharge of £784,000 (2007–08 £6,768,000) to NE for the use of an asset owned by Defra.

11.2 Analysis of Major Scheme Expenditure

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

	2008-09 Consolidated
	£000
Grant in Aid Environment Agency	717,235
Fuel Poverty (Warm Front)	399,781
Veterinary Surveillance Scheme	62,301
EA Closed Pension Fund	84,400
Grant in Aid Natural England	238,123
RPA scheme expenditure	2,849,865
RPA running costs	122,728
Performance Rew ard Grant	78,201
Rural Development Programme for England	357,849
British Waterw ays Board	94,783
International Climate Change	98,036

12 Income

12.1 Analysis of Operating Income

	2008-09		Restated 2007-08	Restated
	Core-Department	**Consolidated**	Core-Department	Consolidated
	£000	**£000**	£000	£000
Administration income				
Fees and charges to external customers	3,977	56,203	6,744	46,309
Fees and charges to other departments	14,237	22,652	13,482	28,959
Fees and charges to other agencies	10,633	-	21,889	-
	28,847	**78,855**	42,115	75,268
Programme income				
Frontline services	18,615	23,388	1,180	5,656
EU funding	257,575	3,199,235	234,926	2,870,548
less exchange losses	-	(138,399)	-	(49,448)
Other	66,859	77,092	36,953	89,480
	343,049	**3,161,316**	273,059	2,916,236
Interest on NLF loans on-lent to British Waterways	935	935	889	889
Total	**372,831**	**3,241,106**	316,063	2,992,393

The Core–Department receives rental income of £199,534 (2007–08 £480,832) from other government departments and £728,591 (2007–08 £877,133) from external customers.

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

12.2 Miscellaneous Core–Department income

	2008-09			2007-08		
	Income	**Full cost**	**Surplus/ (Deficit)**	Income	Full cost	Surplus/ (Deficit)
	£000	**£000**	**£000**	£000	£000	£000
National listing of seed varieties	1,038	1,182	(144)	1,075	1,384	(309)
Seed certification and seed training	1,017	1,037	(20)	1,174	1,166	8
Plant Health Import Inspections	283	1,892	(1,609)	1,133	1,956	(823)
Provision of Corporate Services to NE	4,364	4,364	-	3,100	3,070	30
	6,702	**8,475**	**(1,773)**	6,482	7,576	(1,094)

Miscellaneous other services, not reportable to HM Treasury, attracted accrued revenue of £1,155,000 (2007–08 £1,610,000), against costs of £2,200,000 (2007–08 £3,035,000), giving a deficit of £1,045,000 (2007–08 £1,425,000).

The above income forms part of the Other Fees and Charges Administration Income shown in 12.1. Income from services provided by the Executive Agencies can be found in their respective accounts.

13 Analysis of Net Operating Cost by Spending Body

	2008-09 Estimate	2008-09 Outturn	Restated 2007-08 Outturn
	£000	**£000**	£000
Spending Body			
Core-Department	1,401,727	1,100,855	1,247,087
Agencies			
AH	149,576	116,460	118,598
CEFAS	(1,656)	(37)	(35)
CSL	60	(38)	(10)
GDS	3,029	2,119	1,979
MFA	18,334	33,601	30,451
RPA	315,719	306,744	252,192
VLA	2,775	6,261	235
VMD	421	(171)	(665)
NDPBs			
Commission for Rural Communities	6,526	6,400	7,538
Consumer Council for Water	5,512	5,512	5,300
Environment Agency	793,785	717,235	578,532
Food from Britain	16,000	4,000	5,965
Gangmasters Licensing Authority	1,591	1,222	2,855
Joint Nature Conservation Committee	1,920	4,798	4,835
National Forest Company	3,600	3,600	3,350
Natural England	218,019	252,689	184,992
Royal Botanic Gardens, Kew	26,250	28,860	25,693
Sustainable Development Commission	1,625	590	-
Total grants to local authorities	*	181,307	228,111
Net operating cost	**2,964,813**	**2,772,007**	2,697,003

* the local authority estimate is included within the Core–Department figure.

14 Tangible Fixed Assets

Consolidated

	Freehold land & buildings	Leasehold land & buildings	Dwellings	Scientific equipment	IT	Furniture & fittings	Vehicles, plant & machinery	Office equipment	Payments on account & CIP	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Cost or valuation										
At 1 April 2008 (restated)	598,675	55,383	3,150	60,879	386,502	81,628	37,718	9,418	122,139	**1,355,492**
Additions	5,735	(2,667)	-	5,769	11,151	11,015	1,065	1,565	53,759	**87,392**
Transfers	730	-	(235)	-	15,684	1,461	-	(45)	(19,006)	**(1,411)**
Disposals	(31,329)	(1,808)	(250)	(4,210)	(21,613)	(14,075)	(1,292)	(835)	(3)	**(75,415)**
Reclassifications	38,910	-	5,135	-	34,272	17,743	-	(150)	(97,565)	**(1,655)**
Revaluation/Impairment	(6,968)	(4,315)	(2,012)	356	13,487	2,081	(202)	(353)	(1,266)	**808**
At 31 March 2009	**605,753**	**46,593**	**5,788**	**62,794**	**439,483**	**99,853**	**37,289**	**9,600**	**58,058**	**1,365,211**
Depreciation										
At 1 April 2008 (restated)	97,081	9,442	-	42,159	192,149	34,349	9,403	6,620	-	**391,203**
Charges in year	19,475	3,818	-	4,042	45,459	11,278	1,865	1,065	-	**87,002**
Transfers	-	-	-	-	(2,655)	(6)	-	6	-	**(2,655)**
Disposals	(769)	(1,649)	-	(4,133)	(20,472)	(11,709)	(969)	(776)	-	**(40,477)**
Reclassifications	-	-	-	-	21	-	-	(93)	-	**(72)**
Revaluation	4,193	31	-	131	13,380	1,042	43	(380)	-	**18,440**
At 31 March 2009	**119,980**	**11,642**	**-**	**42,199**	**227,882**	**34,954**	**10,342**	**6,442**	**-**	**453,441**
Net book value 31 March 2009	**485,773**	**34,951**	**5,788**	**20,595**	**211,601**	**64,899**	**26,947**	**3,158**	**58,058**	**911,770**
Net book value 31 March 2008	501,594	45,941	3,150	18,720	194,353	47,279	28,315	2,798	122,139	964,289
Assets financing										
Owned	485,773	10,707	5,788	20,595	211,601	64,899	26,947	3,158	58,058	**887,526**
Finance leased	-	24,244	-	-	-	-	-	-	-	**24,244**
Net book value 31 March 2009	**485,773**	**34,951**	**5,788**	**20,595**	**211,601**	**64,899**	**26,947**	**3,158**	**58,058**	**911,770**

Vehicles, plant and machinery include vessels owned by Cefas valued at £24,815,000 (2007–08 £26,196,000).

Additions include a non–cash element represented by creditors and transfers. Cash additions amount to £103,751,000 (Restated 2007–08 £111,597,000), as per note 24.2.

Depreciation charged against assets held under finance leases amounted to £3,818,000 (2007–08 £2,876,000).

The net book value of leasehold land and buildings at 31 March 2009 comprises £10,707,000 for short leasehold and £24,244,000 for long leasehold.

