Environment Agency

Annual Report and Accounts 2010-2011

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ANNUAL REPORT and ACCOUNTS

for the year ended

31 March 2011

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FOREWORD

This has been another interesting year for us. A new government, a complex and challenging financial environment, and the continuing need to protect the environment for people and wildlife have all kept us on our toes.

Once again we saw the misery that flooding can bring to people's lives when, following extreme rainfall overnight on 6 November, 400 properties were flooded in Cornwall. Our flood defences in Cornwall protected 3,250 properties in Mevagissey, although residents had to be evacuated from over a hundred. We played a full role in helping people to cope with the effects of the floods and once again I was proud of the way our staff pulled together to respond to the incident.

Our work to protect England and Wales from the effects of flooding continues. This year, working with our partners we improved flood protection to more than 79,000 households, 2,200 of which were in Wales. And over 98 per cent of the assets we use to manage flood risk were in the required condition or better.

Businesses continue to feel the benefits of our changing approach to regulation. This year we saved businesses £7.3 million on the cost of regulation by refining the protocols for dealing with certain kinds of waste. But we retain our tough line with businesses that flout regulation and damage the environment. This year we stopped illegal waste activity at 1,020 sites, 333 of which posed a high risk to people and the environment.

Years of work were rewarded when the River Thames won the International Theiss River Prize in October. It is a testament to the value of partnership working, the benefits of targeted regulations and work with farmers, businesses and water companies that 125 species of fish have now been recorded in the tidal Thames, a river deemed ecologically dead in the 1950s. There is still much more to do to protect and improve water quality in the River Thames. The proposed investment in the Tideway Tunnel is a key element in continuing this excellent work.

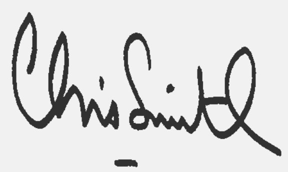
More good news for water quality and biodiversity came in our otter surveys for England and Wales. In England the number of sites showing evidence of otters has increased from 6 per cent in the late 1970s to 59 per cent now. In Wales nine out of every ten sites surveyed have signs of otters.

The Coalition Government published its review of arms-length bodies in July, with the decisions regarding our organisation following in October. We were happy to take part in this review and we are delighted that we came through it with a strong endorsement for our role and the outcomes we achieve for the environment.

We are involved in the Welsh Government's Review of Environmental Delivery Bodies in Wales. Welsh Ministers have asked for a detailed business case on the exact purpose and functions of a single environmental body, and we are working with others on this.

We have already implemented a number of changes to reduce our costs and this will continue over the next year. We have reduced our corporate costs so that we can run our important support services more efficiently. We will protect front line services as much as possible. In the last financial year, we reduced our staff numbers from 13,181 to 11,527, a reduction of 12.5 per cent.

This Annual Report shows what we have achieved over the last year. But we know there is more to do. As we face the challenges of the next few years, we will continue to protect and improve the places where people live and work.



Rt Hon Lord Smith of Finsbury
Chairman
7 July 2011

MANAGEMENT COMMENTARY

Introduction
The Environment Agency is the leading public body for protecting and improving the environment in England and Wales. Our vision is to create a better place for people and wildlife. We work with communities, local authorities, industry and government to do this.

We had 11,527 members of staff as at 31 March 2011 and an annual budget in 2010-2011 of £1.2 billion. We are responsible to the Department for Environment, Food and Rural Affairs (Defra) in England and the Department for Environment, Sustainability and Housing of the Welsh Government in Wales. Over 60 per cent of our funding comes from the UK and Welsh governments, and most of the rest comes from various charging schemes.

We have teams based in England and Wales. Staff in our local offices work closely with other organisations, including local authorities and with communities, to improve the local environment. Environment Agency Wales works closely with other organisations in Wales.

Our Corporate Strategy
We started to implement our Corporate Strategy, *Creating a Better Place 2010-2015* in April 2010. The strategy outlines our vision of a better place for people and wildlife and what we will do to achieve this. It sets out our aims in five main areas:
• Act to reduce climate change and its consequences.
• Protect and improve water, land and air.
• Work with people and communities to create better places.
• Work with businesses and other organisations to use resources wisely.
• Be the best we can.

Managing the risk of flooding
The Flood and Water Management Act 2010 received Royal Assent on 8 April 2010. The Act gives us and other authorities new and amended powers and duties for managing flood and coastal erosion risk in England and Wales. Along with the Flood Risk Regulations (2009), the Act has improved the legislative framework, and will help to achieve the recommendations of the Pitt Review. The first phase of the Act's implementation began in October 2010, with further phases coming in to effect in January and April 2011.

This year our flood and coastal management work improved protection to 79,000 households. 35,000 of these were in the highest-risk categories, and 6,000 of them in areas of significant economic deprivation. A further 480 homes and businesses benefited from property level flood resilience measures. Our programmes also created 500 hectares of Biodiversity Action Plan habitat, of which 40 hectares were intertidal. More than 98 per cent of our flood defence assets were in the required condition or better.

Our Catchment Flood Management Plans (CFMP) programme was completed in 2010, with 77 CFMPs now in place covering all of England and Wales. They help us to understand all sources of current and future inland flood risk. In particular they will help lead local flood authorities in developing their local flood risk management strategies.

Shoreline Management Plans (SMP) are another important planning tool and eight of the 22 plans are now approved. Of the remaining 14, 11 require approval from the Secretary of State and Welsh Ministers for imperative reasons of over-riding public interest (IROPI).

We have run workshops for local lead flood authorities (LLFA). These have focused on the skills and knowledge needed to implement the Flood and Water Management Act. This programme was based around nine local venues which included all 152 LLFAs in England and Wales, with district authorities and internal drainage boards involved where appropriate. Over 90 per cent of the LLFAs attended.

After a trial period the Flood Forecasting Centre (FFC) is now a permanent partnership between the Environment Agency and Met Office and has quickly won the respect of national and local emergency response partners which benefit from its early forecast of flood risk. The daily flood guidance statement produced by the FFC was revised in November 2010 when we published it on our website.

Our Flood Advisory Service is improving communications between emergency responders. Prompted by the daily flood guidance statement, telephone conference calls are held to ensure that key organisations share information and agree a response as far ahead of flood events as possible.

On November 30 we launched our revised flood warning codes. At the same time, we also changed how we issue flood forecasts with our three-day-ahead flood forecasts now available to the public.

Over 150,000 properties were added to our flood warning system during the year which can now warn over 1.15 million at-risk homes and businesses by phone and text message. In February the first iPhone app to provide flood warnings became available.

The Flood Risk Science programme, developed with the Scottish Environment Protection Agency (SEPA), has produced new evidence about sea level and swell wave conditions for England, Wales and Scotland. This new information is relevant to different areas of our work along the coast including the design of coastal defences, coastal flood modelling and mapping, flood risk assessments and potential sites for new nuclear power stations.

Exercise Watermark took place between 4 and 11 March and was the largest emergency exercise to be held in the UK for 60 years. The Environment Agency led this multi-agency exercise on behalf of Defra and the Welsh Government. The exercise, a recommendation from Sir Michael Pitt's review of the 2007 floods, simulated the response to wide-area flooding across England and Wales. The exercise scenario included flooding from the sea, rivers, surface water and reservoirs. The core exercise involved central government departments, and was supported by regional exercises and locally based community activities. We are actively reviewing the lessons learned from Watermark to further strengthen our response arrangements.

Preventing and adapting to climate change
Demand for hydropower solutions continued to grow in 2010, partly due to the introduction of government incentives. We issued permits to 65 new schemes, and there are many more applications in the pipeline: representing a six-fold increase compared to 2008.

As the number of applications looks set to continue increasing, we have reviewed the legislative requirements for hydropower. We have made a number of changes to improve the way we process applications and make the system as simple as possible for developers, while making sure that the environment is properly protected. Challenges still remain, and we will work closely with industry, environmental and amenity groups to revise and update our good practice guidelines. We will improve our knowledge of the impacts of hydropower to ensure that there is the correct balance between environmental protection and enabling low carbon energy.

We also completed registration for the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme: a major new carbon trading scheme for large organisations in both private and public sectors. Nearly 2,800 organisations registered as full participants and a further 12,800 declared information on their electricity use. We anticipate serving no more than 20 enforcement notices, reflecting the excellent coverage achieved. We are working with the Department of Energy and Climate Change to simplify the scheme.

The UK government used powers under the Climate Change Act 2008 to instruct a wide range of organisations to report on their climate change risks and plans to address them. We were one of the first organisations required to respond, jointly to Defra and the Welsh Government. We published our report in January. It shows that climate change will affect nearly everything we do and in particular our work on flood risk, water and biodiversity.

We are working closely with the UK government on the national climate risk assessment and are advising key partners on their own adaptation plans. Defra recently announced that we will take on an enhanced role in helping organisations adapt to climate change from September 2011. We will build on the excellent work of the UK Climate Impacts Programme, to embed adaptation in priority sectors such as local government, public service providers and major infrastructure.

As part of the government’s work to mitigate climate change, we conducted technical reviews at landfill sites which helped to reduce greenhouse gas emissions equivalent to around 725,000 tonnes of carbon dioxide. As well as this, 65,000 tonnes of waste were diverted from landfill, further reducing harmful emissions.

Improving and protecting inland and coastal waters

In October we were delighted that the River Thames was selected as the winner of the International Theiss River Prize, celebrating outstanding achievement in river management and restoration. It won against fierce global competition thanks to its dramatic recovery from a biologically dead river in the 1950s to today's thriving waterway. Its success was the product of a genuine partnership between many stakeholders. However, there is still more to do. Our analysis of the condition of rivers, lakes and groundwaters under the Water Framework Directive shows that only 26 per cent of waterbodies are in good ecological status.

Many of the improvements in water quality seen over the last two decades have come from action on pollution from specific sources like factories and sewage treatment works (known as 'point source' pollution). Serious water pollution incidents have also more than halved since 2001. Due to our success in tackling these point sources, the effects of other sources of pollution are becoming more visible. As a result, we are shifting our focus to tackling pollution from agricultural land, highways and urban areas (known as 'diffuse' pollution) which is now a major cause of poor water quality. But the solutions are harder to identify. We are aiming to complete over 8,500 investigations into the reasons for water bodies failing to meet the required ecological standard by December 2012. This work will help us better target interventions to improve rivers and coastal water. The challenge is to ensure that there is the right engagement across society and business, by ensuring that the right guidance and incentives drive the behaviours that will bring environmental improvements.

With Natural England and Defra, we provided targeted voluntary advice and practical solutions to enable farmers and land managers to take action to protect water bodies and the wider environment. As a result, 64 per cent of farmers receiving advice have taken significant action to reduce pollution from their farms and pollutant loads and concentrations have reduced by up to 30 per cent.

This year we removed a number of barriers to fish migration and have installed 37 fish passes and 50 eel passes across England and Wales.

In 2010, 98 per cent of bathing waters met the minimum standards of the Bathing Waters Directive and over 86 per cent met the tougher guideline standards.

In 2015 revisions to the Directive will make it tougher still and require more communication with the public on activities that threaten water quality. Publishing bathing water profiles is a key feature of this approach. This year we produced profiles for 500 bathing waters which include maps and photographs and information on water quality. These allow beach users to make more informed decisions about which beach to use. We published the profiles on our website on 24 March and they attracted 103,000 visits in the first week.

Our Otter Surveys of England and Wales 2009-2010 showed that in England the number of sites with evidence of otter life has increased tenfold in 30 years, with positive site records increasing from 5.8 per cent in 1977-1979 to 58.8 per cent in 2009-2010. In Wales otters are now present at around 1,000 sites. Nine out of every ten sites surveyed across Wales are now showing signs of otters, compared to only two out of ten in 1978.

Water resources

2010 saw one of the driest starts of the year for North West England. By June, only 1929 had been drier, and there was a clear threat to water supplies to cities such as Manchester. We worked with United Utilities to manage the drought, ensuring the company followed its drought plan, while we determined drought permits, responded to environmental impacts, monitored the environment and helped with raising awareness and reducing water consumption by promoting clear messages via the media.

Nearly all of the water companies in England have now published a water resources management plan showing how they will manage the supply and demand for water. Only Portsmouth Water and Thames Water have yet to publish theirs.

In 2010 the Secretary of State called Thames Water and South East Water to attend a public inquiry about their draft water resources management plans. Following the enquiry, the Secretary of State directed South East Water to publish a final plan but to undertake work before the next plans are due and told Thames Water to revise its draft plan.

We won the International Water Association's (IWA) European Region Innovation Award for Planning with our 'water demand in the 2050s' project. We developed four possible pictures of the future in the 2050s looking at how people might use and value water in their homes, in their work and in agriculture. We used the work to support and test our Water Resources Strategy.

We have continued our progress on the Restoring Sustainable Abstraction (RSA) programme. We successfully completed our AMP4 programme in March and water companies are now working on their AMP5 programme which includes 61 improvement actions at Habitats Directive sites and 47 investigations and options appraisals. As a result of notices we have served on abstractors through the RSA programme, the Secretary of State has directed us to make changes to four licences for the Ouse Washes and two licences for Brennand and Whitendale.

Improving the environment for people and wildlife
We helped with the government's response to the eruption of the Eyjafjallajokull volcano in Iceland. We carried out rainfall sampling and analysis and through sharing data and information within the government's Volcanic Ash Network, we were able to conclude that the risk to the environment was minimal. We now have a network of rain gauges and sampling procedures that could be re-activated in the event of other air incidents.

We continue to target illegal waste sites. This year we stopped illegal waste activity at 1,020 sites, 333 of which were sites that posed the highest risk to people and the environment.

We have reduced the number of poorer performing industrial sites compared to last year, with those in the lowest performance bands down by 9 per cent. This year Waste Operators and sites regulated under Integrated Pollution Prevention and Control in the lowest bands (D, E and F) reduced by 9 per cent.

At the end of March we completed our ten-year programme of work to ensure that all our 170,000 environmental licences were consistent with standards needed to protect habitats and species of European importance. We also made a major contribution to the government's December 2010 target that 95 per cent of SSSIs in England should be in favourable or recovering condition. By 31 December, 95 per cent of the 5,200 hectares of SSSI land we own was in recovering or favourable condition: while our contribution to remedial work over five years helped more than 25,000 hectares of SSSIs to move into recovering condition.

Results from our second national baseline survey of river habitats in England and Wales were also published. This showed that 43 per cent of river channel length was extensively modified, but there had been very few changes in overall physical character since the first survey in 1995-1996.

During the year we have continued to create Biodiversity Action Plan (BAP) habitat through our flood and coastal risk management work, creating a total of 1,175ha of BAP habitat. We have responsibility for 39 species and 5 habitats within the UK Biodiversity Action Plan.

Business and the environment

Better regulation
Following confirmation from the Better Regulation Executive in February 2010 that we are a good practice regulator, we are continuing to improve our regulation to reduce burdens on businesses that comply with regulations and permits; to make sure our approach is consistent and that our staff have up to date knowledge about the businesses they are regulating. In particular we are testing innovative, voluntary schemes in selected sectors such as:

- an annual compliance statement which will be signed off at company board level, with supporting data.
- a third party compliance check against permit conditions by an approved third-party auditor, with the report provided to us.

We are developing the proposals with business representatives. A working group of our Regulated Business Forum (RBF), where we engage at a strategic level with key customers and stakeholders, is contributing to developing, implementing and communicating our approaches to regulation.

We have also continued to simplify permitting requirements by developing more standard rules permits which can be gained more quickly and at reduced cost than bespoke permits. We have introduced these streamlined permits for anaerobic digestion plants, to make it easier to install this technology. We have further supported the recovery of anaerobic digestion derived bio-methane through the gas grid system by clarifying where waste management controls can be lifted.

We gained access to civil sanction powers from 4 January 2011, initially in the hazardous waste, water resources, and packaging waste regimes. This allowed us to make our enforcement and sanctions guidance more outcome focused. It is now less prescriptive, giving us more flexibility to decide on the most appropriate action. It means more enforcement responses are available for some offences, including 'enforcement undertakings' where a business offers to enter a legally binding agreement to put right or compensate for any harm caused and to return to compliance. We have several of these offers currently under consideration.

Engaging with local communities
We engage and work in partnership with communities to improve the environment and to help to manage flood risk. As part of our work to embrace localism and the Big Society we are embedding an approach that ensures our staff understand what local partners want to achieve and build trust with local communities as we carry out our regulatory and operational responsibilities. We are also working with Natural England and the Forestry Commission to develop a joined up approach to our work with communities and local government, including on planning issues.

We are gathering examples of best practice to share with staff and these include working in partnership with local communities to improve local streams and rivers, to deliver flood-risk management schemes and to tackle problems at sites of high public interest.

We are also looking for new ways to deliver through others, recognising where they are better placed to lead and can deliver the same outcomes at lower cost. We are actively exploring options to move some of our conservation and environmental monitoring work to civil society organisations, including expanding our network of people who monitor rainfall to include river flow and depth.

We work closely with Local Planning Authorities (LPAs), developers and other partners within the spatial planning system to enhance and protect the environment and help to manage flood risk. In this role we commented on over 34,000 planning consultations in 2010-2011. These were a mix of planning application consultations and pre-application enquiries. For those sites that represent the greatest risk to the environment we also commented on the associated Environmental Impact Assessments to ensure that the potential impacts are managed.

Partnership working, and the opportunities for external funding that come with it, have played an important part in achieving the aims that we established in *Creating a Better Place* this year. Our external funding teams have supported ongoing projects to the value of £86 million, of which £61 million was raised through third party sources.

Since autumn 2009, in response to the Pitt review, we have been piloting *Floodwise* a local and targeted approach to flood awareness. *Floodwise* has helped communities do more to prepare themselves for flooding. Now in its second year, *Floodwise* has used a combination of community engagement and partnership working to inform more than 370,000 people that they are at risk of flooding. We know that 58,000 people have taken at least one key action to better prepare for potential flood events.

Over the past year 105 new community flood plans have been completed, providing community-led protection for more than 66,000 people. Our independent research shows that in areas targeted by *Floodwise*, 60 per cent of people believe they are at risk of flooding compared to an average of 45 per cent elsewhere.

Complete with its own pair of giant welly boots, our Flood Awareness Wales programme has targeted communities across Wales to better prepare them for flooding. We have targeted 170 communities where we believe there is a high risk of flooding but where we perceive awareness of the risk to be low.

Our Flood Awareness Wales officers have visited over 50,000 homes and businesses, engaging face to face with people in over 18,000 properties. These residents and businesses are now more aware of their flood risk, of how they can receive a warning and most importantly, are aware of the practical actions they can take to prepare their property, families and businesses for a flood event.

Using our resources more efficiently
The government's announcement in autumn 2010 about the Arm's-Length Body and Spending reviews confirmed reductions in our funding. We have introduced and will continue to implement a programme of measures to increase our efficiency and effectiveness. We are still committed to the ambitions outlined in *Creating a better place* but recognise the constraints of the available resources.

We looked to make savings with as few compulsory redundancies as possible. We have reviewed carefully whether each of our vacancies need to be filled and have been clear in our decisions on where we need to use contractors and consultants. We reduced our consultancy spend by £33 million through changes in the way we use consultants which has also enabled us to make better use of our internal expertise.

Similar environmental pressures and a close working relationship provided a strong case for merging our Southern and Thames operational teams. On 1 April 2011, Southern and Thames joined together to become Environment Agency South East, saving approximately £8 million per annum.

We have changed the structures in our Evidence and Environment and Business directorates to refocus our resources to achieve the outcomes in our Corporate Plan: achieving targets of 25 per cent reduction in resources. Communications support is now at the heart of the business; in FCRM, Environment and Business and Chief Executive's Directorate. Our Corporate Services review continues to make significant improvements in the way we work and use our administrative resources. We also successfully changed our operational boundary to match the political boundary of Wales. Our gradual and timely changes to team structures, flood warnings, incident management and operations delivery work and services made sure that our customers continued to receive the same high standard of services throughout the year.

In July 2010, the Welsh Government announced a review of environmental delivery options, with a view to creating a new single environmental body for Wales. The review includes the current functions of Environment Agency Wales, the Countryside Council for Wales and the Forestry Commission for Wales, but is also looking outside the remit of these three bodies. The Welsh Government's final decision on whether to proceed is expected in autumn 2011, following the Welsh Government elections in May 2011.

We launched a time-limited voluntary early release scheme (VERS) on 28 October 2010 to help us manage the changes and minimise the number of compulsory redundancies. Following an assessment process to protect our technical resilience, over 500 employees mutually agreed to end their employment under the VERS terms, with the majority of staff leaving between February and April 2011. During the year 662 staff have left the Environment Agency, at a total cost of £29 million as set out in note 3.1 to the accounts. This has enabled the Environment Agency to reduce its cost base, in line with the lower level of funding that it will receive in the future.

Throughout our change, we have had a clear methodology in place. A review by our Internal Audit team confirmed we have continually improved through experience and lessons learnt and our risk is well managed.

Ensuring our work is sustainable
Our role is to protect and improve the environment in England and Wales, and we have to ensure that in doing this we minimise the environmental impacts of our actions and ensure that our activities are undertaken in as sustainable a way as possible. The government is committed to continue the work undertaken by HM Treasury to fully embed sustainability reporting. In a speech to the Accounting for Sustainability Forum, the Chancellor of the Exchequer said;

'Making sure financial reporting fully reflects the impact on the environment is no easy task. It will take a long time to change the way we do things and challenge vested interests. But that doesn't mean we shouldn't do it. Or that we should wait for future generations to do it.'

In February 2011, Defra published *Greening government commitments: operations and procurement*. This set out an action plan for driving sustainable operations and procurement across government. It establishes a number of commitments on reducing the environmental impacts of government activities, and additionally focuses on the level of transparency and reporting that needs to take place to underpin this. It contains the following government commitment;

'We are committed to being open and transparent with more of our performance data in line with the new Public Services Transparency Framework. In addition to reporting data on our direct impacts we will look to provide more transparency on government's supply chain.'[1]

As an organisation we are committed to creating a better environment for people and wildlife. An important aspect of this is making sure that we undertake our work in as environmentally sensitive and sustainable a way as possible. However, ensuring long-term sustainability doesn't only focus on our direct activities, but involves our interactions and relationships with those who work on behalf of us, those we purchase goods and services from, and those who we advise and come into contact with through our work.

