Department
for Environment
Food & Rural Affairs

Annual Report and Accounts 2016–17

HC 188

Department for Environment, Food and Rural Affairs

Annual Report and Accounts 2016–17

(For the year ended 31 March 2017)

Accounts presented to the House of Commons pursuant to Section 6(4) of the Government Resources and Accounts Act 2000

Annual Report presented to the House of Commons by Command of Her Majesty

Ordered by the House of Commons to be printed 19 July 2017

HC 188

This is part of a series of departmental publications which, along with the Main Estimates 2016–17 and the document Public Expenditure: Statistical Analyses 2016, present the Government's Outturn for 2016–17 and planned expenditure for 2017–18.

This publication is available at www.gov.uk/government/publications

Any enquiries regarding this publication should be sent to us at defra.helpline@defra.gsi.gov.uk

Print ISBN 9781474146258
Web ISBN 9781474146265

ID P002883460 07/17

Printed on paper containing 75% recycled fibre content minimum

Printed in the UK by the Williams Lea Group on behalf of the Controller of Her Majesty's Stationery Office

Contents

Performance Report

Foreword by the Permanent Secretary of the Department for Environment, Food and Rural Affairs

Clare Moriarty

This has been a truly exceptional year for the Defra group.

With almost all of Defra's areas of responsibility framed by EU legislation, we are one of the Departments most affected by EU exit. Defra is a key player within Government in negotiations on the withdrawal agreement and future partnership with the EU; in future trade agreements; in border planning; and in agreeing future arrangements with the devolved nations.

Near-term challenges of managing the exit process are matched by longer term opportunities for reform. These range from creating new frameworks for supporting food production and stewardship of the countryside to building on our high standards of animal welfare and developing a new regime for commercial fishing.

To support this work, we have set up a comprehensive programme which includes workstreams focused on the operational requirements of EU exit in each part of the Defra group and cross-cutting strands covering negotiation, legislation and finance. Looking ahead, EU exit will continue to dominate our agenda for several years to come.

We have continued on our journey to transform the Defra group into a modern, streamlined organisation. We have improved our approach to planning by focusing on outcomes in our six broad areas of activity, bringing together policy teams and all the organisations involved in delivery to identify areas for improved efficiency. We are most of the way towards creating common corporate service functions and will complete this when Environment Agency teams join in September. We are currently considering how best to integrate the principles of transformation into the EU exit programme which will inevitably become the implementation route.

Through a year of change and transformation we have maintained our focus on the Defra group's core business of delivering customer services in areas of vital importance.

The Animal and Plant Health Agency responded very effectively to an outbreak of avian influenza that saw more infected premises than ever before, and used its established protocols to carry out a rapid and successful response against the first UK outbreak of the Asian hornet.

The Rural Payments Agency achieved significant improvements in delivery of the Basic Payment Scheme, paying over 90 percent of farmers in December 2016 and over 97 percent before the end of March 2017. Some issues remain from the first year of the new scheme and the Agency is committed to further improving performance in 2017.

The Environment Agency has continued to make progress towards the goal of better protecting 300,000 households by 2021, with 96,986 homes better protected to date, as well as responding to floods, an east coast tidal surge and ongoing dry weather conditions.

During the past year I have welcomed the opportunity to visit teams working across the country, from Exeter to Newcastle, Workington to Portsmouth. On every occasion I have been impressed by the commitment shown by everyone working in the Defra group and their appetite for improving the service we deliver to our customers. While the context for our activities is constantly changing, most notably at present by EU exit, I am confident that this spirit will endure and see the continued success of the Defra group in the years ahead.

Non-Executive Directors' Report

Context

The past year was an important one in determining the future direction of the Defra group. The decision to leave the European Union (EU) and the appointment of a new Secretary of State had a significant impact on the Department's overall strategy, linked with the spending settlement for this parliament. Last year's emphasis on both delivering environmental and economic outcomes, while transforming the way people work across the Defra group, and focusing on customers, continues. This, however, is with the new task of dealing with the capacity challenges and changing future landscape that EU exit brings.

This past winter again required resilience, as the Defra group dealt with issues such as the floods on the east coast of England in January 2017, meeting payment targets for farmers, the next phase of plans to deal with bovine tuberculosis through badger control operations, and the continued response to avian influenza outbreaks. There has been some change in the Defra Board (the Board) and executive team over the course of the year. The Department welcomed a new Secretary of State, as well as a new Parliamentary Under Secretary of State in July 2016. In terms of the executive, appointments included a new Director General for Food, Farming, Animal and Plant Health. Several senior roles have been reconfigured or created to drive the Department's response to EU exit, on which it is playing a leading role in Whitehall.

Strategy and the Single Departmental Plan

The Defra group strategy has been refreshed to reflect EU exit and outline ministerial priorities for the period. This has underpinned the Single Departmental Plan (SDP), which has taken a significant step forward this year, with more comprehensive business planning supported by outcome systems across the Defra group. The setup of the outcome systems have been driven by the Target Operating Model which shapes how people work across the group to deliver its vision. The non-executive directors (NEDs) have provided a strong business focus to the development of the plan, and a critical perspective on the link between the strategy, the SDP and the future strategic direction of the Department. This challenge is reflected in updates to this year's SDP, and a strong steer to provide a prominent link between the strategy and the SDP.

As it moves forward, the Department will be looking to bring together all of its work on EU exit, transformation and the long-term strategy, in order to respond proactively to the changes ahead, and work effectively across the entire Defra group. These planning mechanisms will help to do this.

The Defra Group

In delivering the strategy for a more integrated Defra group, the objective must remain to remove barriers to better working so as to deliver improved outcomes, value for money and to be an organisation that is easier to deal with for stakeholders and customers.

Good progress has been made and there are already some examples of where the Core Department and delivery bodies are acting together to build a culture that is more open and acts in the interests of the group. The resourcing of EU exit work is one area where, through a coordinated approach, sharing of resources is taking place and effective use is being made of the talents that exist across the group. This has helped to build capability, securing necessary skills and expertise from delivery bodies to redeploy on this critical programme of work. The transformation of corporate services has also continued to progress, supporting the wider programme of change across the group by creating a more efficient, unified way of managing services and reducing duplication.

There is still more to be done. The outcome systems approach is maturing and further clarity is required to ensure there is an understanding of what it means in practice and the associated roles and responsibilities of governance forums. Further work is also being carried out to map accountability relationships and processes across the Defra group.

The NEDs have continued to play an important role throughout the year, acting as a critical friend to key delivery bodies and sharing knowledge and insight across the group.

Talent

As the Defra group has increasingly sought to come together, the management of talent has taken a more strategic and challenging direction to keep pace with the complexities of current and future business needs.

The successful start to managing senior talent across the group has continued. A wide scale review of critical roles and succession planning, by individual organisations within the group, outcome systems and the group as a whole, is well underway, together with a refresh of talent grids across organisations and grades. Heads of profession and functions are increasingly taking a more active role in talent management, particularly in the priority areas such as digital, programme management and commercial which has resulted in much more of a focus on the development of skills in those areas.

Work undertaken through the second half of the year has led to an increased understanding of current and future capability needs, which in turn is being fed in to the talent agenda. The challenge of retaining the right skills and experience continues as headcount is reduced in some areas of the business and increasing in others. The NEDs continue to play an important role in the Nominations Committee (through the Lead NED) in driving the talent agenda forward and overseeing top level talent and performance management. Additionally, the appointment of NEDs and Chairs of some of the delivery bodies has been a major focus over the latter part of the reporting year.

Major Projects

The Department had four major projects sitting in the government's Major Projects Portfolio (GMPP) during 2016–17, with two exiting the GMPP towards the end of the financial year: Common Agricultural Policy (CAP) delivery (closed 31 March 2017); Thames Tideway Tunnel (exited GMPP at Q3); UnITy (provision of new IT infrastructure and systems); and Thames Estuary Asset Management (TEAM) 2100 (a flood alleviation programme in the Thames Estuary led by Environment Agency (EA)).

- CAP delivery - good progress was made during 2016–17 in meeting Basic Payment Scheme targets and in processing Countryside Stewardship applications. The programme remained on schedule and formally closed on 31 March 2017, having developed nearly all the functionality required for the minimum viable service and the minimum credible service. The remainder system releases will be delivered through business as usual activities.

- Thames Tideway Tunnel - the construction phase commenced in 2016 and the project is on track and on budget. Monitoring and governance arrangements are in place and maturing as construction gets underway. Internal assurance mechanisms put in place have allowed the project to exit the GMPP in early 2017, including ongoing delivery and reporting support from the Infrastructure and Projects Authority (IPA).

- There are three integrated IT programmes within the Department: the UnITy programme; the digital programme; and data. The UnITy programme is the replacement of existing large scale outsourcing arrangements with more modern and flexible, multi-supplier, arrangements. The digital programme is aimed at making sure our customers can access services in the best ways. The data programme is how we improve, share and make best use of our data. Each is a vital enabler of the departmental transformation programme.

  UnITy is a complex and high risk programme with many moving parts. It is clearly deliverable, but right now is still in the early stages of evolution and the interdependencies with the other dimensions still being worked through. The Department recognises the complexity and the risks posed by the interdependencies. It is seeking to mitigate these through close governance and interactions between key players (e.g. cross-attendance at steering group level). The impact of EU exit on the UnITy programme is yet to emerge.

  The programme is overseen by the IPA and reports regularly to the Board and Audit and Risk Assurance Committee. UnITy will be critical to the effective and seamless working of the Defra group in the future and the NEDs are focusing on the Department's risk management of the project and ensuring that lessons learned from other IT projects are applied.

- TEAM 2100 - the project remains on track with CH2M contracted to deliver a 10-year programme of capital flood risk management works for London and the Thames Estuary in partnership with EA. Delivery of the second Annual Plan for financial year 2016–17 has progressed well.

It is likely that the Transformation Programme for the Department will also fall under the IPA and the progress and risks from that programme are firmly on the Board's agenda.

Risk Management

The Defra group's wide range of strategic and major operational risks has expanded further during the year. EU exit will impact on a big part of the group's activities and presents significant risks, as well as opportunities. These new risks are added to business as usual risks arising from the Department's lead government role on environmental and natural risks, such as flooding and plant or animal diseases. There are also operational risks, such as the implementation of the CAP payments systems and disallowance risk. Additionally, there are considerable challenges and risks from the continuing major Transformation Programme.

As noted in previous years, risk management processes have been mostly at delivery body/Core Department levels, with coordination at ExCo level and oversight by the Board. In view of the changes to organisational model that have arisen out of the Transformation Programme, a project has been ongoing during the year to define risk management processes at a group level. This work aims to redefine where executive responsibility for risk management should lie in future and how Board oversight will be maintained. Good progress has been made, but it still needs to be implemented effectively. Particular attention will need to be paid at ExCo and Board level to ensuring the group has sufficient resources, in terms of both capacity and capability, and uses and prioritises them effectively to meet these exciting challenges.

Board Effectiveness

The Board met four times during the 2016–17 reporting year, interspersed with bi-monthly meetings of the Non-Executive and Executive Meeting (NEEM). There are also regular meetings between ministers and the Executive.

The NEEM arrangements have been successful in supporting the Board and enhancing debate around key matters of interest for the Department, including more in depth review of strategic risks. The relationship between the NEDs and the executive directors has also continued to mature and deepen, with both team and individual sessions being held regularly on topics where the NEDs' external experience and perspective is useful.

In response to last year's Board effectiveness review, agendas have been refocused to concentrate on key issues for the Department such as EU exit and transformation. To build further on this, forward agendas for 2017–18 will incorporate the monitoring of progress against the SDP (which also serves as the Defra group business plan), while ensuring adequate time to focus on challenges facing the Defra group.

Chapter 1 – Overview

This chapter provides a concise description of the Department, our purpose, the key risks that we face in achieving our objectives, and how we have performed during the year.

Strategic Objectives

The Defra group strategy was launched in January 2016, setting out a shared vision and a set of strategic objectives for the whole Defra group for the period up to 2020. Actions to achieve the strategic objectives are described in more detail in Defra's Single Departmental Plan[1].

Following the referendum on the UK's membership of the EU, we updated the Strategy to reflect the role the Defra group plays in delivering a smooth and orderly exit from the EU. The update also reflected the priorities of the ministerial team appointed in July 2016 and the work across the group developing long term visions for the environment and food and farming industries.

The Defra group has eight strategic objectives **which explain our ambitious long term aims, the delivery standards we have set for the group and our objectives for organisational change. We have:**

One EU exit objective

Our ambition is a smooth and orderly exit from the EU, developing new approaches, both to grow more, sell more, and export more; and to leave the environment in a better state than we found it.

EU Exit

Four impact objectives

A cleaner, healthier environment, benefiting people and the economy.

Our ambition is for our country to have the healthiest environment and be the most beautiful place to live, work and bring up a family, securing our prosperity and wellbeing and that of future generations.

Environment

A world-leading food and farming industry.

Our ambition is for Britain to be one of the world's leading food nations, renowned for excellence in every aspect of the food system.

Food and farming

A rural economy that works for everyone, contributing to national productivity, prosperity and wellbeing.

Our ambition is for everyone living in England's rural towns, villages and hamlets to have the same opportunities as people living in urban areas.

Rural

[1] https://www.gov.uk/government/publications/defra-single-departmental-plan-2015-to-2020/single-departmental-plan-2015-to-2020

Protection

A nation better protected against floods, animal and plant diseases and other hazards, with strong response and recovery capabilities.

Our ambition is for the nation to be well protected against natural hazards, with the right balance of responsibility between government, communities and business.

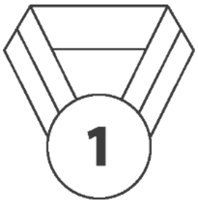
One delivery objective

Excellent Delivery

Excellent delivery for customers, on time and to budget and with outstanding value for money.

Our ambition is for the Defra group to be recognised for delivering services that are timely, consistently high quality, and offer outstanding value for taxpayers, customers and businesses.

Two organisational objectives



An Outstanding Organisation

An organisation continually striving to be the best, focused on outcomes and constantly challenging itself.

Our ambition is to be a highly responsive, customer focused, open and data driven department that is a trailblazer for the rest of government.

Our People

An inclusive, professional, flexible workforce where leaders recognise the contribution of people, and build capability to deliver better outcomes.

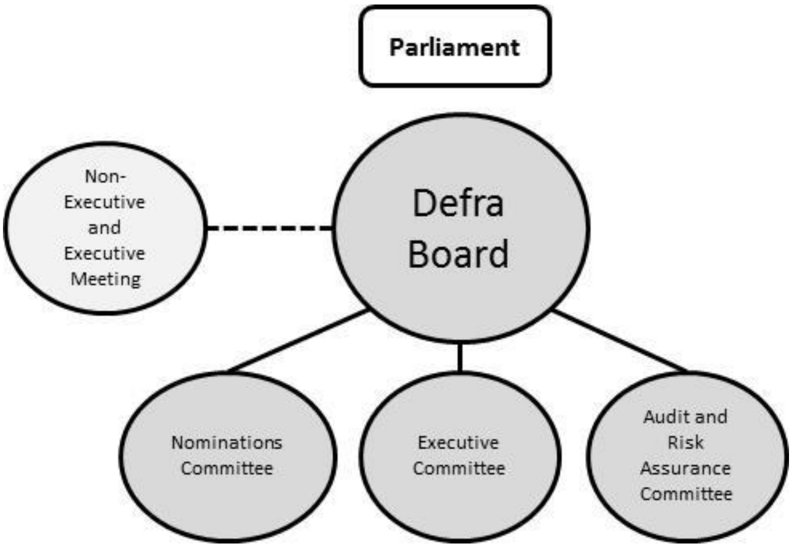
Our ambition is for Defra group's people to be diverse, talented, engaged and inspired towards a common purpose, and make the Defra group a great place for working.

Under our objective **An Outstanding Organisation** we have set out what the Defra group will look like in the future and how it will deliver its objectives, both with the resources available and in the best possible way for our customers. As a group, we will act together, make things simpler, avoid duplication, maximise impact, and embrace digital and data. We will:

- focus on **outcomes**, and our **customers**, by **redesigning** our services and increasing **integrated working and coordination** of our activities;
- **act together** to achieve this change; and
- facilitate transformation by putting the **right enabling structures** in place.

Governance Structure

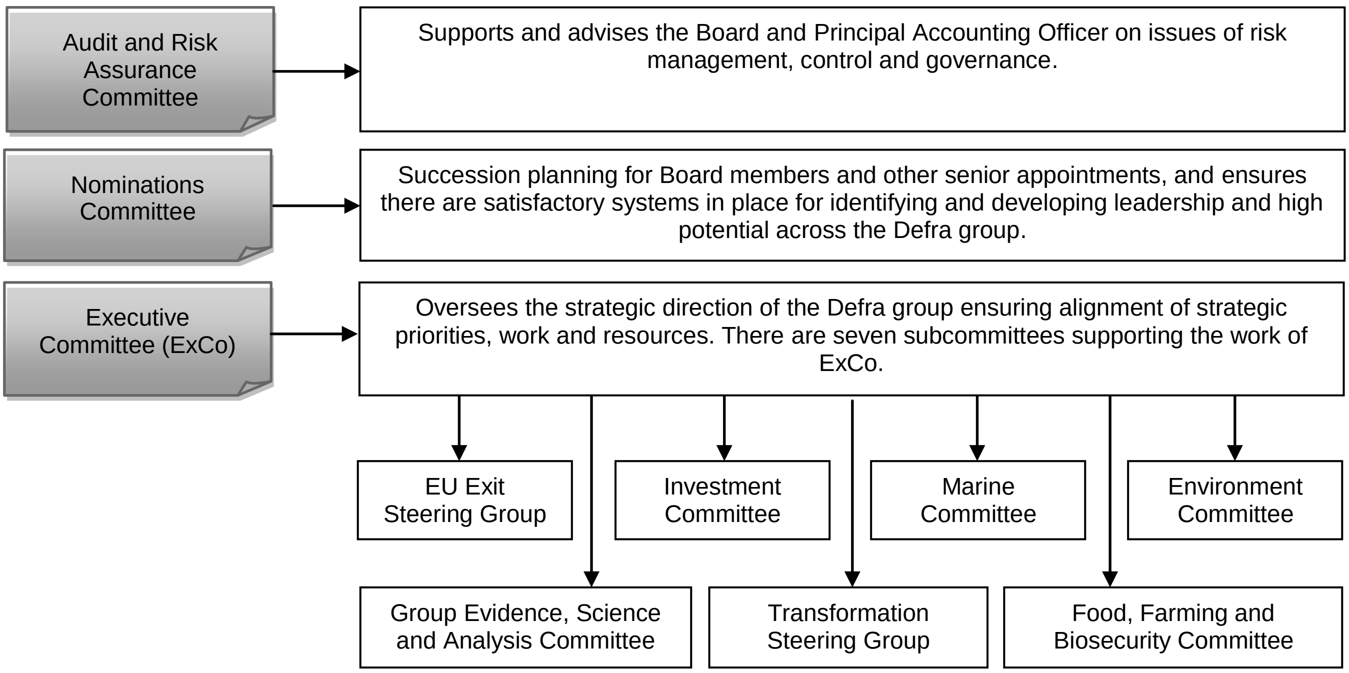
The governance structure of the Defra group is illustrated below. Interactions between the committees are achieved by shared membership and are run as described by the Corporate Governance in Central Departments: Code of Good Practice.



The Defra Board

The Defra Board (the Board) provides collective strategic leadership to the Defra group. It is chaired by the Secretary of State and brings together the ministerial team, senior officials, non-executive directors (NEDs) and two ex officio members. During 2016–17 there were changes in both the composition of the Board and individual members which are set out in the Governance Statement.

The Board is supported by three committees.



Non-Executive and Executive meeting

The Non-Executive and Executive Meeting is a high level forum, which does not formally report to the Board, but supports its work and that of ExCo by providing an opportunity for more in-depth consideration of key matters affecting the Department. Through this forum, members can bring additional insight and scrutiny to areas on behalf of the Board, as well as offering the NEDs a space to share any concerns they might have. It is chaired by the Lead NED and membership includes the Permanent Secretary, all four Board NEDs and members of the executive team.

Operating as the Defra Group

The Defra group has, since autumn 2016, adopted an outcome systems approach to organising activity undertaken within the group. This approach recognises that the Defra group is focused on delivering outcomes for customers and for society more broadly. While the Defra group is structured as a number of separate organisations, successful delivery of these outcomes depends on input from multiple organisations and on joining up end-to-end from policy to operations.

The Defra group delivers a wide range of outcomes through the services we provide and the policies we are responsible for. These have been grouped into six outcome areas by clustering related activities. Whether this is done on the basis of direct service delivery (which 80 percent of people in the group are involved in) or policy areas, the same six broad outcome areas emerge.

- Food and farming
- Biosecurity (animal and plant health)
- Floods and water
- Environmental quality
- Natural environment and rural
- Marine and fisheries

For each outcome area, the outcome system is made up of everyone involved in delivering outcomes for that area. Each outcome system includes policy and operational delivery teams from multiple organisations. Some delivery bodies are represented in several different systems, reflecting the fact that their activity contributes to multiple outcome areas. The Core Department is represented in all six outcome systems.

Outcome systems are not organisations, structures or separate entities. Responsibility for service provision and policy rests with individual teams within the outcome systems, and the organisations that they belong to. Each outcome system has a system leader who manages, guides and coordinates the system to deliver the outcomes in that area.

The Executive Committee (ExCo) is responsible for overseeing the strategic direction and tracking the performance of the Defra group. It also takes strategic decisions on matters that affect more than one organisation or set a precedent for the future. The three system leaders are members of ExCo, providing a direct connection to all the delivery bodies within the Defra group. Three system committees also support ExCo by ensuring alignment of plans and activities, and identifying synergies and areas for improvement.

Defra group governance arrangements do not affect the role and accountability of delivery body accounting officers and their boards. Decisions that are specific to a single organisation within the Defra group continue to be taken by that organisation in accordance with established procedures and delegated authority.

Decisions which affect more than one organisation are taken by a group governance body, and the organisations affected are fully engaged in the decision process. Chief executives ensure that their boards are part of this process, and specific agreement is sought from boards where a decision has an impact on their formal responsibilities.