Core–Department

	Freehold land & buildings	Leasehold land & buildings	Dwellings	Scientific equipment	IT	Furniture & fittings	Vehicles, plant & machinery	Office equipment	Payments on account & CIP	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Cost or valuation										
At 1 April 2008 (restated)	129,280	32,575	3,150	5,028	208,721	76,174	1,915	804	65,182	**522,829**
Additions	4,933	-	-	1,894	2,909	10,936	874	91	9,749	**31,386**
Transfers	730	-	(235)	-	(11,374)	(48)	-	(51)	(354)	**(11,332)**
Disposals	(30,120)	-	(250)	(133)	(12,782)	(11,370)	(645)	(349)	-	**(55,649)**
Reclassifications	5,216	-	5,135	-	17,031	17,743	-	40	(45,165)	**-**
Revaluation/Impairment	(1,264)	(5,053)	(2,012)	(57)	3,722	2,061	131	25	-	**(2,447)**
At 31 March 2009	**108,775**	**27,522**	**5,788**	**6,732**	**208,227**	**95,496**	**2,275**	**560**	**29,412**	484,787
Depreciation										
At 1 April 2008 (restated)	6,761	2,518	-	2,416	70,401	30,178	1,110	603	-	**113,987**
Charges in year	3,789	760	-	612	20,766	10,859	489	101	-	**37,376**
Transfers	-	-	-	-	(3,881)	-	-	-	-	**(3,881)**
Disposals	(51)	-	-	(133)	(12,375)	(9,151)	(573)	(348)	-	**(22,631)**
Reclassifications	-	-	-	-	(8)	-	-	8	-	**-**
Revaluation	-	-	-	(80)	2,630	1,055	48	14	-	**3,667**
At 31 March 2009	**10,499**	**3,278**	**-**	**2,815**	**77,533**	**32,941**	**1,074**	**378**	**-**	**128,518**
Net book value 31 March 2009	**98,276**	**24,244**	**5,788**	**3,917**	**130,694**	**62,555**	**1,201**	**182**	**29,412**	**356,269**
Net book value 31 March 2008	122,519	30,057	3,150	2,612	138,320	45,996	805	201	65,182	408,842
Assets financing										
Owned	98,276	-	5,788	3,917	130,694	62,555	1,201	182	29,412	**332,025**
Finance leased	-	24,244	-	-	-	-	-	-	-	**24,244**
Net book value 31 March 2009	**98,276**	**24,244**	**5,788**	**3,917**	**130,694**	**62,555**	**1,201**	**182**	**29,412**	**356,269**

Land and buildings (including dwellings) include properties with a value of £21,654,666 which are surplus to requirements. These surplus properties are a combination of ex–laboratory, warehouse, residential and office accommodation. At year end, some of those properties were under contract to be sold and ongoing efforts are being made by Defra agents to sell the remainder during 2009–10.

Depreciation charged against assets held under finance leases amounted to £760,000 (2007–08 £1,087,000).

The net book value of long leasehold land and buildings at 31 March 2009 is £24,244,000 (2007–08 £30,057,000).

15 Intangible Fixed Assets

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

	Core-Department £000	Consolidated £000	
Cost or valuation			
At 1 April 2008	14,039	25,740	*
Additions	41	2,645	
Transfers	(93)	(93)	
Disposals	(5,456)	(10,160)	
Reclassifications	-	140	
At 31 March 2009	**8,531**	**18,272**	
Amortisation			
At 1 April 2008	4,248	13,609	*
Charged in year	5,891	7,057	
Transfers	-	-	
Disposals	(4,294)	(8,672)	
Reclassifications	(10)	62	
At 31 March 2009	**5,835**	**12,056**	
Net Book Value at 31 March 2009	**2,696**	**6,216**	
Net Book Value at 31 March 2008	9,791	12,131	*

* Consolidated opening balances restated.

Cash additions shown in note 24.2 amount to £1,990,000 (Restated 2007–08 £440,000).

16 Financial Assets

	Property investments	British Waterways	Stocks and shares			Total
		NLF loan on-lent	Genus plc	Dairy Crest plc	Cefas Technology Ltd	
	£000	£000	£000	£000	£000	£000
Consolidated						
Balance at 31 March 2008	775	6,840	31	62	150	**7,858**
Additions	-	11,000	-	-	-	**11,000**
Disposals	(775)	-	-	-	-	**(775)**
Revaluations	-	-	(9)	(27)	-	**(36)**
Loan repayments	-	(11,000)	-	-	-	**(11,000)**
Loan repayable within 12 months transferred to receivables	-	(896)	-	-	-	**(896)**
Balance at 31 March 2009	**-**	**5,944**	**22**	**35**	**150**	**6,151**
Of which:						
Core-Department	**-**	**5,944**	**22**	**35**	**-**	**6,001**

Receipts from disposal of investments total £Nil (2007–08 £Nil).

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

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

	Cefas Technology Ltd
	£000
Net Assets at 31 March 2009	920
Turnover	400
Surplus/profit for the year (before financing)	52

17 Stocks and Work in Progress

	2008-09		2007-08	
	Core-Department	**Consolidated**	Core-Department	Consolidated
	£000	**£000**	£000	£000
Stocks	10,043	25,253	4,836	6,629
Work in progress	-	2,669	-	1,822
	10,043	**27,922**	4,836	8,451

18 Debtors

18.1 Analysis by Type

	2008-09 Core-Department £000	2008-09 Consolidated £000	Restated 2007-08 Core-Department £000	Restated 2007-08 Consolidated £000
Amounts falling due within one year				
Trade debtors less provision for bad and doubtful debts	53,833	80,296	42,857	73,818
Deposits and advances	647	679	393	439
VAT	3,563	7,867	14,256	19,322
Other debtors	197,900	233,684	98,292	118,219
Current part of NLF loan	896	896	1,024	1,024
Prepayments/accrued income	110,628	891,823	144,666	1,205,650
Total due within one year	**367,467**	**1,215,245**	301,488	1,418,472
Amounts falling due after more than one year				
Trade debtors	122	122	127	127
Deposits and advances	79	109	127	155
Other debtors	700	700	2,247	2,247
Prepayments/accrued income	2,734	2,739	-	16
Total due after more than one year	**3,635**	**3,670**	2,501	2,545
Total debtors	**371,102**	**1,218,915**	303,989	1,421,017

Included within debtors is £598,533,000 (2007–08 £608,613,000) that will be due to the Consolidated Fund once the debts are collected.

18.2 Intra–Government Balances

Consolidated

	Amounts due within one year 2008-09 £000	Amounts due within one year Restated 2007-08 £000	Amounts due after one year 2008-09 £000	Amounts due after one year Restated 2007-08 £000
Balances with other central government bodies	116,080	160,854	2,734	-
Balances with local authorities	15,518	1,599	-	-
Balances with NHS trusts	-	25	-	-
Balances with public corporations and trading funds	898	6,667	-	-
Subtotal: intra-government balances	**132,496**	169,145	**2,734**	-
Balances with bodies external to government	1,082,749	1,249,327	936	2,545
Debtors at 31 March	**1,215,245**	1,418,472	**3,670**	2,545

19 Cash at Bank and in Hand

	2008-09 Core-Department £000	2008-09 Consolidated £000	Restated 2007-08 Core-Department £000	Restated 2007-08 Consolidated £000
Balance at 1 April	103,026	813,281	15,406	180,726
Net change in cash balance	625,793	307,214	87,620	632,555
Balance at 31 March	**728,819**	**1,120,495**	103,026	813,281
The following balances at 31 March are held at:				
Office of HM Paymaster General	722,556	1,109,193	101,310	808,795
Commercial bank accounts and cash in hand	6,263	11,302	1,716	4,486
Balance at 31 March	**728,819**	**1,120,495**	103,026	813,281