We want to ensure that we consider the wider sustainability issues of our activities, the effects they have on communities and that our staff are properly trained and are representative of the communities in which we work.

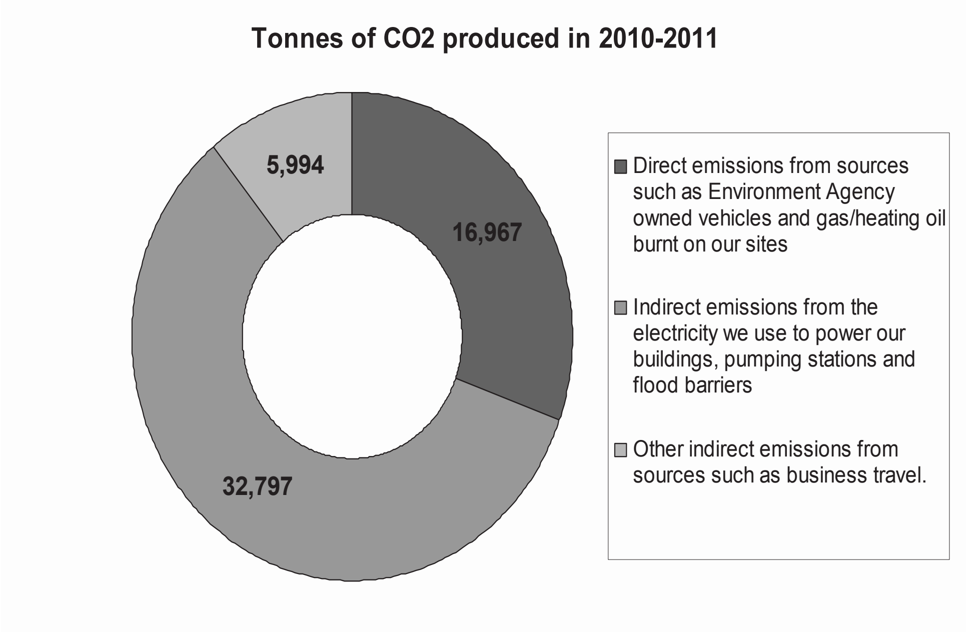
Included in Appendix A are examples of how sustainability can be demonstrated in the work that we do.

Direct impacts
We manage and operate over two hundred and sixty offices, depots and major sites across England and Wales. We run a fleet of vehicles and machinery, essential for carrying out our day to day work.

Reducing the environmental impacts of these sites and our travel is a high priority for us. Our Internal Environmental Management team undertakes and supports work across the Environment Agency to help us reduce the impact our work has on the environment.

We have a commitment to reduce our carbon emissions by 45,291 tonnes by 2015. Our emissions for 2010-2011 are presented in the graph below, broken down by the activities defined in the latest government guidance.

[1] Greening Government Commitments: Operations and Procurement – Defra, Feb 2011
http://sd.defra.gov.uk/documents/Greening-Government-commitments.pdf



Climate change
As well as reducing our own direct CO_2 emissions, one of the main priorities in our Corporate Plan is to help prevent future climate change and reduce the impacts of any climate change that occurs. This includes reducing the risks associated with flooding from main rivers, water supply, sea level rise and coastal erosion. The regulatory schemes we implement cover 38 per cent of the UK's greenhouse gas emissions. We administer both the EU Emissions Trading Scheme and Carbon Reduction Commitment Energy Efficiency Scheme in England and Wales. We implemented a programme of climate change training across the organisation, delivered on a face-to-face basis, to explain the science behind climate change, describe the key impacts and explain the role we play as an organisation in responding to it. This has enabled all of our staff to better understand the importance the organisation places on this area of work and to embed it in every aspect of our activities.

As previously highlighted, in the past year we have moved 79,000 houses to a lower probability of flooding. This is a major achievement and the pressures created by climate change will only increase the need for more flood risk management in the future.

Our purchasing
We estimate that around 70 per cent of our total environmental impacts come from the goods and services we purchase. We spend around £500 million with our suppliers and so have a considerable opportunity to encourage more sustainable practices from them. By thinking carefully about the goods, services, works and utilities we buy, and who we buy them from, purchasing decisions can contribute to the achievement of sustainable development goals such as reduced energy consumption, reduced carbon dioxide emissions, waste minimisation, fair and ethical trade and social justice.

We have produced a series of tools to support our sustainable procurement activities, including a sustainable procurement guide and risk assessments. We are happy to share these with all organisations and have made them available on our website. Our commitment to procurement excellence has been recognised externally, through winning several awards; in particular for our approach to timber procurement. As part of our ongoing work to reduce the impacts of our timber purchasing, we have identified a range of lesser known tropical hardwood species that are suitable for use in marine and freshwater construction projects.

Reducing the impact of our travel
Our staff often need to travel to carry out their work. We introduced a travel hierarchy to help us reduce the amount of travel that we do. Staff use this to consider alternatives to travel, for example holding a meeting by telephone or online. Where travel is unavoidable, we encourage our staff to travel in a way that minimises their impact on the environment, using public transport rather than cars whenever possible. Our fleet contract also helps minimise the footprints of the miles we do drive, by providing vehicles with low emissions per mile.

Our energy use
Whilst we have reduced the energy use in our buildings over a number of years, other main energy use is dependant on weather conditions. This relates in particular to floods and water shortages where we are required to pump water for long periods of time. We are tackling this and have a number of projects to reduce energy used in pumping water.

Workforce
Each year, we take part in a national benchmarking exercise of Britain's top employers of lesbian, gay and bisexual staff. For the first time we achieved a top 5 position for government organisations in the UK for lesbian, gay and bisexual workplace equality.

Unfortunately we failed to meet our target for the proportion of BME (black, minority and ethnic) employees as a percentage of total headcount. Current restrictions on external recruitment have affected our ability to achieve this objective.

Horizon House
We have now moved into our new national office in the centre of Bristol. Horizon House won the 2010 Best BREAM Office Award and an excellent rating for its environmental credentials. The move was delivered to time and budget and will result in annual operational cost savings.

Further information
For full details and statistics of our environmental and wider sustainability impacts see Appendix A (page 68). Our sustainability reporting follows the latest guidance published by HM Treasury's Financial Reporting Advisory Board's (FRAB) Sustainability Working Group. We have been involved in developing this guidance. We support it being mandatory for all public sector organisations to include clear and concise information on their sustainability performance in their annual financial statements.

Financial highlights

Funding

Our total funding in the year was £1,216 million, a decrease of £49 million on the previous financial year. Of our total funding, £800 million (66 per cent) was provided in the form of grant-in-aid from Defra and the Welsh Government. £379 million (31 per cent) was raised through our charging schemes and local flood defence levies (in England), and £37 million (3 per cent) came from other miscellaneous sources.

£744 million of our grant-in-aid came from Defra to fund our work in England and £56 million from the Welsh Government to fund our work in Wales.

The way we report income in our accounts

Income raised from our charging schemes and other miscellaneous income received is included within the Statement of Comprehensive Net Expenditure. Grant-in-aid is treated as a contribution from a controlling party giving rise to a residual financial interest, and therefore is accounted for as a financing transaction and credited directly to the net expenditure reserve.

Expenditure

Our expenditure in the Statement of Comprehensive Net Expenditure is £994 million in 2010-2011. Of this, £573 million (58 per cent) was spent on flood and coastal erosion risk management; £253 million (25 per cent) on environment protection (protecting and improving air, land and water quality); £112 million (11 per cent) on safeguarding the availability of water resources and £56 million (6 per cent) on our other water management functions, mainly fisheries and navigation.

Overall results

We had net expenditure for the year of £577 million. The offsetting of income from the profit on sale of assets and interest receivable of £1 million, financing income on pension scheme assets and liabilities of £5 million, net gain on revaluation of property, plant, equipment and intangible assets of £43 million, and actuarial gain on pension scheme assets and obligations of £119 million, resulted in a total comprehensive net expenditure of £409 million.

Future developments – spending review

UK Government decisions on our funding are made through HM Treasury’s spending review process. This sets expenditure budgets for government departments.

The UK Government undertook a major spending review in 2010 (SR10) to address the UK funding deficit. We supported Defra in preparing submissions to HM Treasury. SR10 set spending plans for the four-year period from 1 April 2011 to 31 March 2015 in England. A similar spending review, covering the next three years, was undertaken in Wales. This has resulted in a significant reduction in funding in both England and Wales for the next four years.

Our environment protection grant-in-aid revenue funding from Defra is to be reduced by £8 million from £113 million to £105 million in cash terms in 2011-2012. Furthermore it is expected to reduce by £25 million to £88 million by 2014-2015. This grant also covers work in navigation, fisheries and conservation. Administration costs are expected to incur a larger reduction than front-line programme costs. Our capital funding will be reduced with immediate effect for 2011-2012 by £11 million from £29 million to £18 million. Further reductions in capital funding over the course of the spending review period have yet to be confirmed by Defra.

The flood defence grant-in-aid revenue funding from Defra is to be reduced by £13 million from £275 million to £262 million in cash terms in 2011-2012. It is expected to reduce by £49 million to £226 million by 2014-2015. Administration costs will bear a larger portion of the reduction than front-line programme costs. The capital budget will be reduced in full for 2011-2012 by £95 million from £354 million to £259 million.

In Wales, our environment protection grant-in-aid funding from the Welsh Government is to be reduced by £3 million to £20 million in cash terms by 2013-2014. The flood defence grant-in-aid funding from the Welsh Government is to be reduced by £4 million to £28 million in cash terms by 2013-2014, with both revenue and capital funding being reduced by similar levels. The reductions for 2012-2013 and 2013-2014 are indicative figures and will be finalised as part of the annual Welsh Government budget process. In addition to Welsh Government grant-in-aid funding there will be up to £3 million of European structural funding available for capital projects each year through to 2013-2014. The projects to be funded have been agreed.

External funding
We always seek to maximise the work we can do to improve the environment in England and Wales; and we work with partners in other countries to drive effective improvements across the world. In England we provide capital grants to local authorities and internal drainage boards to help them with flood risk management, coastal erosion protection, environmental improvements and cleaning up contaminated land. In 2010-2011 we paid out £70 million to these authorities.

We work with community organisations, such as local trusts and associations, to improve local environments. Working with local partners means that we achieve even better environmental improvements, and local involvement makes these projects more sustainable.

Significant partnership projects using more formal funding sources (the European Union and the Heritage Lottery Fund for example) are currently helping to pay for £86 million of environmental projects, £25 million of which comes from us. In 2010-2011, we were awarded £8.1 million from formal external funding bodies, which with our own and other local partners contributions paid for £20.7 million of environmental projects. Our own costs were £7.3 million, that resulted in a cost to benefit ratio of 1:3.

In 2011-2012 we will focus on the priorities of our new Corporate Strategy in seeking appropriate external funding opportunities to further our work within local communities.

Financial management
Everything we do is underpinned by a good understanding of our costs and sound financial management throughout the year. During 2008-2009, our finance directorate undertook a significant change programme. We further improved our financial systems and reorganised the workload to make transaction processing more efficient. This saved approximately £1.8 million per year. Our finance service centres for England, based in Peterborough, and for Wales, based in Cardiff, have taken on extra work which allows regional and head office finance staff to give better support to business managers.

During 2010-2011, our corporate services staff in finance, human resources, legal services, procurement and facilities were reorganised as national services. We have also further re-ordered the finance directorate. This has reduced the number of finance posts by 168 from 2009-2010, mainly from the move to a national approach to managing business partnering and corporate planning teams. Further efficiencies have also been made at the finance service centres and within the head office finance teams. This will enable the finance directorate to meet the HM Treasury benchmark target of finance costs being 1 per cent of our income in the future.

During the last two years, finance staff have made considerable progress in business partnering, developing the right skills to support and challenge the Environment Agency to manage its budgets more effectively in pursuit of the delivery of environmental outcomes. The finance teams have put in place the frameworks needed to make further efficiencies. Business plans for 2011-2015 have been produced that link costs to our strategic outcomes. This work will continue to improve and develop over future years, using our Oracle finance systems to link costs to outcomes throughout the Environment Agency.

We are currently working with Defra to ensure that our finance service centres, for transaction processing and maintenance of financial ledgers in England, work together as efficiently and effectively as possible.

Other statutory information

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

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

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

During 2010-2011, our principal government sponsor remained Defra. Defra oversees the environmental policy framework within which the Environment Agency operates in England. In Wales, we are an Assembly Government Sponsored Body. The Welsh Government are responsible for the policy and oversight of all of the Environment Agency's functions in Wales. We operate under a financial memorandum issued by Defra and the Welsh Government.

Our Board agreed to adjust the boundaries of Environment Agency Wales, North West and Midlands from being river catchment based, to align with the administrative boundary between England and Wales. This came into effect on 1 April 2010.

The Department of Energy and Climate Change (DECC) was formed in 2008-2009. We received £3.3 million of funding from DECC in 2010-2011 for duties previously funded by Defra.

Our principal activities

Managing flood and coastal risks
Funding comes principally in the form of Defra grant-in-aid for our work in England. Additional funding in England comes from local levies on unitary and upper tier local authorities, who are represented on Regional Flood and Coastal Committees. We carry forward any unspent levy balances at the end of the year as deferred income. In Wales, we receive grant-in-aid from the Welsh Government to fund the costs of our work in Wales.

Environment protection, navigation, conservation and fisheries
The principal financial duty for each of these functions, that are partly funded by charges to customers, is to balance income raised from these charges with relevant expenditure in each financial year. We have to ensure that, taking one year with another, income from applicants for and holders of consents, licences and authorisations equals expenditure incurred in connection with the granting and subsistence of these consents, licences and authorisations. Any remaining balances at year end relating to our environment protection charges are carried forward. In the case of navigation, conservation and fisheries, any in-year deficit balances are funded through grant-in-aid.

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

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

Cost allocation and charging requirements
We have complied with the cost allocation and charging requirements as set out in HM Treasury and Office of Public Sector Information guidance. We will continue to work with HM Treasury, with support from Defra, to ensure the basis of future charging schemes remain sound.

How we are managed

Board and Executive Directors

The Environment Agency is governed by a Board. On 31 March 2011, the Board comprised eleven non-executive members, the Chairman and Chief Executive. The Secretary of State for Environment, Food and Rural Affairs, in consultation with the Welsh Environment Minister, appoints members of the Board, except for the Chief Executive who is appointed by the Board with the approval of the Secretary of State in consultation with the Welsh Minister. One member of the Board is appointed by the Welsh Minister. A list of Board members is available on our website and is set out on page 21. The normal term of office for a non-executive Board member is three years, although this is usually extended for a further three year period. Length of appointments may be varied to ensure continuity of Board membership.

Defra's Accounting Officer has designated the Chief Executive as the Environment Agency's Accounting Officer. The Environment Agency had seven other Executive Directors at 31 March 2011, who are not members of the Board. They are listed on page 22.

Board committees

The Audit and Risk Committee includes six non executive Board members and is currently chaired by Lady Suzanne Warner. It meets quarterly and its principal aims are to ensure the standards of internal management and financial control are appropriate and to consider our Annual Report and Accounts and the pension fund accounts. The Committee considers and advises the Board and Accounting Officer on the scale and programme of Internal Audit, and the results of the work of both Internal and External Audit.

The Pensions Committee comprises four non-executive Board members, four senior executive managers, and seven pension fund nominees. The Committee is chaired by Lord Larry Whitty. The Environment Agency is responsible for administering two Local Government Pension Funds, an Active Fund for its employees and a Closed Fund for ex-employees of the former water authorities and associated bodies. The Pensions Committee has been delegated by the Board to manage all aspects of the management of both pension funds and to advise the Board on all pension related matters. Separate audited accounts are produced for both pension funds.

The Flood Defence Finance Committee includes six non executive Board members, in addition to the Chairman and the Chief Executive. The principal purpose of the Committee is to assign the allocation of Defra and Welsh Government flood risk management grant-in-aid to the Environment Agency's Flood and Coastal Committees, for flood risk management revenue and capital activities.

A separate report of the Remuneration Committee is included in the Remuneration Report on page 20.

Employees

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

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

In December 2009, we were re-accredited with Investors in People, which is a national standard of good practice for employers in leading, managing and developing employees.

We continue to make progress in the area of diversity and inclusion, focusing on the development and retention of our existing diverse workforce. We have monitored the impact of our organisational change programmes on our employees from diverse backgrounds, by using equality impact assessments. We have valued the feedback received from our diversity discussion groups, and have addressed the themes identified to produce diversity action plans. Positive outcomes from this include the launch of a women's network, with a network for Black, Asian and Minority Ethnic (BAME) staff coming soon. Our Lesbian Gay, Bisexual and Transgender (LGBT) Network has been awarded ’Star Performer‘ status and we are again ranked in the top 20 of UK public and private organisations (and for the first time ever in the top five of government organisations) in the Stonewall benchmarking index for LGBT equality.

We have launched our bespoke diversity eLearning programme. The outcome of this programme will enable all teams to hold discussions on diversity and to better understand the responsibilities that we all have to improve our performance in this area. Our talent programme participants regularly choose practical diversity projects to support their development and very successfully help us to raise the profile of diversity in delivering positive operational results. We have launched our employee self disclosure system and have seen a vast improvement in the numbers of employees recording their disability details, enabling us to better understand the needs of our people and to provide improved support to them. Embedding diversity into the heart of our business is providing us with sound business benefits and helping us to deliver our environmental outcomes.

The average number of days lost due to sickness during 2010-2011 was 6.8 days per employee, an increase from 6.5 days in 2009-2010. In real terms the actual number of working days lost has reduced but the reduction in the size of the workforce has resulted in a percentage increase. Musculoskeletal conditions remain the main cause of sickness absence, accounting for 21 per cent of sickness absence. There has been no significant change in the proportion of sickness absence due to long and short term sickness.

Health and safety

Our aim is to be leaders in health, safety and wellbeing as we carry out our important work of protecting and improving the environment. Our commitment to drive forward continuous improvement is underpinned by a robust health and safety management system and a commitment to do more than just achieve legal compliance.

We consult formally with health and safety representatives and discuss and exchange ideas on health and safety with employees on a local basis. Every employee is responsible for, and vital to, improving health, safety and wellbeing. However, we also recognise that the visible commitment of our leaders and managers is essential to our success. We have arrangements in place to keep our performance under review, including regular reports to the Board.

It was with great sadness that we announced in December the death of a highly valued member of our Operations Delivery team, Simon Wenn. Simon was working on the Counter Drain, near Mepal in Cambridgeshire when the dragline he was operating fell into the drain. Simon had worked with us for 18 years and is greatly missed. We are learning from the incident to protect further our own and our partners’ workforces in the future.

Other issues

Research and development

Our research and development programme, within our evidence directorate, covers the full range of our scientific and technical functions in environment protection, water resource management, and flood and coastal erosion risk management. The overall purpose of the programme is to make our business more effective and efficient, and to develop innovative approaches to the challenges we have to tackle. Expenditure on research is expensed in the year in which it is incurred.

Creditor payment policy and statistics

We seek to meet the level of performance on payment of creditors set out in British Standard 7890, *Method for achieving good payment performance in commercial transactions*, and relevant HM Treasury guidance. During the year we paid over 79 per cent of invoices from suppliers within 10 days of receipt and registration. Creditor days, calculated on an average basis for the year, were six days for 2010-2011 (5 days for 2009-2010). This is to help ease businesses cash flow as the country seeks to address the challenges of the current economic environment.

Environmental policy and social community statement

We seek to use best environmental practice in everything we do and use our environmental management system to pursue sustainable outcomes. Whenever possible, in accordance with our need to provide value for money, social benefits will be provided to local communities through our work. This includes aspects related directly to our work such as flood and coastal erosion risk management, water resources, pollution prevention, navigation and fisheries.

We actively seek to:

- reduce energy and resource consumption through reduction methods consistent with best practice;
- reduce the impact of our business travel by the application of a clear travel hierarchy and the use of clear and challenging corporate targets;
- use renewable energy schemes where feasible, to minimise the release of greenhouse gases;
- minimise the use of hazardous materials and waste generated, and prevent pollution, including close working with our construction partners to minimise their impacts;
- influence our suppliers and contractors to ensure that goods and services we buy support our environmental policy and, in turn, encourage suppliers and contractors to improve their own environmental performance; and
- monitor and report on our environmental impacts and related expenditure in the Annual Report and Accounts, including a report on our sustainability performance included in Appendix A.

Our employees continue to support WaterAid which aims to provide clean water, sanitation and hygiene education to some of the world's poorest people. We encourage and help our staff to get involved in fundraising activities while still complying with public sector protocols. WaterAid benefits from the funds we raise. During 2010-2011, our employees gave £251,758 raised through various fundraising events and donations through payroll.

Pensions

The Environment Agency is a statutory member of the Local Government Pension Scheme (LGPS) and is the administering and employing authority for the Environment Agency's Active Fund which provides final salary pension benefits to 21,605 people who are either current employees, ex-employees or who transferred into the Environment Agency when it was established in 1996. It is also the statutory administering authority for our Closed Fund which provides final salary pension benefits for 20,419 employees from predecessor water industry bodies. The Environment Agency is responsible for administering both funds in accordance with the LGPS regulations.

The Active Fund receives contributions from our staff (between 5.5 per cent and 7.5 per cent of pay) from the Environment Agency (16.5 per cent of pay) and income from investments from the Active Fund's assets of £1.7 billion. The assets of the fund have increased in value by 10.7 per cent during 2010-2011, after allowing for contribution income and benefits paid out over the period.

The Closed Fund receives no contributions from the Environment Agency and the Secretary of State for Environment, Food and Rural Affairs has a duty under section 173(3) of the Water Act 1989 to ensure the Fund can meet and fully discharge its liabilities including future annual indexation awards. The Environment Agency has continued to receive cash funding from Defra for the Closed Pension Fund to pay the pension liabilities. Separate financial statements are maintained for the Closed Fund and Active Fund.

Managing risk
As noted in the Statement on Internal Control on page 26, we have a structured and dynamic risk management strategy to help us achieve our objectives. Each key risk is owned and actively managed by a risk champion at Director level. Our risk management plans and reviews of performance against the plans help to ensure that risks are mitigated towards the target level.