An Accounting Officer Systems Statement (AOSS), due to be published in summer 2017, will set out all of the accountability relationships and processes in the Defra group, from the Principal Accounting Officer down. This will supersede the current Accountability Systems Statement, published September 2016[2].

EU Exit

In June 2016, the EU referendum took place and the people of the United Kingdom voted to leave the EU. Until exit negotiations are concluded, the UK remains a full member of the EU and all the rights and obligations of

[2] https://www.gov.uk/government/publications/defras-annual-report-and-accounts-2015-to-2016

EU membership remain in force. During this period the government will continue to negotiate, implement and apply EU legislation. The outcome of these negotiations will determine what arrangements apply in relation to EU legislation in future once the UK has left the EU.

The result of the referendum on the UK's membership of the EU has a fundamental impact on Defra and the outcomes for which it is responsible. Of the departments that existed before the referendum, Defra is most affected by leaving the EU, as our portfolio is most closely linked to EU activity, legal frameworks and funding. Substantial work has already been undertaken to ensure we have the capability required. A smooth and orderly EU exit is now the top priority for the Defra group. Efficiency is at the core of our EU exit work and has informed decision making at each stage. New teams and governance structures have been put in place to ensure that cross cutting priorities are appropriately managed across our workstreams and that robust project and programme management is in place to underpin EU exit activity.

Analysis has been, and continues to be, undertaken on the policy and legislation that will be required in order to ensure the best possible outcomes for the UK. In doing so, we will be in a position to tailor our framework to suit the UK's specific needs.

A key objective as we prepare for EU exit has been in providing stability to stakeholders, and setting up new frameworks for supporting food production and stewardship of the countryside. Defra continues to commit the same cash total in funds for farm support until the end of the parliament. Ministers and officials have begun discussions with farmers, food producers and environmental experts across Britain and with the devolved administrations to devise new policy and legislative frameworks.

Extensive preparations have been made to undertake engagement on a larger scale in the coming year, and to prepare for the challenges of leaving the EU whilst maintaining our readiness for environmental incidents, floods and animal or plant health disease outbreaks.

Key Issues and Risks

Over the course of the year, ExCo and senior executives have considered key risks categorised under the three headline areas of EU exit, transformation, and business as usual (including flooding, air quality, and animal and plant health). The risks have focused on the ability to build the capability and capacity across the Defra group quickly enough to meet the demands of EU exit, transformation and business as usual, including the lack of capability and capacity to deal with multiple, concurrent risks; for example floods and animal and plant disease outbreaks.

Chapter 2 – Performance Analysis

Defra is focused on delivery of its strategic priorities, with a Single Departmental Plan (SDP) underpinned by a coherent business plan for the whole Defra group, and a clear performance framework.

The data and information presented below outlines progress against Defra's impact and delivery objectives, including summary details of the indicators by which Defra will measure its performance. The indicators are available in Defra's SDP on gov.uk. Following the general election in June 2017 some of these indicators are subject to change.

The Department is now working as the Defra group, and has produced a single group business plan and a group-wide Target Operating Model. The Target Operating Model will be translated into an ambitious transformation programme that will realise significant benefits for Defra's customers and people, whilst also delivering savings.

EU Exit Objective

Our ambition is a smooth and orderly exit from the EU, developing new approaches, both to grow more, sell more, and export more; and to leave the environment in a better state than we found it.

Our policy responsibility is estimated to cover about 25 percent of the UK's EU business. This involves around 5,000 pieces of EU legislation. There are opportunities arising from EU exit which we will explore including:

Future agricultural policy
Design an alternative and improved system to coordinate agricultural policy based on UK needs.

Rural economy
Design new ways to better support rural productivity and rural communities to boost the rural economy.

Environmental regulation
Set our own long term environmental aspirations to deliver an enhanced environment.

Animal welfare
Put in place, a new, outcome-focused UK animal health framework, to reflect partnership working with industry.

Fisheries
Create a more self-sufficient, sustainable and profitable seafood sector operating under a simplified yet responsive regulatory regime.

A cleaner, healthier environment benefiting people and the economy

We are committed to the goal of being the first generation to leave the natural environment of England in a better state than that in which we found it.

We want to help people understand the true value of the environment and make it easy to become responsible stewards for it.

We propose actions across six main areas.

Developing data to overcome gaps in our environmental information and to better recognise the role of the environment in our lives so that the government and other decision takers can improve outcomes.

Delivering globally to ensure we effectively maintain and deliver on our global responsibilities, implementing our international environmental commitments and seeking to avoid improving our domestic environment at the expense of the environment globally.

Delivering locally in line with natural systems such as river catchments and landscapes, to encourage and facilitate strong partnership and local leadership of environment policy.

Incentivising and financing environmental improvements to target investment in a way which achieves multiple benefits for our natural environment, communities and the economy.

Connecting people with the environment so we can all understand, enjoy and appreciate its benefits, and spend more time in green spaces.

Designing an effective regulatory approach which is focused on outcomes that are effective, efficient and tailored to the needs of this country.

We designated a second tranche of Marine Conservation Zones, announced in January 2016, bringing the total area protected to 7,886 square miles.

In May 2016 we gave local authorities in England the power to issue fixed penalty notices for small-scale fly-tipping, providing an alternative to costly prosecutions.
In July 2016 we announced the first six months of results of the carrier bag charge for England. Data from the seven large supermarket chains in England shows that 7.64 billion bags were distributed for the full calendar year in 2014. For the six month period from 5 October 2015 to 6 April 2016 there was a dramatic reduction to 0.6 billion.

On 3 September 2016 the government announced plans to ban the sale and manufacture of cosmetics and personal care products containing microbeads which may cause harm to the marine environment.

Tideway (trading name for Bazalgette Tunnel Limited) is financing and delivering the private sector Thames Tideway Tunnel project (part of the government Major Project Portfolio). The project will address the problem of combined sewer overflows into the Thames in London. Construction started in March 2016.

In partnership with the Woodland Trust, we launched a scheme which will provide a million free trees to schools: helping children to learn about UK native trees and connect with the natural environment.

In April 2017 we published a consultation on increasing fixed penalties for littering with a view to any new regulations coming into force by the end of 2017.

Defra has worked with Ofwat and Market Operator Services Ltd to open the world's biggest competitive water market. For the first time this gives more than 1.2 million businesses, charities and public sector bodies in England the chance to choose their water provider.

Defra SDP indicators

The following indicators, to record progress, cover some of the key areas already being measured.

Air Quality

Clean air is vital to our health and environment, and to making our cities attractive places for people to live and work. We need to reduce concentrations of nitrogen dioxide around roads as we are currently in breach of the limits for local concentrations of nitrogen dioxide. The government's 2015 Air Quality Plan set out proposals to tackle this, which included the introduction of Clean Air Zones, at that time targeted on five cities in England. This plan was subject to successful judicial review in November 2016, one of the key reasons being that the plan was based on projections which did not take account of the widespread discrepancy between vehicle emission test results and real-world emissions. The High Court required the government to develop a final revised plan by 31 July 2017.

In addition, we need to make further progress in driving down emissions of five damaging air pollutants: ammonia (NH_3); volatile organic compounds (VOCs); sulphur dioxide (SO_2); nitrous oxides (NO_2) and particulate matter ($PM_{2.5}$). In 2016 the UK signed up to ambitious, legally-binding targets to reduce these emissions by 2020 and 2030; aiming to cut early deaths from poor air quality by half.

Water Quality

Water quality is important. Improving our rivers and streams makes natural habitats better for wildlife and safeguards the many jobs and businesses which rely on clean water.

We measure how many kilometres of fresh water are enhanced each year in England, with a target to improve 8,000 kilometres of waterways by 2021. From April 2015 to March 2017, 1,230 kilometres of waterways were improved.

Woodland Creation

Woodland provides important habitats and plays a valuable role in our recreational activities and in mitigating flood risks.

This indicator measures government funded woodland creation and trees. Since April 2015 we have planted 1.44 million new trees, up from 640,000 in 2015-16.

Protected Sites in England

These sites are designated to protect the country's best landscapes, wildlife sites and habitats. These protected area sites include Special Areas of Conservation, Special Protection Areas, Sites of Special Scientific Interest, Ramsar sites (wetlands of international importance designated under the Ramsar Convention) and Marine Conservation Zones.

The protected area network on land is not expected to change significantly in either extent or condition from year to year. Therefore, for the purposes of this indicator, the focus is on marine sites and we monitor the extent of protected areas at sea. Up to March 2017 there was over 79,000 square kilometres of English inshore and offshore waters in Marine Protected Areas.

The condition of these protected areas is also important. The percentage of protected sites on land in a favourable, or unfavourable but recovering condition, was 95 percent in 2016–17. In 2015–16 this figure was 95.7 percent.

Sustainable Development

Defra is committed to providing the most sustainable future, ensuring the long term health of our economy, society and the environment. The Department is strengthening environmental protection, including through the long term plan for the environment. Defra will continue to improve the impact on all three areas of economy, society and environment when developing policies in line with HM Treasury's Green Book (guidance for public sector bodies on how to appraise proposals before committing funds to a policy, programme or project).

Defra leads on innovative work to apply a sustainability approach across government in the area of the environment.

Developing a new sustainable development policy tool that helps policy teams evaluate policy impacts across all aspects of sustainable development.

Reviewing the uptake of sustainable development and environmental guidance in impact assessments across all departments.

Working with HM Treasury on the Green Book refresh process to improve the consideration of natural capital within it.

Working with other departments to enable them to assess risks and opportunities for natural capital from carbon reduction measures for the Clean Growth Plan [3].

Greening Government Commitments (GGCs)

Defra's performance can be viewed in the latest Greening Government Commitments annual report[4] (2016–17 annual report is expected to be published in autumn 2017) and is summarised in Annex 2. Comparing to baseline figures, the Defra group in 2016–17 has reduced its greenhouse gas emissions by 37 percent; domestic flights by 29 percent; paper use by 49 percent; and reduced waste sent to landfill to 19 percent of total waste. Water consumption has increased by 6 percent.

Defra procurement is continuing to promote sustainable procurement through standing instructions within its policies and processes to consider all elements of good procurement practice including consideration of the Public Services (Social Value) Act; the Public Sector Equality Duty; and the Small and Medium Enterprise agenda amongst others.

Where Defra leads on procurements, at the strategy stage, a sustainability appraisal is undertaken and, where possible, Government Buying Standards and the balanced scorecard from the 2014 Plan for Public Procurement of Food and Catering Services are applied.

[3] The Climate Change Act 2008 requires the government to set the Fifth Carbon Budget, a five year cumulative limit on the level of the net UK carbon account over the period 2028-32. It also has a requirement to address sustainable development

[4] https://www.gov.uk/government/collections/greening-government-commitments

A world-leading food and farming industry

We want Britain to be one of the world's leading food nations, renowned for excellence in every aspect of the food system. The food and drink industry is central to our long term, providing jobs, growth and opportunity. The food chain contributes £110 billion gross value added (GVA) to the UK, around 7 percent of the total economy. Food accounts for a sixth of all UK manufacturing GVA.

We launched the **Great British Food Unit**, which brings together Defra's market access team and sector policy teams working closely with the food and drink trade and investment team from the Department for International Trade, to boost exports.

We have created the **Single Farm Inspection task force** to streamline farm visits and reduce the burden on farmers.

Defra SDP Indicators

The following indicators, which record progress, cover the key areas currently being measured.

Value of Food and Drink Exports
Defra will contribute to the government's commitment to increase the value of UK exports by helping to strengthen exports of food and drink. Exports in 2016 were worth £20.1 billion, compared to £18.2 billion in 2015.

Apprenticeships
Defra will contribute to the government's aim of increasing total apprenticeship starts from 2.2 million during the last parliament, to 3 million during this parliament. Defra's aim is to treble the number of annual apprenticeship starts in food and farming in England from around 6,000 in 2014–15 to 18,000 by 2020.

The most recent full year that statistics are available for is the 2015–16 academic year where there were 7,160 apprenticeship starts. In the 2014–15 academic year there were 5,900.

This indicator includes apprenticeships in the food and drink, agriculture and horticulture frameworks as well as new food and farming employee-led apprenticeships.

Farm Visits
Defra's aim is to reduce the total number of farm visits by 20,000 by 2020 to reduce the burden on farmers. This includes visits by Animal and Plant Health Agency; Environment Agency; Rural Payments Agency; Food Standards Agency; Centre for Environment, Fisheries and Aquaculture Science; Veterinary Medicines Directorate; Forestry Commission; Natural England; and local authorities.

Since April 2015 to the end of March 2017 farm inspection visits have been reduced by 9,554.

A rural economy that works for everyone, contributing to national productivity, prosperity and wellbeing

We want a rural economy that works for everyone, contributing to national prosperity and wellbeing, and for everyone living in England's rural towns, villages and hamlets to have the same opportunities as people living in urban areas.

Contributing around £210 billion every year, the rural economy is hugely important to this country. The Rural Development Programme for England (RDPE) is intended to protect our environment, grow the rural economy and create more jobs. All schemes under the RDPE have been launched; and around £945 million has already been spent, with a further £1.2 billion committed.

We extended the Yorkshire Dales National Park by 24 percent and Lake District National Park by 3 percent providing a boost to rural tourism.

Defra SDP Indicators

The Rural Productivity Plan
The Rural Productivity Plan aims to enable faster growth of productivity in rural areas. We measure rural productivity by measuring the gross value added per workforce job in rural areas. The most recent full year statistics are from 2015, where the GVA was £43,935 per workforce job in predominately rural areas. In 2014 this figure was £44,500.

Rural Proofing

The government published its response to Lord Cameron of Dillington's review on the effectiveness of its rural proofing in late 2015[5]. The review sought to identify the extent to which departments were designing their policies in order to deliver effective outcomes in rural areas.

The response covers all of the recommendations made by Lord Cameron and his review team. The actions Defra is taking include the following.

- Developing improved guidance on rural proofing. We have now published the updated rural proofing guidance[6].

- Creating an online rural data and evidence hub for rural proofing practitioners to use when developing policies and programmes. Phase one of this work has now been completed and makes finding information much easier.

- Rolling out a training package for departments, including advice on better use of the government's urban/rural classification. Work is ongoing and a timetable for this work will be agreed shortly.

- Ministers representing rural issues on cross government implementation task forces on identified priority issues such as housing, broadband and childcare. Defra ministers have actively participated in Implementation Task Force meetings on housing, childcare and digital infrastructure and inclusion.

A nation better protected against floods, animal and plant diseases and other hazards, with strong response and recovery capabilities

We want the UK to be well protected against natural hazards, with the right balance of responsibility between government, communities and business.

Defra has a critical role in providing the UK with security against a range of natural threats and hazards, including floods and coastal erosion, droughts, animal and plant pests and diseases, and invasive non-native species. In fulfilling this role, we will better align risks and incentives to share responsibility between the government and others.

A key part of this role involves coordinating and managing the government's central response to major emergencies involving flooding, animal or plant disease outbreaks, and other areas where Defra is the lead government department.

An additional £700 million of spending on flood defences and resilience to 2021 was announced in the Budget. Funding allocated in 2016–17 to be invested by 2021 includes the following.

£195 million of capital spending to build flood defence schemes including in areas affected by the December 2015 floods.

£160 million for maintaining defences: £40 million a year up to 2020.

£15 million for natural flood management projects.

£150 million to the Department for Transport for road and rail flood resilience projects.

[5] https://www.gov.uk/government/publications/rural-proofing-government-response-to-lord-camerons-review
[6] https://www.gov.uk/government/publications/rural-proofing

We strengthened our flood response, investing £13.25 million to purchase an extra 20 miles of mobile barriers, and agreed a new contract to make sure they can be moved to where they are needed quickly.

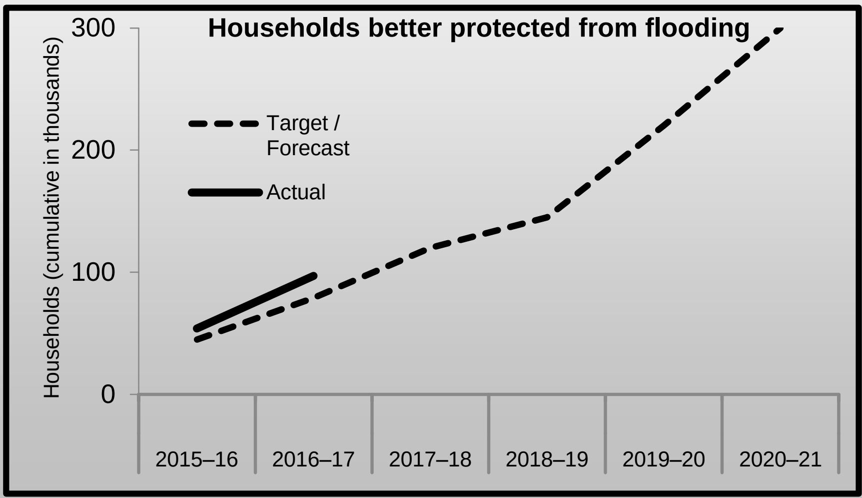
In April 2016 the new Flood Re insurance scheme was launched, and in its first 12 months enabled access to affordable flood insurance to over 127,000 policyholders in areas of high flood risk.

We released over 11,000 datasets, some of which have been used to support apps to tell the public about their local flood risk.

Defra SDP Indicators

Flooding

We aim to better protect 300,000 homes in England from flooding and coastal erosion by 2021. Households are better protected if they move to a lower category of risk, reducing potential economic harm and impacts on families. 42,531 more households were better protected in 2016–17, bringing the total figure since 2015 to 97,000 households better protected.



Bovine TB (bTB)

bTB is the biggest animal health challenge our country faces. This indicator measures the proportion of cattle herds in England which are not experiencing an incident of bTB. By December 2016, 94.2 percent of herds in England were officially bTB free. At the end of March 2016 this figure was 93.7 percent.

Adapting to Climate Change

The Department has:

- Continued to lead across government on climate change adaptation, taking action to ensure that relevant policies account for the risks of climate change and are robust to changing weather, extreme events and sea level rise.

- Continued to implement our own actions in the National Adaptation Programme (NAP), and driven implementation of the NAP through working with other departments, local government and other non-governmental, business, charitable and voluntary sector partners.

- Laid before Parliament the second UK Climate Change Risk Assessment report and overseen the publication by the Adaptation subcommittee of the independent evidence report that supports it.

- Led work with the Met Office Hadley Centre to develop the next UK Climate Projections, including the governance board, ongoing engagement with the government and non-government user groups and oversight by the peer review panel.

The Department has also:

Completed the second round of voluntary reporting on preparedness for climate change and extreme weather by large infrastructure operators and public organisations. This includes some of Defra's own delivery bodies.	Agreed funding and deliverables (with the Department for Business Energy and Industrial Strategy) for 2017–2018 for the Met Office Hadley Centre Climate Programme, which provides scientific advice to the government on climate variability and climate change.
Developed a work programme for the Adaptation Subcommittee, which was established by the Climate Change Act 2008 to advise and assess government work on climate change adaptation.	Secured the appointment of a new Chair of the Adaptation Subcommittee, Baroness Brown of Cambridge, who took over the post from Lord Krebs in February 2017.

Excellent delivery for customers, on time and to budget and with outstanding value for money

A summary of the departmental budget is described in the Financial Analysis section in Chapter 3.

We want to be recognised for delivering services that are timely, consistently high quality and offer outstanding value for tax payers and businesses.

Defra delivers a wide and diverse set of services to businesses and the public which support prosperity and economic opportunities. This includes administering over £2 billion of payments each year to support farmers and the rural economy. Defra issues 67,000 animal export certificates and 12,000 plant export certificates each year which enables British businesses to sell their produce internationally whilst controlling animal and plant diseases. Defra also contributes to decisions on over 30,000 planning applications each year, so Britain can keep building the infrastructure and housing we need, whilst meeting environmental risks including flooding and coastal erosion.

Defra SDP Indicators

Common Agricultural Policy
We aim to pay 93 percent of claims by the end of March. We exceeded this by the end of March 2017 and subsequently paid 98 percent of claims by early May 2017 totalling £1.59 billion in 84,000 payments. By March 2016 we had paid 85 percent of claims.

Export Health Certificates
We aim to issue 97 percent of export health certificates before export (if the completed application is received seven days or more before intended export) or within 24 hours (if within six days of intended export). During 2016–17, 99.8 percent of export health certificate were issued on time. During 2015–16 this was 99.1 percent.

Planning Application Consultations
Defra's aim is to manage environmental risk whilst supporting economic growth and security. This indicator details Defra's performance when acting as a consultee in the planning system, against the statutory duty to respond to 95 percent of planning application consultations from local authorities within 21 days or to agreed deadlines.

96 percent of responses were made to agreed deadlines during 2016–17. This was 94 percent in 2015–16.

Chapter 3 – Financial Analysis

Financial Summary

2016–17 Voted Funding
£3.1bn

Consisting of:

DEL
£2.6bn

AME
£0.5bn

Non-Budget
£37m

The Statement of Parliamentary Supply shows that Defra's total voted funding for the 2016–17 financial year was £3.1 billion. This consisted of £2.6 billion in Departmental Expenditure Limits (DEL), £0.5 billion in Annually Managed Expenditure (AME) and £37 million outside of the Department's budgetary boundary.

DEL is the budget total, issued by HM Treasury on behalf of Parliament, that Defra uses to fund its strategic objectives, including an allowance for the consumption of assets over time (depreciation). Budgets within these totals are issued to business units across the Defra group to fund ministerial outcomes.

Defra's resource DEL budget includes the administrative costs of running the Core Department and its delivery bodies and programme spend on operational services including waste, animal disease, animal and plant health and welfare, natural environment and flood and coastal erosion risk management. Defra's gross spending in the economy is twice the size indicated by our DEL budget because it includes payments made, mainly to farmers, in respect of Common Agricultural Policy (CAP) and rural development schemes, for which income is received from the European Commission (the Commission).

Defra receives income of £3.3 billion from the Commission, mainly in relation to the CAP of which £1 billion is paid to the devolved administrations. Other sources of income include grant income, fees, levies and licences payable to some of Defra's delivery bodies. Further information can be found in Note 4 along with the relevant delivery bodies' accounts.