20 Creditors

20.1 Analysis by Type

	2008-09 Core-Department	2008-09 Consolidated	Restated 2007-08 Core-Department	Restated 2007-08 Consolidated
	£000	**£000**	£000	£000
Amounts falling due within one year				
Other taxation and social security	3,091	9,655	3,246	9,490
Trade creditors	37,200	98,056	54,716	61,707
Other creditors	23,858	27,119	5,990	33,167
Accruals and deferred income	125,417	784,593	171,698	984,830
Current part of NLF loan	896	896	1,024	1,024
Amounts issued from the Consolidated Fund for Supply but not spent at year end	635,426	635,426	315,349	315,349
Consolidated Fund Extra Receipts due to be paid to the Consolidated Fund				
Received	134,291	488,521	80,945	495,694
Receivable	183,839	381,000	53,932	608,613
Total due within one year	**1,144,018**	**2,425,266**	686,900	2,509,874
Amounts falling due after more than one year				
NLF loan	5,944	5,944	6,840	6,840
Others	11,142	114,478	7,147	43,399
Total due after more than one year	**17,086**	**120,422**	13,987	50,239
Total creditors	**1,161,104**	**2,545,688**	700,887	2,560,113

20.2 Intra–Government Balances

Consolidated

	Amounts due within one year 2008-09	Amounts due within one year Restated 2007-08	Amounts due after one year 2008-09	Amounts due after one year Restated 2007-08
	£000	£000	**£000**	£000
Balances with other central government bodies	1,561,879	1,419,865	120,422	43,092
Balances with local authorities	6,093	11,691	-	-
Balances with public corporations and trading funds	7,369	917	-	-
Subtotal: intra-government balances	**1,575,341**	1,432,473	**120,422**	43,092
Balances with bodies external to government	849,925	1,077,401	-	7,147
Creditors at 31 March	**2,425,266**	2,509,874	**120,422**	50,239

21 Provisions

21.1 Provisions for Liabilities and Charges

21.1.1 Provisions for Liabilities and Charges (excluding Pension Liabilities)

	Early Retirement costs	Foot and Mouth	CAP Disallowance: EAGF	Programme provisions	Admin provisions	Total
	£000	£000	£000	£000	£000	£000
Consolidated						
Balance at 1 April 2008	36,302	21,983	320,079	67,952	5,148	451,464
Provided in the year	7,230	3,122	-	26,154	37,052	73,558
Provisions not required written back	(15,981)	(16,502)	-	(9,785)	(1,291)	(43,559)
Provisions utilised in year	(16,794)	(4,274)	(73,455)	(22,801)	(879)	(118,203)
Unwinding of discount	42	-	-	-	-	42
Balance at 31 March 2009	**10,799**	**4,329**	**246,624**	**61,520**	**40,030**	**363,302**
Core-Department						
Balance at 1 April 2008	25,475	21,983	320,079	52,521	4,005	424,063
Provided in the year	3,380	3,122	-	19,765	35,107	61,374
Provisions not required written back	(15,949)	(16,502)	-	(9,785)	(1,291)	(43,527)
Provisions utilised in year	(12,251)	(4,274)	(73,455)	(11,713)	(601)	(102,294)
Balance at 31 March 2009	**655**	**4,329**	**246,624**	**50,788**	**37,220**	**339,616**

21.1.2 Provisions for Pension Liabilities

	Environment Agency	Nature Conservancy Council	Former Countryside Agency RCC	Former Countryside Agency Ex-chairman	Horticultural Research International	Total
	£000	£000	£000	£000	£000	£000
At 1 April 2008	1,046,700	18,806	2,690	206	14,531	1,082,933
Provided in the year	-	206	-	10	-	216
Provisions not required written back	(17,700)	-	(132)	-	(916)	(18,748)
Provisions utilised in year	(84,400)	(1,404)	(152)	(15)	(432)	(86,403)
Balance at 31 March 2009	**944,600**	**17,608**	**2,406**	**201**	**13,183**	**977,998**

21.1.3 Early Retirement Costs

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

21.1.4 Other Provisions

FMD Provisions

The reduction in the FMD provision relates mainly to the removal or settlement of disputes or outstanding invoices with suppliers following the 2001 FMD outbreak. Matched expenditure relates to professional costs in managing the disputes. This was partially offset by increasing the expected costs of bringing back into use the land that was contaminated and dilapidation costs attributable to the 2001 outbreak.

Disallowance provision: EAGF

The EC can apply financial corrections if Defra (through RPA) does not comply with EC regulations for payments funded by the EAFRD and the EAGF. Any amounts disallowed (and hence funded by Defra instead) will depend on the assessed severity of the breach of regulations and on subsequent clarification negotiations with the EC in accordance with the Commission's clearance of accounts procedure.

During the course of the year the Commission published various Ad–Hoc Clearance Decisions confirming the amounts of disallowance to be imposed. The following penalties were deducted from reimbursement claims during the year and offset against the provision:

- £55m for concerns regarding the use of remote sensing technology for Arable Crops;
- £5m for perceived failings in cross–compliance inspections;
- £10m for late payment penalties;
- £4m for other perceived breaches of scheme controls.

Another £22m, for perceived control failings in the administration of the fruit and vegetable programme regime, was offset against a prior year accrual in the accounts of the Rural Payments Agency.

The final Ad–Hoc decision during the year ratified a further £9m penalty relating to export refund payments during 2003–2007. This amount was deducted from the June 2009 claim for re–imbursement.

The Programme Provisions include:

- the Modernising Rural Delivery (MRD) funding of Redundancy Costs provision of £4.4m which relates to the redundancy and relocation elements associated with the set–up of NE and Commission for Rural Communities (CRC);

- the Classical Swine Fever (CSF) Provision of £4.8m relates to a dispute with a supplier dating back to the CSF outbreak in 1999 and 2000. The dispute is ongoing. Following a judgement on an appeal held in the Royal Courts of Justice received in February 2009, Defra raised a petition to appeal in the House of Lords in March 2009;

- the Fur Farming provision of £3m was set up to provide compensation to fur farmers resulting from the Fur Farming (Prohibition) Act 2000. It is expected that all compensation claims will be settled by the end of the 2009–10 financial year;

- the Onerous Lease provision of £7.2m relates to those properties, previously occupied by Executive Agencies or NDPBs, but which are currently vacant and where there is no foreseeable use of the properties for the Department's purpose. The value of the provision relates to the running costs for the properties to the earlier of the lease break or expiry;

- the Masters Sand Pit provision of £9.4m and the Hatfield Moor provision of £2.3m relate to an obligation arising from Government's Outline Position 1998, in which the Government set out circumstances in which it would meet compensation payable by local planning authorities in meeting its responsibilities under regulation 50 of the Conservation (Natural Habitats) Regulations 1994;

- the Habitats Directive (92/43/EEC) obliges the UK to select and submit sites to the European Commission for adoption as Sites of Community Importance and subsequent designation as Special Areas of Conservation. The designation of Bolton Fell Moss is part of the UK Government's response to Commission infraction proceeding with regard to sufficiency of designated sites. The provision currently stands at £13.5m in pursuance of this.

The Administration Provisions include:

- the Onerous Lease provision of £33.4m relates to those properties that are currently vacant and where there is no foreseeable use of the properties for the Departments purpose. The value of the provision relates to the running costs of the properties to the earlier of the lease break or expiry;

- the building dilapidation provision of £2.9m relates to the monetary value of contractual claims liabilities for dilapidations in respect of leased buildings.