Current corporate risks are:

- Managing with reduced funding
- Organisational change
- Governance changes impacting on the Environment Agency
- Asset and information security
- Data integrity
- Delivering the service that our customers require
- Restoring sustainable abstractions

The above risks are informed by an annual analysis of risk from across all business units of the Environment Agency and they are discussed and updated by Directors on a monthly basis.

Personal data
In 2010-2011 we made two notifications to the Information Commissioners Office (ICO).

Further information around work that we have been undertaking to improve controls around personal data is contained in the Statement on Internal Control.

Managing our buildings
We occupy 181,000m^2 of office space in our offices and depots. 94,000m^2 are freehold and 87,000m^2 leasehold. The majority of our offices and depots were inherited from predecessor organisations. We have carried out a major review of our corporate estate (offices and depots) and in 2009-2010 launched a rationalisation strategy: our National Accommodation Delivery Plan.

Our Delivery Plan recognises that many of our staff do not spend the majority of their time working from offices. This means that by using office space more flexibly, we can reduce the total amount of office space we need. We have a target of 10m^2 per workstation per member of staff, and 80 per cent of our workstations in use at peak times.

To date, progress of our Delivery Plan has resulted in:

- 39 disposals of premises
- 4 acquisitions of premises
- £2.4 million of capital income from disposals
- £0.6m reduction in accommodation running costs.

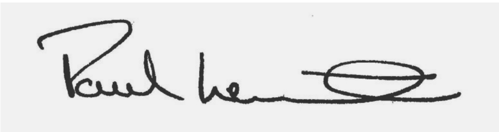
Our biggest project in the Delivery Plan is already complete. We have moved all of our staff from three sites in and around Bristol into Horizon House: our new build office in Bristol city centre. Our new building was awarded the Building Research Establishment Environmental Assessment Model (BREEAM) 2010 office award, after achieving the highest rating of ‘excellent’ from the BREEAM assessment.

We are working increasingly with other government organisations, and particularly Defra, to identify collaborative opportunities to make savings across the Defra network. Our staff are actively leading on the Defra Network Estates Strategy. At present we have 11 projects underway to co-locate our operations within Defra’s accommodation and other opportunities are likely to be agreed in the future. In Wales we are working with Countryside Council for Wales (CCW) and Forestry Commission Wales (FCW) to explore accommodation sharing opportunities. Three projects are in progress or nearing completion that will enable the sharing of accommodation between the three organisations.

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

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

Information requests
For any information requests, please use the following email address: enquiries@environment-agency.gov.uk. Alternatively written communications can be sent by post to The Environment Agency, National Customer Contact Centre, PO Box 544, Rotherham, S60 1BY. Telephone contact can be made using 03708 506 506 (Monday to Friday, 8am to 6pm).



PAUL LEINSTER
ACCOUNTING OFFICER
7 July 2011

REMUNERATION REPORT

Terms of Reference
The Remuneration Committee comprises six non executive Board members and is chaired by the Chairman of the Environment Agency. Its terms of reference in 2010-11, which were derived from the Greenbury Code of Best Practice on Directors' Remuneration and adapted to the circumstances of the Environment Agency as a NDPB, are as follows:

1. The Remuneration Committee is appointed as a Statutory Committee of the Environment Agency Board to consider on behalf of the Environment Agency the matters relating to the remuneration of Environment Agency employees set out in paragraph 2 and, in so doing, shall have regard to the provisions of the Financial Memorandum and other relevant requirements of Defra.

2. The Remuneration Committee's role is to:

   (a) consider, from time to time, the overall remuneration strategy of the Environment Agency;

   (b) consider, in general, periodic pay reviews for Environment Agency employees;

   (c) consider any significant policy issues involving terms and conditions other than pay;

   (d) decide in conjunction with Defra as appropriate, all aspects of the remuneration of the Chief Executive;

   (e) agree, upon the recommendation of the Chief Executive, any performance related pay for Directors;

   (f) review the broad policy of remuneration for other senior executives, and the framework for succession planning for key posts; and

   (g) receive an annual statement of expenses incurred by Board members.

In May 2011 the Board approved new Terms of Reference for the Remuneration Committee which clarify the Committee's remit and reflect current best practice.

Business Conducted in Year
The Remuneration Committee met four times during the year ended 31 March 2011. It agreed the Chief Executive's appraisal for 2009-2010, and objectives for 2011-2012.

During the year, the Committee also:

- endorsed the Environment Agency's approach to the pay award; and

- reviewed pay in the light of public sector spending constraints.

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

Board Members' Remunerations (audited)
The following table provides details of the appointment and emoluments of Board members who have received emoluments in the last two financial years:

Board Member	Date of Appointment or Re-appointment effective from	Period of appointment (years)	Time commitment (days per month)	Remuneration in 2010-2011 £	Remuneration in 2009-2010 £
The Rt Hon Lord Smith of Finsbury (Chairman) ** ****	14 July 2008	3	3 per week	106,119	106,119
Mr James Brathwaite CBE ** ****	01 July 2008	3	4½	18,902	18,902
Dr Andrew Brown (iii) * **	10 Oct 2009	3	5	25,200	24,151
Dr Ruth Hall CB * ****	01 July 2008	3	6	25,202	26,867
Dr Madeleine Havard (v) * ****	04 Oct 2010	3	5	10,361	–
Ms Julie Hill	01 July 2009	3	5	21,002	15,752
Ms Emma Howard Boyd * ** ****	01 July 2009	3	1 per week	18,201	13,651
Councillor Robert Light * ** ***	01 July 2009	3	4	16,802	12,602
Dr Malcolm Smith (ii)	01 Sept 2008	2	7	14,701	29,403
Councillor Kay Twitchen OBE (iv)	01 April 2010	0.5	6	12,601	25,202
Mr John Varley ***	01 Oct 2009	3	4	16,802	8,401
Mr Jeremy Walker ****	22 June 2009	3	6	25,203	19,137
Lady Suzanne Warner * *** ****	18 Sep 2009	3	6½	27,300	25,901
Lord Larry Whitty ** ***	18 Sep 2009	3	4½	18,902	18,902
Dr Paul Leinster (Chief Executive) (i)	01 Nov 2008	–	Full Time	194,268	205,477
			Total	**551,566**	**550,467**

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

* Member of Audit and Risk Committee during the financial year 2010-2011.
** Member of Remuneration Committee during the financial year 2010-2011.
*** Member of Pensions Committee during the financial year 2010-2011.
**** Member of Flood Defence Finance Committee during the financial year 2010-2011.

i) The Chief Executive sits on the Board as an ex-officio member, for which he does not receive any additional remuneration. His total emoluments for the year are disclosed in the Executive Directors' table.
ii) Dr Malcolm Smith retired on 30 August 2010.
iii) Dr Andrew Brown was appointed Deputy Chair on 01 July 2009.
iv) Councillor Kay Twitchen was re-appointed to the Board for 6 months with effect from 1 April 2010 and retired on 30 September 2010.
v) Dr Madeleine Havard was appointed to the Board on 4 Oct 2010.

Executive Directors' Emoluments (audited)

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

Executive Director	Date of Appointment	PRP 2010-2011 (Range £'000)	Emoluments 2010-2011 (Range £'000)	PRP 2009-2010 (Range £'000)	Emoluments 2009-2010 (Range £'000)	Benefits in Kind 2010-2011 (£)	Benefits in Kind 2009-2010 (£)
Dr Paul Leinster, Chief Executive	01 Nov 2008	–	190 – 195	10 – 15	190 – 195	1,100	3,400
Ms Patricia Henton, (i) Director of Environment and Business	07 Mar 2005	–	80 – 85	15 – 20	135 – 140	–	–
Mr David Jordan, Director of Operations	01 Jun 2008	–	160 – 165	10 – 15	160 – 165	2,500	3,500
Ms Miranda Kavanagh, Director of Evidence	29 Apr 2009	–	130 – 135	10 – 15	120 – 125	3,200	2,000
Mr Graham Ledward, Director of Resources	03 Jan 2006	–	150 – 155	10 – 15	145 – 150	3,200	2,800
Mr Adrian Long, (ii) Director of Communications	25 Feb 2008	–	170 – 175	10 – 15	110 – 115	–	2,100
Dr Mark McLaughlin, Director of Finance	22 Jun 2009	–	140 – 145	10 – 15	110 – 115	1,400	300
Mr Ed Mitchell, (iii) Director of Environment and Business	01 Apr 2010	–	120 – 125	–	–	–	–
Mr Jonathan Robinson, Director of Legal Services	05 May 2009	–	115 – 120	10 – 15	100 – 105	–	–
Mr Robert Runcie, (iv) Director of Flood Risk Management	01 Apr 2009	–	105 – 110	10 – 15	130 – 135	100	1,400

Note: Total emoluments include gross salaries. On a voluntary basis by Directors no payments were made for performance related pay for the 2010-2011 financial year. The notice period for Directors is three months.

(i) Ms Patricia Henton retired on 31 October 2010. Her whole year equivalent salary was £139,000. No severance payment was made.
(ii) Mr Adrian Long's post of Director of Communications was made redundant on 28 February 2011 as a result of organisational change. The figures above include a payment of £57,782 in line with our contractual redundancy policy.
(iii) Mr Ed Mitchell was appointed Director of Environment and Business on 1 April 2010.
(iv) Mr Robert Runcie has been unable to carry out his duties since 22 April 2010 due to ill health and has been awarded Local Government Pension Scheme ill health retirement from 30 June 2011. Mr David Rooke has undertaken his duties since 1 May 2010, although he is not and has not been a Director during the year.

Executive Directors' Emoluments (audited)
The Environment Agency employs seven Executive Directors in addition to the Chief Executive.
The following table provides details of their pensions:

Executive Director	Accrued Pension at 31/03/2011	(Decrease) / Increase in Accrued Pension During the Year	Accrued Lump Sum at 31/03/2011	Increase in Lump Sum During the Year	CETV at 31/03/2010 (i)	CETV at 31/03/2011	Real increase in CETV
	(Range £'000)	(Range £'000)	(Range £'000)	(Range £'000)	£'000	£'000	£'000
Dr Paul Leinster, Chief Executive	55 – 60	0 – 2.5	125 – 130	(2.5 – 5.0)	1,111	1,226	16
Ms Patricia Henton, (iii) Director of Environment and Business	40 – 45	(10.0 – 12.5)	275 – 280	130.0 – 132.5	1,218	1,156	(91)
Mr David Jordan, Director of Operations	60 – 65	0 – 2.5	165 – 170	(5.0 – 7.5)	1,218	1,324	1
Ms Miranda Kavanagh, Director of Evidence	0 – 5	0 – 2.5	–	–	26	57	19
Mr Graham Ledward, (v) Director of Resources	20 – 25	2.5 – 5.0	10 – 15	(0 – 2.5)	200	249	21
Mr Adrian Long, Director of Communications	10 – 15	0 – 2.5	20 – 25	(0 – 2.5)	154	181	8
Dr Mark McLaughlin, Director of Finance	75 – 80	0 – 2.5	–	–	758	826	(7)
Mr Ed Mitchell, Director of Environment and Business	15 – 20	2.5 – 5.0	35 – 40	3.5 – 4.0	128	172	25
Mr Jonathan Robinson, (iv) Director of Legal Services	40 – 45	2.5 – 5.0	–	–	343	403	(1)
Mr Robert Runcie, (ii) Director of Flood Risk Management	45 – 50	0 – 2.5	125 – 130	(2.0 – 2.5)	820	907	10

(i) The Cash Equivalent Transfer Value (CETV) at start date has been restated to take account of the new factors issued by the Government Actuary's Department (GAD) in October 2010. This reflects the change to CPI from RPI increases.

(ii) Mr Robert Runcie has had a reduction in earnings due to ill health. His notional salary for the whole year was £135,000. He has continued to accrue benefits in full. He is currently contributing towards added years; these contributions have been added onto the normal employee contributions paid by this member. The pension figures quoted also include these added years. From 30 June 2011 he has been granted ill health retirement.

(iii) Ms Patricia Henton retired on 31 October 2010. This member commuted part of her pension to receive additional cash on retirement and this is the reason why she has a negative real increase in pension and a large real increase in lump sum. The CETV at 31 March 2010 is calculated using actual retirement benefits.

(iv) Mr Jonathan Robinson is currently contributing towards added pension. These contributions have been added onto the normal employee contributions. The pension figures quoted also include this added pension. He is also contributing towards in-house additional voluntary contributions (IHAVCs), however, these have been excluded from the above numbers as they are being made on a defined contribution basis.

(v) Mr Graham Ledward was awarded additional pension entitlement by the Environment Agency of 135 days on 1 April 2010, in accordance with an agreement which was made in May 2008. The impact of this award has been included in the table above. An award for 2010-2011 has been approved but calculations regarding this award are still being completed and therefore the award has not been included in the table above.

The Chief Executive's total pay includes gross salary only as no payments were made for performance related pay for the 2010-2011 financial year. The Chief Executive is an ordinary member of the Environment Agency's Active Fund pension scheme, and the Environment Agency paid employer's pension contributions into the Active Fund at the same rate as for other ordinary participants. At the end of the year, his accrued pension entitlement from the Environment Agency's pension scheme was £56,013.

The Executive Directors' total pay includes gross salaries only as no payments were made for performance related pay for the 2010-2011 financial year. They are also ordinary members of the Environment Agency's Active Fund pension scheme.

The assessment of the Corporate Performance of the Environment Agency is agreed with the Remuneration Committee. Directors' performance is approved by the Chief Executive in consultation with the Remuneration Committee. The Chief Executive's performance and objectives are determined by the Chairman and Remuneration Committee.

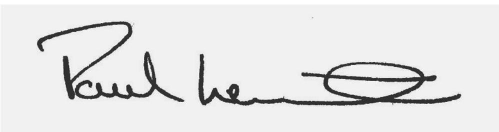
The Chief Executive and Directors have standard contracts of employment with three months termination notice. Apart from the standard redundancy entitlement that is in place for all staff within the Environment Agency, there are no other provisions for termination payments.

Cash Equivalent Transfer Value (CETV)

This is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. It is a payment made by a pension scheme or arrangement when the member leaves a scheme and chooses to transfer the pension benefits they have accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their membership of the pension scheme, not just their current appointment as an Executive Director or Senior Manager. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost or awarded by the Environment Agency. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

Real increase in CETV

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



PAUL LEINSTER
ACCOUNTING OFFICER
7 July 2011

STATEMENT OF ACCOUNTING OFFICER'S RESPONSIBILITIES

Under section 45 of the Environment Act 1995, Defra and Welsh Ministers have directed the Environment Agency to prepare for each financial year a statement of accounts in the form and on the basis set out in the Accounts Direction. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the Environment Agency and of its income and expenditure, changes in taxpayers' equity and cash flows for the financial year.

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

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

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

PAUL LEINSTER
ACCOUNTING OFFICER
7 July 2011

ACCOUNTING OFFICER'S STATEMENT ON INTERNAL CONTROL (SIC)

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

We have published our Corporate Plan for the period from 2010 to 2015 and during this year produced our Corporate Plan from 2011 to 2015. Through the publication of the Corporate Plan and the Annual Report and Accounts, the Environment Agency reports on progress made and sets out how we have allocated the resources made available to us. Defra and the Welsh Government approve the Corporate Plan. As part of this process, we communicate our business aims and objectives and those areas we perceive as representing the greatest risk to their achievement.

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

The purpose of the system of internal control
The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve business aims and objectives. I 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 our business aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently and effectively. The system of internal control has been in place in the Environment Agency for the year ended 31 March 2011 and up to the date of approval of the Annual Report and Accounts, and accords with Treasury guidance.

Capacity to handle risk
The Environment Agency has a statement setting out our strategic approach to risk management that has been agreed with our Board and Directors. The Directors' Team assesses and prioritises the Environment Agency's key corporate risks throughout the year with individual Directors taking on the role of risk champions. These risks are actively managed and discussed monthly at meetings of the Directors' Team. The Audit and Risk Committee receive regular reports on how key corporate risks are being managed and report back to the Board after each meeting. Over time this has developed into a dynamic and integrated approach to risk management.

Local Delivery and National Office management teams identify and manage their own major business risks in a similar way to the corporate risk process, supported by local risk managers. Any significant risks identified at this level are escalated to the Directors' Team and considered for inclusion as corporate risks. Staff have access to guidance on the application of risk assessment and local lead risk managers have been appointed in each business unit. The Environment Agency has post-project appraisal and lessons identified processes in place. These are designed to improve knowledge sharing across the organisation. Staff are regularly reminded of the importance of complying with risk management requirements.

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

All key management teams undertake an annual business-risk assessment review. These prioritised assessments are used to compile an Environment Agency wide risk register. The register informs corporate risk assessment at Directors' Team. At management team and Director level, risk mitigation plans are developed and routinely monitored and reported on and it is through this process that the on-going maintenance and improvement of the Environment Agency's risk management process occurs. To manage corporate risks, the Directors' Team uses a dynamic process to discuss and update its risk register. The current risks include management of the Environment Agency's reputation, funding challenges, embedding a better regulation culture, asset and information security, restoring sustainable abstractions, data integrity, managing organisational change and outsourcing of information technology services. The Board takes an active part in considering and monitoring the management of business risks.

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

Key elements of the system of internal control

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

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

2. Strategy and Planning
The Environment Agency has a long established vision for the environment and works to achieve this through implementing our Corporate Plan *Creating a better place*. The Environment Agency works with Defra, DECC and the Welsh Government to agree its Corporate Plan for each Spending Review period. The Corporate Plan defines the outcomes the Environment Agency will achieve (often working with others), the money available to fund the work, and the numbers of people employed to deliver the outcomes. The Corporate Plan is informed by local evidence and need, and drives allocation to local delivery plans.

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

4. Change Management
There are established protocols for managing any changes that impact on staff roles and responsibilities that incorporate active engagement with the Trade Unions. Managing organisational change was identified as a significant corporate risk due to the potential for significant reductions in funding and staff numbers as a result of the Spending Review settlement. The anticipated reductions were confirmed as part of the Spending Review settlement. The mitigating actions have been regularly scrutinised by Directors including the changed roles of managers within the control framework itself. Each change programme has a risk register and a senior management led project team.

A standalone environmental body may be created in Wales by the Welsh Government formed by the merger of Environment Agency Wales with other public environmental bodies in Wales.

5. Performance Management
The Environment Agency has an organisation-wide performance management framework designed to align strategic targets to each individual's performance objectives. The Directors' Team uses a corporate scorecard to monitor achievement of key organisational objectives. Local Delivery and National Office management teams also maintain and monitor scorecards to assist in delivering and accounting for performance.

6. Fraud Risk Management
Fraud risk is actively managed. We have a risk management plan that is updated annually, to identify the risks of fraud and to ensure that these risks are mitigated to an acceptable level. We have recently increased the frequency and detail of our Fraud Risk reporting to Directors' Team. We have aligned the fraud policy and process documentation with other related areas such as whistle-blowing and reporting to Defra. We are updating guidance and the code of conduct as a result of the Bribery Act 2010 to ensure that we have adequate prevention procedures in place. Having taken legal advice from Counsel, we have assessed our risks relating to the issues highlighted in the Bribery Act to be low.

7. Legislative Compliance
In April 2010, a legislative compliance policy was finalised and this is being embedded into the organisation. This formalises and clarifies the existing approaches and accountabilities to assist the Environment Agency to comply with legislation.

Review of effectiveness
As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the Environment Agency who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. I have been advised on the system of internal control by the Board and the Audit and Risk Committee on the basis of the reports of the reviews they have scrutinised and a plan to address weaknesses and ensure continuous improvement of the system is in place.

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

1. The operation of the Environment Agency Board, comprising non-Executive Directors and the Chief Executive sets strategic direction, approves the Corporate Plan and reviews performance. The Board receives regular reports from the Audit and Risk Committee that set out the standards of corporate governance and internal control operating in the Environment Agency.

2. The operation of the Audit and Risk Committee, a subcommittee of the Board, which meets quarterly. The principal aims of the Committee are to consider the Annual Accounts of the Environment Agency and to ensure the standards of internal management and financial control are appropriate. It also considers and advises the Board and Chief Executive on the Environment Agency's approach to risk management and corporate governance arrangements.

3. The Head of Internal Audit submitting an annual formal opinion to the Accounting Officer on the adequacy and effectiveness of the Environment Agency's risk management, internal control and governance processes in accordance with Government Internal Audit Standards. This opinion is based on a review of the audits completed as part of the annual audit plan together with other relevant information.

4. An annual review of the effectiveness of the internal review procedures across the control framework. The Audit and Risk Committee and the Accounting Officer receive from the Director of Finance and Director of Operations an annual assurance report on internal control that is based upon a wide range of control processes and enables an overall summary assessment of internal control procedures to be considered.

5. Acting on the recommendations made by external auditors in their interim and final management letters and other reports.

Specific areas of focus during 2010-2011 are set out in the paragraphs below. Management action has been taken or put into place across the business to mitigate these risks and ensure that they are managed appropriately.

Progress continues to be made in securing our assets and information. A full review of the physical security of all our offices and major depots was completed in 2010 in accordance with Cabinet Office guidance. A series of "quick win" measures, such as the move to single point of entry to offices, standardised 07:00 to 19:00 office opening times and cleaning within working hours is being implemented which will improve physical security. In addition a new set of physical security standards has been agreed to which we will migrate over the coming 2 years as finance and opportunity allow. There is a hierarchy of measures that has been introduced to protect data and information based on the sensitivity of the data and the protective measures required. These can range from secure storage cabinets, segregated areas, and secure rooms up to secure premises. These measures are being implemented.

Compliance with the government mandatory data handling measures is fully in place and progress has been made with compliance with the mandatory requirements of the Security Policy Framework (SPF). This compliance has recently been reviewed and verified by Internal Audit. Seven of the 68 mandatory requirements are not applicable to us as they relate to counter terrorist measures and National Security Vetting aftercare arrangement. We comply with 60 of the other 61 requirements. The one measure we do not yet meet relates to the use of CCTV. There are still improvements to be made around protective marking of data and its storage and transmission in both electronic and hardcopy formats. We also continue to seek a solution to allow staff to work remotely yet securely. The current practice of allowing access to, and the downloading of, sensitive data via Webmail (Connect2) onto private home computers remains a risk to data security in light of recent cases taken by the Information Commissioners Office. These issues will continue to be addressed in 2011-2012.