Defra's resource AME budget is mainly for movements in provisions, including for CAP disallowance and the Environment Agency closed pension funds. The levy funded bodies and Flood Re are also included within AME.

Defra's capital budget covers the Core Department and its delivery bodies and includes expenditure on non-current assets net of sales, and the payment of capital grants.

The final area of Defra funding, called non-budget, is used to account for expenditure and income relating to CAP payments on behalf of the devolved administrations and for prior period adjustments.

Financial Management

The Department has delivered the savings and reforms set out in the 2010 and 2013 spending reviews and is focused on meeting the 2015 spending review's requirements.

Compared to 2015–16 the resource DEL budget has increased due to funding for investment in our transformation programmes, to deliver savings in future years, plus an additional depreciation requirement. The resource AME budget has increased due to an increase in our provisions budget for potential disallowance.

Capital DEL has increased since 2015–16 reflecting additional transformation investment in flood risk management, funding for investment in our transformation programme and the change in classifying certain research and development expenditure as capital.

Continuous improvements in financial management, through more rigorous forecasting, contributed to an outturn of around 99 percent of the non ring-fenced resource DEL budget. In addition to this the following were achieved.

- £15 million of payments to common land users were absorbed following a legal decision of historic entitlements.

- The Department supported the rural economy with £1,826 million in CAP Basic Payment Scheme (BPS) expenditure in England, plus £347 million from the Commission for rural development schemes, along with a further £68 million from Exchequer funding for rural development.

- The Department successfully mitigated the foreign exchange risks associated with the operation of the Commission schemes by entering into a hedging contract for the euro amount of the EU funding.

- The Department spent 98 percent of its capital DEL budget. This was achieved by rigorous prioritisation of investment, largely in vital infrastructure projects to better protect communities at risk of flood and coastal erosion. The capital budget has contributed to increasing the number of homes protected from floods, essential maintenance of Defra's estate, improvement to science laboratories, and information and communications technology related business change programmes.

Outturn against Control Totals

The Department's final outturn against the budgets within its control was £2,399 million in DEL and £87 million in AME. This equates to an underspend in the Department's resource DEL control total of £23 million, equivalent to 1.2 percent, after taking account of ring fenced underspends for disallowance of £102 million, official development assistance (ODA) of £5 million, voluntary early severance costs of £2 million and depreciation of £22 million. There was also an £11 million underspend against capital DEL after taking account of the ODA ring fence underspend of £5 million.

The underspend of £406 million against AME budgets was due to the following items.

- £276 million of this relates to CAP disallowance provision where lower than expected provisions were required in year, following successful negotiations with the Commission where we were able to demonstrate the true risk to the fund was sufficiently lower.

- £104 million underspend against Flood Re due to a surplus balance in Flood Re's accounts, against a budget of zero. The budget could not be further reduced due to the requirement to retain budgetary cover for a potential flood event occurring in the last quarter of the financial year. As this event did not happen in 2016–17 there was a surplus of spend which will be retained in Flood Re for any future flood event.

- The remaining variance of £26 million is mainly due to movements in other provisions.

The underspend against non-budget, expenditure outside of the Department's budgetary boundary, primarily reflected an underspend against potential prior period adjustments for possible changes to asset valuations from prior years and an underspend against the Commission funded schemes in the devolved administrations, due to exchange rate gains this year.

Net Cash Requirement (NCR)

Defra's outturn against its Estimate for the 2016–17 NCR is an underspend of £602 million. This represents the closing bank balances for the Core Department and its executive agencies. For reasons explained below, a prudent estimate has to be taken when calculating the NCR to mitigate the risk of any of these entities going overdrawn. Although the unspent balance was significant this year, the majority is still held within the Government Banking Service, therefore ensuring good value for the Exchequer as a whole and ensuring the Debt Management Office has access to the funds.

The underspend is due to the following.

- £255 million underspend, held within the Rural Payments Agency (RPA), mainly relating to uncertainties with forecasting payments under BPS where payments did not reach forecast levels due to some UK paying agencies facing difficulties in making BPS payments in the early part of the payment window. A decision had to be made in January 2017, in line with the Supplementary Estimate timetable, as to how much funding would be required in the last few months of the financial year to support BPS payments across the UK.

- £178 million underspend, held within the Core Department, of which £90 million represents funding secured in the Supplementary Estimate for the RPA to make payments before the year end to farmers in England who had outstanding BPS claims. These payments were subsequently made in early 2017–18.

- £139 million (€166 million) underspend in the RPA's euro account. This primarily relates to advances held for the Rural Development Programme UK scheme, which are retained to mitigate foreign exchange exposure on repayment.

- £30 million underspend against the other executive agencies, which includes the Forestry Commission.

Consolidated Statement of Financial Position

Over the 2016–17 financial year, Defra's total assets less liabilities decreased by £241 million.

- Non-current assets increased by a net £128 million over the year, with a number of new additions and revaluations across the Defra group (including flood defences, plant and machinery and Royal Botanic Garden Kew's heritage assets). This was partially offset by total depreciation and amortisation charged in year on non-current assets. The main increase was caused by revaluing the flood infrastructure assets.

- Current assets decreased by £608 million due to a decrease in EU accrued income of £417 million, mainly relating to a decrease of expected reimbursement from the Commission for the European Agricultural Fund due to a lower than expected take up of applications for the new scheme; along with a decrease in cash held of £178 million following the clearance of the payments to farmers for BPS 2015.

- Current liabilities (i.e. liabilities due in less than one year) decreased by £201 million. Trade and other payables decreased where we have cleared BPS 2015 payments following the issues implementing the new CAP scheme. There is also a decrease in the value of the financial liability for our euro trading for a similar reason. These are primarily offset by an increase in provisions relating to CAP disallowance as detailed below.

- Non-current liabilities (i.e. liabilities due in more than one year) decreased by £38 million, with the main movement being a £92 million decrease in the long term net pension liability. This is offset by an increase in other long term provisions of £47 million, primarily due to creating provisions for onerous leases for non-occupancy of sublet buildings and for dilapidations for long term leases.

Other Information

Operating Costs

We are reducing the operating costs of the Defra group over the spending review period. Savings of £24 million in corporate services costs were made during 2016–17, and the overall planned Grant in Aid saving by the end of the spending review period will be £123 million (gross savings will be £153m which includes savings for charge paying customers). The increase in reported departmental operating expenditure reflects the ongoing consolidation of Defra group corporate services functions. This includes a transfer of budgets and staff from the Animal and Plant Health Agency (APHA), RPA, the Forestry Commission (FC) and Natural England (NE). The transfer of Environment Agency (EA) staff and budget will take place in October 2017. The changes in the treatment of corporate service functions make it difficult to compare operating costs across different years.

The increase in capital spend in departmental operating expenditure in 2016–17 (Annex 1, Table 1) is the first tranche of the investment from the spending review in the budget to: fund critical health and safety works ensuring science and containment facilities (Weybridge) are fit for purpose; rationalise the estates footprint; and invest in our IT infrastructure, such as new IT hosting services and improvements in connectivity, across Defra Group.

Protect the Country from Floods

Revenue spending increased overall in 2016–17 due to additional budget for flood defence maintenance and going forward we are protecting maintenance spend at this level. However the corporate services activities which support flood protection have been re-categorised as operating costs from 2017–18, which is why Annex 1, Table 1 does not reflect this level of spend. Funding continues to be made available for the lead local flood authorities and sustainable drainage systems. From 2016–17 these funds are now distributed to local authorities by the Department for Communities and Local Government rather than directly by Defra.

Overall capital spending on protection from flooding by EA increased in 2016–17. The reduction in one element of capital (Capital DEL, Annex 1, Table 1) reflects the completion of the Repair and Renewal grant scheme.

This was a time-limited project in which grants were made to property owners affected by flooding to install flood resilience.

Flood Re

Flood Re has been established as a limited company to administer the Flood Re scheme. The Flood Re scheme will mean that most property owners who were previously unable to procure home insurance against the risk of flooding can now do so. This is a substantial improvement for many people across England. In this capacity Flood Re is an independent company that manages its business in line with insurance industry standards. Defra has no direct control over Flood Re, however, Defra and Flood Re have agreed a Framework Document, which is currently awaiting formal sign-off, which sets out the broad framework within which Flood Re will operate. From a financial reporting perspective and in line with the HM Treasury Financial Reporting Manual, Defra is required to consolidate Flood Re's accounts into the Defra group accounts. As Defra has no direct control over Flood Re, items of expenditure may arise which are not subject to Cabinet Office spending controls.

The effect to the Statement of Comprehensive Net Expenditure is a profit of £104 million after tax. This outturn is scored against the resource AME budget. The effect on the Statement of Financial Position is £202 million worth of assets, of which £157 million is held as cash. Liabilities total £104 million of which £58 million is deferred income. This gives a net assets less liabilities of £98 million and £98 million in taxpayers' equity and other reserves.

Animal and Plant Health

We are maintaining expenditure on animal and plant health revenue spend and investing in vital scientific facilities. The reduction in reported outturn revenue spending on animal and plant health (Resource Del, Annex 1, Table 1) reflects the transfer of corporate service budgets (including IT and estates) from APHA in 2016–17, as part of the ongoing consolidation of Defra group corporate services functions. The reduction in animal and plant health capital is due to the completion of major capital projects, including the Veterinary Delivery Partnership project for the delivery of veterinary managed services. The substantial increase in capital spending under departmental operating costs includes an £11 million investment in the Animal Health laboratories in Weybridge. This relates to upgrading existing buildings on site to ensure they remain functional, fit for purpose (reducing downtime) and that they meet all health and safety requirements.

CAP Disallowance

Along with every other EU member state, the UK incurs disallowance as a result of financial corrections applied by the Commission where they take the view that Commission regulations for payments funded through European schemes, including the CAP, have not been applied correctly. The financial correction typically materialises as a deduction by the Commission from a UK claim for reimbursement under European schemes – in essence, a penalty. Defra only accounts for disallowance relating to England, the devolved administrations account for disallowance relating to their regions. Following the result of the referendum on 23 June 2016 the UK will be withdrawing from the EU but the current assumption for these accounts is that Defra is still likely to incur disallowance on outstanding audits.

Disallowance is accounted for in Defra's accounts in three stages.

- Stage 1: Cost is initially recorded in the Statement of Comprehensive Net Expenditure (SoCNE) for disallowance (via a provision) when there is sufficient evidence, following a Commission audit, that a penalty is likely, but not certain, to be incurred in a future accounting period. These amounts are held on the Statement of Financial Position (SoFP) as current liabilities (provisions).

- Stage 2: Disallowance penalties are confirmed in the accounts (via an accrual) when the proposed disallowance has been formally communicated to the Department by the Commission and will not be contested. These amounts, typically unwinding a previous provision, are held on the SoFP as current liabilities (accruals). Both stage 1 and stage 2 transactions result in charges to resource (either AME or DEL), and are therefore charged to the SoCNE, as shown in the following table 'Charges to the SoCNE for CAP Disallowance'.

- Stage 3: Disallowance penalties are finally transacted when the Commission decides to deduct the owed amount from a claim for reimbursement under European schemes made by the UK, typically some time after the penalty has been confirmed (and therefore accrued). Stage 3 payments are accounted for purely through the SoFP, exchanging a current liability for a current asset and so are not shown on the SoCNE.

The creation of an accrual at stage 2 may be skipped, and occasionally transactions can move from provision to payment within the same financial year. These transactions would still impact on the DEL budget and pass through the SoCNE. The balances from the SoFP for CAP Disallowance table shows the accumulation over time of stage 1, 2 and 3 transactions in Defra's accounts.

Charges to the SoCNE for CAP Disallowance

£million	2016–17		
	DEL	AME	Total
Stage 1: Allowance created in year for anticipated liabilities based on receipt of initial audit findings	-	230	230
Stage 2: Provisions unwound in year for liabilities expected to materialise after accepting corrections (accruals)	3	(3)	-
Stage 2: New accruals where no previous provision existed[1]	9	-	9
Total charge	**12**	**227**	**239**
Write back in previous accrual (credit)[1]	(14)	-	(14)
Net charge	**(2)**	**227**	**225**

1. Note 3, EU disallowance row shows the net of the new accruals and write back in previous accrual.

During 2016–17 Defra made total charges to the SoCNE of £239 million (2015–16, £19 million). New provisions were required for 2016–17 relating to BPS area aids and entitlements for 2015 and 2016 along with cross compliance for 2014–2016.

Balances from the SoFP for CAP Disallowance

Scheme years 2005–2014

£million	Total as at 31 March 2017	2016–17	2015–16	2014–15	Up to 2013–14
Stage 1: Provisions outstanding at year end on SoFP[1]	**15**	15	18	65	84
Stage 2: Accruals outstanding at year end on SoFP[2]	**16**	16	139	167	89
Stage 3: Cash payments made to the Commission	**616**	112	94	3	407
Cumulative total for disallowance as at 31 March 2017	**647**				

1. Note 14, CAP disallowance closing balance at 31 March 2017.

2. Note 13, as part of the Core Department and agencies accruals and deferred income £588 million (2015–16, £677 million).

Defra's accounts include cumulative transactions for disallowance penalties totalling £647 million relating to CAP Scheme years 2005–2014. Of this total, £616 million has been paid to the Commission over time (stage 3). £16 million remains accrued for future liabilities relating to: Fruit and Vegetable Trader schemes 2011–2014 (£12 million); Rural Development Programme (£3 million); and other smaller schemes (£1 million). £15 million remains as a provision relating to: possible pending resolution of a confirmed liability relating to cross compliance for the scheme year 2014 (£11 million); and Rural Development Programme (£4 million).

Scheme years 2015–2020

£million	Total as at 31 March 2017	2016–17	2015–16	2014–15	Up to 2013–14
Stage 1: Provisions outstanding at year end on SoFP[1]	**230**	230	-	-	-
Stage 2: Accruals outstanding at year end on SoFP[2]	**8**	8	-	-	-
Stage 3: Cash payments made to the Commission	**-**	-	-	-	-
Cumulative total for disallowance as at 31 March 2017	**238**				

1. Note 14, CAP disallowance closing balance at 31 March 2017.

2. Note 13, as part of the Core Department and agencies accruals and deferred income £588 million (2015–16, £677 million).

Defra's accounts include cumulative transactions for disallowance penalties totalling £238 million relating to CAP Scheme years 2015–2020. As we are still in the early years of the current scheme there have been few audits carried out to date. Defra holds accruals of £8 million relating to late payment penalties arising from BPS 2015 payments along with provision for potential future liabilities totalling £230 million relating to: BPS 2015 and 2016 scheme years of £198 million; Cross Compliance 2015 and 2016 of £21 million; and £11 million relating to potential further liabilities for BPS late payment penalties.

Limited notice is given of future Commission conformity audits and it is not therefore known which scheme areas will be audited during the coming year. Disallowance will be accounted for once audits have taken place and reliable estimates are available. Until an estimate can be made, an unquantified remote contingent liability is disclosed within the accountability section.

The outstanding years for the larger schemes still to be potentially audited (based on the assumption there will be an EU exit in March 2019 and no inclusion in CAP for scheme year 2019 onwards) are:

- Basic Payment Scheme 2017 and 2018;
- Cross Compliance 2017 and 2018;
- Rural Development Programme 2015 onwards; and
- Fruit and Vegetable Trader schemes 2016–2018.

Investment Management Strategy

Assets that are no longer required for the Department's activities are sold in accordance with the principles of HM Treasury's *Managing Public Money*.

Clare Moriarty 13 July 2017

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

Accountability Report

Chapter 4 – Corporate Governance Report

The purpose of the Corporate Governance report is to explain the composition and organisation of the entity's governance structures and how they support the achievement of the entity's objectives. This governance report sets out how we have managed and controlled our resources during the year. It provides assurance on how we have carried out our corporate governance, how we have managed significant organisational risks and how we have addressed control issues. The requirements of the accountability report are based on the matters required to be dealt with in a Directors' Report, as set out in Chapter 5 of Part 15 of the Companies Act 2006 and Schedule 7 of SI 2008 No 410.

Governance Statement

This statement provides an assessment of how the Department has been managed during 2016–17, including the effectiveness of the systems of internal control, risk management and accountability. Defra group delivery bodies publish their own governance statements and so this report contains information material to the group as a whole.

Governance Framework

An overview of the Department's governance structure is set out in Chapter 1.

The Departmental Board

The year to 31 March 2017 has been one of change for the Defra Board. This started with the appointment of a new Secretary of State and a new Parliamentary Under Secretary of State in July 2016, shortly after the EU Referendum. Some further changes to executive membership followed later in the year. The focus of the Board's attention has also shifted as a result of the UK's decision to exit the EU. Priority is now being given to making sure the Defra group is able to exploit the opportunities this presents and manage the impact, whilst also making necessary savings. This is reflected in the Board's agendas which have a strong focus on EU exit, transformation and performance.

Board Effectiveness

Steps have been taken to address recommendations arising from the 2015–16 review, including more focused agendas to allow for deeper discussion on key strategic challenges. The outcome of this year's review has indicated there is still some further work to do in this area to better coordinate the sequencing of topics to the Board and other governance forums. Planned activity over the next 12 months is aimed at avoiding duplication and making sure maximum benefit is obtained from the ministers' and non-executive members' time and expertise. Further detail on the 2016–17 board effectiveness review can be found in the Non-Executive Directors Report.

Quality of Information used by the Board

A quarterly performance report is provided to the Board, aligned to the Defra group business plan and bringing together contributions from delivery bodies and Core Defra directorates. This incorporates the organisation's key responsibilities, outcomes, money and resource, customer feedback, measures and progress against milestones into a single report for the group. Performance information is quality assured through mechanisms within each contributing organisation and common definitions for each dataset are in place.

Conflicts of Interest

A system is in place to record and manage conflicts of interest of Board members and a register is maintained by the Board secretariat. No conflicts were identified during the 2016–17 reporting year.

Subcommittees to the Board

The Board is supported by three subcommittees: Audit and Risk Assurance Committee (ARAC); Nominations Committee (NomCom); and Executive Committee (ExCo). Reports summarising the activities of each of these committees are provided routinely to each Board meeting.

Over the course of the year ARAC has provided assurance to the Board and Principal Accounting Officer by giving scrutiny to the Annual Report and Accounts, reviewing the results of work carried out by Internal Audit and the National Audit Office (NAO), supporting the development of the Defra group risk assurance approach and monitoring key risks and issues significant to the group.

NomCom has supported the Board in making sure the Department has capability to deliver current and future needs. Over 2016–17 it has had a particular focus on succession planning for non-executive directors and other senior positions, as well as reviewing wider talent plans for the group.

ExCo became a formal committee of the Board in October 2016 following changes in departmental leadership and governance. As well as overseeing the performance of the Defra group, coverage of its work this year has included regular monitoring of developments relating to EU exit, transformation activities, and overseeing the refresh of the Defra group strategy. It has also had a strong focus on people issues.

Corporate Governance in Central Government Departments: Code of Good Practice

The Department continues to operate in compliance with the Code of Good Practice[7] with one exception. The code requires that a Nominations and Governance Committee supports the Board by scrutinising governance arrangements. This role is performed by the ARAC as the Board considers there to be a better alignment with its remit.

Departmental Board Membership and Attendance	
	Meetings attended out of those eligible to attend 1 April 2016 to 31 March 2017
Ministerial Team	
The Rt Hon Andrea Leadsom MP, Secretary of State for Environment, Food and Rural Affairs (from July 2016)	3/3
The Rt Hon Elizabeth Truss MP, Secretary of State for Environment, Food and Rural Affairs (until July 2016)	1/1
George Eustice MP, Minister of State for Agriculture, Fisheries and Food (formerly Minister of State for Farming, Food and Marine Environment until July 2016)	4/4
Dr Thérèse Coffey MP, Parliamentary Under Secretary of State for Environment and Rural Life Opportunities (from July 2016)	3/3
Lord Gardiner, Parliamentary Under Secretary of State for Rural Affairs and Biosecurity and Lords Minister (Defra spokesperson in the House of Lords until July 2016)	1/4
Rory Stewart MP, Parliamentary Under Secretary of State for Environment and Rural Affairs (until July 2016)	1/1
Non-Executive Members	
Steve Holliday, Lead Non-Executive Director and Chair of the Nominations Committee	4/4
Paul Rew, Chair of the Audit and Risk Assurance Committee	4/4
Peter Bonfield	2/4
Catherine Doran	2/4

[7]https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/609903/PU2077_code_of_practice_2017.pdf

Executive Management	
Clare Moriarty, Permanent Secretary	4/4
Betsy Bassis, Director General, Chief Operating Officer	3/4
Nick Joicey, Director General for Strategy, EU Exit and Finance (from 1 October 2016)	2/2
Mark McLaughlin, Chief Finance Officer (until 30 September 2016)	1/2
Ex Officios	
Emma Howard Boyd, Chair of the Environment Agency (EA), Ex Officio	4/4
Andrew Sells, Chairman of Natural England (NE), Ex Officio	3/4

Delivery Bodies

The Defra group comprises a range of public bodies which operate under varying degrees of autonomy from the Core Department. Delivery bodies maintain their own governance structures and processes, appropriate to their business and scale. They also produce their own governance statements as part of their Annual Report and Accounts, supported by the audit report and opinions of their respective heads of internal audit and by the Defra group Chief Internal Auditor's Opinion.

To enhance the Defra group organisational model, group level governance arrangements were introduced in October 2016. While these arrangements provide a framework for decision making on group related matters, they do not affect the role and accountability of delivery body Accounting Officers and their Boards. Several delivery bodies have statutory decision making powers and duties and these will continue to be a matter for the relevant Board.

The relationship between the Core Department and delivery bodies, as well as respective accountabilities, is clearly defined in framework documents. In response to a Public Accounts Committee (PAC) recommendation we have reviewed existing framework documents, amending as necessary. Where documents were not in place or out of date, new documents have been prepared. These will be published over summer 2017. We are also addressing a number of other related recommendations arising from the PAC hearing and NAO report[8] aimed at clarifying lines of accountability between Core Defra and delivery bodies. This includes the production of an Accounting Officer Systems Statement and implementation of the new Code of Good Practice for partnerships between Departments and arm's-length-bodies[9].