21.2 Provision for Environment Agency pension liability

21.2.1 The Environment Agency closed fund (the Fund) is vested in EA by Regulation 2(1) of the Local Government Pension Scheme Regulations 1996 and Environment Act 1996 and is maintained for the purposes of Section 7 of the Superannuation Act 1972. The Secretary of State has the function conferred by Section 173 of the Water Act 1989 (the Act) to make such payments into the Fund as may be considered appropriate in respect of the actual and contingent liabilities falling from time to time. These are met out of the Fund to persons who were ex–employees of regional water authorities and other water industry bodies at the time of water privatisation in 1989 (the Closed Fund members).

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

	Long term rate of return expected at 31 March 2009	Value at 31 March 2009	Long term rate of return expected at 31 March 2008	Value at 31 March 2008	Long term rate of return expected at 31 March 2007	Value at 31 March 2007
		£000		£000		£000
Bonds	4.3%	107,000	4.6%	110,800	4.9%	97,800
Cash	4.5%	4,200	4.8%	4,800	4.9%	2,500
Market value of assets		111,200		115,600		100,300
Present value of scheme liabilities		(1,055,800)		(1,162,300)		(1,111,000)
Net pension liabilities (as per Actuarial Report)		(944,600)		(1,046,700)		(1,010,700)
Pension liability		(944,600)		(1,046,700)		(1,010,700)

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

	At 31 March 2009	At 31 March 2008	At 31 March 2007
Rate of increase on salaries	4.3%	4.3%	4.8%
Rate of increase in pensions in payment and deferred pensions	2.8%	2.8%	2.8%
Inflation assumption	2.8%	2.8%	2.8%
Discount rate	6.0%	5.3%	4.6%

The Environment Agency is responsible for providing the Actuary with the relevant information to carry out the triennial valuations of the Closed Fund. This information includes, but is not limited to, details of:

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

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

21.2.2 Analysis of Movement in Scheme Liability

	2008-09	2007-08
	£000	£000
Scheme liability at 1 April	(1,046,700)	(1,010,700)
Sponsor contributions	84,400	89,785
Contributions in respect of unfunded benefits	11,700	11,400
Other expenses	(1,000)	(1,000)
Net return on assets (Note 21.2.3)	(56,300)	(45,600)
Actuarial gain/(loss) (Note 21.2.4)	63,300	(90,585)
Scheme liability at 31 March	**(944,600)**	(1,046,700)

21.2.3 Analysis of the Amount Charged to Operating Costs

	2008-09	2007-08
	£000	£000
Expected return on pension scheme assets	5,200	5,100
Interest on pension scheme liabilities	(61,500)	(50,700)
Net return on assets	(56,300)	(45,600)
Other expenses	(1,000)	(1,000)
Charged to operating cost	**(57,300)**	(46,600)

21.2.4 Analysis of Amount Recognised in the Statement of Recognised Gains and Losses (SRGL)

	2008-09	2007-08
	£000	£000
Actual return less expected return on pension scheme assets	(6,500)	9,700
Experience gains / (losses) arising on the scheme liabilities	17,500	(139,385)
Changes in financial assumptions underlying the present value of the scheme liabilities	52,300	39,100
Actuarial gain/(loss) recognised in the statement of recognised gains and losses	**63,300**	(90,585)

21.2.5 History of Experience Gains and Losses

	2008-09	**2007-08**	**2006-07**	**2005-06**	**2004-05**
Difference between the expected and actual return on scheme assets:					
Amount (£000)	(6,500)	9,700	3,900	4,800	9,300
Percentage of assets	(5.8%)	8.4%	3.9%	5.3%	5.4%
Experience gains/(losses) on liabilities:					
Amount (£000)	17,500	(139,385)	(33,339)	(100)	(2,700)
Percentage of assets	1.7%	(12.0%)	(3.0%)	0.0%	(0.3%)
Total amount recognised in statement of total recognised gains and losses:					
Amount (£000)	63,300	(90,585)	(105,339)	(44,200)	6,600
Percentage of assets	6.0%	(7.8%)	(9.5%)	(4.2%)	0.6%

21.3 Pension provisions (excluding Environment Agency pension liability)

Nature Conservancy Council pension provision

The Nature Conservancy Council (NCC) pensions provision provides for former NCC staff (and their surviving dependents) who decided not to transfer their provision to an alternative scheme when the NCC was disbanded.

Former Countryside Agency pension schemes (RCC & Ex–chairman schemes)

The former Countryside Agency Rural Community Councils (RCC) and Ex–Chairman pension provisions were transferred to the Core–Department on 30 September 2006. The RCC fund is managed by the Paymaster General, and any pensions are administered by them in accordance with standard rules (by–analogy with the PCSPS).

Horticultural Research International pension scheme

The Horticultural Research International (HRI) pension scheme is now closed following the restructuring of HRI in 2004. There are no active members in the scheme, only pensioners (deferred and current). The HRI pension scheme is PCSPS by analogy and is a final salary scheme providing a combination of pension and lump sum benefits on a range of contingencies: retirement, death and resignation.

21.3.1 An actuarial valuation was carried out on these schemes as at 31 March 2009 by the Government Actuary's Department. The major assumptions used by the Actuary were:

	31 March 2009	31 March 2008	31 March 2007
Rate of increase in salaries	4.3%	4.3%	4.3%
Increase in pensions in payment	2.8%	2.8%	2.8%
Discount rate	6.0%	5.3%	4.6%
Inflation assumption	2.8%	2.8%	2.8%

21.3.2 Analysis of Movement in Scheme Liability

			2008-09			2007-08
	NCC	**HRI**	**Former CA RCC**	**Former CA Ex-Chair**	**Total**	Total
	£000	**£000**	**£000**	**£000**	**£000**	£000
Scheme liability at 1 April	18,806	14,531	2,690	206	**36,233**	36,379
Current service cost	-	-	23	-	**23**	57
Employee contributions	-	-	1	-	**1**	-
Interest on scheme liability	964	762	139	11	**1,876**	1,637
Benefits payable	(1,346)	(399)	(172)	(16)	**(1,933)**	(1,835)
Pension payments to and on account of leavers & transfers in	(58)	(26)	-	-	**(84)**	(46)
Actuarial (gain)/loss	(758)	(1,685)	(275)	-	**(2,718)**	41
Scheme liability at 31 March	**17,608**	**13,183**	**2,406**	**201**	**33,398**	36,233

21.3.3 Analysis of Benefits Paid

			2008-09			2007-08
	NCC	**HRI**	**Former CA RCC**	**Former CA Ex-Chair**	**Total**	Total
	£000	**£000**	**£000**	**£000**	**£000**	£000
Pensions of annuities to retired employees and dependents	1,304	380	104	16	**1,804**	1,743
Commutations and lump sum benefits on retirement	42	19	68	-	**129**	87
Per cash flow statement	**1,346**	**399**	**172**	**16**	**1,933**	1,830

21.3.4 Analysis of Payments to and on Account of Leavers

	NCC	HRI	Former CA RCC	Former CA Ex-Chair	Total	Total
	2008-09					2007-08
	£000	£000	£000	£000	£000	£000
Individual transfers to other schemes	58	26	-	-	**84**	46
Per cash flow statement	**58**	**26**	**-**	**-**	**84**	46

21.3.5 Analysis of Amount Recognised in the Statement of Recognised Gains and Losses (SRGL)

	NCC	HRI	Former CA RCC	Former CA Ex-Chair	Total	Total
	2008-09					2007-08
	£000	£000	£000	£000	£000	£000
Experience gains and losses arising on the scheme liabilities	(536)	(134)	80	(8)	**(598)**	(779)
Changes in assumptions underlying the present value of scheme liabilities	1,294	1,819	195	8	**3,316**	738
Total actuarial (losses)/gains	758	1,685	275	-	**2,718**	(41)