Since 1 September 2010, Records Management has been integrated into the Corporate Security team to better address all aspects of Information Assurance. A key focus for the coming months is raising awareness of what data is held and the risk to the Environment Agency if it is lost, there is a loss of its integrity or it is unavailable. Similarly simplifying the data classification and marking processes and ensuring that records are kept and destroyed in accordance with retention schedules will be addressed.

A programme of work to improve data integrity is being implemented. It requires the Environment Agency to record and maintain all key data products, with roles and responsibilities confirmed for data custodians and staff with data handling and data management roles. Improvements to data quality accuracy, completeness and reliability will be aligned to strategic and performance objectives. Our IT staff will be working closely with our specialists who produce our maps, models and reports to improve our processes.

We have reviewed and implemented improved management approaches for our data and knowledge to reduce the amount of rework that is required. We also ensure that we maintain the necessary staff skills and expertise as we implement change programmes to address the necessary reductions in workforce size to match future funding. This requires active management to avoid losing key knowledge during re-organisations that reduce staff numbers.

Reorganisation of our Estates administration teams has put us in a better position to review our effective and efficient management of our operational land portfolio and our tenancy agreements. This will more easily enable us to identify land which is no longer of operational use and can be disposed of.

Mandatory security training for all staff who have IT accounts was developed and rolled out with almost 100% uptake. Action has been undertaken to ensure all staff comply. The output from the results of this will be used to provide targeted security training for 2011.

The Environment Agency has signed a major outsourcing contract with Capgemini to provide information and communications technology for up to ten years. The contract was signed in November 2009. This project required and obtained approval from Defra and HM Treasury and has undertaken OGC Gateway review at appropriate stages. This project has Board, Directors Team and senior management oversight. Appropriate management controls have been put in place to ensure that issues, once identified, are resolved as soon as possible. The Audit and Risk Committee is provided with an update on the status of the project at each of its meetings. Whilst there have been some delays in the early stages of the outsource contract, the relationship remains productive and is on course to secure the expected benefits to the Environment Agency in the future.

The Environment Agency contract with Capgemini to provide information and communications technology has required a number of actions to be progressed to improve overall security of the network, storage and the provision of a secure area within the network to handle data classified at RESTRICTED level or which is personally sensitive. There is also a project to update the computer hardware which is planned to bring into use improvements to encryption software and restrictions on devices that can be connected to Environment Agency computers. Security of IT has improved following the roll out of a full disk encryption system for laptops, with additional controls for remotely erasing and disabling EA smartphones (Blackberrys). The process to control the IT access for staff that have made internal job moves has been reviewed so that checks of access to high risk systems are now made as standard. Improvements have been made to processes when staff leave the organisation, to ensure that redundant and unused accounts are removed.

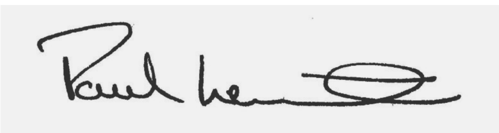
There are established policies and procedures to help programme and project managers manage the delivery and finances of their projects effectively. Some enhancement is required and an action plan is in place to ensure that these procedures are applied consistently across the organisation and that defined roles and responsibilities are fully understood. 'Lessons identified' exercises for each significant project are completed and should be more widely communicated for the benefit of future projects. The Corporate Portfolio Group has been established. The purpose of the group is to support Directors' Team in ensuring programmes and projects are prioritised and managed effectively to maximise delivery of our Corporate Plan.

During the year, a weakness was identified due to the absence of a formal corporate statement on how the Environment Agency ensures it is compliant with relevant legislation. We produced a legislative compliance statement which has been approved by Directors' Team. Good progress has been made in embedding the requirements of the statement and the continuing responsibilities under it during 2010-2011.

We have continued to improve our controls in the use of Government procurement cards, with considerable levels of monitoring and assurance checking being undertaken internally. We have reduced the number of card holders by over 2000 to less than 6000 and continue to review whether all of the remaining cardholders need to have cards. The use of audit software to check receipts has been in use since 1 April 2010, making a previously labour-intensive assurance process more efficient and enabling significantly enhanced analysis to identify unusual transactions and trends on a more timely basis. It should be noted that the Environment Agency is reimbursed for any losses arising from fraudulent encashment or cloning of card data.

We have relaunched our whistle blowing policy and have updated our fraud reporting and investigation processes to support our work on mitigating fraud risk. This included rolling out a targeted fraud awareness training programme for staff involved in areas of work where the risk of fraud is highest.

The Environment Agency's Financial Scheme of Delegation (FSoD), sets out our delegated authority levels for our staff to commit the Environment Agency to financial decisions. In 2010-2011 we have produced an addendum to the FSoD to communicate to staff the Cabinet Office spending restrictions and approval process for spend on consultancy, marketing, estates and recruitment. The changes have been communicated in a variety of ways and we are working with the process owners to ensure all costs are correctly categorised, approved and reported.



PAUL LEINSTER
ACCOUNTING OFFICER
7 July 2011

THE CERTIFICATE AND REPORT OF THE COMPTROLLER AND AUDITOR GENERAL

THE CERTIFICATE AND REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSES OF PARLIAMENT.

I certify that I have audited the financial statements of the Environment Agency for the year ended 31 March 2011 under the Environment Act 1995. These comprise the Statement of Comprehensive Net Expenditure, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Taxpayers' Equity 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

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the Environment Act 1995. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the Audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Environment Agency's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Environment Agency; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information included in the Annual Report to identify material inconsistencies with the audited financial statements. If I become aware of any material misstatements or inconsistencies I consider the implications for my certificate.

In addition, I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income reported in the financial statements have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Opinion on Regularity

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

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the Environment Agency's affairs as at 31 March 2011 and of its net expenditure for the year then ended; and

- the financial statements have been properly prepared in accordance with the Environment Act 1995 and Secretary of State directions issued thereunder.

Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with Secretary of State and Welsh Ministers' directions issued under the Environment Act 1995; and

- the information given in the Foreword and Management Commentary, included within the Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception
I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records or returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Statement on Internal Control does not reflect compliance with HM Treasury's guidance.

Report
I have no observations to make on these financial statements.

Amyas C E Morse
Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

8 July 2011

Statement of Comprehensive Net Expenditure

for the year ended 31 March 2011

	Note	31 March 2011 £'m	*As Restated 31 March 2010 £'m
Expenditure			
Staff costs	3	*402.8*	*419.3*
IAS 19 pension (credit) / charge	20 (f)	*(160.6)*	*38.8*
Capital works expensed in year	4	*247.3*	*282.1*
Depreciation and amortisation	7 & 8	*101.8*	*97.8*
Other expenditure	5	*383.5*	*383.7*
Impairment of non-current assets	7	*18.7*	*9.4*
		993.5	*1,231.1*
Income			
Income from activities	6	*403.3*	*408.6*
Other income	6	*12.8*	*9.4*
		416.1	*418.0*
Net expenditure	2	*(577.4)*	*(813.1)*
Profit on sale of assets		*0.4*	*1.5*
Interest receivable		*0.2*	*0.3*
Financing income/(expenditure) on pension scheme assets and liabilities	20 (f)	*5.7*	*(26.9)*
Net expenditure after interest		(571.1)	(838.2)
Other comprehensive expenditure			
Net gain/(loss) on revaluation of Property, Plant and Equipment		*35.1*	*(191.1)*
Net gain on revaluation of Intangible assets		*8.0*	*4.7*
Actuarial gain / (loss) on pension scheme assets and obligations	20 (e)	*119.5*	*(164.3)*
Total Comprehensive Net Expenditure		*(408.5)*	*(1,188.9)*

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

The notes on pages 37 to 67 form part of these accounts.

*For details of the prior year adjustments see notes 1.19 and 1.21

Statement of Financial Position

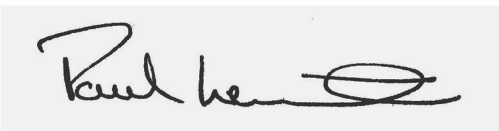
as at 31 March 2011

	Note		31 March 2011 £'m		*As Restated 31 March 2010 £'m		*As Restated 1 April 2009 £'m
Non-current assets:							
Property, plant and equipment	7	2,408.8		2,340.6		2,527.1	
Intangible assets	8	98.5		105.1		81.4	
Total non-current assets			2,507.3		2,445.7		2,608.5
Current assets:							
Assets classified as held for resale	9	4.8		4.3		3.8	
Trade and other receivables	10	98.6		92.4		89.1	
Cash and cash equivalents	11	101.0		85.3		78.0	
Total current assets			204.4		182.0		170.9
Total assets			2,711.7		2,627.7		2,779.4
Current liabilities							
Trade and other payables	12	259.0		185.4		170.6	
Total current liabilities			259.0		185.4		170.6
Non-current assets less net current liabilities			2,452.7		2,442.3		2,608.8
Non-current liabilities							
Provisions	13	15.0		18.6		17.9	
Pension liabilities	20 (c)	120.7		488.2		317.4	
Other payables	12	3.6		5.1		4.3	
Total non-current liabilities			139.3		511.9		339.6
Assets less liabilities			2,313.4		1,930.4		2,269.2
Taxpayers' Equity							
Deferred grants and contributions	14	70.6		70.4		67.0	
Capital reserve	15 (a)	895.5		815.6		746.1	
Revaluation reserve	15 (a)	1,546.1		1,564.2		1,799.2	
Pensions reserve	15 (b)	(120.7)		(488.2)		(317.4)	
Net Expenditure reserve	15 (c)	(78.1)		(31.6)		(25.7)	
			2,313.4		1,930.4		2,269.2

The notes on pages 37 to 67 form part of these accounts.

*For details of the prior year adjustments see notes 1.19 and 1.21

The financial statements on pages 33 to 67 were approved by the Board on 7 July 2011 and were signed on its behalf by:



PAUL LEINSTER
ACCOUNTING OFFICER
7 July 2011

Statement of Cash Flows for the period ended 31 March 2011

	Notes	31 March 2011 £'m	31 March 2011 £'m	*As Restated 31 March 2010 £'m	*As Restated 31 March 2010 £'m
Cash flows from operating activities					
Net expenditure after interest		(571.1)		(838.2)	
Depreciation	7 & 8	101.8		97.8	
Impairment of non-current assets	7	18.7		9.4	
Amortisation of grants received	14	(2.1)		(2.2)	
Profit on disposal of assets		(0.4)		(1.5)	
(Increase) in trade and other receivables	10	(6.2)		(3.3)	
Increase in trade and other payables	12	39.7		17.3	
Transfer (from) / to pensions reserve	15 (b)	(248.0)		6.5	
Increase / (decrease) in provisions	13	(3.6)		0.7	
Net cash outflow from operating activities			**(671.2)**		**(713.5)**
Cash flows from investing activities					
Purchase of property, plant and equipment	7	(127.7)		(100.2)	
Purchase of intangible assets	8	(21.1)		(33.1)	
Proceeds of disposal of property, plant and equipment		1.7		3.4	
Capital grants and contributions for the purchase of property, plant and equipment	14	2.1		5.8	
Net cash outflow from investing activities			**(145.0)**		**(124.1)**
Cash flows from financing activities					
Grant from sponsoring bodies	15 (c)	799.6		846.7	
Net financing			**799.6**		**846.7**
Net increase / (decrease) in cash and cash equivalents in the period			**(16.6)**		**9.1**
Cash and cash equivalents at the beginning of the period			**70.8**		**61.7**
Cash and cash equivalents at the end of the period	11		**54.2**		**70.8**

*For details of the prior year adjustments see notes 1.19 and 1.21

Statement of Changes in Taxpayers' Equity

for the period ended 31 March 2011

	Notes	Deferred grants and contributions	Capital Reserve	Revaluation Reserve	*As restated Net Expenditure Reserve	Pension Reserve	Total Reserves
		£'m	£'m	£'m	£'m	£'m	£'m
Balance at 1 April 2009		67.0	746.1	1,799.2	(25.7)	(317.4)	2,269.2
Changes in taxpayers' equity for 2009/2010							
Net (loss)/gain on revaluation of property, plant and equipment		-	-	(191.1)	-	-	(191.1)
Net (loss)/gain on revaluation of intangible assets		-	-	4.7	-	-	4.7
Actuarial loss on pension scheme assets and obligations	20 (e)	-	-	-	-	(164.3)	(164.3)
Release of reserves		3.4	-	-	-	-	3.4
Transfers between reserves	15	-	69.5	(48.6)	(14.4)	(6.5)	-
Retained deficit		-	-	-	(838.2)	-	(838.2)
Total recognised income and expense for 2009/10		70.4	815.6	1,564.2	(878.3)	(488.2)	1,083.7
Grant from sponsoring bodies	15	-	-	-	846.7	-	846.7
Balance at 31 March 2010		70.4	815.6	1,564.2	(31.6)	(488.2)	1,930.4
Balance at 1 April 2010		70.4	815.6	1,564.2	(31.6)	(488.2)	1,930.4
Changes in taxpayers' equity for 2010/2011							
Net (loss)/gain on revaluation of property, plant and equipment		-	3.2	31.9	-	-	35.1
Net(loss)/gain on revaluation of intangibles		-	-	8.0	-	-	8.0
Actuarial gain on pension scheme assets and obligations	20 (e)	-	-	-	-	119.5	119.5
Release of reserves		0.2	(8.3)	-	-	-	(8.1)
Transfers between reserves	15	-	85.0	(58.0)	(275.0)	248.0	-
Retained deficit		-	-	-	(571.1)	-	(571.1)
Total recognised income and expense for 2010/11		70.6	895.5	1,546.1	(877.7)	(120.7)	1,513.8
Grant from sponsoring bodies	15	-	-	-	799.6	-	799.6
Balance at 31 March 2011		70.6	895.5	1,546.1	(78.1)	(120.7)	2,313.4

Deferred grants and contributions reserve – reflects capital grants received which are being amortised over the useful life of relevant assets.

Capital reserve – reflects the net book value of the historical cost of non current assets to date.

Revaluation reserve – reflects the amount which non current assets have been re-valued to date.

Net Expenditure reserve – reflects the cumulative position of net surpluses and losses of the Environment Agency.

Pension reserve – reflects the cumulative position of the net assets or liabilities of the pension scheme.

*For details of the prior year adjustments see notes 1.19 and 1.21

The notes on pages 37 to 67 form part of these accounts.

NOTES TO THE FINANCIAL STATEMENTS

For the period ended 31 March 2011

(1.0) Statement of Accounting Policies

The financial statements have been prepared in accordance with the 2010-11 Government Financial Reporting Manual (FReM) issued by HM Treasury and are in accordance with directions issued by the Secretary of State for Environment, Food and Rural Affairs, Welsh Ministers and HM Treasury under section 45 of the Environment Act 1995. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context and comply with the guidelines issued by the International Financial Reporting Interpretations Committee (IFRIC). Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of the Environment Agency for the purpose of giving a true and fair view has been selected. The policies adopted by the Environment Agency are described below. They have been applied consistently in dealing with items that are considered material in relation to the accounts. The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities and the reported amount of income and expenditure. All estimates are based on knowledge of current facts and circumstances, assumptions concerning past events, and forecasts of future events and actions. For example, estimates for provisions are informed by the outcome of previous and relevant legal cases and the extrapolation of average costs required to settle the resulting liabilities. Pension provision liabilities are assessed by actuaries, and are based on factors such as life expectancy, age of scheme members, prevailing interest and inflation rates and projected returns on invested funds. Specific areas of judgement include depreciation and amortisation periods, provisions, impairments and classification of capital expenditure as capital works expensed in year. Actual results may differ from these estimates.

(1.1) Accounting Convention

These accounts have been prepared on a going concern basis, under the historical cost convention, modified to account for the revaluation of property, plant and equipment and intangible assets.

(1.2) Costs and Grants

(1.2.1) Income and Expenditure

Income disclosed in the accounts represents revenues, exclusive of VAT, received and receivable during the accounting period in respect of the functions undertaken by the Environment Agency in pursuance of its prescribed activities.

The income from charges for the regulation of businesses in England and Wales to monitor and control their impacts on the environment, whether air, water or land, is derived from a combination of annual fees and new applications. Income also arises from the issuing of licences to permit certain activities such as fishing in controlled waters or the navigation of boats and other craft in the South East of England. Income is recognised at the point the charge is raised, adjusted on an accruals basis and the amounts are recorded at fair value.

Within the Statement of Comprehensive Net Expenditure the full cost of occupation is reflected in relation to buildings that are either owned or leased by Defra or specialised properties held on the Environment Agency’s Statement of Financial Position. The costs are proportionate to occupation and include rates, utilities, management overheads, facilities management and associated capital charges. For Defra leasehold properties, this includes rental costs.

(1.2.2) Grants and Contributions

Capital Grants and Contributions

Grants that relate to specific capital expenditure are treated as deferred grants and contributions, which are credited to the Statement of Comprehensive Net Expenditure over the asset's useful life.

Grant-in-aid Receipts

Grant-in-aid receipts from Defra and Welsh Government are treated as income received from a controlling party, giving rise to a residual financial interest. The receipts are treated as a financing transaction and credited directly to the net expenditure reserve.

With effect from 1 April 2008, the Environment Agency took on responsibility for administering and issuing grants to Local Authorities and Internal Drainage Boards for flood and coastal erosion risk management capital schemes. The grant is received from Defra and distributed for appropriate projects undertaken during the year.

With effect from 1 April 2010, the Environment Agency took on responsibility for administering and issuing grants to Local Authorities for contaminated land capital schemes. The grant was received from Defra and distributed for appropriate projects undertaken during the year.

(1.3) Capital Works Expensed in Year

Capital work expensed in year is expenditure which is capital in nature but the Environment Agency does not retain the risks and rewards in the future or cannot reliably estimate the useful life of the asset. This includes items such as flood assets built on land which is not owned by the Environment Agency where the Environment Agency has permissive powers and assets where it is not possible to check for impairment so it is more prudent to write the asset off in year, including beach replenishment.

(1.4) Property, Plant and Equipment

Administrative freehold land and buildings are valued on the basis of open market value for existing use and are subject to independent professional revaluation in accordance with the RICS Valuation Standards every five years. Assets Under Construction are not revalued until the property is fully operational in the business.

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

Operational assets are used in the Environment Agency's service delivery and are specific in either nature, location or function. It is not possible to effectively revalue these assets using market comparatives or professional valuations. These assets are held in the Statement of Financial Position at depreciated replacement cost and are indexed annually using an appropriate index. Typically these assets include flood defence works, such as barriers and flood meadows, and water resource assets such as telemetry stations and boreholes.

Other tangible non current assets are valued at net current replacement cost. Their values are revised annually through the use of suitable indices.

(1.4.1) Depreciation

Depreciation is calculated so as to write off the value of tangible non current assets on a straight line basis over the expected useful economic lives of the assets concerned. Depreciation is not charged in the month of disposal or in the month of purchase. Depreciation is not charged on Assets Under Construction.

The principal economic lives used for depreciation purposes are:

Operational Assets	15-100 years
Freehold Buildings	10-60 years
Plant and Machinery	3-20 years
Vehicles	3-20 years
Fixtures and Fittings	3-15 years
IT Equipment	3-15 years

The Environment Agency's capitalisation thresholds are:

Land	£0
Property, Plant and Equipment	£5,000

Where the components of an asset are material in value to the fair value of the asset, the components are capitalised and depreciated separately. Components which are no longer used are derecognised.

Subsequent expenditure on property, plant and equipment is capitalised if the criteria for initial capitalisation are met, i.e. if it is probable that economic benefits will flow to the Environment Agency, and that the cost of the expenditure can be reliably measured.

(1.5) Intangible Non Current Assets

Intangible assets with a value exceeding £5,000 are initially recorded at cost and are then revised annually through the use of suitable indices to fair value. Amortisation is calculated so as to write off the value of intangible assets on a straight line basis over the expected useful economic lives of the assets concerned. Internally generated assets are recognised as Assets Under Construction and not revalued until the completed asset is brought into service. The costs are classified as relating to either research or to development phases. Expenditure on research is not capitalised and is written off to the Statement of Comprehensive Net Expenditure as incurred, due to the inherent uncertainty surrounding the economic benefit resulting from it. Development expenditure is capitalised and written off over the useful life of the asset on fulfilment of the criteria noted in IAS 38 Intangible Assets.

The principal economic lives used for amortisation purposes are:

Internally generated Information Technology	3-10 years
Software Licences	5-25 years

(1.6) Non Current Assets Classified as Held for Sale

Non-current assets are classified as held for sale if the carrying amount will be recovered principally through a sale transaction rather than through continuing use. Depreciation ceases immediately on the classification of the assets as being held for sale. They are stated at the lower of their carrying amount and fair value less costs to sell. They are recorded in the current assets section of the Statement of Financial Position.

Non-current assets are only deemed to be assets held for sale if management is committed to a plan to sell and if the asset is being actively marketed in its present condition at a price which is reasonable in relation to its current condition.

(1.7) Impairment

Impairments are recognised when the recoverable amount of non-current assets falls below their carrying amount, as a result of either a fall in value owing to market conditions or a loss in economic benefit.

Adverse market conditions are reflected by downward movements in revaluation, which on an individual asset basis are firstly set against any accumulated balance in the Revaluation Reserve. Any amount in addition to this is recognised as an impairment and recorded against expenditure.

In line with an adaptation in the FReM any loss of economic benefit is recognised in full against expenditure. However, in order to align the balance in the Revaluation Reserve with that which would have resulted through strict application of IAS36, an amount up to the value of the impairment is transferred to the Net Expenditure Reserve for the individual assets concerned.

(1.8) Accrued and Deferred Income

Accumulated surpluses/deficits relating to water resources charges, flood risk management local levies, and environmental protection charges are treated as deferred income or accrued income. Deficits are credited to the Statement of Comprehensive Net Expenditure as costs exceed the income from charges or local authority levy contributions. Surpluses are debited to the Statement of Comprehensive Net Expenditure as the income exceeds costs.

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

(1.9) Leases

A finance lease is one which transfers substantially all the risks and rewards of ownership to the lessee. An operating lease is a lease other than a finance lease. The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement and is dependent on the use of the specific asset and who has the right to use the asset.

For finance leases, where material, the liability to pay future rent is discounted at the interest rate implicit in the lease to derive the present value. Finance leases are capitalised at the start of the lease term at their fair value or, if lower, the present value of the minimum lease payments. Finance leases are revalued professionally every 5 years. The value of finance leases, where material are revised annually through the use of suitable indices and are depreciated over the shorter of lease term or useful life of the asset.