Delivery body Accounting Officers have provided assurance to the Principal Accounting Officer that, for the year ended 31 March 2017, they have complied with agreed delegations and not acted against legal or compliance advice.

Financial Control

The Department has continued to work to make sure that its financial management activity and capability supports wider decision making. The Department's financial performance is described in Chapter 3.

We have recognised that with the increased pace and scale of change in the environment in which we operate, for example with EU exit, as a priority greater emphasis needs to be placed on making sure financial accounting implications of decisions are better understood, documented and evidenced across the business to support robust management decisions. Capacity and capability within Defra group finance is being strengthened with more technical financial accounting skills embedded across all finance business partnering, leading to greater financial expertise in the decision making process. We have also increased the level of quality assurance over the validation of any significant judgements required in deciding how a particular transaction should be reflected in our financial statements. In future, this will include greater quality review across the group to reduce the risk of inconsistent treatments of transactions and to make sure our judgements are complete and accurate.

[8] https://www.nao.org.uk/report/departments-oversight-of-arms-length-bodies-a-comparative-study/
[9] https://www.gov.uk/government/publications/partnerships-with-arms-length-bodies-code-of-good-practice

Local Funding

The Department provides a number of direct grants to local authorities from the Defra Departmental Expenditure Limit (DEL) budget for purposes such as waste infrastructure, local flood risk management prevention or waste recycling work. In accordance with government policy, these grants are not ring-fenced, but their visibility makes clear their intended purpose over and above funds received through the main Local Government DEL settlement. There is also a robust audit process in place for such funds through the accountability requirements placed on local authorities. A detailed explanation of accountability for local funding is set out in the Defra Accountability Systems Statement, published September 2016[10].

Assurance Arrangements

Risk Management

A new risk management approach for the Defra group has been developed over the course of 2016–17 and is in the early stages of implementation. This aims to embed a consistent approach to risk identification and management, with ownership and review at the right levels. Once fully embedded, it will apply the following key principles.

- A common risk language and template, to allow for comparison and aggregation.
- A risk escalation and feedback process, with agreed criteria across the group to make sure risk is owned at the appropriate level.
- Alignment of risks with the Defra group strategic objectives to support decision making, manage threats and embrace opportunities.
- Responsibility clearly located with directors, chief executives, senior responsible owners and team managers for managing risks within their areas of control. To support them, the Defra Board and ExCo will provide the leadership role on risk, overseeing the top risks to the Department's strategic objectives; considering both the individual risks and the cumulative weight of risk.
- A clear process that demonstrably meets compliance requirements across the whole group and is grounded in sound risk management theory.
- Quarterly collation of all top level risks from across the group which will help to inform a risk opinion for the Defra group.

While good progress has been made in designing and implementing the new approach, it is still maturing and further work is underway to embed this across Core Defra and delivery bodies. This includes developing a group wide risk strategy, refining risk guidance and setting a clear and stable escalation route through ExCo's subcommittees.

Over the course of the reporting year aggregate risk information relating to EU exit, transformation and business as usual activities (including flooding, air quality and plant/animal health) has been presented to ExCo, the ARAC and senior executives.

Whistleblowing

A streamlined whistleblowing process is in place across the Defra group and during 2016–17 all cases reported were fully investigated. Where process improvements were recommended these have been addressed. The Department has carried out a range of activity over the past two years aimed at embedding a culture that encourages employees to raise a concern. This includes introduction of a dedicated whistleblowing mailbox, incorporating whistleblowing into a mandated leadership objective and providing further training for nominated officers. In August and September 2016, a coordinated campaign aimed at raising awareness of whistleblowing was run across the Defra group. The results of the 2016 People Survey in October showed that 75 percent of people working in Core Defra knew how to raise a concern, a six percentage point increase on the previous year. There is still some further work to be done to build confidence in the whistleblowing process and we are

[10] https://www.gov.uk/government/publications/defras-annual-report-and-accounts-2015-to-2016

about to embark on another campaign in summer 2017. The focus will be on making sure people feel comfortable in raising a case, by being clear on how it will be escalated and providing confidence that action will follow.

Information Management

No reportable data loss incidents occurred during 2016–17 and the Department continues to take a proportionate approach to the management of security risks in line with the low volume of sensitive and personal information handled. Information Assurance (IA) returns during 2016–17 indicated that there was further improvement in the level of IA maturity overall, proportionate to the level of data the Department handles. Following the formation of the central Government Security Clusters and of the National Cyber Security Centre, the Department has reached out to both organisations to develop new contacts to support continuation of central government support on IA matters.

Business Critical models

The Department continues to implement the recommendations of the 2013 Macpherson Review of quality assurance of government analytical models. Defra was an active contributor to the production of the guidance for producing quality analysis for government (the 'Aqua Book') and promotes its use across the Defra group. The guidance is used as part of a consistent quality framework for assurance of evidence across the Department. Each model has a Senior Responsible Owner who is responsible for effective assurance and a list of Defra business critical models 2016 is available.

Internal Audit

An evolving approach has been taken to the provision of internal audit services across the group with the aim of reducing duplication and providing better assurance to the Principal Accounting Officer. This has continued to develop into a group internal audit function that materialised on 1 April 2017 with the transfer of the Defra Shared Audit Service into the Government Internal Audit Agency (GIAA). There is now a single consolidated audit plan, which includes cross-cutting group audits, as well as organisational specific audits.

Defra Group Chief Internal Auditor Opinion

In respect of the year ending 31 March 2017, the Defra Group Chief Internal Auditor (GCIA) has provided the Principal Accounting Officer with overall 'moderate' assurance that the Defra group, including the group of bodies sponsored by the Department, has had adequate and effective risk management, control and governance processes in operation. The GCIA has, however, noted three group audits where only limited assurance has been provided: Countryside Stewardship, Laboratory Site Security and Official Food and Feed Controls.

A 'moderate' assurance opinion has also been provided for Core Defra. There were two notable scope limitations: the Single Operating Platform (SOP), where delays and late provision of information limited what internal audit could review in advance of the go-live decision; and Workforce Planning, where it was not practical to complete a review as this was still an area of work in progress. The GCIA identified some issues of note specific to the Core Department, including areas where controls were not in place or not effective.

Significant Risks and Issues

In accordance with the guidance provided in Managing Public Money, the following issues meet the criteria for further disclosure given their significance to the Defra group as a whole. These include updates on issues reported last year.

EU Exit

The Department is rapidly developing options to deliver domestic readiness at the point of EU exit and to support a smooth and orderly transition. Given the scale of the challenge, it is critical we are able to secure the necessary resources and skills to manage this work. At the same time, we are taking steps to make sure our capacity and capability to deliver key business as usual priorities, or respond to a major incident, continues to be robust. This work sits within the wider context of implementing a transformation programme involving efficiency savings and structural changes.

We are actively managing this challenge through a departmental EU Exit Programme, which includes coordinating resource requirements. A resource capability plan is being developed which involves building capability in the policy profession, as well as assessing specialist skills required in a number of other areas. Effective use is also being made of existing knowledge and expertise across the Defra group. Where new staff are recruited, they will predominantly be offered fixed term or loan and secondment arrangements to enable the Department to manage the rundown of resources once the peak of EU exit work has passed. Work programmes and recruitment plans are continually kept under review to make sure we are appropriately staffed to respond to the task.

Transformation Programme

The Defra group is transforming so that it can deliver its objectives, both with the resources available and in the most efficient way for customers. This change will be delivered over the coming years through a wide portfolio of projects, programmes and other initiatives. Leaving the EU will also provide new opportunities to transform how and what we deliver.

The building blocks for transformation are already in place. Our new organisational model sets out a vision for how the group will operate in future, with an emphasis on increased coordination and integrated working (further detail on the Defra group is in Chapter 1). The transformation of corporate services is supporting the wider programme of change taking place by creating a more efficient, unified way of managing services. This has already demonstrated a reduction in duplication of effort across the group, achieving savings of £24 million. The Transformation Programme is working closely with the EU Exit Programme and the Digital Transformation Programme to assess the implications of EU exit.

IT Programmes – Digital, Data and Technology

Underpinning transformation of the Defra group are three IT programmes.

- UnITy will replace the current IBM and Capgemini ICT contracts, due to expire in 2018–19.
- Digital transformation will deliver new digital services, platforms and capabilities for the Defra group.
- Data transformation will transform the way the Defra group manages, shares and uses data.

The programmes have made good progress in 2016–17. Work is underway to identify the skills and capabilities required to support the new ways of working in the Digital, Data and Technology Services (DDTS) function, along with learning and development and resourcing plans to support delivery. Governance within DDTS has been strengthened for each of the programmes and across DDTS to oversee the entire portfolio of ICT investment, including maintaining and improving infrastructure and change activities.

The IT programmes are working closely with the Transformation Programme and the EU Exit Programme to ensure appropriate governance is in place and mitigate the risk that activities do not align. Associated with this are risks around capacity, both within DDTS and the business to deliver change. These are being mitigated through developing a clear, adequately resourced portfolio of IT activities and working with the business to assess business change requirements.

Flood Re

Defra and Flood Re have agreed a draft Framework Document, which is currently waiting formal sign-off. Flood Re has written to the Department agreeing to abide by the principles in the draft Framework Document until it is formally signed. HM Treasury and Defra have agreed retrospective approval for Flood Re's remuneration in 2016–17 and are considering the application of HM Treasury pay controls going forward. The application of standard public body controls and agreeing appropriate exemptions is complex for Flood Re, as a new independent body with direct Parliamentary accountability. Completing the formal agreement of the Framework Document and pay clearance has been further delayed by the general election and forming of a new government. Flood Re has its own governance structure, including an Audit and Compliance Committee. Defra will draw assurance from Flood Re's independently audited accounts. Defra officials will provide initial help and advice on propriety and regularity issues during the early stages of Flood Re's operations in order to help them build confidence in their understanding of the issues and how compliance is achieved. Flood Re's Chief Executive has arranged formal training on Managing Public Money and his responsibilities as the Scheme's Responsible Officer.

Natural England Environmental Stewardship Payments

During 2016, NE made a number of advance payments on Countryside Stewardship claims before all of the administrative checks had been fully completed. The Rural Payments Agency (RPA) has worked closely with NE to take the necessary remedial action and will put in place enhanced controls to deal with any future instances that could pose a risk to EU funds. In order to make sure there are not similar situations elsewhere, the Chief Finance Officer (CFO) has written to all Defra group Accounting Officers asking for specific representations of any situations where decisions have been made contrary to legal or compliance advice. As well as alerting them to this risk, as a pro-active step, all Defra group Finance Directors (reporting to the CFO) have been asked to check that in future all executive decisions are fully informed by legal and compliance advice when appropriate. They should also highlight any compliance concerns to the CFO as a matter of routine. In order to provide assurance to the Principal Accounting Officer, a detailed Internal Audit review on the NE issues was commissioned and discussed at the Defra group ARAC.

Common Agricultural Policy (CAP) Delivery Programme (update from 2015–16)

Good progress was made over 2016–17 in addressing previously reported challenges to the CAP delivery programme. In particular, improvements to the new online interface for making applications which was used for 2016 Basic Payment Scheme (BPS) applications. Published targets for paying BPS claims have since been met by the Department. Further development over the financial year has focused on introducing the additional functionality required to operate the Countryside Stewardship (CS) Scheme. The processing of CS Scheme 2016 payments and issuing of CS Scheme 2017 agreements has, however, been slower than anticipated. Further action is being taken to strengthen operational governance and to reduce processing times in future.

The recommendations relating to the CAP Delivery Programme arising from the NAO review and Public Accounts Committee hearings are in the process of being addressed. The Internal Audit actions have been transferred to business as usual. The review conducted by the Infrastructure and Projects Authority (IPA) in March 2017 gave the Programme approval to exit from the Government's Major Projects Portfolio. It has since been formally closed and the newly established Rural Payments Executive Group is responsible for overseeing the completion of the one outstanding recommendation made in the IPA's report and any subsequent amendments to the IT system. The programme cost to date and forecast costs for future support remain within the full business case approval limit of £215.8 million. A further impairment review has been completed and the CAP delivery assets have been valued and transferred to the RPA.

Disallowance (update from 2015–16)

The Department has accepted and accrued £11.7 million (gross) of disallowance penalties in 2016–17 (further detail on these penalties is contained in Chapter 3). A comprehensive disallowance strategy is being implemented to minimise disallowance whilst we remain subject to CAP rules. Under the strategy, we are continuing to address historic disallowance, as well as to proactively identify and, where cost effective, mitigate current and future disallowance risks. This is being done by improving the design of schemes, processes, systems and data quality. The strategy includes investment to improve Defra's mapping data, which is historically the biggest disallowance risk. Progress in implementing the strategy is being overseen by the Disallowance Steering Group.

Facilities Management (update from 2015–16)

Facilities management services for Core Defra, all four executive agencies, NE and EA are provided by a third party contractor. Further to risks reported last year at the APHA specialist site in Weybridge, there has been significant investment in operations management to help address the issues. This is being sponsored through executive attention, including the DG Chief Operating Officer. In response to continued key performance failure and a comprehensive review of service provision at Weybridge a 100 day action plan has been developed which the facilities management contractor is now delivering.

Single Operating Platform (update from 2015–16)

The Department has continued to implement a Single Operating Platform (SOP) for HR, finance and procurement systems alongside its shared services provider, Shared Services Connected Ltd (SSCL). To date, Core Defra and a number of other bodies within the Defra group have migrated their existing in-house platforms and systems onto SOP. They have experienced a number of problems, particularly for financial reporting, which took some time to resolve. A financial retention was allocated to each of the issues, with this retention fully released to SSCL in March 2017 on resolution. EA is awaiting the delivery of a number of fixes to outstanding SOP system defects. The milestone payment continues to be withheld until this is resolved in full.

To give users of the services of SSCL greater assurance about the quality of SSCL's processes and controls, Cabinet Office engaged PricewaterhouseCoopers LLP (PwC) to review the controls and deliver an independent third party opinion of their design and operating effectiveness. PwC's audit was conducted following the International Standard on Assurance Engagements (ISAE 3402). The report for the year ended 31 March 2017 gave a qualified opinion due to finding 22 control exceptions, of which up to 13 affect the Defra group. We have considered the effect of these control exceptions in SSCL processes on our reliance on the accuracy and completeness of the financial transactions included in our financial statement for the year ended 31 March 2017 and have concluded that there is no material impact.

Conclusion

As Principal Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control in the Department. My review is informed by the work of Internal Audit, Statements of Assurance from Directors within the Department, and comments and recommendations made by the external auditors in their annual management letter and other reports. I have also noted the opinion of the Defra group Chief Internal Auditor, including specific areas of concern that have been highlighted in Core Defra and delivery bodies.

Overall, I am satisfied the Department has had effective governance, risk management and internal controls in place during 2016–17, although there are areas for improvement to be addressed over the coming year. The Department's corporate governance arrangements have continued to evolve as we move towards more integrated working across the Defra group. While good progress has been made, the group organisational model is still maturing. We will take further action to strengthen existing governance structures, making sure these support a group approach, as well as providing greater accountability and clarity around how we manage EU exit work.

Statement of Accounting Officer's Responsibilities

Under the Government Resources and Accounts Act 2000 (GRAA), HM Treasury has directed the Department for Environment, Food and Rural Affairs to prepare, for each financial year, consolidated resource accounts detailing the resources acquired, held or disposed of, and the use of resources, during the year by the Department (inclusive of its executive agencies) and its sponsored NDPBs designated by order made under the GRAA by Statutory Instrument 2016 no. 323 (covering the Core Department and delivery bodies listed at Note 18 to the accounts). The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the Core Department and delivery bodies listed at Note 18 and of the net resource outturn, application of resources, changes in taxpayers' equity and cash flows of the Core Department and these delivery bodies for the financial year.

In preparing the accounts, the accounting officer of the Department is required to comply with the requirements of the Government Financial Reporting Manual (FReM) and in particular to:

- observe the accounts direction issued by HM Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- ensure that the Department has in place appropriate and reliable systems and procedures to carry out the consolidation process;
- make judgements and estimates on a reasonable basis, including those judgements involved in consolidating the accounting information provided by NDPBs;
- state whether applicable accounting standards as set out in the FReM have been followed, and disclose and explain any material departures in the accounts; and
- prepare the accounts on a going concern basis.

HM Treasury has appointed the permanent head of the Department as accounting officer of the Department for Environment, Food and Rural Affairs. In addition, HM Treasury has appointed an additional accounting officer to be accountable for those parts of the Department's accounts relating to the Forestry Commission. Flood Re, a new public body that became fully operational from April 2016, has an independently appointed chief executive who acts as senior responsible owner (SRO) with accounting officer responsibilities for the body. Flood Re's SRO is directly accountable to Parliament for its income and expenditure. However, because its accounts consolidate into the Department's, Flood Re must provide assurance to Defra's accounting officer through its independent auditors that they represent a true and fair view and comply with propriety and regularity expectations as contained in Managing Public Money. These appointments do not detract from the head of department's overall responsibility as accounting officer for the Department's accounts.

The accounting officer of the Department has appointed the chief executives of the executive agencies and NDPBs as accounting officers of those bodies. The accounting officer of the Department is responsible for ensuring that appropriate systems and controls are in place to ensure that any grants that the Department makes to its delivery bodies are applied for the purposes intended, and that such expenditure and the other income and expenditure of the delivery bodies are properly accounted for, for the purposes of consolidation within the resource accounts. Under their terms of appointment, the accounting officers of the delivery bodies are accountable for the use, including the regularity and propriety, of the grants received and the other income and expenditure of the delivery bodies.

The responsibilities of an accounting officer, including responsibility for the propriety and regularity of the public finances for which they are answerable, for keeping proper records and for safeguarding the assets of the Department or NDPB for which they are responsible, are set out in *Managing Public Money* published by HM Treasury.

The accounting officer is required to confirm that, as far as she is aware, there is no relevant audit information of which the entity's auditors are unaware, and the accounting officer has taken all the steps that she ought to have taken to make herself aware of any relevant audit information and to establish that the entity's auditors are aware of that information.

The accounting officer is required to confirm that the Annual Report and Accounts (ARA) as a whole is fair, balanced and understandable and that she takes personal responsibility for the ARA and the judgements required for determining that it is fair, balanced and understandable.

Directors Report

Our Ministers and Senior Officials

Details of Defra's ministers and senior officials can be found in the departmental board membership and attendance table in the Governance Statement.

Pension Liabilities

Details of pension liabilities can be found in Note 15 to the accounts.

Conflicts of Interest

Details of procedures in relation to conflicts of interest can be found in the Governance Statement.

Charities Act

Section 70 of the Charities Act 2006 sets out a power for ministers to give financial assistance to charitable, benevolent or philanthropic institutions. Defra and its delivery bodies are required to report to Parliament annually any financial assistance given to any charitable institution under the Charities Act. For 2016–17 no such payments were made by Defra or its delivery bodies (2015–16, £Nil).

Personal Data Related Incidents

The Defra Security and Information Assurance Group[11] works to identify and address information risks, and to promote good and consistent practice. The Defra group monitors the use of removable media devices on Defra laptop computers to protect information. Web blocking and monitoring is in place to block access to undesirable and potentially harmful sites. The Defra group regularly tests the robustness of the information and communications technology network and annually conducts a code of compliance exercise enabling Defra's continued connection to the Public Services Network. All employees are required to read and accept the Personal Commitment Statement, which details how to comply with Defra's security and information assurance policies. Defra's approach recognises that the vast majority of information handled by the Department is not classified or sensitive, and that information is held in a number of different systems across the Defra group. Defra complies with Her Majesty's Government information assurance standards and the requirements of the Security Policy Framework.

All government departments are required to publish information about any serious data related incidents, which have to be reported to the Information Commissioner. There were no protected personal data related incidents formally reported to the Information Commissioner's Office in 2016–17.

Incidents recorded centrally within the Department that were deemed by the Data Controller not to fall within the criteria for reporting to the Information Commissioner's Office are set out in the following table. Small, localised incidents are not recorded centrally. The following table includes the Core Department, executive agencies, NDPBs, Forestry Commission (FC), the National Forest Company (NFC) and Flood Re.

[11] The Defra Security and Information Assurance Group includes the Core Department, RPA, EA, NE, APHA, the Marine Management Organisation (MMO), the Veterinary Medicines Directorate (VMD), and the Centre for Environment, Fisheries and Aquaculture Science (Cefas).

Summary of Other Protected Personal Data Related Incidents in 2016–17

Category	Nature of Incident	Total
I	Loss of inadequately protected electronic equipment, devices or paper documents from secured government premises	3
II	Loss of inadequately protected electronic equipment, devices or paper documents from outside secured government premises	3
III	Insecure disposal of inadequately protected electronic equipment, devices or paper documents	-
IV	Unauthorised disclosure	5
V	Other	3

Employee Health and Safety

Work-related Injuries and ill health

The table below provides a breakdown of work-related injuries and ill health reported by the organisations currently participating in regular Defra group performance reporting benchmarking. A total of 1,180 reports were received across the Defra group from 1 April 2016 to 31 March 2017. Of these, 23 had to be reported to the Health and Safety Executive (HSE) in accordance with the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations (RIDDOR): three were specified injuries; 16 were injuries or illness resulting in more than seven days absence from work or normal duties; and four were occupational disease. This is a decrease compared to the same period in 2015–16 where 37 RIDDORs were reported.

	FTE at 31 March 2017 (includes payroll and non-payroll)	**Total RIDDOR Reports**	**Lost Time Injuries or Ill Health Reported** (excludes RIDDORS)	**Lost Time Incident Frequency Rate**[12] (includes RIDDORs with lost time)	**Minor Injuries or Ill Health**	**Total Reports of Injuries and Ill health**	**Non-Injury Events Reported** (e.g. near miss incidents)
Core Defra	1,995	**-**	**-**	0.00 →	30	30	12
APHA	2,132	**6**	**-**	0.08 →	102	108	488
Cefas	528	**-**	**3**	0.33 ↑	18	21	95
RPA	1,947	**-**	**3**	0.09 ↓	69	72	8
VMD	160	**-**	**-**	0.00 →	2	2	-
AHDB	429	**2**	**3**	0.45 →	21	26	5
CCW	70	**-**	**1**	0.82 ↑	2	3	-
EA	10,896	**6**	**15**	0.11 ↓	635	656	2,516
FC	1,145	**5**	**4**	0.46 ↓	60	69	443
JNCC	160	**-**	**-**	0.00 →	8	8	3
MMO	294	**-**	**-**	0.00 →	11	11	3
NFC	20	**-**	**-**	0.00 →	1	1	-
NE	2,173	**3**	**5**	0.17 ↓	105	113	206
Kew	758	**1**	**5**	0.38 ↓	54	60	47
TOTAL	**22,707**	**23**	**39**	**0.15 ↓**	**1,118**	**1,180**	**3,826**

Strict comparisons cannot be made with previous years due to organisational restructuring, changes in full time equivalent (FTE) and changes to some internal category definitions.