21.3.6 History of Experience Gains and Losses

Nature Conservancy Council pension provision

	2008-09	2007-08	2006-07	2005-06
Experience (gains)/losses on liabilities				
Amount (£000s)	536	534	262	55
Percentage of the present value of scheme liabilities	3.0%	2.8%	1.4%	0.3%
Total amount recognised in the SRGL				
Amount (£000s)	(758)	1,198	2,258	77
Percentage of the present value of scheme liabilities	(4.3%)	6.4%	12.5%	0.5%

Former Countryside Agency (CA) pension schemes: RCC Directors

	2008-09	2007-08	2006-07
Experience (gains)/losses on liabilities			
Amount (£000s)	(80)	121	68
Percentage of the present value of scheme liabilities	(3.3%)	4.5%	2.6%
Total amount recognised in the SRGL			
Amount (£000s)	(275)	(3)	435
Percentage of the present value of scheme liabilities	(11.4%)	(0.1%)	16.4%

Former CA pension schemes: Ex–Chairman

	2008-09	2007-08	2006-07
Experience (gains)/losses on liabilities			
Amount (£000s)	8	(55)	(1)
Percentage of the present value of scheme liabilities	4.0%	(26.7%)	(0.2%)
Total amount recognised in the SRGL			
Amount (£000s)	-	(53)	27
Percentage of the present value of scheme liabilities	0.0%	(25.7%)	10.4%

Horticultural Research International pension scheme

	2008-09	2007-08	2006-07
Experience (gains)/losses on liabilities			
Amount (£000s)	134	179	190
Percentage of the present value of scheme liabilities	1.0%	1.2%	1.2%
Total amount recognised in the SRGL			
Amount (£000s)	(1,685)	(1,101)	2,548
Percentage of the present value of scheme liabilities	(12.8%)	(7.6%)	16.6%

22 General Fund

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

	2008-09		Restated 2007-08	Restated
	Core-Department	**Consolidated**	Core-Department	Consolidated
	£000	**£000**	£000	£000
Balance at 1 April	(1,486,829)	(1,211,780)	(1,348,877)	(1,629,110)
Net operating cost for the year	(2,307,068)	(2,772,007)	(2,294,259)	(2,697,003)
Income not A-in-A payable to the Consolidated Fund	(250,606)	(1,795,682)	(131,455)	(1,767,752)
less non-reimbursement by EC of late payments	-	67,427	-	67,780
less unrealised CFER income	-	6,580	-	(18,082)
less other unrecoverable CFER income	3	3	-	-
Net Parliamentary Funding				
Drawn Down	5,177,851	5,177,851	5,203,398	5,203,398
Deemed	315,349	315,349	14,214	14,214
Transfer from revaluation reserve	39,726	46,173	734	8,200
Transfer to general fund - net asset transfer	(340)	6,891	(2,843)	3,665
Non-operating A-in-A	(1,317)	(1,317)	1,055	1,055
Non-cash charges				
Early departure	-	-	-	29
Cost of capital	(33,050)	(6,279)	(39,986)	(9,223)
Auditors remuneration	390	1,210	350	1,077
Other	(2,029)	719	(25,559)	(6,944)
Additional A-in-A	(89,969)	(89,969)	-	-
Pension actuarial gain/(loss)	66,018	66,018	(90,626)	(90,626)
Contributions in respect of unfunded benefits	11,700	11,700	11,400	11,400
Funding to Agencies	(1,818,354)	-	(2,479,764)	-
Funding to Forestry Commission	(60,519)	(60,519)	10,738	10,738
Funding from OGDs	-	-	-	753
Year end adjustment				
Supply creditor - current year	(635,426)	(635,426)	(315,349)	(315,349)
General fund at 31 March	**(1,074,470)**	**(873,058)**	(1,486,829)	(1,211,780)

23 Revaluation Reserve

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

	2008-09		2007-08	
	Core-Department	**Consolidated**	Core-Department	Consolidated
	£000	**£000**	£000	£000
Balance at 1 April	117,138	259,687	100,306	229,565
Arising on revaluation during the year (net)	(6,730)	(11,803)	17,566	38,322
Transferred from general fund in respect of realised element of revaluation reserve	(39,726)	(46,173)	(734)	(8,200)
Balance at 31 March	**70,682**	**201,711**	117,138	259,687

24 Notes to the consolidated Cash Flow Statement

24.1 Reconciliation of Operating Cost to Operating Cash Flows

	Note	2008-09 £000	Restated 2007-08 £000
Net operating cost	13	2,772,007	2,697,003
Adjustments for non-cash transactions		(185,664)	(254,916)
Increase/(decrease) in stock		19,471	4,772
Increase/(decrease) in debtors		(202,102)	(799,263)
less movements in debtors relating to items not passing through the OCS		153	3,753
(Increase)/decrease in creditors		14,425	681,383
less movements in creditors relating to items not passing through the OCS		68,563	(369,144)
Use of Provision		204,606	134,487
Net cash outflow from operating activities		**2,691,459**	2,098,075

24.2 Analysis of Capital Expenditure and Financial Investment

	Note	2008-09 £000	Restated 2007-08 £000
Intangible fixed asset additions	15	1,990	440
Tangible fixed asset additions	14	103,751	111,597
Proceeds from disposals of fixed assets and investments		(33,484)	(12,726)
Loans to Other Bodies	16	11,000	-
Repayments from Other Bodies	16	(11,000)	-
Net cash outflow from investing activities		**72,257**	99,311

24.3 Analysis of Capital Expenditure and Financial Investment by Request for Resources

	Capital expenditure £000	A-in-A £000	Net Total £000
Request for Resources 1	105,741	(31,300)	74,441
Net movement in debtors/creditors	(15,704)	-	(15,704)
Total 2008-09	**90,037**	**(31,300)**	**58,737**
Total 2007-08 (restated)	109,621	(9,942)	99,679

24.4 Analysis of Financing

	Note	2008-09 £000	Restated 2007-08 £000
From Consolidated Fund (Supply): current year	22	5,177,851	5,203,398
Agency funding - received from OGDs	22	-	753
Funding Paid to Forestry Commission	22	(60,519)	10,738
Loans Received from the National Loans Fund		11,000	-
Repayments of Loans from the National Loan Fund		(11,000)	-
Net financing		**5,117,332**	5,214,889

24.5 Reconciliation of Net Cash Requirement to Increase in Cash

		2008-09 £000	Restated 2007-08 £000
Net cash requirement	4	4,802,945	4,913,002
From Consolidated Fund (Supply): net financing	24.4	(5,117,332)	(5,214,889)
Amounts due to the Consolidated Fund received in prior year and paid over		495,694	165,026
Amounts due to the Consolidated Fund received and not paid over		(488,521)	(495,694)
NLF loan - interest received from other bodies		(935)	(889)
NLF loan - interest paid to the NLF		935	889
(Increase)/decrease in cash		**(307,214)**	(632,555)

25 Notes to the Consolidated Statement of Operating Costs by Departmental Strategic Objectives

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

	2008-09 £000	2007-08 £000
DSO 1	17,555	3,027
DSO 2	1,104,592	944,857
DSO 3	141,798	216,726
DSO 4	867,512	845,462
DSO 5	4,516	6,097
DSO 6	3,181,048	2,925,253
DSO 7	1,572	2,959
DSO 8	85,351	114,405
DSO 9	54,627	28,939
	5,458,571	**5,087,725**

26 Capital Commitments

	2008-09		2007-08	
	Core-Department £000	Consolidated £000	Core-Department £000	Consolidated £000
Contracted capital commitments at 31 March for which no provision has been made	**2,025**	**22,964**	9,470	40,920

27 Commitments under Leases

27.1 Operating Leases

Commitments under leases to pay rentals during 2009–10 are given in the table below, analysed according to the period in which the lease expires.