All payments under operating leases are charged to the Statement of Comprehensive Net Expenditure as they are incurred.

(1.10) Foreign Exchange

Assets and liabilities held in foreign currency are translated into sterling at the exchange rate at the reporting date. Income and expenses are translated into sterling at the exchange rates at the date of transaction or at an average rate for the period where this is a reasonable approximation. Exchange gains and losses are recognised in the Statement of Comprehensive Net Expenditure.

(1.11) Short Term Deposits

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

(1.12) Provisions

The Environment Agency provides for obligations arising from past events where the Environment Agency has a present obligation at the balance sheet date, where it is probable that it will be required to settle the obligation and a reliable estimate can be made. The Environment Agency makes all appropriate provisions including redundancy and early retirement costs, where these meet the definition within IAS 37.

(1.13) Contingent Liabilities

The Environment Agency discloses possible obligations arising from pasts events where the outcome is based on uncertain future events or for a present obligation that is not recognised because it is not probable, or cannot be measured reliably.

(1.14) Public Private Partnership (PPP) Contracts

The Environment Agency has two PPP contracts (see note 19) for the provision of services and capital works expensed in the year. There are no tangible non current assets recognised in the Statement of Financial Position in relation to these contracts. Expenditure incurred during the year on both contracts is charged to the Statement of Comprehensive Net Expenditure.

(1.15) Financial Instruments

As the cash requirements of the Environment Agency are met through grant-in-aid provided by Defra, financial instruments do not play a significant medium or long term role in the financial risk profile. The majority of financial instruments relate to contracts to buy non-financial items in line with the Environment

Agency's expected purchase and usage requirements and it is therefore exposed to little credit, liquidity or market risk.

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

(1.16) Value Added Tax

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

In all instances, where output tax is charged, or input tax is recoverable, the amounts included in these accounts are stated net of VAT.

(1.17) Trust Statements for Consolidated Fund

From 1 April 2010 there is a requirement for any entity that collects revenue on behalf of the Consolidated Fund to prepare Trust Statements in consideration of the concepts set out in the *Framework for the Preparation and Presentation of Financial Statements*. The Environment Agency does collect civil penalties on behalf of Treasury but currently the amounts involved are not considered to be of sufficient materiality to warrant the preparation of such statements. This position will be reviewed on an annual basis.

(1.18) Cash and Cash Equivalents

Cash and cash equivalents includes cash in hand and deposits with any qualifying financial institution repayable on demand or maturing within three months of the date of acquisition and which are subject to an insignificant risk of change in value.

(1.19) Machinery of Government Change

With effect from 1 April 2010 Defra has provided grant-in-aid to the Environment Agency to enable it to make grant payments to Local Authorities for the purpose of improving the condition of contaminated land held by these bodies. Prior to 1 April 2010 Defra made these payments directly. This has been treated as a Machinery of Government change in the Environment Agency 2010-2011 Annual Report and Accounts. Comparative figures have been amended for the year ended 31 March 2010, to show the grant payments as if they had been administered by the Environment Agency.

Additional income in 2009-2010 from Defra of £10.9 million is credited directly into reserves as grant-in-aid and the expense of grants awarded to local authorities of £9.3 million is shown within other operating costs in note 5. The balance of £1.6 million relates to a debtor as at 31 March 2010. This prior year adjustment affects the Statement of Comprehensive Net Expenditure, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Taxpayers' Equity, and various notes to the accounts as indicated.

(1.20) Notional Cost of Capital

In line with HM Treasury guidance and accounting alignment from 1 April 2010 there is no longer a requirement to calculate the notional cost of capital. Cost of capital has therefore been excluded from these accounts.

(1.21) Prior Year Adjustment

Adjustments have been made to the prior year accounts to better reflect the accounting requirements of International Accounting Standard 19: Employee Benefits. Trade payables and accruals at 31 March 2010 have been reduced by £65.7 million (2009: reduction of £70.1 million) and the movement during the year of £4.4 million has been removed from the Statement of Comprehensive Net Expenditure. Employer contributions have been treated as a reduction in pension liabilities instead of staff costs within the Statement of Comprehensive Net Expenditure.

(1.22) Employee Benefits

(1.22.1) Pensions

The Environment Agency makes regular contributions to the Environment Agency's Pension Fund (known as the 'Active Fund') to fund the current and future pension liabilities. Contributions are charged to the Statement of Comprehensive Net Expenditure taking account of the expected pension costs over the service lives of the employees and are set at a level sufficient to ensure the scheme is fully funded following formal actuarial valuations of the fund. Following the 31 March 2010 triennial valuation of the Active Fund the Board approved the Environment Agency's consulting actuary recommendation that the contribution rate should remain at 16.5 per cent per annum of pensionable pay (with the past service deficit element, equal to 3.5 per cent of pay, expressed in absolute monetary amounts) for the next 3 years commencing 1 April 2011. The next triennial valuation of the Active Fund will be as at 31 March 2013. Liabilities for enhancements to employees' pension arrangements under the Environment Agency's voluntary severance scheme are accounted for in the year in which applications for severance are approved.

(1.22.2) Other Employee Benefits

The Environment Agency recognises a liability and expense for all other employee benefits, including unused annual leave, accrued at the balance sheet date, provided these amounts are material in the context of overall staff costs. The adjustment creates a charge or a reduction to the Statement of Comprehensive Net Expenditure which results in an increase or decrease to the other current liabilities in note 12.

Termination benefits are recognised as a liability when the Environment Agency has a binding commitment to terminate the employment of an employee or group of employees before the normal retirement date, or as a result of an offer to encourage voluntary redundancy.

(1.23) Adoption of New and Revised International Financial Reporting Standards

IAS8 requires disclosures in respect of new IFRSs, amendments and interpretations that are, or will be applicable after the reporting period. There are a number of IFRSs, amendments and interpretations that have been issued by the International Accounting Standards Board that are effective for future reporting periods. The following have not been adopted early by the Environment Agency:

IFRS1 First-time adoption of international financial reporting standards. Two sets of amendments to the existing standard.
IFRS3 Business Combinations. Amendments to the existing standard.
IFRS7 Financial Instruments Disclosures. Two sets of amendments to the existing standard.
IFRS9 Financial Instruments. A new standard intended to replace IAS39.
IAS1 Presentation of Financial Statements. Minor amendment to the existing standard.
IAS27 Consolidated and Separate Financial Statements. Amendments to the existing standard.
IAS34 Interim Financial Reporting. Amendments to the existing standard.
IFRIC13 Customer Loyalty Programmes. Minor clarification to the existing interpretation.
IFRIC14 Prepayments of a Minimum Funding Requirement. Amendments to the existing interpretation.
IFRIC19 Extinguishing Financial Liabilities with Equity Instruments. A new interpretation.

None of these new or amended standards and interpretations are likely to be applicable or are anticipated to have a future material impact on the financial statements of the Environment Agency.

2 Analysis of Net Expenditure by Segment

	FCRM	WR	EP	Fish	Con	Nav	Total 31 March 2011	*As Restated Total 31 March 2010
	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m
Expenditure								
Staff costs	147.9	49.8	176.3	19.9	4.1	4.8	**402.8**	419.3
IAS19 pension (credit)/charge	(68.6)	(18.0)	(63.1)	(7.6)	(1.6)	(1.7)	**(160.6)**	38.8
Depreciation and CWEIY	299.8	13.3	23.2	3.7	0.7	8.4	**349.1**	379.9
Other expenditure	179.5	66.4	115.5	14.2	3.4	4.5	**383.5**	383.7
Impairment of non-current assets	14.5	0.7	1.0	0.6	-	1.9	**18.7**	9.4
Gross Expenditure	**573.1**	**112.2**	**252.9**	**30.8**	**6.6**	**17.9**	**993.5**	1,231.1
Income	52.8	136.9	192.6	25.7	0.5	7.6	**416.1**	418.0
Net Expenditure	**(520.3)**	**24.7**	**(60.3)**	**(5.1)**	**(6.1)**	**(10.3)**	**(577.4)**	(813.1)

Abbreviations:
FCRM – Flood and Coastal erosion Risk Management ; WR – Water Resources; EP – Environment Protection; Fish – Fisheries; Con – Conservation; Nav – Navigation.

*For details of the prior year adjustment see note 1.19.

3 Staff Numbers and Related Costs

	31 March 2011 £'m	*As Restated 31 March 2010 £'m
Wages and salaries	351.5	365.5
Social security costs	28.6	30.0
Normal contributions to active pension fund (defined benefit scheme)	55.5	55.4
	435.6	450.9
Other staff related costs:		
Agency staff wages and salaries	14.1	42.5
Other staff related costs	24.0	29.7
Exit package costs	28.9	2.5
Special contributions towards past service deficit	14.0	-
Pension contributions paid over to pension fund	(79.8)	(58.5)
	436.8	467.1
Less amounts charged to capital projects	(34.5)	(48.4)
	402.3	418.7
Amounts payable to Board members	0.5	0.6
Total	**402.8**	**419.3**

*For details of the prior year adjustments see note 1.21.

Details of the Environment Agency's pension arrangements can be found in note 20.

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

	31 March 2011			31 March 2010		
	Permanent Staff	Other	Total	Permanent Staff	Other	Total
	Number	Number	Number	Number	Number	Number
Directly Employed	10,270	212	10,482	10,619	501	11,120
Other	-	416	416	-	1,145	1,145
Staff Engaged on Capital Projects	1,156	-	1,156	1,318	-	1,318
Totals	11,426	628	12,054	11,937	1,646	13,583

3.1 Reporting of Compensation Schemes - Exit Packages

	31 March 2011	**31 March 2011**	**31 March 2011**	**31 March 2010**	**31 March 2010**	**31 March 2010**
Exit package cost band	**Compulsory redundancies**	**Other departures agreed**	**Total exit packages by cost band**	**Compulsory redundancies**	**Other departures agreed**	**Total exit packages by cost band**
Under £10,000	22	62	84	7	1	8
£10,000 - £25,000	20	112	132	2	3	5
£25,001 - £50,000	32	176	208	2	7	9
£50,001 - £100,000	15	185	200	3	8	11
£100,001- £150,000	8	26	34	0	1	1
Over £150,000	1	3	4	1	4	5
Total number of exit packages by type	**98**	**564**	**662**	**15**	**24**	**39**
Total resource cost £m	**3.8**	**25.1**	**28.9**	**0.6**	**1.9**	**2.5**

Redundancy and other departure costs have been paid in accordance with Environment Agency compulsory redundancy and voluntary early release schemes. Both schemes are based on the statutory redundancy scheme and take account of the Local Government (Early Termination of Employment) (Discretionary Compensation) (England and Wales) Regulations 2006. Exit costs are accounted for in full when official notice has been served. Where the Environment Agency has agreed early retirements, the additional costs are met by the Environment Agency and not by the Environment Agency Pension Fund (EAPF). Ill-health retirement costs are met by the pension scheme and are not included in the table.

4 **Capital Works Expensed in Year (CWEIY)**	**31 March 2011 £'m**	**31 March 2011 £'m**	**31 March 2010 £'m**	**31 March 2010 £'m**
	Actual Expenditure	Committed Expenditure	Actual Expenditure	Committed Expenditure
Embankments	72.4	38.0	64.0	40.3
Repairs & refurbishments	56.7	27.7	62.7	36.2
Culverts & channel improvements	28.1	11.0	29.0	20.6
Rock groynes & sea walls	22.8	30.6	18.1	28.3
Flood risk management strategies	16.7	14.4	25.7	15.1
Beach recharges	11.6	14.4	11.9	7.0
Flood mapping	5.1	1.8	7.8	2.0
Piling	4.3	4.4	15.4	6.0
Other	29.6	12.1	47.5	10.5
Total	**247.3**	**154.4**	**282.1**	**166.0**

The committed expenditure as at 31 March 2011 excludes capital commitments on the two Public Private Partnership (PPP) contracts detailed in note 19.

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

Beach Recharges
This involves shingle and sand replacement on beaches to retain the integrity of a sea defence.

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

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

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

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

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

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

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

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

5 Other Expenditure

Other operating costs is arrived at after charging the following categories of costs:	Note	31 March 2011 £'m	*As Restated 31 March 2010 £'m
Hired and contracted services		89.9	25.6
Grants awarded to Local Authorities and Internal Drainage Boards		60.5	55.8
Fees and commissions		29.4	65.2
Reservoir operating agreements		24.3	23.9
Transport and plant		22.0	22.7
Utilities		20.4	20.0
Information technology		16.4	29.4
Operating lease rentals:			
Plant & Machinery		16.8	18.3
Other		11.7	11.8
Building costs		15.9	19.7
Public Private Partnership costs	19	15.2	14.0
Travel and subsistence		7.8	10.8
Training		4.4	15.0
Contaminated Land Grants		9.9	9.3
Administration		4.3	8.6
Research and development costs incurred in year		4.3	4.5
Bad debt write-offs		3.6	1.0
External Auditor's remuneration:		0.2	0.3
Other		27.4	25.9
Non-cash items:			
Provision for bad and doubtful debts		(0.9)	1.9
Total		**383.5**	**383.7**

Hired and contracted services costs have increased significantly during 2010-2011, due to the outsourced Information and Computer Technology contract. Note 24 provides additional information about this contract.

External Auditor's remuneration includes the audit fee for the statutory audit of £215,000 (2009-2010 fees: £225,000 for statutory audit, £15,000 for IFRS audit and £33,000 for work on certification of EU grant claims). No payment was made to the External Auditor for non-audit work.

*For details of the prior year adjustments see notes 1.19 and 1.21.

5a Losses and Special Payments

Managing Public Finances requires disclosure of losses and special payments by category, type and value where they exceed £250,000 in total and for any individual items above £250,000. The following table provides a list by category and type of losses. Losses are estimated at fair value and include costs incurred in previous financial years.

Category / Type	**Number**	**Value £'m**
Write-off of sundry debts	1,323	4.1
Loss of assets	248	0.3
Other (cash losses; fruitless payments; unenforceable claims; special payments and gifts)	50	0.4
Total	**1,621**	**4.8**

6 Income

	FCRM	WR	EP	Fish	Con	Nav	Total 31 March 2011	Total 31 March 2010
	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m
Abstraction charges	-	131.6	-	-	-	-	**131.6**	134.8
Environmental Improvement Unit Charge Income	-	3.5	-	-	-	-	**3.5**	-
Navigation licence income	-	-	-	-	-	6.5	**6.5**	6.1
Fishing licence duties	-	-	-	24.2	-	-	**24.2**	25.8
EP charges	-	-	176.7	-	-	-	**176.7**	171.1
Flood risk levies	36.8	-	-	-	-	-	**36.8**	45.4
Conservation	-	-	-	-	0.1	-	**0.1**	0.1
Grants:								
European Union	-	-	0.5	0.2	0.1	-	**0.8**	1.0
Other	0.3	0.2	3.4	-			**3.9**	9.4
Other income	4.5	1.6	11.4	0.7	0.3	0.7	**19.2**	14.9
Income from activities	**41.6**	**136.9**	**192.0**	**25.1**	**0.5**	**7.2**	**403.3**	**408.6**
Capital grants & contributions:								
Capital works expensed in year	9.5	-	0.5	0.6	-	0.1	**10.7**	7.2
Amortisation of grant income	1.7	-	0.1	-	-	0.3	**2.1**	2.2
Total income	**52.8**	**136.9**	**192.6**	**25.7**	**0.5**	**7.6**	**416.1**	**418.0**

Abbreviations:
FCRM – Flood and Coastal Erosion Risk Management; WR – Water Resources; EP – Environment Protection; Fish – Fisheries; Con – Conservation; Nav – Navigation.

6(a) Analysis of Fees and Charges

	WR	WQ	IR	RSR	WM	Fish	Nav	Total 31 March 2011	Total 31 March 2010
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Income	135.1	64.3	39.1	15.2	58.1	24.2	6.5	**342.5**	**337.8**
Expenditure	(130.2)	(66.7)	(42.9)	(11.7)	(55.4)	(39.3)	(19.6)	**(365.8)**	**(362.1)**
(Under) / over recovery	4.9	(2.4)	(3.8)	3.5	2.7	(15.1)	(13.1)	**(23.3)**	**(24.3)**
Sale of assets	-	-	-	-	-	-	0.2	**0.2**	**0.4**
Capital grants	-	-	-	-	-	0.6	0.3	**0.9**	**4.1**
Surplus / (deficit) for the year	4.9	(2.4)	(3.8)	3.5	2.7	(14.5)	(12.6)	**(22.2)**	**(19.8)**

The above table is for Fees and Charges purposes. Costs funded by grant-in-aid have been excluded from the table above, except for Fisheries and Navigation where it is not possible to separate these costs and the excess is funded by grant-in-aid. Income from Flood and Coastal erosion Risk Management and Conservation functions is excluded from the table and therefore it is not intended to fully meet the requirements of IFRS 8 *Operating Segments*. The above table does not include the effect of IAS 19 pension adjustments as these costs / benefits are not passed on to charge payers.

The financial objectives for the above Environment Protection and Water Resources charging schemes is full cost recovery taking one year with another, based on all costs including current cost depreciation and other notional costs where appropriate.

Abbreviations used in the table are as follows:

Function	**Key**	**Fees and Charges Schemes within each (sub) function**
WATER RESOURCES	WR	Abstraction charges for businesses using water abstraction from rivers and the ground
ENVIRONMENT PROTECTION		
Water Quality	WQ	EP Water Quality (was Charging for Discharges) scheme relating to discharges from businesses into the water environment
Industry Regulation	IR	Regulation of businesses under such schemes as: Control of Major Accident Hazards (COMAH) EU Emissions Trading Standards (ETS), EU Emissions Trading Aviation (ETS Aviation) and the Carbon Reduction Commitment (CRC) scheme
Radioactive Substances Regulation	RSR	Regulation of Nuclear Sites RAS 1 and 2 Regulation of Non- Nuclear Sites RAS 3 and 4 Nuclear New Build Sites
Waste Regulation	WM	Licensing for Registration of Carriers and Brokers (ROCAS) Transfrontier Shipments (TFS) Hazardous Waste Producer Responsibility Producer Responsibility – Waste Electronic and Electrical Equipment (PR WEEE) Producer Responsibility – Batteries (PR Batteries) Polychlorinated Biphenyls (PCBs) EP Waste EP Waste Exemptions
FISHERIES	Fish	Fishing Licences
NAVIGATION	Nav	Boat Licences

7 Property, Plant and Equipment

(a) Analysis by type

		At Valuation							At Cost
	Total £'m	Operational Assets £'m	Freehold Land £'m	Freehold Buildings £'m	Plant and Machinery £'m	Vehicles £'m	Furniture and Fittings £'m	IT Equipment £'m	Assets Under Construction £'m
Cost or Valuation									
At 1 April 2010	4,162.5	3,373.8	32.5	54.4	432.0	42.2	56.6	46.1	124.9
Capital Expenditure	127.7	-	-	-	-	-	-	-	127.7
Assets commissioned in year	-	46.3	-	0.1	11.7	3.7	2.7	14.4	(78.9)
Disposals	(20.3)	(5.9)	(0.1)	(0.2)	(3.2)	(5.6)	(2.8)	(2.5)	-
Indexation	(4.9)	(17.6)	4.0	8.3	0.3	0.1	-	-	-
Reclassification and revaluation	(6.7)	(3.6)	(10.3)	10.1	(3.3)	(2.0)	(2.3)	(0.3)	5.0
At 31 March 2011	4,258.3	3,393.0	26.1	72.7	437.5	38.4	54.2	57.7	178.7
Depreciation									
At 1 April 2010	1,821.9	1,394.1	-	7.5	343.5	25.2	30.2	21.4	-
Provided during the period	92.7	47.4	-	1.8	11.8	5.2	5.2	21.3	-
Disposals	(19.0)	(5.5)	-	-	(2.9)	(5.3)	(2.8)	(2.5)	-
Indexation	(10.4)	(12.3)	-	1.6	0.2	-	-	0.1	-
Reclassification and revaluation	(35.7)	(13.2)	-	3.5	(4.6)	(2.5)	(1.8)	(17.1)	-
At 31 March 2011	1,849.5	1,410.5	-	14.4	348.0	22.6	30.8	23.2	-
Net Book Value at 31 March 2011	**2,408.8**	**1,982.5**	**26.1**	**58.3**	**89.5**	**15.8**	**23.4**	**34.5**	**178.7**

(b) Details of Valuation:
All of the Environment Agency's administrative land and buildings except assets under construction are independently revalued every five years. These assets were re-valued as at 1 April 2011 by external Chartered Surveyors on the basis of open market value for existing use. The valuers were King Sturge, Chartered Surveyors. Plant and machinery, fixtures and fittings and operational assets were valued internally at 1 April 1996 based upon replacement costs and were revalued internally at 31 March 2011 using suitable indices. The impacts are shown in the indexation, reclassification and revaluation adjustment lines above.

(c) Dwellings are included at a net book value of £1.1million and £6.0 million for Land and Buildings respectively.

(d) Operational assets include £20.3 million for land that forms an essential element of an operational asset and has significantly changed its nature as a result. The land is being written down to net realisable value over the life of the operational asset in which it is being used.

(e) Operational Assets within the Fixed Asset Register which comprise the Thames Barrier at £1,011.0 million are held at net book value reflecting their Depreciated Replacement Cost.

(f) The Impairment charge of £18.7m reflected in the Statement of Comprehensive Net Expenditure includes the following: Impairment charges that arose from administrative land and buildings revaluation of £6.5m, Impairment charges that arose from a consumption of economic benefits of £1.3m, Assets under construction Impairment of £9.6m and an additional Impairment due to indexation of £1.3m.