The most common cause of all significant accidents causing absence from work duties remains as slips, trips and falls followed by carrying/lifting and poor posture and injuries such as cuts caused by contact with work equipment. Both collectively, and at organisational level, steps are taken to address common causes to prevent

[12] Any injury or episode of ill health reported that results in the employee losing one day or more is generally regarded as a lost time incident. **LTIFR** refers to **Lost Time Injury Frequency Rate.** The frequency rate is the number of people injured over a year for each 100,000 hours worked by a group of employees which enables performance to be compared across organisations of different sizes. Arrows indicate increase/decrease/maintain since 2015–16

further accidents. This includes local and group level campaigns and review of control measures and protective clothing and equipment etc.

Non-injury events

No dangerous occurrences were reported under RIDDOR. Employees are encouraged to proactively report all near miss or non-injury events, and unsafe conditions. Investigating near misses enables lessons to be learned, shared and applied to prevent more serious incidents (possibly resulting in injury or ill health) occurring in the future. Across the group, on average, one in every six employees reported a non-injury event during the reporting period reflecting a reasonably positive reporting culture.

Prosecutions/HSE Interventions

No crown improvement, prohibition or censure notices were served on Defra or executive agencies during the reporting period. However, in January 2017 EA were served an improvement notice regarding the suitability of the respiratory protective equipment (RPE) in use by employees on a small construction site in Devon. This identified a wider issue across EA regarding selection of RPE and face fit testing, to ensure that face masks provide good protection. The inspector also identified concerns about how the risks of hand arm vibration syndrome and exposure to silica dusts were being managed, and the quality of the risk assessment and method statement for the job. All issues have now been addressed.

Complaints to the Parliamentary and Health Service Ombudsman (PHSO)

Complaints are received and dealt with at three levels within the Core Department.

- Level one – at the point where the problem occurred.
- Level two – at a senior level within the relevant business unit.
- Level three – by the Defra Service Standards Complaints Adjudicator.

Most complaints are resolved at levels one and two. Complainants who remain dissatisfied after level three can take their complaint to the PHSO. Of the investigations carried out by PHSO for the Defra group in 2016–17, 16 were either upheld or partially upheld. From these, there were no financial payments and Animal and Plant Health Agency (APHA) and EA were required to remedy through one and two letters of apology respectively.

Defra's complaints procedure can be found online[13]. Each part of Defra's group has its own complaints procedures which can be viewed on its website.

Learning from complaints is a key priority for the entire Defra group. The Defra group is sharing information on ways of working and lessons learnt and working with PHSO to improve complaints handling.

Between April 2016 and March 2017, 11 complaints were accepted for investigation by the PHSO relating to the Defra group. Please see the following breakdown.

Body	Complaints accepted for investigation	Investigations upheld	Investigation partly upheld	Investigations not upheld	Number of Ombudsman recommendations complied with	Number of Ombudsman recommendations not complied with
Defra	1	-	-	-	-	-
APHA	1	-	1	-	1	-
RPA	3	6	7	4	13	-
EA	3	-	2	4	2	-
MMO	2	-	-	-	-	-
FC	1	-	-	-	-	-
Total	**11**	**6**	**10**	**8**	**16**	**-**

These figures are a snapshot of complaints with PHSO between April 2016 and March 2017. Not all complaints accepted for investigation in that period will be resolved in the same period and some cases resolved will have been accepted for investigation in the previous year.

Flood Re is not included in this table as they are regulated by the Financial Conduct Authority.

[13] https://www.gov.uk/government/organisations/department-for-environment-food-rural-affairs/about/complaints-procedure

Human Rights Disclosure

There has not been any successful litigation against Defra alleging a breach of the Human Rights Act 1998. There has been no Defra primary legislation during the relevant period, and all Defra statutory instruments during the period which were subject to the affirmative procedure, or which amended primary legislation, have included a statement of compatibility with the European Convention on Human Rights. No parliamentary committee has adversely reported any Defra legislation for breach of the Human Rights Act 1998.

Chapter 5 – Staff and Remuneration Report

The staff and remuneration report provides information on people in Defra and sets out the entity's remuneration policy for directors, reports on how that policy has been implemented and sets out the amounts awarded to directors. It also provides details on remuneration and staff that Parliament and others see as important to accountability, as set out in Chapter 6 of the Companies Act 2006 and SI 2013 No. 1981 and amended by HM Treasury's Financial Reporting Manual.

Staff Report

People Survey

The Core Department and its executive agencies participated in the Civil Service People Survey in October 2016. Summary results are provided in the following table.

The engagement index measures the extent to which employees are motivated to contribute to the overall success and performance of the organisation. This increased by 6 points to 56 percent for the Core Department compared with an increase of 1 point to 59 percent for the civil service. For the Core Department and executive agencies, the overall engagement index increased by 2 points to 51 percent.

Whilst there are a number of contributors to the engagement index, leadership and managing change is a key driver. The Core Department's results for this item were a significant increase of 9 points to 42 percent compared to the civil service benchmark of 43 percent, unchanged from the previous year. Leadership and managing change increased by 3 points to 35 percent for the Core Department and agencies.

Being recognised by employees and leaders as an engaging organisation that is a great place to work is of critical importance to the Permanent Secretary and the Executive Committee (ExCo) and the People Survey results were on the whole encouraging, especially in the Core Department. ExCo remains committed to ensuring that people feel they are listened to and can influence the issues that affect them, creating a culture where employees feel they are empowered and valued. In response to the survey results, the Department has therefore opened up more channels of communication to facilitate two-way conversations, and is addressing issues such as IT and the physical work environment, acknowledging how important they are to people. Additionally, there has been significant investment in Defra's leaders at all levels, to better enable them to manage and lead the changes taking place in the civil service and Defra.

Throughout this year Defra will continue to increase the opportunities for employee engagement, building on ExCo's vision of Defra being a 'great place to work', ensuring that employees can participate in the decisions that impact on what and how the Department delivers for customers. Additionally the Department will maintain its investment of time and resource into its leadership and the way it manages change, supporting the continued development of skilled, capable and confident leaders.

ExCo is taking a leading role in this work, agreeing this vision for the whole Defra group, reaching out to employees through a variety of events and media channels such as roadshows, town hall style events, employee networks, and digital communications such as online question and answer sessions and social media.

This summary table includes the results for 2016 and compares them with the 2015 survey results.

	2016			***Changes from 2015***		
%	**Core Department**	**Core Department and Agencies**	**Civil Service**	***Core Department***	***Core Department and Agencies***	***Civil Service***
Response Rate	89	71	78	*+5*	*-3*	*+3*
Employee Engagement Index	56	51	59	*+6*	*+2*	*+1*
Leadership and Managing Change	42	35	43	*+9*	*+3*	*0*
My Work	77	71	75	*+2*	*+1*	*+1*
Organisational Objectives and Purpose	79	77	83	*+6*	*+1*	*0*
My Manager	70	65	68	*+1*	*0*	*0*
My Team	82	79	80	*0*	*0*	*0*
Learning and Development	48	43	50	*+1*	*0*	*+1*
Inclusion and Fair Treatment	78	71	76	*+3*	*+1*	*+2*
Resources and Workload	71	68	73	*-1*	*0*	*0*
Pay and Benefits	26	26	31	*-1*	*-1*	*+1*

Defra, Rural Payments Agency (RPA), Animal and Plant health Agency (APHA), Centre for Environment, Fisheries and Aquaculture Science (CEFAS), Veterinary Medicines Directorate (VMD) and Marine Management Organisation (MMO) all participated in this year's People Survey. Other organisations in the Defra group run their own staff surveys to a separate timeline. Defra is increasingly working to align these surveys to ensure results are comparable across the group.

Recruitment Practice

The Civil Service Order in Council 1995 sets out the legal basis for Defra and its agencies' recruitment policies and practice. The Civil Service Commissioners' Principles for Recruitment are mandatory and must be followed when any post is opened to competition from outside the civil service.

Defra has moved to a more strength based approach to recruitment and selection alongside the use of civil service competencies. This blended model provides more robust evidence of candidates' strengths and values, an approach more likely to improve diversity outcomes of recruitment. This approach also provides a better experience for candidates, particularly external candidates unfamiliar with the civil service.

We are developing a Defra employer brand through the introduction of a consistent look and feel to candidate information. In addition we are focused on communicating the full benefit package to external applicants. Both actions have contributed towards a 28 percent increase in applications to posts advertised externally in the first six months of 2017.

Diversity and Inclusion

Inclusion and fair treatment is an important aspect of employee engagement and ExCo has agreed to seven priorities to underpin Defra's Equality, Diversity and Inclusion (EDI) strategy and meet the ambitions of the civil service to be the most inclusive employer in the UK. There has been good progress on the priorities which means that the Department: better understands the existing diversity of the workforce; is tackling unconscious bias at every opportunity; is improving career support for high potential people from diverse groups; is tackling discrimination, bullying and harassment; and is ensuring that all policies and programmes show due regard for equality, diversity and inclusion.

Strategy

Defra launched its EDI strategy in January 2017 covering the period 2017 to 2020. The aim of the strategy is to ensure Defra is a great place to work and to deliver our aspirations to be an organisation with a diverse, open and inclusive culture. The EDI strategy is for all Defra group employees, at all levels, wherever they work and whatever they do. It is focused on four themes: respect, include, support and engage[14].

The four themes incorporate our strategic priorities which include; improving declaration rates, promoting inclusive behaviours, tackling discrimination, bullying and harassment, and improving career support. We will strive to create a supportive and inclusive culture which is fundamental to creating an equal, diverse and inclusive workforce.

One of our key priorities is using data to drive improvements in diversity. To ensure we have the data we need to target and measure our actions, we run an annual campaign to increase our diversity declaration rates. The 2017 campaign, This is Me, had a dual aim of increasing our declaration rates as well as creating an inclusive culture and encouraging open conversations.

Promoting Diversity in Recruitment

To increase the diversity of the organisation we have improved our approach to recruitment campaigns, ensuring that everyone involved in sift assessments or interviews undertook unconscious bias training, and adverts and candidate packs were checked to ensure they were appropriately worded to encourage more diverse applicants. In addition, we targeted people from diversity networks and organisations (e.g. Stonewall) to widen the pool of applicants. Within the Defra group, employee networks were asked to come together to develop a diverse group of recruitment volunteers to participate in recruitment panels and engagement sessions.

The Department will build on its progress to date, by adopting good practices and lessons from successful recruitment practices and partnering with Civil Service Resourcing to trial more inclusive recruitment approaches i.e. strength based interviews, situational judgement test and using external sifters. Furthermore, we have undertaken data analysis to assess the impact of previous campaigns and we will take action as and where required for example, incorporating stronger messages on avoiding unconscious bias into manager guidance, or retargeting our attraction strategy to get to new audiences.

Supporting and Developing Under Represented Groups

Defra continues to strengthen relationships with its employee networks, all of which are now supported by a senior champion. These are the Jobshare Network; the Lesbian, Gay and Bisexual, Transgender and Asexual Network; the Ethnic Minority Network; the Work Life Balance Network; the Women's Network; Break the Stigma (mental health network); Disnet (disability network); Dean (Defra Experience and Age Network) and most recently two new networks for EU nationals and social mobility.

Across the Defra group, opportunities to develop talent among employees are promoted at all levels. There is a specific focus on promoting opportunities for employees with protected characteristics, based on clear business evidence of underrepresentation at the appropriate progression level. For the 2017 intake of the Future Leaders Scheme (FLS) we increased our number of FLS applicants by 450 percent, exceeding the civil service benchmarks at each stage of the process for protected characteristics. The Positive Action Pathway aims to equip participants with the skills and confidence to realise their full potential and assist with career progression. We now have an alumni of over 40 graduates and a further 12 participants have just started on the latest

[14] https://www.gov.uk/government/organisations/department-for-environment-food-and-rural-affairs/about/equality-and-diversity

AA/AO and G6/7 cohorts. In 2016 we had four times more summer diversity internships compared to the previous year and the bids for 2017 are higher than any other department. This highlights good progress in the Department's ambitions to attract high calibre candidates from underrepresented groups.

Defra's 2016 Workforce Monitoring Report, that covers Defra and its agencies, highlights that 12 percent of the overall workforce is made up of employees who identify themselves as disabled, shown by grade below.

Grade	Disabled
AA	18%
EO	12%
HEO/SEO	10%
G7/G6	7%
SCS	***

To protect the confidentiality of individual employees, percentages based on five or fewer individuals are not reported and shown as ***.

The Department operates a guaranteed interview scheme, which guarantees an interview to anyone with a disability whose application meets the minimum criteria for the post. Once in post, employees with disabilities are provided with reasonable adjustments they may need to carry out their role. Over the last year, Disnet has arranged a series of workshops across Defra with the aim of raising awareness and knowledge regarding reasonable adjustments and the responsibilities of individuals and line managers.

Defra successfully attained Disability Confident scheme level 2 status this year. This scheme ensures we are committed to guaranteeing an interview to any candidate who has disclosed a disability, as defined under the Equality Act 2010, and meets the minimum (essential eligibility) criteria for the post. Level 2 status recognises Defra's further continued support for disabled staff in the workplace through reasonable adjustments and inclusive work practice e.g. use of the workplace adjustment passport and policies which support individuals to apply to take disability leave for assessment, treatment and rehabilitation. Defra is working towards achieving Disability Confident level 3 by November 2017.

Employee Composition

Defra continues to monitor the makeup of its workforce by gender which is described in the table below. During recruitment and selection processes applications are anonymised up until the interview stage; interview panel members are required to undertake unconscious bias training; and single gender selection panels are allowed by exception only.

Gender Split	Male	Female
Senior officials on the Defra Board	1	2
Ex Officio on the Defra Board	1	1
Ministers	2	2
Non-Executive Directors for the Defra group[1]	50	15
Management employees (SCS grade or equivalent) for the Defra group (excluding senior officials on the Defra Board)	180	110
All other employees for the Defra group	10,910	10,452
Total	**11,144**	**10,582**

1. Defra group includes the Core Department, executive agencies, non-departmental public bodies (NDPB), levy bodies, Flood Re, and the National Forest Company. Figures are by headcount.

Employee Wellbeing

The Defra Wellbeing Programme promotes a collaborative approach across the Defra group to maximise the benefit and coverage to our employees while allowing organisations to adapt health and wellbeing activities to their specific needs and organisational risks. At a time when our employees are being asked to rise to new and unprecedented challenges, the ability to provide a blended approach to monitoring and providing the right support, is more important than ever. Careful monitoring of capacity and capability is reviewed alongside the provision of additional support such as stress awareness and personal resilience webinars.

Campaigns are aligned to national and civil service themes with initiatives such as workshops, blogs and site events offered to raise engagement and awareness of wellbeing topics. The Defra group wellbeing forum (with members from 12 Defra organisations currently) meets regularly and a health kiosk tour offering an electronic health check covered 19 Defra locations between September and December 2016.

Managing Attendance

A corporate strategy for managing attendance is in place across Defra, to support the wellbeing of our people and proactively maintain high levels of attendance at work. Levels of absence are closely monitored whilst the culture supports individual absence. The aim is to provide the support needed to not only help people return to work from a period of long term absence but to also pick up and deal with short term absences or to prevent sickness absence from happening at all. Support options include keeping in touch throughout longer periods of absence, seeking advice from occupational health professionals and providing counselling and other advisory services through an employee assistance programme.

For the Department and its executive agencies, an average of 4.4 working days per employee was lost to sickness absence during the year to 31 March 2017, compared with 4.5 days in the year to 31 March 2016.

Volunteering

Defra continues to demonstrate its commitment to the corporate social responsibility agenda encouraging employees to take advantage of the special leave that is available for volunteering. Defra employees are offered up to three days special leave with pay each year to use their skills to help others by volunteering individually, or as part of a team, for charitable or non-profit making organisations.

Number of Senior Civil Service Staff (or Equivalent) by Band

This information is audited by the Comptroller and Auditor General.

The table below includes information on NDPBs that are assessed through a different job evaluation system. To enable a consistent understanding of respective roles, and in line with previous years, salary has been used for comparison purposes. Work relating to talent and succession management provides additional assurance in terms of general comparability.

	Core Department	Defra Group
SCS Permanent Secretary	1	1
SCS Pay band 3	5	12
SCS Pay band 2	11	52
SCS Pay band 1	69	235

Flood Re employees are excluded as they cannot be allocated against SCS pay bands.

Consultancy and Temporary Staff Expenditure

The table below shows the total consultancy and temporary staff expenditure incurred by the Defra group.

	2016-17			2015-16		
£000	**Core Department**	**Core Department and Agencies**	**Defra Group**	Core Department	Core Department and Agencies	Defra Group
Consultancy expenditure	2,792	3,449	22,897	3,321	3,928	13,878
Temporary staff expenditure	14,609	29,675	52,941	11,181	28,811	47,001
Total	**17,401**	**33,124**	**75,838**	**14,502**	**32,739**	**60,879**

Overall, expenditure for consultancy has increased by £9 million and temporary staff costs by £5.9 million compared with the prior year. Environment Agency's (EA) consultancy costs have increased by £8.4 million and temporary staff costs by £3.3 million. These increases are due to a greater workload in EA following the 2015 to 2016 winter flooding and work on a major IT programme, UnITy, which aims to integrate the Defra group's IT services.

Natural England's (NE) temporary staff costs have increased by £1.5 million to cover work to implement the 2014–2020 Countryside Stewardship scheme. The remaining increase relates to £1 million consultancy costs and £1 million temporary staff costs for Flood Re being included for the first time.

Staff Costs

The following staff costs, number of persons employed and exit packages information is audited by the Comptroller and Auditor General.

Staff costs comprise:

	2016-17					2015-16
	Permanent Employed Staff	**Others**	**Ministers**	**Special Advisors**	**Total**	Total
	£000	**£000**	**£000**	**£000**	**£000**	£000
Salaries and wages	680,879	67,846	198	156	749,079	757,031
Social security costs	77,211	519	23	19	77,772	60,169
Other pension costs	72,740	951	-	34	73,725	75,676
Sub total	**830,830**	**69,316**	**221**	**209**	**900,576**	892,876
Less: recoveries in respect of outward secondments	(3,314)	-	-	-	(3,314)	(2,815)
Total net costs	**827,516**	**69,316**	**221**	**209**	**897,262**	890,061

	2016-17			2015-16		
	Charged to Administration Budgets	**Charged to Programme Budgets**	**Total**	Charged to Administration Budgets	Charged to Programme Budgets	Total
Of which:	**£000**	**£000**	**£000**	**£000**	**£000**	£000
Core Department and agencies	150,024	184,225	334,249	283,193	67,626	350,819
NDPBs	72,829	452,385	525,214	78,998	428,431	507,429
Net total SoCNE	**222,853**	**636,610**	**859,463**	362,191	496,057	858,248
Staff costs capital:						
Core Department and agencies			2,252			195
NDPBs			38,861			34,433
Less: recoveries in respect of outward secondments			(3,314)			(2,815)
Total net costs			**897,262**			890,061

Board remuneration is included in the Remuneration Report.

For 2016–17, out of the total, £3.3 million recoveries in respect of outward secondments have been netted off, £41.1 million has been charged to capital and the balance of £859.5 million has been charged in the Statement of Comprehensive Net Expenditure (SoCNE). For 2015–16, out of the total, £2.8 million recoveries in respect of outward secondments were netted off, £34.6 million was charged to capital and the balance of £858.2 million was charged in the SoCNE.

Civil Service Pension Schemes

The Principal Civil Service Pension Scheme (PCSPS) and the Civil Servant and Other Pension Scheme, known as alpha, are unfunded multi-employer defined benefit schemes. Defra is unable to identify its share of the underlying assets and liabilities. The scheme actuary valued the PCSPS as at 31 March 2012. Details can be found in the annual accounts of the Cabinet Office: Civil Superannuation[15].

[15] http://www.civilservicepensionscheme.org.uk/

For 2016–17, employer's contributions of £66.2 million (2015–16, £69 million) were payable to the PCSPS at one of four rates in the range 20 percent to 24.5 percent of pensionable earnings, based on salary bands. The scheme actuary reviews employer contributions usually every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2016–17 to be paid when the member retires and not the benefits paid during this period to existing pensioners.

Other Pension Schemes

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. For 2016–17 employer's contributions of £1.7 million (2015–16, £0.9 million) were paid to one or more of the panel of three appointed stakeholder pension providers. Employer contributions are age related and ranged from 8 percent to 14.75 percent. Employers also match employee contributions up to 3 percent of pensionable earnings. In addition, employer contributions of £14,000 for 2016–17 (2015–16, £6,000), 0.5 percent of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service or ill health retirement of these employees. Contributions due to the partnership pension providers at the reporting period date were £16,000 (2015–16, £19,000). Contributions prepaid at that date were £Nil (2015–16, £Nil).

In addition to the schemes listed above, EA operates a funded defined benefit scheme, and some other delivery bodies operate small defined contribution schemes. Details of these schemes can be found in the Annual Report and Accounts (ARA) of the relevant delivery bodies.

There was one individual in the Core Department (2015–16, one) who retired early on ill health grounds. The total additional accrued pension liabilities in the year amounted to £Nil (2015–16, £2,000).

Loans are made to employees to cover season ticket advances and to relocate. As at 31 March 2017, there were no outstanding balances from Core Department senior officials.

Average Number of Persons Employed

The average number of whole-time equivalent persons employed within the Defra group during the year was as follows. The breakdown of this note has been revised since 2015–16 to reflect internal reporting.