	2008-09		Restated 2007-08	
	Core-Department	**Consolidated**	Core-Department	Consolidated
	£000	**£000**	£000	£000
Obligations under operating leases comprise				
Land and buildings				
Expiry within 1 year	559	843	495	894
Expiry within 2 to 5 years	8,717	11,149	2,342	4,038
Expiry thereafter	15,131	21,211	22,238	28,213
Amount payable in the following year	**24,407**	**33,203**	25,075	33,145
Other				
Expiry within 1 year	-	151	-	121
Expiry within 2 to 5 years	-	242	-	420
Expiry thereafter	-	1,170	-	12
Amount payable in the following year	**-**	**1,563**	-	553

27.2 Finance Leases

Obligations under finance leases are as follows:

	2008-09		2007-08	
	Core-Department	**Consolidated**	Core-Department	Consolidated
	£000	**£000**	£000	£000
Obligations under finance leases comprise				
Rentals due within 1 year	7	7	7	7
Rentals due within 2 to 5 years	29	29	29	29
Rentals due thereafter	377	377	381	381
Amount payable	**413**	**413**	417	417

28 Commitments under Private Finance Initiative (PFI) contracts

The total amount charged in the Operating Cost Statement in respect of off–balance sheet PFI transactions was £561,578 (2007–08 £14,803). The payments to which the Department is committed during 2009–10 analysed by the period during which the commitment expires, are as follows:

	2008-09		2007-08	
	Core-Department	**Consolidated**	Core-Department	Consolidated
	£000	**£000**	£000	£000
Expiry within 21 to 25 years	25	25	13	13
	25	**25**	13	13

29 Other Financial Commitments

The Department is committed to making payments to non–cancellable contracts (which are not leases or PFI contracts). The payments which the Department is committed to make during 2009–10 analysed according to the period during which the commitment expires, are as follows:

			Restated	Restated
	2008-09		2007-08	
	Core-Department	**Consolidated**	Core-Department	Consolidated
	£000	**£000**	£000	£000
Expiry within 1 year	43,428	49,183	37,776	41,846
Expiry within 2 to 5 years	114,877	175,231	99,749	151,587
Expiry thereafter	28,583	31,529	3,139	5,610
	186,888	**255,943**	140,664	199,043

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

30 Financial Instruments

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

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

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

- liquidity risk: no significant exposure given that the Department's net resource requirement is financed through resources voted annually by Parliament;
- interest rate risk: no exposure as the Department's main financial assets and liabilities carry nil or fixed rates of interest;
- foreign currency risk: not significant as foreign currency income and expenditure is negligible. Although no active hedging is utilised, the accounting treatment adopted avoids gains and losses arising.

30.2 Liquidity Risk

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

30.3 Foreign Currency Risk

From January 2003, in accordance with European Commission Regulation (EC) No. 1997/2002 (as amended), Non–Eurozone member states have been reimbursed in Euros. The timing difference between converting the claim for reimbursement for CAP expenditure from Sterling to Euros and converting back to Sterling when received some 3 weeks later, results in exposure to exchange rate risk. In 2008–09 this has generated an exchange loss of £28.4m, bringing the total net gain to date to £2.6m (2007–08 generated an exchange loss of £9.4m). In addition, as a result of implementation of FRS23 'The Effects of Changes in Foreign Exchange Rates' during 2008–09 further exchange losses of £138.4m were recognised. This figure comprises of £119.8m in respect of the Other Paying Agencies and £18.6m in respect of SPS income.

In April 2005, HM Treasury confirmed that an appropriate hedging strategy should be put in place to reduce the risk of foreign currency exchange movement. After consultation with HM Treasury, RPA decided to hedge the foreign currency risk arising between submission of the indent and the date of the reimbursement from the Commission. In March 2006, RPA contracted the Royal Bank of Scotland to provide a foreign exchange hedging facility to reduce the risk to cash reimbursement of exchange rate movement between the periods above.

Under the SPS the Euro/Sterling exchange rate is fixed by the Commission on the last working day of September in the scheme year. A Contract for Differences designed to mitigate the risk of exchange movements between the fixed exchange rate for the scheme, and the rate applying on the date of reimbursement has been established with the Royal Bank of Scotland to cover the estimated payable fund for SPS 2008 of €3.3bn (SPS 2007 €3.4bn).

Reimbursement of SPS payments comprises a major component of the reported debtor due from EAGF. Where rates are fixed for SPS (e.g. for scheme years up to and including SPS 2008) the value of the debtor, claimed from the EC in Euros is recognised at an average rate across the year.

The value of the debtor is subsequently restated using the exchange rate applying at the balance sheet date. Where a Contract for Differences has been established to mitigate the risk of exchange rate movements, as is the case for the SPS 2008 fund, the fair value of the derivative has been established.

The fair value of the derivative is calculated by considering the effect of the exchange rate movement from the individual monthly spot rates to the rate at the appointed determination date (forward rate) on the value of the Contract for Difference in place at 31 March 2009.

The derivative liability has been booked, off–setting the unrealised gain on the debtor.

	2008-09		2007-08	
	Core-Department	**Consolidated**	Core-Department	Consolidated
	£000	**£000**	£000	£000
Derivative financial instrument liability	-	75,828	-	84,610
Financial liabilities (under 1 year)	**-**	**75,828**	-	84,610

The fair value of the derivative at inception is equal to the premium payable to or receivable from the Royal Bank of Scotland.

30.4 Securities and Guarantees

Traders wishing to undertake certain transactions under EC Regulations are required to guarantee completion of the transaction in question by lodging a security with RPA. The security may be forfeited (in whole or in part) if the undertaking is not completely fulfilled. Bank and other guarantees totalling £466.3m (2007–08 £529.2m) and cash totalling £2.6m (2007–08 £3.2m) were held at 31 March 2009 by RPA.

31 Contingent Liabilities Disclosed under FRS 12 and Contingent Assets

31.1 Contingent Liabilities

There are a number of events, with uncertain outcomes, that could potentially lead to liabilities for the Department. Given such uncertainties, these items have not been accrued for in the Accounts, but are instead listed separately as contingent liabilities. At 31 March 2009, the main items under this heading were:

- liability for landfill sites that do not reach the standards required by Pollution Prevention and Control regulations if the licence holder becomes insolvent. Potential liability estimated at £20m;
- infringements of the Urban Waste Water Treatment Directive could lead to substantial fines from the EU (unquantifiable);
- investment guarantees, up to a maximum of £5.6m, related to the Waste and Resources Action Programme (WRAP), together with various liabilities concerning WRAP lease commitments to a maximum of £0.5m, due in stages to 2011;
- FMD Farm Burial Ground claims. Potential liability estimated at a maximum of £4m;
- indemnity against all actions, costs and expenses made against the National Institute of Agricultural Botany (NIAB) arising from their contract with Defra. We cannot quantify the value of any such possible future actions but, to minimise liability, the contract requires NIAB to take out a £5m professional insurance;

- Guaranteed Sales Price commitments exist and represent financial guarantees over residential property sales prices to relocating employees. At 31 March 2009, the market value of these properties totalled £2,134,000 and provisions have been made to reflect decreases in value to that date. Cefas is exposed to any further increases and decreases in these property values, but increases are capped at £2,615,000;