(g) Analysis by type – comparative information

	Total £'m	Operational Assets £'m	Freehold Land £'m	Freehold Buildings £'m	Plant and Machinery £'m	Vehicles £'m	Fixtures and Fittings £'m	IT £'m	Construction in Progress £'m
Cost/Valuation									
At 1 April 2009	4,454.3	3,716.7	32.1	56.7	414.7	39.4	56.8	41.6	96.3
Capital Expenditure	100.2	-	-	-	-	-	-	-	100.2
Assets commissioned in year	-	42.8	0.8	2.8	7.9	4.6	4.0	8.7	(71.6)
Disposals	(10.5)	(2.8)	(0.1)	(0.8)	(2.5)	(2.9)	(1.3)	(0.1)	-
Indexation	(369.3)	(386.8)	(0.1)	(0.4)	13.5	1.3	1.8	1.4	-
Revaluation Adjustments	(12.2)	3.9	(0.2)	(3.9)	(1.6)	(0.2)	(4.7)	(5.5)	-
At 31 March 2010	4,162.5	3,373.8	32.5	54.4	432.0	42.2	56.6	46.1	124.9
Depreciation									
At 1 April 2009	1,927.2	1,525.6	-	6.1	325.8	21.8	30.3	17.6	-
Provided during the year	83.7	49.9	-	1.6	11.1	5.2	5.6	10.3	-
Disposals	(8.6)	(2.5)	-	(0.1)	(2.3)	(2.4)	(1.2)	(0.1)	-
Indexation	(150.1)	(163.3)	-	-	10.8	0.8	0.9	0.7	-
Revaluation	(30.3)	(15.6)	-	(0.1)	(1.9)	(0.2)	(5.4)	(7.1)	-
At 31 March 2010	1,821.9	1,394.1	-	7.5	343.5	25.2	30.2	21.4	-
Net Book Value at 31 March 2010	2,340.6	1,979.7	32.5	46.9	88.5	17.0	26.4	24.7	124.9

8 Intangible Assets

ANALYSIS BY TYPE	31 March 2011 Total £'m	31 March 2011 Software Licenses IT £'m	31 March 2011 Websites £'m	31 March 2011 Other IT £'m	31 March 2011 IT Assets Under Construction £'m	31 March 2010 Total £'m	31 March 2010 Software Licenses IT £'m	31 March 2010 Websites £'m	31 March 2010 Other IT £'m	31 March 2010 IT Assets Under Construction £'m
Cost/Valuation										
At 1 April	**137.3**	3.9	62.7	16.8	53.9	**111.8**	2.3	43.3	14.1	52.1
Capital Expenditure	**21.1**	-	-	-	21.1	**33.1**	-	-	-	33.1
Assets commissioned in year	**-**	0.5	-	16.9	(17.4)	**-**	2.3	24.6	4.4	(31.3)
Disposals	**(0.3)**	-	-	(0.3)	-	**(0.9)**	-	-	(0.9)	-
Indexation	**0.4**		0.5	(0.1)	-	**2.1**	-	1.7	0.4	-
Reclassification and revaluation	**(32.0)**	0.2	(12.1)	(7.0)	(13.1)	**(8.8)**	(0.7)	(6.9)	(1.2)	-
At 31 March	**126.5**	4.6	51.1	26.3	44.5	**137.3**	3.9	62.7	16.8	53.9
Amortisation										
At 1 April	**32.2**	1.0	25.6	5.6	-	**30.4**	1.0	23.9	5.5	-
Provided during the year	**9.1**	0.3	7.7	1.1	-	**14.1**	1.0	9.7	3.4	-
Disposals	**(0.3)**	-	-	(0.3)	-	**(0.9)**	-	-	(0.9)	-
Indexation	**0.3**	-	0.3	-	-	**1.0**	-	0.8	0.2	-
Reclassification and revaluation	**(13.3)**	0.4	(13.5)	(0.2)	-	**(12.4)**	(1.0)	(8.8)	(2.6)	-
At 31 March	**28.0**	1.7	20.1	6.2	-	**32.2**	1.0	25.6	5.6	-
NET BOOK VALUE AT 31 March	**98.5**	2.9	31.0	20.1	44.5	**105.1**	2.9	37.1	11.2	53.9

9 Assets classified as held for resale

	Total £'m	Operational Assets £'m	Freehold Land £'m	Freehold Buildings £'m
Cost or valuation at 31 March 2011	**4.8**	**0.4**	**2.8**	**1.6**
Cost or valuation at 31 March 2010	**4.3**	**0.2**	**2.6**	**1.5**

It is anticipated that all transactions will be completed within one year. The accumulated depreciation on the relevant assets was too small to be reflected in the financial statements.

10 Trade receivables and other current assets

Within one year:	**31 March 2011 £'m**	***As Restated 31 March 2010 £'m**
Trade receivables	35.6	27.8
Bad debt provision	(8.2)	(9.1)
	27.4	18.7
Other receivables:		
Grants	0.4	-
VAT	32.6	26.2
Employee loans	0.1	0.1
Other	3.0	9.2
Prepayments	20.8	23.3
Accrued income:		
Water resources	1.4	3.4
Environment protection	9.9	6.4
Other	2.3	2.4
Pension Assets	0.5	2.5
	98.4	92.2
More than one year:		
Employee loans	0.2	0.2
Total	**98.6**	**92.4**

*For details of the prior year adjustments see notes 1.19 and 1.21.

At 31 March 2011 there were 472 employee loans.

Details of related party receivables are shown in note 22(b)

11 Cash and cash equivalents	31 March 2011 £'m	31 March 2010 £'m
At 1 April	85.3	78.0
Net change in cash and cash equivalent balances	15.7	7.3
At 31 March	**101.0**	**85.3**

	31 March 2011 £'m	31 March 2010 £'m
The following balances were held as:		
Commercial banks and cash in hand	4.4	6.2
Short term investments	96.6	79.1
Total	**101.0**	**85.3**

Cash and Cash Equivalents	101.0	85.3
Bank Overdraft	(46.8)	(14.5)
Cash and Cash equivalents as per Statement of Cash Flows	**54.2**	**70.8**

12 Trade payables and other current liabilities	31 March 2011 £'m	*As Restated 31 March 2010 £'m
Within one year:		
Bank overdraft	46.8	14.5
Other taxation and social security	8.6	8.9
Trade payables	12.8	12.3
Trade payables accruals	71.8	61.7
Holiday pay accrual	10.5	11.1
Other payables	0.5	2.0
Capital payables	3.1	2.5
Capital payables accruals	24.3	17.2
Deferred income:		
Flood risk management	20.4	15.1
Water resources	27.2	15.5
Environment protection	10.0	5.1
Customer deposits and receipts in advance	23.0	19.5
	259.0	**185.4**
More than one year:		
Capital payables and accruals	0.6	1.3
Other payables and accruals	3.0	3.8
Total	**3.6**	**5.1**

*For details of the prior year adjustments see notes 1.19 and 1.21.

Details of related party payables are shown in note 22(b).

13 Provisions for liabilities and charges	Redundancy £'m	Other Claims £'m	31 March 2011 £'m	*As Restated 31 March 2010 £'m
At 1 April	0.3	18.3	18.6	17.9
Increase charged to the statement of comprehensive net expenditure	-	11.4	11.4	8.7
Provisions not required written back	-	(8.7)	(8.7)	(1.4)
Utilised during the year	(0.3)	(6.0)	(6.3)	(6.6)
At 31 March	**-**	**15.0**	**15.0**	**18.6**

Estimated timing of cash flows		
Due within one year	**-**	**11.0**
Due between 1 and 5 years	**-**	**4.0**
Total	**-**	**15.0**

Redundancy provisions relate to redundancy costs and other voluntary early release costs where agreement has been reached with the staff member. The other provisions relate to insurance claims, dilapidations and operational provisions.

*For details of the prior year adjustment see notes 1.19 and 1.21.

14 Deferred Grants and Contributions	31 March 2011 £'m	31 March 2010 £'m
At 1 April	70.4	67.0
Amounts receivable in the year	2.1	5.8
Disposals and Adjustments	-	(0.2)
Amortisation in year	(2.1)	(2.2)
Reclassifications	0.2	-
At 31 March	**70.6**	**70.4**

In addition to the deferred grants and contributions received in respect of non current assets, there were grants and contributions receivable of £10.5 million relating to capital works expensed in the year.

15 Reserves

(a) Capital and Revaluation Reserves	Capital £'m	Revaluation £'m	31 March 2011 Total £'m	*As Restated 31 March 2010 Total £'m
At 1 April	815.6	1,564.2	2,379.8	2,545.3
Transfer to net expenditure reserve	27.0	-	27.0	20.9
Revaluation deficit on tangible non current assets	3.2	39.9	43.1	(218.0)
Revaluation adjustment	-	-	-	31.6
Transfer of realised revalued depreciation and disposals	49.7	(58.0)	(8.3)	-
	895.5	**1,546.1**	**2,441.6**	**2,379.8**

The transfer to net expenditure reserve is calculated as follows:	31 March 2011 £'m	31 March 2010 £'m
Purchase of non current assets	148.8	133.3
Grants and contributions (net)	-	(3.6)
Depreciation	(101.8)	(97.8)
Disposals	(1.3)	(1.6)
Impairments	(18.7)	(9.4)
	27.0	**20.9**

(b) Pensions Reserve	31 March 2011 £'m	31 March 2010 £'m
At 1 April	(488.2)	(317.4)
Amount charged to net expenditure reserve	248.0	(6.5)
Actuarial gain / (loss) on pension scheme assets and obligations	119.5	(164.3)
	(120.7)	**(488.2)**

(c) Net Expenditure Reserve	31 March 2011 Total £'m	*As Restated 31 March 2010 Total £'m
At 1 April	(31.6)	(25.7)
Grant-in-aid received in year	799.6	846.7
Deficit for the year before transfers to reserves	(571.1)	(838.2)
Transferred from capital reserve	(27.0)	(20.9)
Transferred from pensions reserve	(248.0)	6.5
	(78.1)	**(31.6)**

*For details of the prior year adjustments see notes 1.19 and 1.21

16 Contingent liabilities	31 March 2011 £'m	31 March 2010 £'m
The Environment Agency has the following contingent liabilities:		
Contaminated assets	4.1	6.0
Contractors' claims	0.5	0.5
Insurance claims	3.3	4.1
Repayment of grants from the European Union	-	0.3
Other	5.2	1.9
	13.1	12.8

The above liabilities include possible obligations for remedial works on contaminated assets should the Environment Agency dispose of them and legal claims by third parties.

17 Capital commitments	31 March 2011 £'m	31 March 2010 £'m
Contracted for but not provided in the financial statements	40.4	65.0

Commitments in respect of capital works expensed in year are disclosed in note 4. The amounts above all relate to tangible fixed assets.

18 Commitments under leases

Total future minimum lease payments under operating leases are given in the table below, analysed according to the period in which the lease expires:

Leases expiring:	31 March 2011 Land & Buildings £'m	31 March 2011 Other £'m	31 March 2010 Land & Buildings £'m	31 March 2010 Other £'m
Not later than one year	11.5	13.5	12.4	15.7
Later than one year and not later than five years	37.8	15.3	43.5	22.7
Later than five years	55.8	-	64.7	-
	105.1	28.8	120.6	38.4

Within the operating lease commitment the disclosure of future costs includes costs that relate to the proportion of the occupation the Environment Agency has of Defra leasehold properties. These arrangements between the Environment Agency and Defra reflect a future commitment to reimburse Defra for the relevant portion of the underlying rentals paid to landlords for the provision of leasehold accommodation.

19 Commitments under Public Private Partnership (PPP) Contracts

The Environment Agency has entered into the following PPP contracts:

(a) Broadland Flood Alleviation Project

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

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

The contract features target price incentives within the bounds of an overall fixed budget. The first ten years have seen the completion of a large number of maintenance projects, valued at £9.9 million. New defences at five locations in the project area and twenty five major improvement works schemes costing £64.8 million have been completed. Site works are underway at a further six locations.

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

Expenditure incurred during the period is charged to the Statement of Comprehensive Net Expenditure. For maintenance work, emergency response and strategy development, costs are accrued based on the agreed annual charge for these services. For planning approvals and improvement works, costs are recognised when the work is completed in accordance with the ‘Framework for the Preparation and Presentation of Financial Statements’. For planning approvals, costs are recognised when formal notification of the granting of planning permission has been received. For improvement works, the flood defence work is recognised when the Environment Agency accepts the work through the issuing of an Improved Service Level Certificate.

Charge to the Statement of Comprehensive Net Expenditure	**31 March 2011**	**31 March 2010**
	£’m	**£’m**
Maintenance work, emergency response, strategy development	1.9	1.6
Planning Approvals	0.9	1.3
Improvement Works	10.2	9.0
Total	13.0	11.9

Payments committed for the future:	**£’m**	**£’m**
Within one year	14.3	11.4
After one year but within five years	28.6	37.0
After five years but within ten years	11.0	8.8
After ten years but within fifteen years	0.5	1.5
Total	54.4	58.7

The contract end date is May 2021.

Financial derivative disclosure:

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

At 31 March 2011, the amount owing for completed Improvement Works (including accrued interest) amounted to £7.3 million. Interest incurred during the year amounted to £0.2 million and was paid at rates between 2.532 per cent and 7.12 per cent. Fixed rates apply to borrowings of £1.8 million. The rate used is 1.5 per cent plus the "ask" fixed interest swap rate for Sterling as at the date that the Improved Service Level Certificate is signed and for the period that is the remaining length of the contract.

Variable rate, currently 2.574 per cent, uses the offer price of six month Interbank sterling LIBOR updated on a six monthly basis on 31 January and 31 August plus 1.5 per cent. This is applied to borrowings at 31 March 2011 of £5.5million.

(b) Pevensey Bay Sea Defences

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

The contract is for 25 years and PCDL, a consortium of Westminster Dredging Co Ltd, Dean & Dyball Construction, Mackley Construction and Mouchel Consulting will carry out improvement works and maintain the sea defences, in return for a monthly fee, with yearly indexing to the Retail Price Index (RPI). In May 2003 the contract was varied to include the Sovereign Harbour frontage. The current contract value with a January 2011 price base, is £39.4 million.

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

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

Expenditure incurred during the period is charged to the Statement of Comprehensive Net Expenditure, on an accruals basis in accordance with the payments schedule.

Charge to the Statement of Comprehensive Net Expenditure	**31 March 2011**	**31 March 2010**
	£'m	**£'m**
Maintenance work – shingle recharge, recycling, reprofiling and emergency response	2.2	2.1

Payments committed in the future	**£'m**	**£'m**
Commitments within 1 year	1.5	2.2
Commitments after 1 year but within 5 years	5.5	5.0
Commitments after 5 years but within 10 years	6.8	6.1
Commitments after 10 years but within 15 years	5.7	6.1
Commitments after 15 years but within 20 years	-	0.2
Total	19.5	19.6

The contract end date is 31 May 2025.

20 Pension Obligations

The Environment Agency operates a defined benefit pension scheme for employees and transferees from the former Defra, NRA, HMIP, London Waste Regulation Authority (LWRA) and other local waste regulation authorities. It is a statutory scheme, administered in accordance with the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007, the Local Government Pension Scheme (Administration) Regulations 2008 and the Local Government Pension Scheme (Transitional Provisions) Regulations 2008. It is contracted out of the State Second Pension.

In 2010-2011, the total pension credit for the Environment Agency was £160.6 million (2009-2010 was a charge of £38.8 million). The pension credit / charge relating to the scheme was assessed in accordance with the advice of an independent qualified actuary using the projected unit method of valuation to calculate the service costs. On 22 June 2010, the Chancellor of the Exchequer announced that, with effect from 1 April 2011, the Government would use the Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI) for the price indexation of benefits and tax credits; and that this would also apply to public service pensions through the statutory link to the indexation of the Second State Pension. This has been treated as a benefit for accounting purposes and leads to a one-off gain in the Statement of Comprehensive Net Expenditure of £216.5 million. See note 20 (f) for full details.

The latest formal triennial actuarial valuation of the scheme was at 31 March 2010. The assumptions having the most significant effect on the valuation of the liabilities were those relating to the future rate of return on investments and the rate of increases in salaries and pensions. It was assumed that the future investment return would be 6.1 per cent per annum, that salary increases will average 4.8 per cent per annum (restricted to 1.0 per cent per annum in the first two years) and that present and future pensions will increase at the rate of 3.0 per cent per annum.

At the date of the last actuarial valuation, the market value of the assets of the pension scheme was £1,589.0 million. The assets taken at market value were sufficient to cover 94 per cent of the value of liabilities in respect of past service benefits which had accrued to members. The Environment Agency has accepted the independent actuary’s recommendation in respect of future employer contributions.

The estimated contribution payable by the Environment Agency for the year to 31 March 2012 will be approximately £41 million.

Changes in market conditions that result in changes in the net discount rate (essentially the difference between the discount rate and the assumed rates of increase of salaries, deferred pension revaluation or pensions in payment) can have a significant effect on the value of the liabilities reported.

A reduction in the net discount rate will increase the assessed value of liabilities as a higher value is placed on benefits paid in the future. A rise in the net discount rate will have an opposite effect of similar magnitude. The overall effect of a change in the net discount rate for the Active Fund of 0.1 per cent would be to adjust liabilities by around 2 per cent or £40 million. There is also uncertainty around life expectancy of the UK population. The value of current and future pension benefits will depend on how long they are assumed to be in payment. The effect of changing the assumption regarding life expectancy by one year longer than the disclosed table, would be to increase the assessed value of Active Fund liabilities by around 3 per cent or £56 million.

International Accounting Standard IAS 19 Disclosure

The table below sets out the disclosure requirements of IAS 19 ‘Employment Benefits (Pensions)' for the current year in relation to the Environment Agency's Active Fund.

All calculations have been made by a qualified independent actuary. Those for the year ending 31 March 2011 were based on the most recent full actuarial valuation of the fund at 31 March 2010 updated to 31 March 2011, whilst those for the year ending 31 March 2010 were based on the full actuarial valuation of 31 March 2007.

(a) Financial Assumptions

The main financial assumptions used at 31 March 2011 for this purpose are as follows:

	31 March 2011 % Per Annum	**31 March 2010 % Per Annum**
Inflation / Pension Increase Rate	2.5	3.5
Salary Increase Rate*	4.6	4.5
Expected Return on Assets	6.6	6.9
Discount Rate	5.5	5.5

* Salary increases at 31 March 2011 are 1% nominal for the year to 31 March 2012, reverting to 4.6% per annum thereafter.

(b) Breakdown of the expected return on assets by category

Asset Class	31 March 2011 % Per Annum	31 March 2010 % Per Annum
Equities	7.5	7.8
Bonds	4.9	5.0
Property	5.5	5.8
Cash	4.6	4.8

(c) Assets and Liabilities of the Fund at 31 March 2011

Fair value of employer assets

	31 March 2011	31 March 2010
	£'m	**£'m**
Equities	1,171.0	1,128.5
Bonds	454.4	392.5
Property	52.4	49.1
Cash	69.9	65.4
Total	**1,747.7**	**1,635.5**

The above asset values as at 31 March 2011 and 31 March 2010 are at the bid value as required under IAS 19. The bid value of the assets for the Fund as a whole as at 31 March 2011 were provided by the Administering Authority.

Statement of Financial Position

	31 March 2011	31 March 2010
	£'m	**£'m**
Fair Value of plan assets	1,747.7	1,635.5
Present Value of Funded Obligations[2]	(1,846.2)	(2,099.0)
Net (Under)/ Overfunding in Funded Plans	(98.5)	(463.5)
Present Value of Unfunded Obligations[3]	(22.2)	(24.7)
Net Liability	**(120.7)**	**(488.2)**
Amounts in the Statement of Financial Position:		
Liabilities	120.7	488.2
Assets	-	-
Net Liability	**(120.7)**	**(488.2)**

Please note that following the Chancellor's budget statement on 22 June 2010 the calculations are based on future pension increases being linked to the Consumer Prices Index (CPI) and not the Retail Prices Index (RPI). The effect of this change comes through as a negative past service cost item in the Statement of Comprehensive Net Expenditure.

[2] This liability comprises of approximately £1,100.2 million, £175.4 million and £570.6 million in respect of employee members, deferred pensioners and pensioners respectively as at 31 March 2011. The approximation involved in the roll forward model means that the split of scheme liabilities between the three classes of members may not be reliable for certain types of employer. The actuary is satisfied that the approach used leads to reasonable estimates for the aggregate liability figure.

[3] For the unfunded liabilities as at 31 March 2011, it is assumed that all unfunded pensions are payable for the remainder of the member's life. It is further assumed that 90 per cent of pensioners are married (or cohabiting) at death and that their spouse (cohabitee) will receive a pension of 50 per cent of the member's pension at the date of the member's death.

The money held by the scheme is invested in stock markets, property and cash. The 'fair value of plan assets' represents the total amount of money held by the scheme based on the market price of its investments at the accounting date.

There are three types of member (active employees who are still earning benefits, ex-employees with deferred benefits who have yet to reach retirement and pensioners who are currently drawing pension). Each of these members is entitled to receive pension payments in future. A single value can be placed on the amount of money that is needed to meet these pension payments by discounting each payment to the accounting date using certain assumptions (see table (a) above) about the future. This single value is known as a 'present value'. There are two present values shown in the table – one for 'funded obligations' that are paid from the scheme to the members and the other for 'unfunded obligations' that are paid directly by the Environment Agency to the members.

The 'Net Liability' represents the gap between the money held by the scheme and the total present value of the funded and unfunded obligations. It is worth noting that the assumptions underlying the calculation of the Net Liability are only used for accounting purposes as prescribed under IAS19. In particular, IAS19 has no impact at all on the level of cash contributions paid by the Environment Agency and there is no requirement for Net Liability to be met as lump sum or otherwise. Cash contributions will continue to be set by reference to assumptions agreed at each triennial actuarial valuation of the scheme.

(d) Notes to the Statement of Comprehensive Net Expenditure

Year Ended:	**31 March 2011**		**31 March 2010**	
	£'m	**% of pay**	**£'m**	**% of pay**
Current Service Cost *	55.5	16.3%	36.4	10.8%
Interest on Obligation	107.8	31.6%	100.0	29.6%
Expected Return on Employer Assets	(113.5)	(33.3%)	(73.1)	(21.6%)
Past Service Cost /(Gain)**	(216.5)	(63.4%)	1.9	0.6%
Losses on Curtailments and Settlements	0.4	0.1%	0.5	0.2%
Total Included in "Member Costs"	**(166.3)**	**(48.7%)**	**65.7**	**19.6%**
Actual Return on Plan Assets	131.4		475.0	

* The service cost figures include an allowance for administration expenses of 0.4 per cent of payroll costs.
** The Past Service Cost figure for this year includes £5.1 million in respect of efficiency and other early retirements and £221.6 million in respect of the changes introduced in the Chancellor's budget statement, as referred to in Section (c).