	2016-17					2015-16
	Permanently Employed Staff	**Others**	**Ministers**	**Special Advisors**	**Total**	Restated Total
Activity	**Number**	**Number**	**Number**	**Number**	**Number**	Number
Environment Agency	8,846	780	-	-	9,626	9,065
Natural England	1,906	351	-	-	2,257	2,237
Animal and Plant Health Agency	2,047	93	-	-	2,140	2,169
Rural Payments Agency	1,830	181	-	-	2,011	2,143
Core Department[1]	1,638	195	4	2	1,839	1,910
Others[2]	3,029	120	-	-	3,149	3,141
Staff engaged on capital projects[3]	917	99	-	-	1,016	1,299
Total	**20,213**	**1,819**	**4**	**2**	**22,038**	21,964
Of which:						
Core Department and agencies	6,671	588	4	2	7,265	7,587
NDPBs	13,542	1,231	-	-	14,773	14,377
Total	**20,213**	**1,819**	**4**	**2**	**22,038**	21,964

1. Includes central support functions and specialist advice to allow the Department to operate effectively and deliver on its objectives. It also includes Common Agricultural Policy (CAP) disallowance.

2. Includes all the smaller delivery bodies not separately disclosed.

3. Includes 992 for EA (2015–16, 1,218).

The breakdown of this note has been revised since 2015–16 to reflect internal reporting.

Reporting of Civil Service and Other Compensation Schemes – Exit Packages

	2016-17			2015-16		
	Number of Compulsory Redundancies	**Number of Other Departures Agreed**	**Total Number of Exit Packages**	Number of Compulsory Redundancies	Number of Other Departures Agreed	Total Number of Exit Packages
	Number	**Number**	**Number**	Number	Number	Number
Cost band						
< £10,000	2	13	15	2	31	33
£10,000 - £25,000	-	107	107	6	123	129
£25,001 - £50,000	1	166	167	2	186	188
£50,001 - £100,000	1	145	146	-	149	149
£100,001 - £150,000	-	6	6	1	9	10
£150,001 - £200,000	-	-	-	-	1	1
£200,001 - £250,000	-	-	-	-	1	1
Total number of exit packages by type	**4**	**437**	**441**	11	500	511
Total resource cost (£000)	**141**	**19,359**	**19,500**	298	21,200	21,498
Of which:						
Number of cases	**Number**	**Number**	**Number**	Number	Number	Number
Core Department and agencies	1	152	153	3	394	397
NDPBs	3	285	288	8	106	114
Total	**4**	**437**	**441**	11	500	511
Resource cost	**£000**	**£000**	**£000**	£000	£000	£000
Core Department and agencies	41	5,475	5,516	64	17,769	17,833
NDPBs	100	13,884	13,984	234	3,431	3,665
Total	**141**	**19,359**	**19,500**	298	21,200	21,498

Redundancy and other departure costs have been paid in accordance with the provisions of the Civil Service Compensation Scheme, a statutory scheme made under the Superannuation Act 1972. Exit costs are accounted for in full in the year of departure or earlier where a demonstrable commitment exists. Where the Department has agreed early retirements, the additional costs are met by the Department and not by the Civil Service Pension Scheme. Ill-health retirement costs are met by the Pension Scheme and are not included in the table.

Off-Payroll Appointments

Information on senior off-payroll engagements is set out in the following table. Off-payroll means anyone who is working for the Department or a delivery body but is not paying PAYE (Pay As You Earn) or National Insurance via the departmental payroll.

Off-payroll engagements as of 31 March 2017, for more than £220 per day and that last for longer than six months

	Core Department	Executive Agencies			Other Delivery Bodies				Total
	Defra	APHA	RPA	VMD	EA	FC	RBG Kew	MMO	
Number of existing engagements as of 31 March 2017	67	4	39	2	156	4	8	5	285
Of which:									
Number that have existed for less than one year at time of reporting	61	1	6	1	82	1	6	4	162
Number that have existed for between one and two years at time of reporting	3	-	14	1	36	-	1	-	55
Number that have existed for between two and three years at time of reporting	3	2	10	-	14	-	1	1	31
Number that have existed for between three and four years at time of reporting	-	-	7	-	4	1	-	-	12
Number that have existed for four or more years at time of reporting	-	1	2	-	20	2	-	-	25

Delivery bodies not listed in the table above advised they do not have any off-payroll appointments.

All existing off-payroll engagements, outlined above, have at some point been subject to a risk-based assessment as to whether assurance needs to be sought that the individual is paying the right amount of tax and, where necessary, that assurance has been sought.

New off-payroll engagements, or those that reached six months in duration, between 1 April 2016 and 31 March 2017, for more than £220 per day and that last for longer than six months

	Core Department	Executive Agencies			Other Delivery Bodies				Total
	Defra	APHA	RPA	VMD	EA	FC	RBG Kew	MMO	
Number of new engagements, or those that reached six months in duration, between 1 April 2016 and 31 March 2017	62	4	10	2	92	2	8	5	185
Number of the above which include contractual clauses giving the department the right to request assurance in relation to income tax and National Insurance obligations	62	4	10	2	92	2	8	5	185
Number for whom assurance has been requested	62	4	10	2	92	2	8	5	185
Of which:									
Number for whom assurance has been received	62	2	10	2	92	2	8	5	183
Number for whom assurance has not been received	-	2[1]	-	-	-	-	-	-	2
Number that have been terminated as a result of assurance not being received	-	2[1]	-	-	-	-	-	-	2

Delivery bodies not listed in the table above provided a nil return.

1. These two individuals did not provide adequate assurances and no longer work for APHA

Off-payroll engagements of board members and/or senior officials with significant financial responsibility between 1 April 2016 and 31 March 2017

		Number of off-payroll engagements of board members and/or senior officials with significant financial responsibility, during the financial year[1]	**Total number of individuals both on payroll and off-payroll that have been deemed 'board members and/or senior officials with significant financial responsibility', during the financial year. This figure should include both on-payroll and off-payroll engagements.**
Core Department	Defra	-	8
Executive Agencies	APHA	-	14
	Cefas	-	14
	RPA	-	20
	VMD	-	6
Delivery Bodies	AHDB	-	17
	CCW	-	13
	EA	-	17
	FC	-	27
	Flood Re	-	8
	JNCC	-	14
	RBG Kew	-	9
	MMO	-	16
	NE	-	8
	NFC	-	9
	SFIA	-	12

Individuals are counted, not posts, so figures can be artificially high when changes occur midyear.

1. Senior Officials with significant financial responsibility are defined as all board-level executives, non-executive directors and finance directors.

Remuneration Report

This information is audited by the Comptroller and Auditor General.

Remuneration Policy

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

The Core Department develops its SCS reward strategy within the Cabinet Office framework, ensuring that the overall pay awards for the SCS are within the cost ceiling allowed.

Members of the SCS, excluding the Permanent Secretary, are eligible to be considered for individual levels of bonus as non-pensionable, non-consolidated variable pay (NCVP), based on their performance. NCVP is paid in the financial year after that in which it was earned. During 2016–17, NCVP for 2015–16 performance was paid to approximately 25 percent of the SCS and was paid at £11,000 for deputy directors, £13,000 for directors and £15,000 for directors general. NCVP values, informed by each individual's appraisal grade, were paid within Cabinet Office guidelines.

The Permanent Secretary is eligible to be considered for a NCVP bonus award measured against achievement of objectives, which for performance in 2015–16 was subject to a maximum of £17,500. Such awards are made by the Permanent Secretaries' Remuneration Committee, which comprises the Chairman of the SSRB (who acts as chair), two other members of the SSRB, the Cabinet Secretary and the Permanent Secretary of HM Treasury.

Ministerial salaries are determined by the Cabinet Office, under the Ministerial and Other Salaries Act 1997.

Service Contracts

The Constitutional Reform and Governance Act 2010 requires civil service appointments to be made on merit, on the basis of fair and open competition. The recruitment principles published by the Civil Service Commission specify the circumstances when appointments may be made otherwise.

Further information about the work of the Civil Service Commissioners can be found on the Civil Service Commission website. All senior officials on ExCo are employed on permanent civil service contracts. Therefore the officials covered by this report hold appointments which are open ended. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme.

Remuneration (Including Salary) and Pension Entitlements

The following sections provide details of the remuneration and pension interests of the ministers and Defra Board members who were employees of the Department during 2016–17. The following tables in the Remuneration Report have been subject to audit.

Ministers

	2016–17	2015–16	2016–17	2015–16	2016–17	2015–16	2016–17	2015–16
£	Salary	Salary	Pension Benefits**	Pension Benefits**	Severance Payments	Severance Payments	Total (to nearest £1000)	Total (to nearest £1000)
Rt Hon Andrea Leadsom MP *(from 14 July 2016)*	57,297*	-	12,000	-	-	-	69,000	-
George Eustice MP	31,680	30,629	8,000	10,000	-	-	40,000	41,000
Dr Thérèse Coffey MP *(from 16 July 2016)*	14,917*	-	4,000	-	-	-	19,000	-
Lord Gardiner*** *(from 16 July 2016)*	70,051*	-	11,000	-	-	-	81,000	-

Ministers who have served during 2016–17 but were not in post as at 31 March 2017

	2016–17	2015–16	2016–17	2015–16	2016–17	2015–16	2016–17	2015–16
£	Salary	Salary	Pension Benefits**	Pension Benefits**	Severance Payments	Severance Payments	Total (to nearest £1000)	Total (to nearest £1000)
Rt Hon Elizabeth Truss MP *(until 13 July 2016)*	19,417*	67,505	4,000	22,000	-	-	23,000	90,000
Rory Stewart MP *(until 15 July 2016)*	7,458*	19,849*	3,000	5,000	-	-	10,000	25,000

***Full year equivalent salary for ministers who served part year with Defra**

£	2016–17	2015–16
Rt Hon Andrea Leadsom MP	67,505	-
Dr Thérèse Coffey MP	22,375	-
Lord Gardiner	105,076	-
Rt Hon Elizabeth Truss MP	67,505	-
Rory Stewart MP	22,375	22,375

** The value of pension benefits accrued during the year is calculated as the real increase in pension multiplied by 20 less the contributions made by the individual. The real increase excludes increases due to inflation or any increase or decrease due to a transfer of pension rights. Ministers' pensions are disclosed to the nearest £000.

***Until 15 July 2016, Lord Gardiner was the Defra spokesperson in the House of Lords and was not paid for this role. From 16 July 2016, Lord Gardiner became the Parliamentary Under Secretary of State for Rural Affairs and Biosecurity and Lords Minister. The remuneration shown in the table is for Lord Gardiner's time in his new position.

Ministerial Salaries

In May 2015, the Government announced that it would impose a ministerial pay freeze for the lifetime of the parliament.

Senior Officials on the Board

£000	2016–17 Salary	2015–16 Salary	2016–17 Bonus Payments	2015–16 Bonus Payments	2016–17 Pension Benefits	2015–16 Pension Benefits	2016–17 Total	2015–16 Total
Clare Moriarty *Permanent Secretary*	160–165	105–110*	-	-	128	111	285–290	215–220
Betsy Bassis *Director General*	140–145	140–145	-	-	23	22	160–165	160–165
Nick Joicey** *Director General* *(from 1 October 2016)*	55–60*	65–70*	10–15	-	24	44	95–100	105–110

Senior Officials who have served during 2016–17 but were not on the Board as at 31 March 2017

£000	2016–17 Salary	2015–16 Salary	2016–17 Bonus Payments	2015–16 Bonus Payments	2016–17 Pension Benefits	2015–16 Pension Benefits	2016–17 Total	2015–16 Total
Mark McLaughlin*** *Chief Finance Officer* *(to 30 September 2016)*	75–80*	75–80*	-	-	2	21	75–80	95–100

*Full year equivalent salary for part year officials

£000	2016–17	2015–16
Clare Moriarty	-	160–165
Nick Joicey	110–115	110–115
Mark McLaughlin	150–155	145–150

** Nick Joicey was a member of the Board from 1 April 2015 to 28 October 2015, and from 1 October 2016 to March 2017.

*** Mark McLaughlin was appointed to be the Chief Finance Officer for Defra on 1 October 2015. He remains an employee of EA, and is seconded to the Core Department. He left the Board on 30 September 2016, although continues his duties as Chief Finance Officer for Defra.

Ex Officio Board Members

The Defra Board has two ex officio members, Emma Howard Boyd from EA and Andrew Sells from NE.

The ex officio members do not receive any additional payment from the Core Department for their duties on the Defra Board. For details of the remuneration of these ex officio members, please see the EA and NE ARAs as they are paid by these entities.

Benefits in Kind

The monetary value of benefits in kind covers any benefits provided by the Department and treated by HM Revenue and Customs as a taxable emolument. Mark McLaughlin was in receipt of benefits in kind during his time on the Board in 2016–17 to the value of £1,900 (2015–16, £1,600). No other senior officials received benefits in kind.

Salary

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

This report is based on accrued payments made by the Department and thus recorded in these accounts. In respect of ministers in the House of Commons, departments bear only the cost of the additional ministerial remuneration; the salary for their services as an MP (£74,000 from May 2015, £74,962 from 1 April 2016) and various allowances to which they are entitled are borne centrally. However, the arrangement for ministers in the House of Lords is different in that they do not receive a salary but rather an additional remuneration, which cannot be quantified separately from their ministerial salaries. This total remuneration, as well as the allowances to which they are entitled, is paid by the Department and is therefore shown in full in the figures above.

The information given above relates to members of the Defra Board. Equivalent information relating to the executive agencies and NDPBs consolidated into the departmental accounts is given in their separate ARAs.

Bonuses

Bonuses are based on performance levels attained and are made as part of the appraisal process. The bonuses reported in 2016–17 relate to performance in 2015–16 and the comparative bonuses reported for 2015–16 relate to the performance in 2014–15.

Non-Executive Directors

	2016–17			2015–16		
£	Fees Entitlement	Fees Paid* *	Benefits in Kind	Fees Entitlement	Fees Paid*	Benefits in Kind
Steve Holliday*	20,000	10,000	-	3,333	-	-
Catherine Doran	15,000	15,000	-	15,000	22,500	-
Peter Bonfield*	15,000	Fee waived	-	5,000	Fee waived	-
Paul Rew	20,000	25,000	600	20,000	20,000	400

***Full year equivalent fees for NEDs who served part year**

£	2016–17	2015–16
Steve Holliday	-	20,000
Peter Bonfield	-	15,000

**Differences between the entitlements and amounts paid arise due to timing of claims. Where the amount paid exceeds the entitlement for the year, this relates to fees for previous periods.

Pension Benefits

Ministers

£000	Accrued Pension at Pension Age as at 31 March 2017	Real Increase in Pension at Pension Age	* CETV at 31 March 2017	* CETV at 31 March 2016	Real Increase in CETV
Rt Hon Andrea Leadsom MP *(from 14 July 2016)*	0–5	0–2.5	27	16	6
George Eustice MP	0–5	0–2.5	24	17	3
Dr Thérèse Coffey MP *(from 16 July 2016)*	0–5	0–2.5	13	10	1
Lord Gardiner *(from 16 July 2016)*	5–10	0–2.5	126	108	8

Ministers who have served during 2016–17, but were not in post as at 31 March 2017

£000	Accrued Pension at Pension Age as at 31 March 2017	Real Increase in Pension at Pension Age	* CETV at 31 March 2017	* CETV at 31 March 2016	Real Increase in CETV
Rt Hon Elizabeth Truss MP *(until 13 July 2016)*	0–5	0–2.5	41	38	1
Rory Stewart MP *(until 15 July 2016)*	0–5	0–2.5	6	4	1

*Start and end date of Cash Equivalent Transfer Value (CETV) is 31 March or date of joining or leaving the Defra Board.

Until 16 July 2016, Lord Gardiner was the Defra spokesperson in the House of Lords and was not paid for this role. From 16 July 2016, Lord Gardiner became the Parliamentary Under Secretary of State for Rural Affairs and Biosecurity and Lords Minister. The remuneration shown in the table is for Lord Gardiner's time in his new position.

Ministerial Pensions

Pension benefits for ministers are provided by the Parliamentary Contributory Pension Fund (PCPF). The scheme is established under statute (the regulations are set out in the Ministers' etc. Pension Scheme 2015[16]).

Those ministers who are MPs may accrue an MP's pension under the PCPF (details of which are not included in this report). A new MP's pension scheme was introduced from May 2015, although members who were MPs aged 55 or older on 1 April 2013 have transitional protection to remain in the previous MP's final salary pension scheme.

Benefits for ministers are payable from State Pension age under the 2015 scheme. Pensions are revalued annually in line with pensions increase legislation both before and after retirement. The contribution rate from May 2015 is 11.1 percent and the accrual rate is 1.8 percent of pensionable earnings.

The figure shown for pension value includes the total pension payable to the member under both the pre and post 2015 ministerial pension schemes.

[16] http://qna.files.parliament.uk/ws-attachments/170890/original/PCPF%20MINISTERIAL%20SCHEME%20FINAL%20RULES.doc

Senior Officials on the Board

£000	Accrued Pension as at 31 March 2017 and Related Lump Sum	Real Increase in Pension and Related Lump Sum at Pension Age	* CETV at 31 March 2017	* CETV at 31 March 2016	Real Increase in CETV	Employer Contribution to Partnership Pension Account (Nearest £100)
Clare Moriarty *Permanent Secretary*	75–80 no lump sum	5–7.5 no lump sum	1,324	1,157	106	-
Betsy Bassis *Director General*	-	-	-	-	-	23,200
Nick Joicey *Director General* *(from 1 October 2016)*	30–35 plus 70–75 lump sum	0–2.5 plus 0–2.5 lump sum	486	470	10	-
Mark McLaughlin** *Chief Finance Officer*	90–95 no lump sum	0–2.5 no lump sum	1,253	1,201	52	-

*Start and end date of CETV is 31 March or date of joining or leaving the Defra Board.

**Mark McLaughlin is a member of the EA pension scheme. Whilst he ceased to be a member of the Board on 30 September 2016, he is still the Chief Finance Officer and his pension benefit is shown to 31 March 2017.

Civil Service Pensions

Pension benefits are provided through the civil service pension arrangements. From 1 April 2015 a new pension scheme for civil servants was introduced: the Civil Servants and Others Pension Scheme, or alpha, which provides benefits on a career average basis with a normal pension age equal to the member's state pension age (or 65 if higher). From that date all newly appointed civil servants and the majority of those already in service joined alpha. Prior to that date, civil servants participated in the PCSPS. The PCSPS has four sections: three providing benefits on a final salary basis (classic, premium or classic plus) with a normal pension age of 60; and one providing benefits on a whole career basis (nuvos) with a normal pension age of 65.

These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, classic plus, nuvos and alpha are increased annually in line with pensions increase legislation. Existing members of the PCSPS who were within 10 years of their normal pension age on 1 April 2012 remained in the PCSPS after 1 April 2015. Those who were between 10 years and 13 years and 5 months from their normal pension age on 1 April 2012 will switch into alpha sometime between 1 June 2015 and 1 February 2022. All members who switch to alpha have their PCSPS benefits 'banked', with those with earlier benefits in one of the final salary sections of the PCSPS having those benefits based on their final salary when they leave alpha. (The pension figures quoted for officials show pension earned in PCSPS or alpha, as appropriate. Where the official has benefits in both the PCSPS and alpha the figure quoted is the combined value of their benefits in the two schemes.) Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a money purchase stakeholder pension with an employer contribution (partnership pension account).

Employee contributions are salary related and range between 3 percent and 8.05 percent of pensionable earnings for classic (and members of alpha who were members of classic immediately before joining alpha) and between 4.6 percent and 8.05 percent for members of premium, classic plus, nuvos and all other members of alpha. Benefits in classic accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years' initial pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum. Classic plus is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per classic and benefits for service from October 2002 worked out as in premium. In nuvos, a member builds up a pension based on pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March), the member's earned pension account is credited with 2.3 percent of their pensionable earnings in that scheme year and the accrued pension is uprated in line with pensions increase legislation. Benefits in alpha build up in a similar way to nuvos, except that the accrual rate is 2.32 percent. In all cases members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

The Partnership Pension Account is a stakeholder pension arrangement. The employer makes a basic contribution of between 8 percent and 14.75 percent (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of three providers. The employee does not have to contribute, but where they do make contributions, the employer will match these up to a limit of 3 percent of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.5 percent of pensionable salary from 1 October 2015 to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of classic, premium and classic plus, 65 for members of nuvos and the higher of 65 or state pension age for members of alpha. (The pension figures quoted for officials show pension earned in PCSPS or alpha, as appropriate. Where the official has benefits in both the PCSPS and alpha, the figure quoted is the combined value of their benefits in the two schemes, but note that part of that pension may be payable from different ages.) Further details about the civil service pension arrangements can be found on the civil service pensions website[17].

Cash Equivalent Transfer Values

A CETV is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the pension benefits they have accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies.

CETVs are calculated in accordance with the Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008 and do not take account of any actual or potential reduction to benefits resulting from the lifetime allowance tax which may be due when pension benefits are taken.

In relation to the senior officials on the Board, the CETV figures include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the civil service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their buying additional pension benefits at their own cost.

Real Increase in CETV

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

[17] http://www.civilservicepensionscheme.org.uk

Fair Pay Disclosures

Reporting bodies are required to disclose the relationship between the remuneration of the highest paid director in their organisation and the median remuneration of the organisation's workforce. Total remuneration includes salary, non-consolidated performance-related pay and benefits in kind. It does not include severance payments, employer pension contributions and the CETV of pensions.

	2016–17	**2015–16**
Banded remuneration of the highest paid director in the Core Department	£160,000–165,000	£160,000–165,000
Median remuneration of the workforce of the Core Department and the executive agencies	£29,050	£29,210
Ratio of remuneration of highest paid director to median remuneration of the workforce	5.6	5.6
The range of banded remuneration for employees in the Core Department and the executive agencies	£10,000–15,000 to £180,000–185,000	£10,000–15,000 to £165,000–170,000

In 2016–17, employees receiving the lowest pay in the range are employed through an agency in an operational area and the pay rate is the national living wage for this group. Four employees (2015–16, two) received remuneration in excess of the highest paid director. They are employed by one of the agencies because of their specialist IT skills.