- RPA is in dispute with the owners of certain storage facilities which it has used for the storage of tallow (under the Over Thirty Month Scheme). The disputes relate to alleged tank damage and/or contamination and tank rentals payable. RPA has made provision for the amount for which it believes it is liable, and is continuing to pursue investigations to reach an agreed settlement;

- possible liabilities arising from changes proposed in the Marine and Coastal Access Bill 2008 which could amount to £4m;

- a contractual liability for dilapidations arises to the extent that the tenant fails to repair, maintain or decorate in accordance with the terms of the lease. A liability for reinstatement arises where a leased building is altered by the tenant at the request of the tenant. These obligations cannot be reliably estimated at inception. Provision is made where the landlord has notified an intention to enforce a claim and the amount of such a claim can be assessed. A contingent liability therefore exists for potential claims over and above the existing provision;

- the European Commission have acknowledged that sugar levy rates, advised by regulation, were incorrect leading to overcharged levies during the period 2002 to 2006. Member states have been advised to wait for a revised regulation before refunding levies. The company charged has estimated the level of overpayment at £15m;

- a writ has been received alleging damages of £9.5m from a company seeking damages from the Department and IBM, relating to an alleged breach of software licensing conditions;

- potential costs associated with a possible adverse outcome to a European Court of Justice case which would require the slaughter of goat herds where scrapie has been confirmed are estimated at £1m;

- the East Malling Research (EMR) liability arises from the agreement made in 2004 for Defra to cover redundancy costs should EMR need to make HRI staff redundant. The liability was estimated at £4.5m when the agreement was made in 2004–05, but declines every year down to £0.325m in the final year of the agreement in 2023–24. The full amount would only be paid once, in the case of East Malling winding down. Though small claims may arise should EMR need to make staff redundant during a specific year;

- the EC can apply financial corrections if Defra (through RPA) does not comply with EC regulations for payments funded by the EAFRD and the EAGF. Any amounts disallowed (and hence funded by Defra instead) will depend on the assessed severity of the breach of regulations and on subsequent clarification negotiations with the EC in accordance with the Commission's clearance of accounts procedure. There is an ongoing potential substantial liability in respect of financial corrections (unquantifiable);

- potential liabilities arising from small claims against Defra. The potential liability is estimated at approximately £1m;

- a potential liability of £4m in relation to Portland Quarry arising from Governments Outline Position 1998, in which the Government set out circumstances in which it would meet compensation payable by local planning authorities in meeting its responsibilities under regulation 50 of the Conservation (Natural Habitats) Regulations 1994.

- The European Commission has established a temporary scheme for the restructuring of the sugar industry in the European Community which requires a payment to be made in financial year 2009–10. Payment is contingent upon future inspections to confirm the requirements set out in the regulation have been met. The expected value is in the region of £124m.

Defra has the lead responsibility for a large number of NDPBs and Public Corporations (see note 39). Although these sponsored bodies lie outside the accounting boundary, the Department is still required to meet any liabilities they are unable to absorb themselves.

31.2 Contingent Assets

- a surplus of £0.3m may arise as a result of a reorganisation of the Sugar Board Pension Scheme. This was provided for in 1976 by a group annuity policy, but this is now disproportionate for the small number of surviving pensioners;
- possible recoveries resulting from future surpluses from the NIAB redundancy fund;
- possible EU contribution of up to £0.8m towards cost of UK decommissioning scheme 2009;
- Defra is entitled to a future share of enhancement in value on a number of properties and land previously sold. These enhancements generally arise from the planning and development process and are based on a number of trigger points, planning thresholds and increased values;
- once correct rates are confirmed by regulation the repayment of overcharged sugar levy will be reimbursed by the European Commission. The contingent liability of £15m is matched by an equal contingent asset.

32 Contingent Liabilities not Required to be Disclosed under FRS 12 but Included for Parliamentary Reporting and Accountability Purposes

32.1 Quantifiable

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

	01 April 2008	Increase in year	Liabilities crystallised in year	Obligation expired in year	31 March 2009
	£000	£000	£000	£000	£000
Guarantees					
Guarantee of British Waterways borrowing	3,000	-	-	-	3,000

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

- a legal action for £100m damages by importers of seed potatoes, alleging that the potatoes were diseased on arrival in Argentina. The Argentinean authorities destroyed the potatoes. The Court of Appeal gave a judgement in favour of HM Government and a subsequent appeal was rejected in August 2006. The possibility of further appeals is becoming increasingly unlikely as is their chance of success;
- relocation costs of MFA headquarters are estimated at £3.7m;
- potential liabilities arising from small claims against Defra. The potential liability is estimated at approximately £1.4m.

32.2 Unquantifiable

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

Indemnities:

- Defra indemnifies the UK Chemicals Stakeholders Forum against legal action by companies affected by Forum decisions or announcements on chemicals;
- indemnity to maintain an offshore works, built in the 1970s, to ensure that no danger or nuisance is caused.

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

- Defra received an EU Article 226 letter dated 4 April 2006 relating to the Drinking Water Directive (98/83/EC). [EU case reference: 06/2005]. UK joint response of 15 June 2006. Should the case reach the Article 228 ECJ stage (around 2009–10), the Court would determine the extent of any fines. Fines may be back–dated and substantial, however they are unquantifiable at this stage;
- legal costs relating to the distribution of compensation between the National Farmers' Union's (NFU) members and the members of the National Association of Agricultural Contractors under the Sugar Restructuring Scheme;
- swill feeder claims connected with the FMD outbreak;
- an open infraction case from the EC due to a past failure to implement ozone legislation;
- Pre–Article 226 letter received in October 2007 concerning exceedences of EU air quality limit values for PM10 in 2005;
- where Defra has assigned a previously held lease to a third party, Defra remains potentially liable to compensate the landlord where the subsequent lessee defaults and the landlord fails to achieve redress elsewhere;
- environmental contamination arising from the use, and former use of sites which Defra controls, or formally controlled, may give rise to a future remediation liability;
- risk that as part of the closure of the EAGF Structural Funds scheme (submission of claims ends in January 2009 with final reports to be submitted to the Commission by mid 2009) irregularities are found and EU funding is disallowed, requiring refunds to the Commission.

33 Losses and Special Payments

33.1 Losses Statement

	2008-09		Restated 2007-08	Restated
	No. of cases	**Value**	No. of cases	Value
		£000		£000
Cash losses	155	943	170	686
Stores losses	4	18	10	30
Fruitless payments	1	-	6	13,293
Claims abandoned	16,843	1,487	1,019	12,116
Total losses	**17,003**	**2,448**	1,205	26,125

Details of Cases over £250,000

RPA suffered a loss of £362,000 relating to Creature Comforts Ltd.

33.2 Special Payments

	2008-09		2007-08	
	No. of cases	**Value**	No. of cases	Value
		£000		£000
Special payments	**3,021**	**1,185**	6,535	2,293

Details of Cases over £250,000

There were no special payments over £250,000.

34 Related Party Transactions

The Department is the parent of the Executive Agencies shown in note 38. The Department's NDPBs within the departmental accounting boundary are also shown in note 38 and those outside the boundary are shown in note 39. These bodies are regarded as related parties with which the Department has had various material transactions during the year.

In addition, the Department has had a number of transactions with other government departments (e.g. Department of Business, Enterprise and Regulatory Reform, Food Standards Agency, the Devolved Administrations, Department of Communities and Local Government).

Other than those disclosed below, none of the Board Members, key managerial staff or other related parties have undertaken any material transactions with the Department during the year.