The figures shown reflect the expected annual charge to the Environment Agency, based on IAS19 assumptions at the start of the accounting year, of providing pension benefits to its staff. Allowance is made for expected charges only; unexpected items that arose during the year (e.g. caused by changes to the values of investments held by the pension scheme) are covered under table (e).

The items that make up this charge are:

- Current Service Cost: this is the Environment Agency's share of the cost of the benefits earned by its current employees during the accounting year. Employees also pay towards the cost of these benefits via contributions although this element is excluded from the calculation.
- Interest on Obligation: the Present Values (of Funded and Unfunded Obligations) from table (c) above are expected to increase over time as the members age and get closer to retirement. The amount of this increase is referred to as interest.
- Expected Return on Employer Assets: this represents the additional cash that the money held by the pension scheme is expected to generate over the year in line with the assumptions at table (b) above. The result is shown as a negative and acts as a credit against other charges in table (d). Note that the actual amount of extra money generated is shown at the foot of table (d).

- Past Service Cost and Losses on Curtailments and Settlements: these represent the cost of paying pensions to members who retire early on enhanced terms e.g. due to early release arrangements. In addition, a large one-off negative past service cost (i.e. a credit) arose during 2010-2011 as a result of the Government's decision to base future pension increases on CPI rather than RPI (see comments under table (c)). CPI is assumed to be lower than RPI over the long term. This reduces the value of the Environment Agency's Net Liability with the reduction treated as a change to members' benefits and accounted for via a past service credit.

(e) Notes to the Statement of Changes in Taxpayers' Equity (SCTE)

	31 March 2011	31 March 2010
Year Ended:	**£'m**	**£'m**
Actuarial Gains/(Losses) on Plan Assets	(38.7)	402.0
Actuarial Gains/(Losses) on Obligation	158.2	(566.3)
Actuarial Gain/(Loss) recognised in the SCTE	**119.5**	**(164.3)**
Cumulative Actuarial Loss Recognised in the SCTE	**(323.7)**	**(443.2)**

Note: The Cumulative Actuarial Gains and Losses are based on the full available history of Actuarial Gains and Losses for the employer.

This table covers the unexpected items that occurred during the accounting year. The unexpected items are caused mainly by changes to stock market values over the year.

The Actuarial Gain/(Loss) on Plan Assets is the difference between the actual extra money generated by the pension scheme over the year and the Expected Return on Employer Assets from table (d) above. If the money held by the pension scheme has increased during the year by more than expected, an actuarial gain arises. Conversely, an actuarial loss occurs if the money held by the scheme increases by less than expected, or indeed if it reduces.

The Actuarial (Loss)/Gain on Obligation is the difference between the actual Present Values (of Funded and Unfunded Obligations) from table (c) above at the year end and what these present values were expected to be based on the assumptions at the start of the year. There are two reasons why a difference can arise:

1. If the assumptions used to calculate the present values change during the year. In particular, financial assumptions are linked to movements in stock markets. The present values are very sensitive to such movements and can change significantly over a relatively short period of time, as demonstrated by table (a) above.

2. If the membership data on which the present values are based changes unexpectedly during the year. The data on which the Present Value of Funded Obligations is based is refreshed every three years following each formal actuarial valuation of the pension scheme. The data on which the Present Value of Unfunded Obligations is based is refreshed on an annual basis.

The sum of the Actuarial Gains/(Losses) on Plan Assets and Actuarial (Losses)/Gains on Obligation gives the total actuarial gain or loss that is recognised in the Statement of Changes in Taxpayers' Equity. IAS19 also requires the running total of these annual actuarial losses or gains to be disclosed and this is shown as the Cumulative Actuarial Gain/(Loss) in the table.

(f) Amounts charged to the Statement of Comprehensive Net Expenditure

Based on notes (d) and (e) above, the amount charged to the Statement of Comprehensive Net Expenditure over the accounting period is shown in the following table:

Year Ended:	**31 March 2011**	**31 March 2011**	**31 March 2010**	**31 March 2010**
	£'m	**£'m**	**£'m**	**£'m**
Interest on Obligation	107.8		100.0	
Expected Return on Employer Assets	(113.5)		(73.1)	
Financing (expenditure)/ income on Pension Scheme Assets and Liabilities		**(5.7)**		**26.9**
Current Service Cost	55.5		36.4	
Past Service (Gain)/Cost	(216.5)		1.9	
Losses on Curtailments and Settlements	0.4		0.5	
IAS 19 Pension (credit) / charge		**(160.6)**		**38.8**
Actuarial (Gain)/Loss recognised in the SCTE		**(119.5)**		**164.3**
(Credit) / Charge to Statement of Comprehensive Net Expenditure		**(285.8)**		**230.0**

On 22 June 2010, the Chancellor of the Exchequer announced that, with effect from 1 April 2011, the Government would use the Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI) for the price indexation of benefits and tax credits; and that this would also apply to public service pensions through the statutory link to the indexation of the Second State Pension. This has been treated as a benefit for accounting purposes and leads to a one-off gain in the Statement of Comprehensive Net Expenditure of £216.5 million.

The change from RPI to CPI for the purposes of uprating index-linked features of post employment benefits has been recognised as a negative past service cost in accordance with IAS 19. This accounting treatment has been adopted by all central government reporting entities where RPI has been used for inflation indexing for many years.

The decision to uprate public service pensions using the Consumer Prices Index rather than the Retail Prices Index has been recognised in these accounts. This decision is currently before the courts in judicial review proceedings. The Government is robustly defending the case and therefore no adjustment has been made to the accounts for this matter. The financial implications consequent on the review finding against the government have not been assessed.

(g) Reconciliation of defined benefit obligation

Year Ended:	31 March 2011	31 March 2010
	£'m	£'m
Opening Defined Benefit Obligation	2,123.7	1,441.0
Current Service Cost	55.5	36.4
Interest on Obligation	107.8	100.0
Contributions by Members	23.5	23.4
Actuarial (Gains)/Losses	(158.2)	566.3
Past Service (Gain)/Cost	(216.5)	1.9
Losses on Curtailments	0.4	0.5
Estimated Unfunded Benefits Paid	(1.5)	(1.4)
Estimated Benefits Paid	(66.3)	(44.4)
Closing Defined Benefit Obligation	**1,868.4**	**2,123.7**

This table explains the change to the Present Values of Funded and Unfunded Obligations that appear in table (c) (and referred to as the Defined Benefit Obligation in this table) from one year to the next. The majority of the items are covered in tables (d) and (e) above. The additional items are:

- Contributions by Members: as mentioned under table (d), the Current Service Cost only covers the Environment Agency's share of the cost of the benefits earned by its current employees during the accounting year. The remainder of the cost of meeting these benefits is met by the employees themselves.
- Estimated Benefits Paid: both funded and unfunded benefits are shown. These are benefits paid out to members and as such act to reduce the Defined Benefit Obligation.

(h) Reconciliation of fair value of employer assets

Year Ended:	31 March 2011	31 March 2010
	£'m	£'m
Opening Fair Value of Employer Assets	**1,635.5**	**1,123.6**
Expected Return on Assets	113.5	73.1
Contributions by Members	23.5	23.4
Contributions by Employer	80.2	57.8
Contributions in respect of Unfunded Benefits	1.5	1.4
Actuarial Gains / (Losses)	(38.7)	402.0
Unfunded Benefits Paid	(1.5)	(1.4)
Benefits Paid	(66.3)	(44.4)
Closing Fair Value of Employer Assets	**1,747.7**	**1,635.5**

This explains how the money held by the pension scheme, as appears in table (c), changes from one year to the next. Some of the items are covered in tables (d) and (e) above. The other items relate to cash flows that affect the value of this money:

- Contributions by Members: employees pay contributions to the scheme to cover part of the cost of the benefits earned by them during the accounting year.
- Contributions by Employer: the Environment Agency pays contributions to meet the balance of the cost of meeting benefits earned by its employees.
- Contributions in respect of Unfunded Benefits & Unfunded Benefits Paid: these items cancel each other out. This is because the scheme holds no money up front to pay for unfunded benefits. The benefits are instead met directly by the Environment Agency as and when they fall due for payment.
- Benefits paid: These are benefits paid out to members and as such act to reduce the money held by the scheme.

(i) History of Experience of Gains and Losses

Amounts for the current and previous accounting periods

Year Ended:	31 March 2011	31 March 2010	31 March 2009	31 March 2008	31 March 2007
	£'m	£'m	£'m	£'m	£'m
Fair Value of Employer Assets	1,747.7	1,635.5	1,123.6	1,490.6	1,520.4
Present Value of Defined Benefit Obligation	(1,868.4)	(2,123.7)	(1,441.0)	(1,686.4)	(1,765.0)
(Deficit) / Surplus	(120.7)	(488.2)	(317.4)	(195.8)	(244.6)
Experience Gains/(Losses) on Assets	(38.7)	402.0	(511.2)	(161.1)	12.3
Experience Gains/(Losses) on Liabilities	8.9	(0.3)	-	(8.0)	(1.1)
Actuarial Gains/(Losses) on Employer Assets	(38.7)	402.0	(511.2)	(161.1)	12.3
Actuarial Gains/(Losses) on Obligation	158.2	(566.3)	402.1	200.8	(282.3)
Actuarial Gains/(Losses) recognised in SCTE	119.5	(164.3)	(109.1)	39.7	(270.0)

The figures in the top section are a summary of those in the Statement of Financial Position under table (c).

The figures in the middle section show how much of the change in the money held by the scheme (the assets) and the value placed on benefits that are due to be paid out in future (the liabilities) is due to experience only. On the asset side, the experience gain/(loss) represents the difference between the actual extra money generated by the pension scheme over the year and the amount of money that, at the start of the year, was expected to be generated. This is identical to the Actuarial Gain/(Loss) on Plan Assets that appears in table (e). On the liability side, an experience (loss)/gain can arise if the membership data on which the liabilities are based changes unexpectedly during the year. This tends to be a relatively small item. As mentioned under table (e) above, the more significant item that affects the liabilities is where the assumptions change.

The figures in the bottom section reflect those in the Statement of Changes in Taxpayers' Equity under table (e).

21 Corporation Tax

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

22 Related Party Disclosures and Whole of Government Accounting

(a) Related Party Disclosures

International Accounting Standard 24, 'Related Party Disclosures', requires the Environment Agency to provide information on its transactions with related parties, and further guidance has also been given by HM Treasury.

The aggregate value of the relevant transactions were:

	31 March 2011 £'m	31 March 2010 £'m
Controlling parties:		
Defra environmental protection grant-in-aid	131.7	169.9
Welsh Government environmental protection grant-in-aid	23.7	25.1
Welsh Government flood defence grant-in-aid	32.2	34.0
Defra flood defence grant-in-aid	551.5	561.9
Other Defra grant-in-aid	60.5	55.8
Other related parties:		
Levies on local authorities	29.9	28.8
Charges to the British Waterways Board	2.4	2.2

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

(b) Whole of Government Accounting

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

The Environment Agency is committed to disclose balances between itself and other bodies within the public sector. The closing balances are stated below:

	Note	31 March 2011 £'m	31 March 2010 £'m
Receivable balances:			
Other Government Departments		33.5	28.5
Local Authorities		0.7	1.6
NHS Bodies		0.1	-
Bodies external to Government		64.3	62.3
Total	**10**	**98.6**	**92.4**
Payable balances:			
Other Government Departments		10.2	9.7
Local Authorities		5.2	5.3
Bodies external to Government		243.6	170.4
Total	**12**	**259.0**	**185.4**

23 Financial Instruments

As the cash requirements of the Environment Agency are met through grant-in-aid provided by Defra, financial instruments play a more limited role in creating and managing risk than would apply to a non-public sector body. The majority of financial instruments relate to contracts to buy non-financial items in line with the Environment Agency's expected purchase and usage requirements and the Environment Agency is therefore exposed to little credit, liquidity or market risk.

24 Outsourced Information and Computer Technology Contract with Capgemini

This contract commenced in November 2009, with the aim of providing a modern robust, secure and sustainable Information and Computer Technology (ICT) service for the Environment Agency.

The contract costs £354 million over 7 years, with the option to extend for up to a further 3 years. ICT costs will reduce by 20 per cent over the term.

The Environment Agency is able to terminate the contract for convenience giving one year's notice. Termination for convenience within the first three years requires the Agency to make a compensation payment on a reducing scale of lost profit for the supplier. Termination for convenience beyond three years requires no compensation payment to be made. Termination for cause can be immediate or with notice of the Environment Agency's choosing.

The main component of the contract, with a cost of £288 million is the Operational Service Charge (OSC) commencing from 1 July 2010. This revenue charge covers day-to-day ICT services such as Service Desk, Server Hosting, Application Support and Managed Print Services and is expensed in year.

The OSC is a fixed baseline cost based on predetermined baseline volumes. Additional costs or credits arise if actual volumes vary from baseline by +/-10 per cent and again if the variation is more than by +/-25 per cent. Baseline volumes are reviewed annually.

In addition to OSC charges, there are committed project charges of £41 million and hardware & software purchases of £25 million. Project charges cover the transformational part of the contract, which are capital in nature. Underpinning the transformation of networks and infrastructure are the hardware and software purchases.

The contract drives appropriate behaviours through incentive schemes (both positive and negative) that reward/penalise Capgemini for over/under-achievement of required targets, monitored through a strategic scorecard.

In line with HM Treasury guidance, the Environment Agency retains ownership of its personal assets, such as desktops and servers. Assets used as part of a shared service between the Environment Agency and other customers are owned by Capgemini. There are no leasing arrangements between the Environment Agency and Capgemini under this contract.

Any proposed changes to Capgemini's charging model are subject to a strict contract change control procedure and is monitored using a total cost of ownership model. 'Open-book' accounting also allows the Environment Agency to ensure that Capgemini is making adequate, but not excessive returns.

Charge to the Statement of Comprehensive Net Expenditure	**31 March 2011 £'m**
Operational Service Charge	39.0
Committed Projects	24.4
Authority Hardware/Software	8.2
Total	**71.6**

Payments committed for the future:	**£'m**
Within one year	63.9
Within two to five years	182.2
Within six to ten years	36.1
Total	**282.2**

25 Events after the reporting date

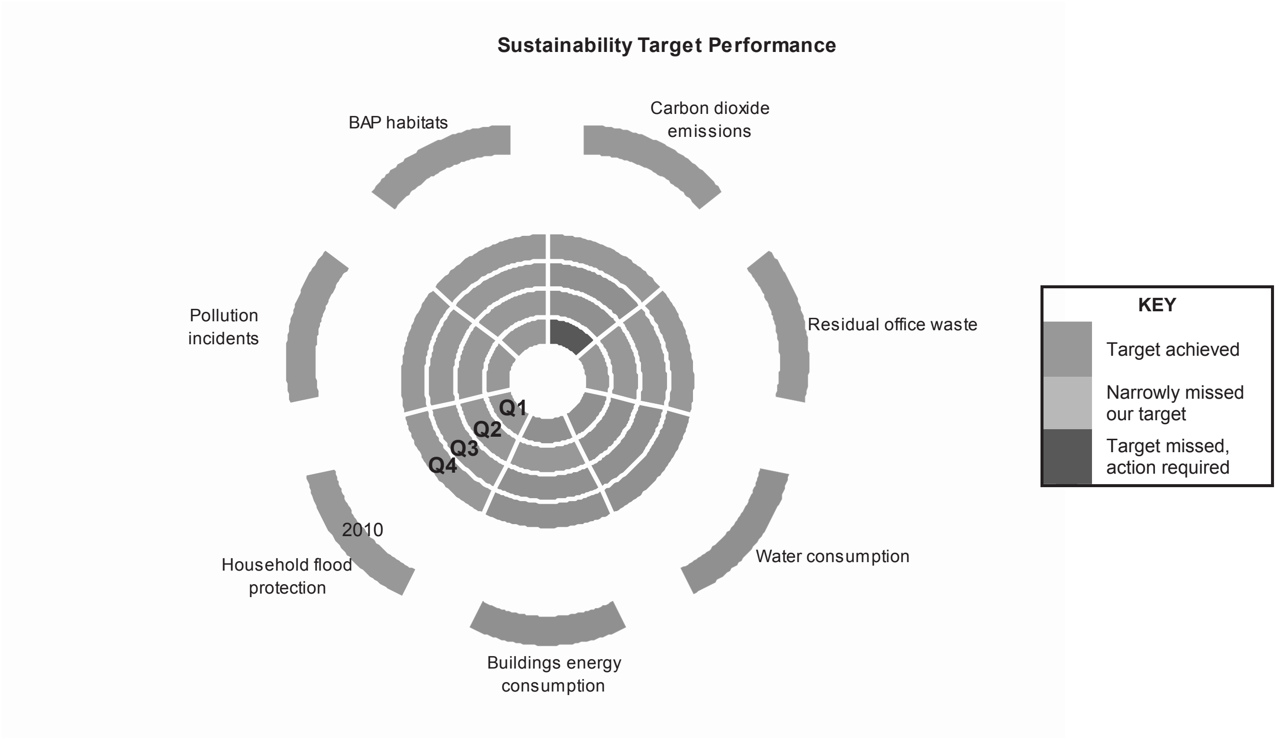
The Environment Agency's financial statements are laid before the Houses of Parliament by the Secretary of State for Defra. IAS 10 requires the Environment Agency to disclose the date on which the financial statements are authorised for issue. The authorised for issue date is 8 July 2011.

APPENDIX A

Sustainability Accounting and Reporting

This section presents our environmental data and associated financial costs in more detail, and builds on the information provided in the management commentary. We have presented this data in a format consistent with the requirements of HM Treasury's Sustainability Working Group guidance. We have taken an active role within this group in developing a sustainability reporting standard for the public sector and hope that many other public sector organisations will produce sustainability reports in accordance with the guidance.

Whilst this appendix brings together our performance against a number of specific sustainability performance targets, further information can also be found, embedded in our corporate performance information in Appendix B. This reflects the importance we place on being a sustainable organisation, it is central to all our work.

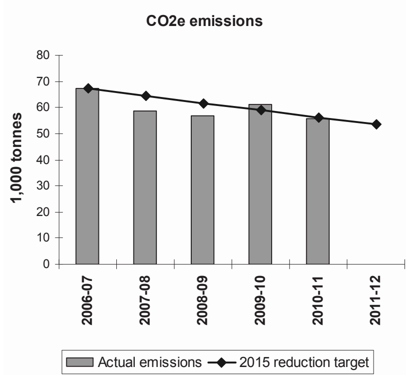


Our sustainability performance summary:

Area	Figure	Target performance
Carbon dioxide emissions	55,758 Tonnes	On target
Residual office waste	70,441 Tonnes	On target
Total waste expenditure	£1.9 million	-
Water consumption	55,960 m^3	Off target (102%)
Water expenditure	£535,621	-
Buildings energy consumption	37.2 million kWh	Off Target (102%)
Total energy expenditure	£5.6 million	-
We improve protection against flooding for more households	184,400	On target
We reduce the number of pollution incidents	567	On target
More Biodiversity Action Plan (BAP) habitats are created	1,280 Hectares	On target

Greenhouse gas emissions & energy use

		2007-2008	2008-2009	2009-2010	2010-2011
Non-Financial Indicators (1,000 tonnes CO_2e)	Total Gross Emissions	58.8	56.7	61.2	55.8
	Total Net Emissions	58.8	56.7	61.2	55.8
	Gross emissions scope 1 (direct impacts)	-	-	19.7	16.8
	Gross emissions scope 2 and 3 (indirect impacts)	-	-	41.5	39
Related energy consumption (million kWh)	Electricity: Non-Renewable	-	-	-	-
	Electricity: Renewable	57.7	56.8	61.9	55.5
	Gas	10.3	12.0	11.4	10.8
	LPG	-	-	-	-
	Other	3.3	-		-
Financial Indicators (£'000)	Expenditure on energy	5,028	6,667	7,239	5,641
	CRC Gross Expenditure (2010 onwards)	-	-	-	-
	Expenditure on official business travel	11,986	15,160	15,220	14,059
Tonnes CO_2e per million £ expenditure		-	44.3	48	45.1



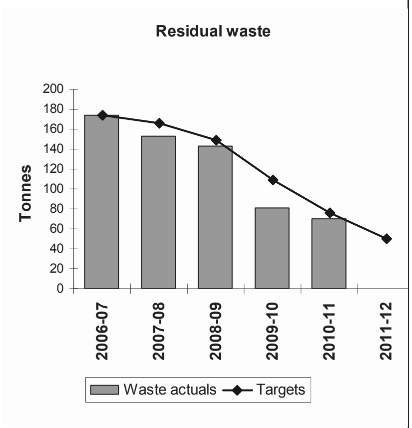
Targets and commentary

We missed our Q1 target for carbon dioxide emissions due to additional pumping needed to augment river flows in dry conditions, we did however meet our annual target. We are on target to reduce our greenhouse gas emissions by 33% from the 2006-2007 levels by 2015. To achieve this, we aim to reduce our total business mileage by 25%, reduce energy use at our buildings by 33% from 2005-2006 levels and we will continue to increase our purchase of renewably generated electricity. Next year we will need to reduce our carbon emissions by 3,000 tonnes.

For the first time we have been able to capture the carbon emissions of some of our major capital construction projects. The projects for which we have data available show that the emissions associated with this work were nearly 61,000 tonnes of CO_2e. We achieved a 12% reduction on forecasted emissions by using alternative materials and closely monitoring activities during project delivery.