Chapter 6 – Parliamentary Accountability and Audit Report

The parliamentary accountability and audit report describes how departments are financed through the Westminster Estimates process. Details are also provided regarding the regularity of expenditure, so that Parliament can be assured that funds have been expended in the manner intended. The purpose of the accountability section of the annual report is to meet key accountability requirements to Parliament.

Statement of Parliamentary Supply

The Statement of Parliamentary Supply and related notes are subject to audit by the Comptroller and Auditor General.

In addition to the primary statements prepared under International Financial Reporting Standards (IFRS), the Government Financial Reporting Manual (FReM) requires Defra to prepare a Statement of Parliamentary Supply (SoPS) and supporting notes to show resource outturn against the Supply Estimate presented to Parliament, in respect of each budgetary control limit. The 2015–16 comparatives have not been restated.

Summary of Resource and Capital Outturn 2016–17

The table below includes the results for the Core Department, executive agencies, Forestry Commission, Flood Re, National Forest Company and non-departmental public bodies.

		2016-17			2015-16
	Note/Ref	**Estimate Voted**	**Outturn Voted**	**Voted Outturn Compared With Estimate: Saving/ (Excess)**	Outturn Total
		£000	**£000**	**£000**	£000
Departmental Expenditure Limit					
Resource	SoPS 1.1	1,897,883	1,743,622	154,261	1,776,674
Capital	SoPS 1.2	670,963	654,976	15,987	529,472
Annually Managed Expenditure					
Resource	SoPS 1.1	492,160	86,074	406,086	390,741
Capital	SoPS 1.2	1,000	862	138	242
Total		**3,062,006**	**2,485,534**	**576,472**	2,697,129
Non-budget					
Non-budget	SoPS 1.1	36,500	(3,791)	40,291	(148)
Total		**3,098,506**	**2,481,743**	**616,763**	2,696,981
Total resource	SoPS 1.1	2,390,043	1,829,696	560,347	2,167,415
Total capital	SoPS 1.2	671,963	655,838	16,125	529,714
Total non-budget	SoPS 1.1	36,500	(3,791)	40,291	(148)
Total		**3,098,506**	**2,481,743**	**616,763**	2,696,981

The 2016–17 figures above are voted totals subject to parliamentary control. In addition, although not a separate voted limit, any breach of the administration budget will also result in an excess vote.

Following a ministerial decision, the Environmental Regulation Team, formerly part of the Department for Business Innovation and Skills (BIS), was transferred to Defra in April 2016. The Departmental Expenditure Limit (DEL) budget transferred from BIS to Defra was £1.89 million (£0.43 million admin, £1.46 million programme). No assets or liabilities were transferred to the Department. There has been no restatement of the 2015–16 comparatives in the financial statements as a result of the transfer.

There was no non-voted provision in the Estimate and no non-voted expenditure was incurred.

Net Cash Requirement 2016–17

		2016-17			2015-16
		Estimate	Outturn Voted	Voted Outturn Compared With Estimate: Saving/ (Excess)	Outturn Total
		£000	£000	£000	£000
Net cash requirement	SoPS 3	2,391,083	1,788,852	602,231	2,411,119

Administration Costs 2016–17

	2016-17			2015-16
	Estimate	Outturn Voted	Voted Outturn Compared With Estimate: Saving/ (Excess)	Outturn Total
	£000	£000	£000	£000
Net administration costs	511,297	452,634	58,663	496,852

Explanations of variances between estimate and outturn are given in Chapter 3.

The notes on pages 77 – 117 form part of these accounts.

SoPS 1 – Net Outturn

SoPS 1.1 – Analysis of Net Resource Outturn by Section

	2016-17										2015-16
	Outturn Administration			Outturn Programme				Estimate			
	Gross	Income	Net	Gross	Income	Net	Net Total	Net Total	Net Total Compared to Estimate	Net Total Compared to Estimate Adjusted for Virements[1]	Net Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Spending in Departmental Expenditure Limits (DEL)											
Voted											
Food and farming	99,787	(9,129)	90,658	1,950,985	(1,878,631)	72,354	163,012	260,244	97,232	105,831	229,385
Improve the environment	25,955	(2,048)	23,907	219,744	(10,546)	209,198	233,105	254,104	20,999	7,977	233,062
Protect the country from floods	1,153	(9)	1,144	12	-	12	1,156	1,821	665	665	14,964
Animal and plant health	13,439	(2,118)	11,321	239,191	(88,700)	150,491	161,812	166,009	4,197	121	220,139
Marine and fisheries	7,362	(9)	7,353	45,349	(26,185)	19,164	26,517	28,403	1,886	1	30,698
Countryside and rural services	8,199	(1,377)	6,822	565,345	(366,538)	198,807	205,629	205,839	210	3,183	207,483
Departmental operating costs	158,243	(4,793)	153,450	81,589	(511)	81,078	234,528	292,864	58,336	33,240	143,240
Improve the environment (ALB) (net)	98,052	-	98,052	239,530	-	239,530	337,582	313,574	(24,008)	674	337,179
Protect the country from floods (ALB) (net)	56,964	-	56,964	308,727	-	308,727	365,691	355,894	(9,797)	1,174	339,313
Marine and fisheries (ALB) (net)	2,682	-	2,682	9,588	-	9,588	12,270	16,520	4,250	1,104	19,133
Countryside and rural services (ALB) (net)	281	-	281	2,039	-	2,039	2,320	2,611	291	291	2,078
Total	**472,117**	**(19,483)**	**452,634**	**3,662,099**	**(2,371,111)**	**1,290,988**	**1,743,622**	**1,897,883**	**154,261**	**154,261**	1,776,674
Spending in Annually Managed Expenditure Limits (AME)											
Voted											
Food and farming	-	-	-	214,007	(6,705)	207,302	207,302	453,732	246,430	246,430	(39,601)
Improve the environment	-	-	-	(43,272)	-	(43,272)	(43,272)	(39,862)	3,410	3,410	313,107
Animal and plant health	-	-	-	(5,986)	-	(5,986)	(5,986)	4	5,990	5,990	(2,370)
Marine and fisheries	-	-	-	(416)	-	(416)	(416)	3	419	419	1,899
Countryside and rural services	-	-	-	(340)	-	(340)	(340)	(550)	(210)	-	(497)
Departmental operating costs	-	-	-	50,751	-	50,751	50,751	60,682	9,931	9,004	91,813
Food and farming (ALB) (net)	-	-	-	(1,913)	-	(1,913)	(1,913)	(15)	1,898	1,898	1,682
Improve the environment (ALB) (net)	-	-	-	(35,109)	-	(35,109)	(35,109)	(8,181)	26,928	26,928	(11,448)
Protect the country from floods (ALB) (net)	-	-	-	(85,707)	-	(85,707)	(85,707)	26,284	111,991	111,991	34,335
Marine and fisheries (ALB) (net)	-	-	-	778	-	778	778	61	(717)	-	1,831
Countryside and rural services (ALB) (net)	-	-	-	(14)	-	(14)	(14)	2	16	16	(10)
Total	**-**	**-**	**-**	**92,779**	**(6,705)**	**86,074**	**86,074**	**492,160**	**406,086**	**406,086**	**390,741**
Spending in Non Budget Expenditure Limits											
Food and farming	-	-	-	1,044,160	(1,047,951)	(3,791)	(3,791)	10,000	13,791	13,791	117
Prior period adjustments	-	-	-	-	-	-	-	26,500	26,500	26,500	(265)
Total	**-**	**-**	**-**	**1,044,160**	**(1,047,951)**	**(3,791)**	**(3,791)**	**36,500**	**40,291**	**40,291**	(148)
Resource Outturn	**472,117**	**(19,483)**	**452,634**	**4,799,038**	**(3,425,767)**	**1,373,271**	**1,825,905**	**2,426,543**	**600,638**	**600,638**	2,167,267

1. Virement reallocates underspends on one part of the Estimate to cover overspends on another part of the Estimate.

Detailed explanations of significant variances between Estimate and net resource outturn are shown in Chapter 3.

SoPS 1.2 – Analysis of Net Capital Outturn by Section

	2016-17						2015-16
	Outturn			Estimate			
	Gross	Income	Net	Net Total	Net Total Compared to Estimate	Net Total Compared to Estimate Adjusted for Virements[1]	Net Total
	£000	£000	£000	£000	£000	£000	£000
Spending in Departmental Expenditure Limits (DEL)							
Voted							
Food and farming	21,071	(23)	21,048	16,340	(4,708)	-	28,517
Improve the environment	42,020	(3,353)	38,667	43,897	5,230	5,230	40,940
Protect the country from floods	(120)	-	(120)	32	152	152	12,353
Animal and plant health	8,727	(20)	8,707	9,449	742	742	5,474
Marine and fisheries	7,276	(42)	7,234	5,403	(1,831)	-	982
Countryside and rural services	25,707	(190)	25,517	26,703	1,186	1,186	19,548
Departmental operating costs	37,317	(2,367)	34,950	46,718	11,768	4,836	(5,911)
Improve the environment (ALB) (net)	47,946	-	47,946	50,321	2,375	2,375	21,822
Protect the country from floods (ALB) (net)	470,634	-	470,634	472,100	1,466	1,466	405,084
Marine and fisheries (ALB) (net)	182	-	182	-	(182)	-	261
Countryside and rural services (ALB) (net)	211	-	211	-	(211)	-	402
Total	**660,971**	**(5,995)**	**654,976**	**670,963**	**15,987**	**15,987**	529,472
Annually Managed Expenditure (AME)							
Voted							
Food and farming (ALB) (net)	596	-	596	1,000	404	138	75
Marine and fisheries (ALB) (net)	266	-	266	-	(266)	-	167
Total	**862**	**-**	**862**	**1,000**	**138**	**138**	242
Capital Outturn	**661,833**	**(5,995)**	**655,838**	**671,963**	**16,125**	**16,125**	529,714

1. Virement reallocates underspends on one part of the Estimate to cover overspends on another part of the Estimate.

SoPS 2 – Reconciliation of Net Resource Outturn to Net Operating Expenditure

		Note/Ref	**2016-17 Outturn**	2015-16 Outturn
			£000	£000
Total resource outturn in SoPS	Budget	SoPS 1.1	1,829,696	2,167,415
	Non-budget	SoPS 1.1	(3,791)	(148)
			1,825,905	2,167,267
Add:	Capital grants / income		121,846	139,296
	Capital works expensed in year		291,127	239,717
	Capitalised research and development		38,320	-
	Adjustment to IFRIC 12		(4,839)	(1,300)
	CFER adjustment		(5,782)	(47,362)
	Prior period adjustments	Resource	-	(1,022)
		Capital	-	1,287
			440,672	330,616
Net operating cost			**2,266,577**	2,497,883

From 2016–17 the European System of Accounts (ESA 10) was introduced by HM Treasury to report on capitalised research and development. This requirement was not in place in 2015–16 therefore there is no comparator to the £38.3 million spend in 2016–17. There was no requirement to retrospectively report for 2015–16.

SoPS 3 – Reconciliation of Net Resource Outturn to Net Cash Requirement

			2016-17	
	Note/Ref	**Estimate**	**Outturn**	**Net total outturn compared with Estimate: saving/ (excess)**
		£000	**£000**	**£000**
Resource outturn	SoPS 1.1	2,426,543	1,825,905	600,638
Capital outturn	SoPS 1.2	671,963	655,838	16,125
Accruals to cash adjustments (Core and agencies only):				
Accrual to cash basis - capital expenditure		-	(8,822)	8,822
Accrual to cash basis - capital disposals		-	(916)	916
Service concession adjustment and other finance leases		-	(1,018)	1,018
Adjustments to remove non cash items (Core and agencies only):				
Depreciation / amortisation / impairment	3	(98,234)	(60,864)	(37,370)
New provisions and adjustment to provisions	3	(607,902)	(283,814)	(324,088)
Prior period adjustments		(26,500)	-	(26,500)
Other non cash items		(15,752)	41,323	(57,075)
Adjustments for NDPBs:				
Remove voted resource		(706,750)	(682,623)	(24,127)
Remove voted capital		(523,421)	(519,835)	(3,586)
Add cash grant-in-aid		1,045,243	1,040,658	4,585
Adjustments to reflect movements in working capital balances (Core and agencies only) :				
Increase/(decrease) in inventories	SoCF	-	3,755	(3,755)
Increase/(decrease) in receivables excluding derivatives	SoCF	100,000	(473,934)	573,934
Adjustment for derivative financial instruments	SoCF	-	56,783	(56,783)
Movement in receivables affecting items not passing through the SoPS		-	(2,300)	2,300
(Increase)/decrease in payables excluding derivatives	SoCF	-	381,089	(381,089)
Movement in payables affecting items not passing through the SoPS		-	(290,283)	290,283
Use of provisions	SoCF	125,893	107,749	18,144
Funding to / from other bodies	SoCF	-	161	(161)
Net cash requirement		**2,391,083**	**1,788,852**	**602,231**

Explanations of significant variances between estimate and outturn for resource, capital and net cash requirement are shown in Chapter 3.

As part of the grant-in-aid figure the Core Department paid the Environment Agency (EA) £66.9 million to cover employer contributions to the EA Closed Scheme Pension fund.

SoPS 4 – Income Payable to the Consolidated Fund

In addition to income retained by the Department, the following income is payable to the Consolidated Fund (cash receipts are shown in italic).

	Outturn 2016-17		Outturn 2015-16	
	Income	***Receipts***	Income	*Receipts*
	£000	***£000***	£000	*£000*
Income outside the ambit of the estimate	15,532	*15,532*	47,362	*52,084*
Total income payable to the Consolidated Fund	**15,532**	***15,532***	47,362	*52,084*

Long Term Expenditure Trends

The long term expenditure trends can be found in the core tables in Annex 1.

Further Information Relating to Parliamentary Accountability

The information in this section is audited by the Comptroller and Auditor General.

Losses and Special Payments – Losses Statement

	2016-17		2015-16	
	Core Department and Agencies	**Defra Group**	Core Department and Agencies	Defra Group
	£000	**£000**	£000	£000
Losses values				
Cash losses	8,895	9,459	961	1,728
Stores losses	63	63	133	133
Administrative write-offs	-	1,454	-	5,160
Constructive losses	2,245	2,245	2,065	2,065
Claims abandoned	178	178	(147)	(147)
Total	**11,381**	**13,399**	3,012	8,939

	2016-17		2015-16	
	Core Department and Agencies	**Defra Group**	Core Department and Agencies	Defra Group
	Number	**Number**	Number	Number
Number of cases				
Cash losses	260	628	344	921
Stores losses	2	2	1	1
Administrative write-offs	-	308	-	2,663
Constructive losses	2	2	2	2
Claims abandoned	133	133	446	446
Total	**397**	**1,073**	793	4,033

Details of Cases over £300,000

Impairment costs of £2.2 million have been incurred mainly because of technical issues or the decision not to use a number of IT features developed in the Common Agricultural Policy delivery system for operation in the year ended 31 March 2017.

The Rural Payments Agency (RPA) has a realised exchange loss of £8.5 million arising from the reimbursement of scheme expenditure by the European Commission. Although all significant scheme expenditure is hedged there remains some residual exposure on the reimbursement of rural development expenditure which has crystallised in 2016–17. There was also a mismatch in settlement rates for one of the Basic Payment Scheme (BPS) 2015 contract settlements. As RPA do not designate and hedge account for the

Rural Development Programme for England (RDPE), an element of the loss in the RPA account is offset by a gain on RDPE scheme income and expenditure reported by Defra.

Losses and Special Payments – Special Payments

	2016-17		2015-16	
	Core Department and Agencies	**Defra Group**	Core Department and Agencies	Defra Group
Value (£000)	19,251	22,849	775	775
Number of cases	141	158	243	243

Details of Cases over £300,000

A single personal injury claim relating to a former employee of MAFF (Ministry of Agriculture, Fisheries and Food) was settled in 2016–17 by the Animal and Plant Health Agency at a total cost of £307,000.

A special payment over £300,000 was made in the year, details of which are not disclosed due to ongoing legal proceedings.

An accrual of £15 million has been recorded by RPA in the year to 31 March 2017 in relation to payments to be made to Single Payment Scheme (SPS) and BPS customers to settle retrospective claims on common land. The agency has also booked a £3.6 million accrual for retrospective fruit and vegetable scheme payments.

Fees and Charges

Details of the material fees and charges across the Defra family are disclosed in the table below.

	2016-17		
	Income	**Full Cost**	**Surplus/ (Deficit)**
	£m	**£m**	**£m**
Drinking Water Inspectorate charges (Core Department)	2.9	3.1	(0.2)
Abstraction charges (EA)	115.6	118.7	(3.1)
Environmental Permitting Regulation water quality charges (EA)	56.7	56.3	0.4

All other details regarding income from the Sale of Goods and Services provided by the delivery bodies can be found in their respective Annual Reports and Accounts.

Remote Contingent Liabilities Included for Parliamentary Reporting and Accountability Purposes

In addition to contingent liabilities reported in accordance with IAS 37, the Department also reports liabilities for which the likelihood of a transfer of economic benefit in settlement is too remote to meet the definition of contingent liability.

The Core Department has entered into the following remote contingent liabilities.

Quantifiable

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

- Indemnity signed by Defra, Canal and River Trust and British Waterways pension trustees in relation to the historic public sector pension liability. The potential liability is estimated at £125 million (2015–16, £125 million).

- A potential liability of £19.7 million in relation to infringements of the Habitats Directive regarding harbour porpoises.

- Small potential liabilities are estimated at no more than £9.1 million (2015–16 £9.4 million).

Unquantifiable

Due to the variable nature of these contingent liabilities they are classified as unquantifiable.

- Where Defra has assigned a previously held lease to a third party, Defra remains potentially liable to compensate the landlord where the subsequent lessee defaults and the landlord fails to achieve redress elsewhere.

- Environmental contamination arising from the use of sites by Defra may give rise to a future remediation liability or compensation payment.

- Potential future claims (both civil and criminal) against the Core Department for pollution that may arise from foot and mouth disease farm burial grounds.

- Defra retains a potential pension liability in respect of the staff that transferred from Fera to Fera Science Limited under the New Fair Deal.

- In unlikely circumstances, there is a remote possibility that Defra would need to provide a government support package for the Thames Tideway Tunnel project.

- There is an ongoing potential liability in respect of financial corrections for disallowance, which at present is uncertain and unquantifiable as a Commission audit has yet to take place.

- Infringements of the Air Quality Directive could lead to fines for the Core Department from the EU. The UK is in the process of revising its air quality plans to ensure compliance in the shortest possible time.

- Failure to ensure that urban waste water is adequately collected and/or treated at 14 sites and other infringements of the Urban Waste Water Treatment Directive, could lead to fines for the Core Department from the EU.

- Other remote contingent liabilities that relate to possible judicial review and other infraction proceedings concerning implementation of the Habitats Directive.

- Defra has a potential liability following the appeal of a remediation notice to clean up contaminated land.

- Environmental contamination arising from metal mines may give rise to a future remediation liability.

- On 29 March 2017, the UK Government submitted its notification to leave the EU in accordance with Article 50. The triggering of Article 50 starts a two-year negotiation process between the UK and EU. Any subsequent changes in legislation, regulation and funding arrangements are subject to the outcome of the negotiations. As a result, an unquantifiable remote contingent liability is disclosed. In accordance with accounting standards, no contingent assets can be recognised. During this two year period, which includes the full duration of the next accounting period, the UK remains a full member of the EU with all the rights and obligations arising from membership. There are no significant impacts on the financial statements in the short term from making the formal notification.

Clare Moriarty 13 July 2017

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

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

I certify that I have audited the financial statements of the Department for Environment, Food and Rural Affairs and of its Departmental Group for the year ended 31 March 2017 under the Government Resources and Accounts Act 2000. The Department consists of the core Department and its agencies. The Departmental Group consists of the Department and the bodies designated for inclusion under the Government Resources and Accounts Act 2000 (Estimates and Accounts) Order 2016. The financial statements comprise: the Department's and Departmental Group's Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, 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 Statement of Parliamentary Supply and the related notes, and the information in the Remuneration and Staff Report and the Parliamentary Accountability Disclosures that is described in those reports and disclosures 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 Government Resources and Accounts Act 2000. 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 Department's and the Departmental Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Accounting Officer; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

I am required to obtain evidence sufficient to give reasonable assurance that the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals and that those totals have not been exceeded. The voted Parliamentary control totals are Departmental Expenditure Limits (Resource and Capital), Annually Managed Expenditure (Resource and Capital), Non-Budget (Resource) and Net Cash Requirement. I am also required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on regularity

In my opinion, in all material respects:

- the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals for the year ended 31 March 2017 and shows that those totals have not been exceeded; and
- the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements 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 Department's and the Departmental Group's affairs as at 31 March 2017 and of the Department's net operating cost and Departmental Group's net operating cost for the year then ended; and

- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

Opinion on other matters

In my opinion:

- the parts of the Remuneration and Staff Report and the Parliamentary Accountability disclosures to be audited have been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000; and

- the information given in the Performance Report and Accountability 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 returns adequate for my audit have not been received from branches not visited by my staff; or

- the financial statements and the parts of the Remuneration and Staff Report and the Parliamentary Accountability disclosures to be audited are not in agreement with the accounting records and returns; or

- I have not received all of the information and explanations I require for my audit; or

- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Sir Amyas C E Morse 14 July 2017

Comptroller and Auditor General

National Audit Office

157–197 Buckingham Palace Road

Victoria, London SW1W 9SP

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

Introduction

The Department for Environment, Food and Rural Affairs (the Department) develops, implements and delivers policy relating to the environment, food and rural issues. It is also responsible for negotiating European agricultural and rural policy and related funding for the United Kingdom (UK) until the UK's departure from the European Union (EU).

The Common Agricultural Policy (CAP) is the EU framework of agricultural subsidies and rural development programmes. In 2016–17, the Department received funding of some £3.3 billion (2015–16 £2.3 billion) from the European Commission (the Commission) to deliver the CAP and other initiatives. CAP scheme expenditure in the 2016–17 financial statements includes: £2,994 million relating to the new Basic Payments Scheme covering the period 2014–20, and £342 million relating to the predecessor Single Payment Scheme covering 2007–13 and now being wound up.