Christine Tacon, a member of the RPA Audit Committee, is a Director of Farmcare (part of the Co–operative Group (CWS) Ltd). In 2008–09 Farmcare received £2.764m (2007–08 £4.209m) in scheme payments from RPA. These external interests were known before appointment and were carefully considered by Defra.

Robert Bolton, Commercial Director of CSL is also on the Board of Forsite Diagnostics Ltd as a CSL representative but receives no financial recompense for this position.

During the year CSL entered into a number of transactions with Natural England where Adrian Belton, Chief Executive, has a related party interest. The contracts for the year ending March 2009 totalled £131k and arrangements are in place to ensure that the specific related parties are not involved in contractual negotiations between the organisations.

Close family members of Poul Christensen, Alexis Cleveland and Gill Aitken claim Single Farm Payment. A close family member of Gill Aitken also claims HLS payments.

Neil Thornton is Director of the Sustainable Consumption and Production & Waste Directorate of Core–Defra and is also on the Board of WRAP, which received a £40m grant from Defra in 2007–08. He received no remuneration for this position.

Robert Watson is a member of the BBSRC and NERC councils. He receives no payment for this.

Animal Health paid £67,000 and £119,000 in the year on an arms–length basis to Lambert, Leonard and May, and to McAllister and Davies respectively for veterinary services (2007–08 £161,000 and £72,000). These transactions are disclosed as a partner in each of these veterinary practices is married to an Animal Health member of staff.

Cefas Technology Limited (CTL) is a fixed asset investment of Cefas. The shares are held by Richard Judge (chief executive) as nominee of the trustees for Cefas. Turnover of £249,998 was derived from CTL (2007–08 £331,000) and costs of £148,701 were payable to CTL (2007–08 £554,000). At 31 March 2009 £110,749 was due from CTL (2007–08 £131,000) and £49,266 was owed to CTL (2007–08 £9,000).

Professor John Preston (external member of the VLA Management Board) was paid £4,333 (inclusive of expenses) for professional services other than his Board responsibilities.

Mike Blackburn was the interim Head of Financial Control Division until September 2008, and is a Director of Acadent. Acadent is a private company which supplies consultants and interim managers. During 2008–09 Defra used Acadent to provide the services of interim staff, the total cost to the Department for these services for the period April 2008 to September 2008 was £864k.

No other Defra Management Board member, including Non–Executive members, or other key managerial staff hold directorships or other significant interests in any other organisations.

35 Post Balance Sheet Events

Defra's Financial Statements are laid before the House of Commons by HM Treasury. Financial Reporting Standard 21: *Events after the Balance Sheet Date* requires Defra to disclose the date on which the accounts are authorised for issue. The authorised date for issue is 20 July 2009.

As of 1 April 2009, CSL and GDS along with Defra's Plant Health Division (PHD), including the Plant Health and Seeds Inspectorate (PHSI), Defra's Plant Variety Rights and Seeds Office (PVS) merged to create a new Executive Agency, The Food and Environment Research Agency (Fera).

36 Prior Year Adjustments

Prior year adjustments, including those under FRS 6 (Mergers and Acquisitions), have been made to reflect the following:

36.1 DECC Machinery of Government Change

The creation of the Department for Energy and Climate Change:

	2007-08
	£000
Resource Outturn	(581,910)
Net Operating Cost	(581,910)
Balance Sheet	22,028
Taxpayers Equity	22,028

36.2 Others

Impact on Resource Outturn shown in brackets.

- Defra's former Executive Agency PSD has transferred to the HSE (£47,000 increase);
- the transfer to the Core–Department of two RDPE schemes previously reported by the Forestry Commission (£10,738,000 increase);
- an adjustment to CFER income relating to RDPE (£86,359,000 decrease);
- the implementation of FRS 23 (The Effects of Changes in Foreign Exchange Rates) and the implementation of FRS 25, 26 and 29 (Financial Instruments, Disclosures and Presentation, Recognition and Measurement) (£28,001,000 decrease).

37 Third Party Assets

The Department holds money relating to Twinning, Carbon Offset and projects on behalf of European Partners and Defra.

These are not departmental assets and are not included in the accounts. The assets held at the balance sheet date to which it is practical to ascribe a monetary value comprised monetary assets, such as bank balances and monies on deposits. They are set out in the table below:

	2008-09	Restated 2007-08
	£000	£000
Monetary assets	4,691	1,923
	4,691	1,923

38 Entities within the Departmental Boundary

The entities within the departmental boundary during 2008–09 comprise the Core–Department, its Executive Agencies and NDPBs as follows:

Executive Agencies

Animal Health (AH)
Centre for Environment, Fisheries and Aquaculture Science (Cefas)
Central Science Laboratory (CSL) (until 31 March 2009)
Government Decontamination Service (GDS) (until 31 March 2009)
Marine and Fisheries Agency (MFA)
Rural Payments Agency (RPA)
Veterinary Laboratories Agency (VLA)
Veterinary Medicines Directorate (VMD)

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

As from 1 April 2008, the Forestry Commission has been included in Defra's Estimate under RfR 2. A separate Accounts Direction has been issued for Defra and the Forestry Commission for 2008–09 which excludes the requirement for a full consolidation. However the Forestry Commission's outturn has been included in the Statement of Parliamentary Supply and associated notes to enable a full comparison against the Estimate.

Executive NDPBs (Defra Funded)

Agricultural Wages Board for England and Wales
Agricultural Wages Committee

Advisory NDPBs (Defra Funded)

Advisory Committee on Hazardous Substances
Advisory Committee on Organic Standards
Advisory Committee on Packaging
Advisory Committee on Pesticides
Advisory Committee on Releases to the Environment
Agricultural Dwelling House Advisory Committees
Air Quality Expert Group
Bovine TB Science Advisory Board
Committee on Radioactive Waste Management (Moved to DECC on its creation in October 2008)
Darwin Advisory Committee (the Darwin Initiative)
England Implementation Group of The Animal Health and Welfare Strategy for Great Britain
Expert Panel on Air Quality Standards
Farm Animal Genetics Resources Group
Farm Animal Welfare Council
Independent Agricultural Appeals Panel
Inland Waterways Advisory Council
Pesticide Residues Committee
Royal Commission on Environment Pollution
Science Advisory Council
Sustainable Development Commission (until 31 January 2009)
Veterinary Products Committee
Veterinary Residues Committee
Zoos Forum

Advisory NDPBs

Spongiform Encephalopathy Advisory Committee (jointly funded with Department of Health and Food Standards Agency)
Fuel Poverty Advisory Group (Moved to DECC on its creation in October 2008)

Tribunal NDPBs (Defra Funded)

Agricultural Land Tribunal (England)
Plant Varieties and Seeds Tribunal

39 Bodies Outside the Departmental Boundary

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

Executive NDPBs

Agriculture and Horticulture Development Board (from 1 April 2008 – created by the restructure of the following former executive NDPBs: British Potato Council, Home Grown Cereals Authority, Horticultural Development Council, Meat and Livestock Commission and Milk Development Council).

Commission for Rural Communities

Consumer Council for Water

Environment Agency

Food from Britain (until 31 March 2009)

Gangmasters Licensing Authority

Joint Nature Conservation Committee (funded from NE grant–in–aid)

National Forest Company

Natural England

Royal Botanic Gardens, Kew

Sea Fish Industry Authority

Sustainable Development Commission (from 1 February 2009)

Public Corporations

British Waterways

Covent Garden Market Authority

Other Bodies

British Wool Marketing Board

Broads Authority

National Parks Authorities

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