Waste

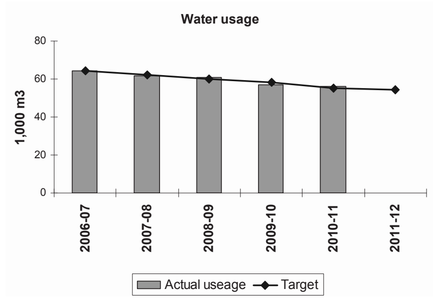
			2007-2008	2008-2009	2009-2010	2010-2011
Non-Financial Indicators (tonnes)	Total volume of waste (not inc. construction)		-	913	590	673
	Hazardous waste	Total	-	14	3	5
	Non hazardous waste	Landfill (residual)	166	143	81	70
		Reused/Recycled	348	707	448	594
		Incinerated/ energy from waste	-	49	59	70.5
		Construction landfill	-	-	43,915	46,674
		Construction recycled	-	-	27,682	132,108
Financial Indicators (£'000)	Total waste disposal cost		1,894	1,927	2,139	1,942
	Hazardous waste - Total disposal cost		853	395	590	465
	Non hazardous waste - Total disposal cost	Landfill	629	934	1,043	837
		Reused/Recycled	412	598	506	640
		Incinerated/energy from waste	-	-	-	-
Kg of waste (not inc construction) per FTE			-	69	-	57



Targets and commentary
The non-financial figures provided in the table above are based on waste data collected from our offices and depots only, whereas our financial indicators track expenditure across the entire organisation. This will include waste disposal costs for our construction projects and pollution incidents, in addition to the costs of waste disposal from our offices and depots. For this reason some of the cost data may appear excessively high for the volumes of waste listed. We are seeking to improve the data we capture from our construction projects and will include this as soon as possible. By March 2015 we aim to reduce the total volume of waste we produce and eliminate all landfill waste from our offices and depots. We have already made a significant reduction from our 2006-2007 residual waste baseline, which has halved over the last 3 years.

Water consumption

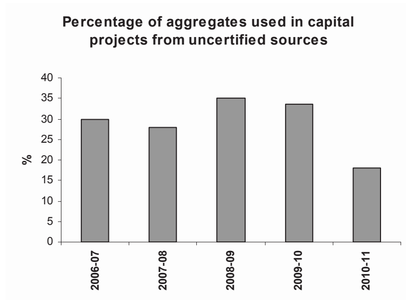
			2007-2008	2008-2009	2009-2010	2010-2011
Non-Financial Indicators (m^3)	Water Consumption	Supplied	62,000	61,000	57,000	55,960
		Abstracted	-	-	-	-
Financial Indicators (£'000)	Water Supply Costs		205	245	270	207
Water consumption per FTE (m^3)			-	5	4.7	4.8



Targets and commentary
Water scarcity is becoming an increasing issue. Whilst we are working hard to reduce our own direct water consumption, we have a considerable role to play in ensuring that water supply and demand is balanced. We are currently on target to reduce our water consumption to 51,200m^3 by March 2015. Our cost data focuses on the cost of water consumption and excludes drainage and sewerage costs. Including these would result in an additional £329,000 cost. We have chosen to normalise this data by number of employees because our water consumption figures focus on office and depot water use.

Other impacts

		2007-2008	2008-2009	2009-2010	2010-2011
Environmental Incidents	Category 1	2	1	0	2
	Category 2	1	3	6	2
	Category 3	32	50	57	45
	Near Miss	13	25	47	60
	Not classified	0	0	0	0
	Total	48	79	110	109



Targets and commentary
We have improved our reporting of near misses and reduced the total number of environmental incidents. Through our construction projects in 2010-2011 we used around 542 tonnes of timber. 100% of this was obtained from certified sustainable sources at a cost of £327,000. We have jointly published a user guide on sustainable timber which will inform our future timber procurement strategy.

Examples of our commitment to sustainability in operation

Stainforth

Habitat creation is a key part of our flood and coastal risk management (FCRM) work. We are committed to ensuring we maximise opportunities to create a better place for people and wildlife, and minimise the impact of any works to reduce flood risk.

In association with an FCRM project to protect the town of Stainforth (located north of Doncaster) from fluvial flooding, 60ha of habitat were created on floodplain land owned by the Environment Agency. By breaching low-lying agricultural flood banks which ran parallel to the river, we were able to re-connect the River Don with its floodplain and create a wet grassland habitat.

Warren Dam Reservoir
The Warren Dam Reservoir Safety project in a deprived area in the South East was required to make essential modifications to a reservoir in order to comply with the Reservoirs Act.

By working in partnership with the Local Authority's Open Spaces and Community Development officer and by looking for opportunities to improve the local area for the residents, the project was able to deliver substantial new amenity facilities and environmental enhancements.

Among these were the creation of a state of the art skate park and BMX track, an enhanced watercourse, scrub and meadow planting and associated access around the site. The area has been transformed from a 'no go' to a 'must go' area.

Voltage power optimisation
This is a method of improving the energy efficiency of a site by reducing the voltage that goes to the building. This means we can still power all our appliances, but they use less energy. This in turn reduces our carbon footprint and our energy bill. Our trial of this technology in our office in Lincoln showed we saved approximately 18 per cent of the energy we normally used under the previous energy system. On average, across all of our sites where we have introduced this technology, we are saving around eight per cent of our energy bills.

On an annual basis this trial will result in cost savings of around £69,000 and enable us to reduce our carbon emissions by 482 tonnes. The trial has proved so successful that it is now being rolled out across England and Wales.

External venues
As an organisation we regularly challenge the need to hold external meetings, however sometimes these are unavoidable. We have worked together with our conference and meetings supplier, NYS Corporate, to investigate and prioritise not for profit venues to provide a greater proportion of our external meeting facilities. After undertaking a successful pilot in Birmingham and incorporating suggestions from staff, a national list of not-for-profit venues was compiled.

We have now channelled 75 per cent of our off site meetings into not-for-profit organisations. We've also worked with other government departments, to utilise capacity within each others' meeting rooms that we can use at a much lower cost than other external accommodation, often for free. In February 2011 alone, we saved over £14,000 from utilising lower cost venues.

The use of not-for-profit venues allows us to spend our money in local places where it has more impact. These venues typically employ local people and the funds go back into these local economies.

Annual report and accounts
As part of our commitment to reduce paper use and waste – a key target in the latest Greening Government commitments paper – we only print 30 copies of our annual report and accounts which are laid in Parliament. We do not print copies for internal use, and we minimise the range of colours and graphics used within the report. This report is now only published electronically on our website. We have also made efforts to make the report as concise as possible whilst ensuring that it contains all the necessary information our stakeholders require.

APPENDIX B

Our Performance in 2010-2011

How we performed against key targets in our Corporate Plan

We report on how we performed in 2010-2011 against key targets in our Corporate Plan. These targets are the main measures we use to track our progress.

We divide our work into five environmental themes, which correspond to the headings in this section.

Act to reduce climate change and its consequences	
Key outcome measure and status	**Progress**
1.1a We reduce methane gas emissions from landfill sites In 2010-11 we completed 30 technical reviews of landfill gas at landfill sites, just missing our target of 32. Through these technical reviews we estimate we helped to prevent 34,600 tonnes of methane emissions (an equivalent of 726,000 tonnes of carbon dioxide).	Target partially achieved
1.2a We deliver our planned climate change adaptation actions In 2010-11 we carried out self assessment surveys on climate change adaptation in the Environment Agency. In the latest survey we achieved an average score of 3 out of 5. The assessment examined how well climate change adaptation has been embedded into individual parts of our business. It is based upon the questionnaire developed by the National Audit Office to assess how well Government departments are adapting to climate change. The latest survey was an improvement on the original survey (average score of 2.7). There has been progress in all of the five categories of performance assessment since the original assessment was undertaken. This is the first year we have carried out the surveys so we are using it as a baseline year and will report internally on how we're improving in future.	Baseline
1.3a We reduce our carbon dioxide footprint We have achieved our target for carbon reduction this year at 96% of profiled target (55,800 tonnes of CO_2 against a no more than target of 58,200). Our overall emissions are 9% lower than last year. Substantial reductions have been seen across all of our transport methods. Emissions from train travel are down by 27% and emissions from air travel are down by 74%. Lease car emissions are down by 15% casual mileage emissions by 12% and badged mileage emissions by 12%. We have already met our 2015 mileage reduction target of 25%, with a performance of 33%.	Target Achieved

Protect and improve water, land and air quality	
Key outcome measure and status	**Progress**
2.1a We work with others to improve the quality of surface waters, groundwaters, coastal waters and wetlands At the end of 2010-11, a total of 2,008 (26%) waterbodies out of 7,409 are at good or better ecological status condition, against a target of 2,075. We have completed over 25% of our investigation programme. We are on track to deliver this programme by the target date of December 2012. The aim of the programme is to reduce uncertainty around the classification of waterbodies, the reasons for failure and what can be done to improve the waterbodies. From 2013 monitoring will focus on tracking the effectiveness of measures. This is when we expect to see improvements in our classification results.	Target partially achieved
2.1b We take action to ensure that bathing waters in England and Wales meet the standards required under European law Using results from the last 4 years we have predicted that 90% of bathing waters will pass the challenging revised bathing water directive, in 2015. This was against a target of 93%. There are action plans in place for the bathing waters that currently are expected to fail. We are working towards a target of a 100% pass in 2015 with an incremental increase each year.	Target partially achieved
2.1c Water companies deliver improvements in line with their Asset Management Plans (AMP4) (2009-10 performance) The Water Industry AMP4 programme between 2005 and 2010 has seen good partnership working with water companies to deliver a large programme of environmental improvements. In total 2,710 out of 2,760 schemes have been completed, over 98% of a £3.4 billion environmental programme. This has delivered considerable environmental benefit including 3,920km of river length improvements, just missing the target of 3,980km. These improvements have provided benefits for fisheries and also habitats and nature conservation sites with a reduced risk of eutrophication. 192km^2 coastal waters have also been improved including 25km^2 (against a target of 22km^2) associated with bathing waters.	Target partially achieved
2.1d We reduce unsustainable abstraction within water bodies and fewer abstractions cause environmental damage We delivered 24 voluntary licence changes against a target of 35. In addition we completed 24 investigations to gain a greater understanding of environmental problems from unsustainable abstractions, and undertook 22 options appraisals for addressing damaging abstractions. We have rescheduled work we could not complete for delivery in 2011-12, and continue to monitor our programme and maintain close working relationships with water companies, consultants, and Natural England to resolve any further issues.	Target partially achieved

Protect and improve water, land and air quality	
Key outcome measure and status	**Progress**
2.2a More farms adopt practices that improve the management of nutrients, soils, water use, pesticides and waste In 2010-11 64% (4,360) of farmers have implemented improvement measures in line with our advice, provided through advice campaigns and pollution prevention activities, compared to a target of 50% (3,400). The assessment is based on a phone survey with farmers.	Target achieved
2.2b We bring more land where contamination is a problem back into beneficial use We record all land brought back into beneficial use through Environment Agency involvement, by risk assessment or remediation activity. Our target focuses on land brought back into beneficial use by remediation activities. We have exceeded our target for the year. In 2010-11 695 hectares (ha) of land have been remediated against our year end target of 500 ha. In addition, 2,320 ha have been brought back into beneficial use through risk assessment.	Target achieved
2.3a We deliver our contribution to improving the overall condition of SSSIs We delivered 850 remedies (Environment Agency actions to improve SSSIs in unfavourable conditions), covering 25,200 ha compared to our target of 17,200 ha. Of the 5,300 ha of SSSI land that we own 5,050 ha, or 95%, is meeting its target condition.	Target achieved
2.3b Biodiversity action plan habitats and species that we lead on are recovering or increasing The 2010-11 target for habitat creation has been successfully met. Overall for the CSR07 period, we have delivered a total of 1,280ha of habitat (all types) against the target of 800ha. For intertidal habitat only, we have fallen short of the 300ha target, delivering 96ha. A number of schemes within the original programme slipped into the next Spending Review period, largely due to external factors out of our control. The long lead time required for managed realignment projects meant that we were not able to bring any additional intertidal projects into the CSR07 programme.	Target achieved
2.3c We improve the status of salmon and sea trout fisheries 92 salmon and sea trout stocks are outside the at risk category against a target of 99. We met the salmon target (64% against 61%), but we didn't achieve the target for sea trout stocks (72% against 82%).	Target partially achieved
2.4a We reduce the number of businesses with poorer compliance We have reduced the number of poor performing sites compared to last year. For Waste Operator and IPPC Installation sites we have reduced the number of sites in bands D, E and F by 9%. For Water Industry sites we reduced the number by 1%. This means we have narrowly missed the target reduction of 10%.	Target partially achieved

Protect and improve water, land and air quality	
Key outcome measure and status	**Progress**
2.4b We reduce the number of serious and significant pollution incidents There were 567 category 1 or 2 pollution incidents in 2010-11, below our no more than target of 589 pollution incidents.	Target achieved
2.4c We reduce priority air pollutants from processes which we regulate 7 out of 8 of the priority air pollutants in 2009-10 were below the no more than targets. The exception was butadiene, which was well above the target, however this was due to a change in monitoring method at one site, meaning it was previously under reported. Action has been taken and the site is installing abatement equipment which will remove 98 to 99% of the emissions. Emissions of benzene, carbon monoxide, lead, nitrogen oxides, sulphur dioxides, PM10 (particulates) and NMVOC (non-methane volatile organic compounds) all reduced in 2009-10 from the previous year.	Target achieved
2.4d We set and enforce improvement conditions at sites we regulate which are contributing to poor air quality We have identified seven industrial sites where either European limit values or UK domestic objectives may be exceeded if further action is not taken. Improvement conditions or action plans have been set for each site to deliver compliance with the appropriate air quality limit or objective. One action plan is complete and the remaining six are on track to be completed by 2015, meaning we are on target.	Target achieved
2.4e We reduce the number of sites we regulate that give rise to complaints about nuisances such as odour, dust and noise 79 regulated waste sites were recorded as having 5 or more complaints in the last year.	Baseline
2.4f We reduce the overall risk score presented by illegal sites, targeting our efforts on the highest risk sites We have met both parts of the illegal waste sites target. We have reduced the overall risk score by 15% and High Risk Sites by 25%. This year we have stopped illegal activity on 1,020 illegal waste sites, 333 of which were High Risk Sites. By the end of 2010-11 we had reduced the number of active illegal sites by 96 to 661. Of the 661 sites 232 are high risk with a risk score of 35,800. Taking account of new sites there was a net reduction of 85 High Risk Sites compared to the beginning of 2010-11.	Target achieved
2.5b We reduce the regulatory burden that we place on business We have delivered cost savings to business of £7.3m equivalent annual value in 2010-11, exceeding our target of £5.0m. This results from the launch of two waste protocols. The Gypsum Waste Protocol resulted in a £7.0m saving and the Pulverised Fuel Ash (bound) waste protocol saved £0.3m.	Target achieved

Protect and improve water, land and air quality	
Key outcome measure and status	**Progress**
2.5c We deliver fit for purpose permits quickly We have determined and issued 10 out of 10 permit activity types within our target times. Of particular note is the success achieved in reducing the time taken to determine bespoke environmental permitting regulations for waste and installation permits. This work is very technical and there are many permit applications in this category. Our process improvement work has resulted in an almost 40% reduction in determination time.	Target achieved

Work with people and communities to create better places	
Key outcome measure and status	**Progress**
3.1.2a We improve protection from flooding for more households We reduced flood risk to 184,400 households (against a target of 145,000) in England and Wales over the three years of the CSR07 period. Of the 184,400 households protected, the Environment Agency protected 135,400, Local Authorities 27,100 and Internal Drainage Boards 21,900; these schemes were funded by Flood Defence Grant in Aid (FDGiA). A further 1,900 households have been protected by Local Levy funding in this time period. Environment Agency Wales protected 2,200 households. The Environment Agency, Local Authorities and Internal Drainage Boards major capital works have moved 63,200 households in England from 'very significant' or 'significant' to 'moderate' or 'lower' flood probability categories, exceeding the target to reduce flood risk to 45,000 households.	Target achieved
3.1.2b Our flood and coastal risk management programme delivers economic benefit In 2010-11 we delivered whole life benefits of £10.3bn against whole life costs of £776m, through flood and coastal risk management projects. Our overall capital programme delivered a benefit cost ratio of around 8:1, exceeding the benefit: cost ratio target of 5:1.	Target achieved
3.1.2c We maintain our flood and coastal risk management assets at the required condition We exceeded our target for Environment Agency maintained assets that are at or above required condition in high consequence systems, 98% against a target of 97%.	Target achieved

Work with people and communities to create better places	
Key outcome measure and status	**Progress**
3.1.3a More households and businesses at high risk of flooding can receive direct warnings 57% of properties in the highest risk flood risk areas can now receive our direct warnings, against a target of 56%. There are 1,846,000 properties in the highest flood risk areas. A total of 1,046,000 properties can receive our direct warnings. 467,000 of these have been fully registered on Flood Warnings Direct to receive our warnings and a further 579,000 have been recruited from the Emergency Services databases by the Extended Direct Warnings project.	Target achieved
3.2a Environmental outcomes are delivered through joint working with local authorities and partnerships We met 601 of our planned milestones this year. Milestones are activities that are agreed and delivered in partnership with the Local Authority to address specific environmental issues. Of the three unmet milestones, one was due to external factors outside of our control and the other two are being rolled over into Q1 2011-12.	Target achieved
3.3a No inappropriate new developments are located in areas at risk of flooding In 2010-11 we successfully influenced 99% of planning decisions where we advised against inappropriate development, exceeding our target of 96%.	Target achieved
3.4a More people take part in angling We sold 1,432,000 rod licences in 2010-11 narrowly missing the target of 1,491,000. Our target was based on the record sales of 1,470,000 licences in 2009-10.	Target partially achieved
3.4b More of the sites we own are available for people to enjoy water and nearby land We opened 13 new sites in 2010-11, exceeding our target of 6 new sites across England and Wales. The main benefits of these sites include: boat and canoe access, footpath creation, car parking, fish platforms and nature conservation.	Target achieved
3.4c We maintain our navigation assets at the required conditions 98% of our navigation assets are in safe working order against a target of 97%.	Target achieved

Work with businesses and other organisations to use resources wisely	
Key outcome measure and status	**Progress**
4.2a More waste is fully recovered to the standards defined in the Quality Protocols, such that it is no longer classed as waste In 2010-11 an additional 65,000 tonnes of waste were diverted from landfill, making a cumulative total of 73,000 tonnes since 2009-10. This is against a target of 89,000 tonnes. Performance is on track as we are within the wide tolerances set for this measure due to the calculation being based on the difference between observed amounts of material sent to landfill and an assessment of what would be sent in the absence of a Quality Protocol for that material. The latter is inherently unobservable. The savings have primarily been made by the Pulverised Fuel Ash, Compost and Anaerobic Digestate Quality Protocols.	Target achieved
4.4a We report on how water supply and demand balance is properly managed by water companies Overall the population with a higher than normal risk of interrupted water supply is within 120% of the target for the year, 4.11 million against a ceiling of 3.59 million. However, there are more than 1 million people who may be at risk of an interrupted water supply during a dry year.	Target achieved

Be the best we can	
Key outcome measure and status	**Progress**
5.1a Our customers say we are providing a good service We have been unable to run our business customer survey to report on whether customers think we are providing a good service. However, we have achieved all 12 of our agreed milestones.	Target achieved
5.1b Our workforce is more diverse In Q4 the percentage of BME (black, minority and ethnic) employees as a proportion of total headcount was 3.4%, compared to a target of 3.7%. We have not achieved our target as we have been unable to recruit externally. We continue to develop and support our current BME staff through an externally supported coaching programme and through our own BME network.	Target not achieved
5.2a Key stakeholders agree we are good at working with them towards shared goals We have met all of our milestones for the engagement programme. However, we did not run our external stakeholder survey and so cannot report on how many stakeholders agree that we are good at working with them towards shared goals.	Target achieved

Be the best we can	
Key outcome measure and status	**Progress**
5.4a We have the right knowledge, expertise and experience We use technical development frameworks (TDFs) to assess the technical capability of some of our key workgroups. 69% of our staff have reached or exceeded the expected level on the TDF, against a target of 70%. Improving our technical resilience remains a vital work area for managers.	Target partially achieved
5.4b We provide a safe place to work There have been 37 lost time incidents (LTIs) this year, exceeding our annual ceiling of 30. This year's target reflects the reduction seen in 2009-10 and was always going to be challenging. Despite having exceeded our annual ceiling, our long term trend continues to be downward and the number of LTIs each month remains within control limits, indicating that we are taking the right actions.	Target not achieved
5.5a We are more efficient We made £38.6m efficiency savings this year. This is £13.6m above the target set for us.	Target achieved
5.5b We manage our money to the highest standards Overall in 2010-11we utilised 99.8% of our available funding, £1.268bn of £1.271bn.	Target achieved

APPENDIX C

Water Resources Income

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

	SUC balance	EIUC balance water companies	EIUC balance non water companies	**As at 31 March 2011 Total**	**As at 31 March 2010 Total**
	£'m	£'m	£'m	**£'m**	**£'m**
Anglian	0.5	(4.0)	(1.3)	**(4.8)**	**(0.3)**
Midlands	(0.2)	(2.8)	(1.4)	**(4.4)**	**(1.9)**
Yorkshire	0.9	-	(0.2)	**0.7**	**0.2**
Northumbria	(0.5)	-	-	**(0.5)**	**0.1**
North West [1]	(1.7)	-	(0.3)	**(2.0)**	**(2.4)**
Southern	(0.1)	(3.1)	(0.4)	**(3.6)**	**(1.1)**
South West	(1.4)	(2.0)	(0.4)	**(3.8)**	**(3.7)**
Thames	(0.4)	(5.5)	(0.2)	**(6.1)**	**(2.6)**
Wales	(1.0)	-	(0.3)	**(1.3)**	**(0.4)**
Total	**(3.9)**	**(17.4)**	**(4.5)**	**(25.8)**	**(12.1)**

Key:
Balances in surplus shown as negative ()
Balances in deficit shown as positive.

From 2008-2009, abstractors were charged an Environmental Improvement Unit Charge (EIUC) in addition to the Standard Unit Charge (SUC). This enables us to pay compensation when we vary or revoke abstraction licences to reduce the risk of environmental damage due to taking too much water from certain water bodies. As at 31 March 2011 we have varied or revoked abstraction licences under the terms of two compensation schemes following Secretary of State approval from Defra.

We use the money raised from this charge exclusively to make compensation payments so any remaining balances at year end are carried forward to meet future compensation payments. The balances arise because we have to collect sufficient funds to pay the compensation before revoking or varying a licence.

[1] An amount of £0.5 million shows within the Statement of Comprehensive Net Expenditure in respect of an EIUC deficit for North West water companies. This is because the estimated liability for the Brennand & Whitendale Compensation scheme exceeds all North West EIUC water company income to 31 March 2011. The £0.5 million deficit will be met as a first call out of the 2011-2012 EIUC water company income for North West.

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