My report sets out observations on the treatment of disallowance during 2016–17 and how this is reflected in the Department's Annual Report and Accounts, and in my audit opinion and the Department's management of the CAP and the disallowance strategy. The Department has continued to face challenges arising from the introduction of the new CAP scheme and the impact of system changes during 2015–16, which led to a backlog in the previous financial year. As a consequence the Department has continued to take actions to facilitate earlier disbursement of payments to farmers, these have required different levels of manual input and oversight. Collectively, these actions have improved the level of payments made by 31 March when compared to 2015–16. The Department will need to maintain these improvements, and ensure these actions are embedded within its business as usual processes. My report reflects on these mechanisms and their impact.

CAP Regulations and Disallowance

The CAP regulations are set by the EU following proposals made by the Commission and agreed by the European Parliament and European Council. Financial penalties, known as 'disallowance' penalties, are levied by the Commission when it considers actions taken by member states to control and administer CAP payments have failed to comply with the Commission's regulations. Disallowance can arise as a result of delays in payments to claimants, differing interpretations of the regulations between the Commission and member states, or the Commission identifying control weaknesses which they consider a risk to EU funds.

Disallowance penalties are determined in light of the Commission's audits of the relevant CAP scheme, taking into account any further evidence provided by the member states in mitigation. As this process to determine the level of penalty can take several years, penalties are not incurred in the financial year of scheme payments. The timing of the Commission's audits and their outcomes determine the level of disallowance in any given year.

Unqualified opinion on regularity – financial penalties arising from the European Commission funded scheme

The Department administers the Commission funding for the CAP schemes. When disallowance penalties occur, the Commission reduces its funding for the schemes and the shortfall must be met directly from taxpayer funds. This shortfall is a loss to the UK Exchequer, which is outside Parliament's intentions for the proper administration of European funding and I therefore considered the use of these funds to pay disallowance penalties irregular.

The Department accrues disallowance penalties in its financial statements when either the Commission confirms a penalty or the Department decides not to contest it any further. It is at this point, when the actual value of disallowance becomes certain, that the true extent of disallowance irregularities can be assessed and consequently, the impact on UK taxpayer funds.

In 2016–17, the value of disallowance penalties accrued in year was £11.7 million. Whilst I still consider this level of cost to the taxpayer significant, I do not consider this to be material in the context of the £3.3 billion of Commission funded expenditure managed by the Department. I have therefore issued an unqualified opinion on the regularity of the 2016–17 financial statements. Disallowance penalties are significantly lower than in

2015–16, when £65.8 million was accrued, a level which I considered material, and which resulted in the qualification of my regularity opinion in 2015–16.

Provisions and Contingent Liabilities for financial penalties arising from the European Commission funded scheme

In contrast to the accrued disallowance penalties that have become certain, the Department recognises a provision for the estimated liability where the final level of disallowance is still being contested. The Department is not able to predict the Commission's future audit findings and therefore cannot quantify the value of disallowance penalties that will arise from judgements by the Commission that have not yet been communicated to the Department. The Department discloses the existence of future Commission decisions relating to scheme years, where its audits have not yet been concluded, as contingent liabilities within its financial statements.

Cumulative disallowance accrued and provided relating to CAP schemes in the period 2007 to 2013 totals £647 million. The value of disallowances may increase as the Commission audits of scheme years are concluded. These audits are not expected to be finalised before 2019–20. The CAP was reformed in 2014, with new regulations coming into force for payments in the 2015 scheme year and expected to run until 2020. The current levels of cumulative disallowance on the new Basic Payment Scheme, introduced in 2014, is estimated as £238 million. The total estimated level of known disallowance over the two schemes since 2007 is £885 million. The Department has disclosed these values in its Annual Report.

Figure 1 summarises the status of audits completed or in progress and how the associated disallowance penalties have been reflected in the financial statements.

Figure 1: Status of European Commission Audits of Common Agricultural Policy Schemes by Schemes and Year

Scheme	**Completed audits (Paid and accrued disallowance)**		**Audits in progress (Provided for disallowance)**	
	Year	**Finalised disallowance £m**	**Year**	**Estimated disallowance £m**
EAGF IACS				
SPS/BPS Entitlements	2005–2014	509	2015–2016	171
SPS/BPS Area Aids	2005–2014	-	2015–2016	27
Late Payments	2005–2015	10	2016	9
Cross Compliance	2005–2013	34	2014–2016	32
EAGF NON-IACS				
Fruit & Veg	2005–2014	63	2015	1
Other trader schemes	2005–2010	3	not applicable	-
EAFRD NON-IACS				
RD Axis 1 & 3	not applicable	-	2006–2015	4
RDPE	2005–2014	21	not applicable	-
Other				
Debt Management	2005–2012	1	not applicable	-
Total £885 million		**641**		**244**

The "not applicable" included within the table indicates that the European Commission has not announced an audit for these scheme years.

EAGF - European Agricultural Guarantee Fund - Pillar 1

SPS – Single Payment Scheme

BPS – Basic Payment Scheme

EAFRD - European Agricultural Fund for Rural Development - Pillar 2

IACS - Integrated Administration and Control System

CAP Delivery programme issues

The Department has faced challenges in its implementation of BPS and in issuing payments to farmers on a timely basis. The Department's Key Performance Indicators for the 2016 BPS scheme year were to make 90 per cent of all payments to eligible claimants by 31 December 2016, and to 93 per cent of all claimants by 31 March 2017. The Department has met its targets by successfully increasing the proportion of BPS 2016 payments made by 31 December 2016 to 91 per cent (50.9 per cent by 31 December 2015). The Department improved its performance by making payments to over 97 percent of BPS 2016 claimants by 31 March 2017.

The Department has continued to take actions to facilitate earlier disbursement of payments to farmers outside the normal BPS payment processes. These include using post payment adjustment processes where it has not had all the information necessary to pay the entire claim, and bridging payments. In one instance, we found evidence of Environmental Stewardship Advance Payments being made without the requisite supporting evidence and requisite authority.

Post payment adjustments

In line with the Commission guidance, the Department makes BPS payments to farmers once the claim has been fully evidenced and checked. Due to delays in processing claims, the Department pays farmers on the portions of their claims that have been validated, pending further data checks and investigations before concluding on whether an additional payment is required. The adjustment process is designed by the Department to mitigate the risk of future disallowance; balancing the need to avoid delays to payments and ensuring all Commission validation checks have been performed.

My report on the Department's 2015–16 Annual Report and Accounts highlighted that the Department was investigating payments it had made under the 2015 BPS by 31 March 2016 to confirm whether additional amounts were due to farmers. At that point, 13,000 claims were under review where the Department believed a further payment was due with an estimated value of £32 million, which was provided for in the accounts. The Department's review of these claims resulted in additional payments worth £27.4 million to 10,500 claimants by 17 October 2016.

The Department has made improvements in processing BPS 2016 claims, my testing has identified an estimated 32 per cent of BPS 2016 payments required a Post Payment Adjustment, although this compared favourably to the 46 per cent of payments under BPS 2015 in the previous year. The potential liability arising from claims being assessed for post payment adjustment is difficult to estimate with certainty, the Department has recognised this uncertainty in its accounts, while accruing its most likely estimate of £21.1 million as at 31 March 2017 for the 21,000 cases currently under review.

While improved data processing and the full introduction of the online system for BPS applications has reduced the value of post payment adjustments, the Department will need to continue to further refine its processes to reduce the number and value of claims which need further investigation. Current performance targets are based on the volume of payments made, and greater focus needs to be paid to the level of payment accuracy. It is important the Department focuses attention on accuracy, to minimise the administrative burden and effort of post payment adjustments and to provide greater financial certainty to farmers.

Bridging Payments

While improvements in payment performance have been made, the Department also obtained approval from HM Treasury to make bridging payments to those farmers who had not received their full BPS payment by 31 March 2017. In April 2017, the Department made bridging payments of £45 million to farmers, representing 75% of their outstanding BPS claim value, pending the processing of their BPS claim. This compares with bridging payments of £96.6 million made in April 2016. The value of these loan type payments represented a capital commitment at 31 March 2017, and the value of these are disclosed in note 8.1 of its financial statements.

The Department should continue its efforts to make all payments by 31 December, to avoid the need for bridging payments, which create a degree of risk to exchequer funds, and represent delay in making payments to farmers of their full entitlement.

Natural England Environmental Stewardship Advance Payments

During the audit of the 2016 EU Agricultural Funds, my team identified payments which were paid before the full inspection process to verify eligibility and compliance had been completed, contrasting with the principle employed by the Department in respect of post payment adjustment. A total of £5.5 million was paid in respect of rural development grants under the 2016 scheme where appropriate checks had not been undertaken, £4.1 million of this was due to be funded by the Commission.

The Rural Payments Agency (RPA) which has ultimate responsibility for the validation and authorisation of claims, has delegated the administration of rural development grants to Natural England. Delays in RPA completing farm inspections, and resolving other mapping issues in 2016 resulted in significant delays in final payments to farmers. In light of these delays, Natural England issued advance payments to farmers without agreeing the process with the RPA. When the RPA became aware of the process it instructed Natural England to cease the advance payment process.

As the Department has disclosed in its Governance Statement, there were failures of process at Natural England which meant payments were made without completion of the mandated Commission control procedures. As a consequence the Department and its sponsored bodies are strengthening governance and compliance functions to mitigate the risk of future occurrences. Internal audit work has also been commissioned by the Department to further inform the improvement of these controls and additional assurance will be obtained across the Group in respect of compliance with regulations.

To avoid further disallowance penalties, the Department withdrew its claim of £4.1 million from the Commission, and funded these payments from UK taxpayer funds. The use of Exchequer funding to make these payments was irregular. However, further work by the Department has enabled it to reclaim some £3.2 million of these payments from the Commission, leaving £0.9m at risk to the Exchequer. I have not qualified my audit opinion in respect of these payments as they are not material to the financial statements. The Department, and its related bodies, have disclosed the weaknesses which led to this control weakness, and it is important that the Department strengthens its controls to ensure all inspection and eligibility checks are completed as required by the Commission's regulations.

Managing Disallowance Risk

I considered the Department's management of disallowance risk throughout CAP 2007–13 in my report 'Managing disallowance risk' (HC 306), published in July 2015. This report explained what the CAP is, how the Department administers it in the UK and how disallowance penalties arise. It also considered the underlying causes of disallowance in England, future disallowance risk and the Department's management of that risk.

The Department has updated its Disallowance Strategy, which received ministerial approval in late 2016. The Department has revised its approach to reducing disallowance, taking account of the implications of the EU Referendum result. The approach is based on the following principles:

- Assessing disallowance risk to ensure the Department is being proactive in identifying risks;
- Making cost-effective investments to ensure funding and resources provide value for money to the taxpayer;
- Prioritising actions to address the biggest causes of disallowance;
- Improving data quality and a more joined up approach to ensure completeness of data; and
- Continuing EU engagement to robustly challenge proposed disallowance from historic control failings and maintaining confidence in implementation of the CAP until the exit from the EU.

We will continue to monitor and review how effectively the Department is delivering the Disallowance Strategy.

It will be important during the EU Exit negotiations for the Department to consider how it both manages the current EC scheme and residual impacts of disallowance as well as determining any new replacement subsidy regime. The Department should continue to focus on implementing its updated Disallowance Strategy to ensure both timely and accurate payments to farmers whilst at the same time, minimising the risk of further disallowance.

The Department should use its experience of applying CAP, and the administrative lessons learned, to inform the planning for any post Brexit subsidy regime. Any replacement scheme will need to be appropriately designed, implemented and communicated to claimants to enable timely and efficient payment of subsidies, while minimising the risks to taxpayer's money.

Conclusion

The Department continues to face a number of challenges to successfully manage disallowance in order to reduce the level of penalties incurred as it transitions between the old and new payment schemes. Following the difficulties faced by the Department in 2015–16 with the implementation of the new CAP 2014–20, real progress has been made in improving the volume of payments made to claimants. The Department now needs to consolidate this progress, and to consider focusing greater attention on measuring and improving the timeliness and accuracy of payments by value. It needs to ensure the initiatives it has used to drive improvements in timeliness are efficient and effective, and do not give rise to risk to Exchequer funds.

Managing the CAP Scheme and disallowance penalties during the EU Exit negotiations will add additional challenges and complexity. The Department will need to retain its focus on achieving its payment targets and delivering the Disallowance Strategy, despite the pressures of EU exit. I will continue to monitor progress in this area and will provide an update in my report on the Department's 2017–18 Annual Report and Accounts.

Sir Amyas C E Morse 14 July 2017

Comptroller and Auditor General

National Audit Office

157–197 Buckingham Palace Road

Victoria, London SW1W 9SP

Financial Statements

The FReM requires that the Department prepares financial statements and related disclosures in accordance with IFRS and the Companies Acts 2006. The notes to the financial statements provide additional detail to users on the accounting policies of the entity and the numbers included in the core financial statements. They are only included where additional information is material, i.e. where its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. The 2015–16 comparatives have not been restated.

Consolidated Statement of Comprehensive Net Expenditure

For the year ended 31 March 2017

This account summarises the expenditure and income generated and consumed on an accruals basis. It also includes other comprehensive income and expenditure, which include changes to the values of non-current assets and other financial instruments that cannot yet be recognised as income or expenditure.

		2016-17		2015-16	
	Note/Ref	**Core Department and Agencies**	**Defra Group**	Core Department and Agencies	Defra Group
		£000	**£000**	£000	£000
Total operating income	4	**(3,459,118)**	**(4,222,502)**	(2,564,454)	(3,115,265)
Staff costs		334,249	859,463	350,819	858,248
Grant-in-aid to NDPBs	3	973,758	-	923,912	-
Other costs	3	4,406,145	5,629,616	3,684,151	4,754,900
Total operating costs		**5,714,152**	**6,489,079**	4,958,882	5,613,148
Net operating costs		**2,255,034**	**2,266,577**	2,394,428	2,497,883
Net expenditure		**2,255,034**	**2,266,577**	2,394,428	2,497,883
Other comprehensive expenditure					
Items that will not be reclassified to net operating costs					
Net (gain)/loss on					
Revaluation of PPE	SoCTE	(5,615)	(113,843)	(20,981)	(189,127)
Charitable funds revaluation	SoCTE	-	(6,628)	-	(15,411)
Revaluation of intangibles	6	(3,857)	(8,411)	(3,816)	(4,998)
Pension actuarial movements	15	7,832	(76,749)	(26,423)	(324,252)
Items that may be reclassified subsequently to net operating costs					
Net (gain)/loss on					
Revaluation of investments	10	-	(15)	-	(14)
Revaluation of hedging instruments		(36,939)	(36,939)	39,876	39,876
Total comprehensive net expenditure for the year		**2,216,455**	**2,023,992**	2,383,084	2,003,957

EU funding for the Department totalling £3,290 million (2015–16, £2,329 million) is included within income totals. Further details can be found in Note 4.

Flood Re pays corporation tax. The charge included in other costs in the SoCNE was £26 million.

The notes on pages 77 – 117 form part of these accounts.

Consolidated Statement of Financial Position

As at 31 March 2017

This statement presents the financial position of Defra. It comprises three main components: assets owned or controlled; liabilities owed to other bodies; and equity, the remaining value of the entity.

		31 March 2017		31 March 2016	
	Note/Ref	**Core Department and Agencies**	**Defra Group**	Core Department and Agencies	Defra Group
		£000	**£000**	£000	£000
Non-current assets					
Property, plant and equipment and investment properties	5.1, 5.2, 5.4	397,805	3,339,389	397,439	3,217,651
Heritage assets	5.3	-	232,647	-	218,075
Agricultural assets		-	168	-	168
Intangible assets	6	140,455	257,752	148,468	263,189
Investments	10	27,331	27,190	27,375	27,175
Net pension assets	15.2	-	-	-	3,914
Receivables falling due after more than one year	12	11,804	11,842	10,948	10,952
Total non-current assets		**577,395**	**3,868,988**	584,230	3,741,124
Current assets					
Assets classified as held for sale		5,360	14,450	6,088	14,929
Inventories		10,124	11,131	6,369	7,073
Other financial assets	12	2,086	2,086	2,336	2,336
Trade and other receivables	12	645,015	812,447	1,119,805	1,244,911
Cash and cash equivalents	11	602,231	907,529	896,744	1,086,008
Total current assets		**1,264,816**	**1,747,643**	2,031,342	2,355,257
Total assets		**1,842,211**	**5,616,631**	2,615,572	6,096,381
Current liabilities					
Trade and other payables	13	(1,244,194)	(1,726,613)	(1,633,556)	(2,010,826)
Provisions	14.2	(257,145)	(273,818)	(77,773)	(89,431)
Net pension liability	15.2	(64,099)	(64,107)	(71,178)	(71,193)
Other financial liabilities	13	(5,713)	(5,713)	(99,884)	(99,884)
Total current liabilities		**(1,571,151)**	**(2,070,251)**	(1,882,391)	(2,271,334)
Non-current assets plus/less net current assets/liabilities		**271,060**	**3,546,380**	733,181	3,825,047
Non-current liabilities					
Provisions	14.2	(447,137)	(450,791)	(401,550)	(403,970)
Net pension liability	15.2	(456,380)	(877,157)	(499,263)	(969,054)
Other payables	13	(142,527)	(145,111)	(134,055)	(137,945)
Other financial liabilities	13	-	(141,606)	-	(141,600)
Total non-current liabilities		**(1,046,044)**	**(1,614,665)**	(1,034,868)	(1,652,569)
Assets less liabilities		**(774,984)**	**1,931,715**	(301,687)	2,172,478
Taxpayers' equity and other reserves					
General Fund	SoCTE	(923,706)	(298,709)	(413,291)	6,092
Revaluation reserve	SoCTE	151,408	2,030,701	151,229	2,026,840
Hedging reserve	SoCTE	(2,686)	(2,686)	(39,625)	(39,625)
Charitable funds - restricted funds	SoCTE	-	43,534	-	33,143
Charitable funds - unrestricted funds*	SoCTE	-	158,875	-	146,028
Total equity		**(774,984)**	**1,931,715**	(301,687)	2,172,478

*The unrestricted charitable funds figure includes Royal Botanic Gardens Kew (RBG Kew) and National Forest Company's (NFC) revaluation reserves totalling £113.1 million (2015–16, £107.4 million).

Clare Moriarty 13 July 2017

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

Consolidated Statement of Cash Flows

For the year ended 31 March 2017

This statement shows the changes in cash and cash equivalents of Defra during the reporting period. It shows how Defra generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. Investing activities represent the extent to which cash inflows and outflows have been made for resources which are intended to contribute to Defra's future public service delivery. Cash flows arising from financing activities include parliamentary supply and other cash flows, including borrowing.

		2016-17		2015-16	
	Note/Ref	**Core Department and Agencies**	**Defra Group**	Core Department and Agencies	Defra Group
		£000	**£000**	£000	£000
Cash flows from operating activities					
Net operating costs	SoCNE	(2,255,034)	(2,266,577)	(2,394,428)	(2,497,883)
Adjust for non cash transactions		303,355	583,382	395,312	667,844
(Increase)/decrease in trade and other receivables excluding derivatives	12	473,934	431,574	(387,051)	(403,312)
Adjustments for derivative financial instruments		(56,783)	(56,783)	77,930	77,930
(Increase) / decrease in inventories		(3,755)	(4,058)	(1,746)	(1,885)
Increase / (decrease) in trade payables and other liabilities excluding derivatives	13	(381,089)	(277,240)	857,519	899,903
less movements in payables relating to items not passing through the SoCNE		290,283	298,252	(701,804)	(699,809)
Use of provisions / pension liabilities		(107,749)	(173,156)	(143,982)	(204,672)
Net cash outflow from operating activites		**(1,736,838)**	**(1,464,606)**	(2,298,250)	(2,161,884)
Cash flows from investing activities					
Purchase of PPE, heritage and agricultural assets	5.5	(24,710)	(161,057)	(16,294)	(106,623)
Purchase of intangible assets	6	(22,775)	(41,594)	(40,321)	(55,233)
Purchase of financial assets	10	-	-	(20,530)	(20,000)
Proceeds of disposal of PPE, heritage and agricultural assets		13,452	13,595	18,558	19,377
Proceeds of disposal of intangible assets		119	119	-	-
Repayments from other bodies		44	-	-	-
Net cash outflow from investing activities		**(33,870)**	**(188,937)**	(58,587)	(162,479)
Cash flows from financing activities					
From Consolidated Fund (supply): current year	SoCTE	1,494,339	1,494,339	3,130,357	3,130,357
Advances from Contingencies Fund		1,350,000	1,350,000	1,900,000	1,900,000
Repayments to Contingencies Fund		(1,350,000)	(1,350,000)	(1,900,000)	(1,900,000)
Capital element in respect of service concession arrangements and Finance leases and on-balance sheet PFI contracts		(2,451)	(3,419)	(2,176)	(3,105)
Funding to / from other bodies		(161)	(120)	(22)	25
Net financing		**1,491,727**	**1,490,800**	3,128,159	3,127,277
Net increase/(decrease) in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund		(278,981)	(162,743)	771,322	802,914
Payments of amounts due to the Consolidated Fund		(15,532)	(15,532)	(52,084)	(52,084)
Net increase/(decrease) in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund	11	(294,513)	(178,275)	719,238	750,830
Cash and cash equivalents at the beginning of the period	11	**896,744**	**1,085,804**	177,506	334,974
Cash and cash equivalents at the end of the period	11	**602,231**	**907,529**	896,744	1,085,804

The notes on pages 77 – 117 form part of these accounts.

Consolidated Statement of Changes in Taxpayers' Equity

This statement shows the movement in the year on the different reserves held by Defra. The General Fund reflects financing and balances from the provision of services, i.e. it reflects the contribution from the Consolidated Fund. The revaluation reserve reflects the change in asset values that have not been recognised as income or expenditure. Other specific reserves are shown separately where there are statutory restrictions of their use. The hedging reserve recognises the effective portion of changes in the fair value of RPA's foreign currency derivatives that are designated and qualify as cash flow hedges. Charitable funds represent the fair value of donations, including revaluation, given to RBG Kew and NFC. Unrestricted reserves are those donations that have no restrictions on their use, or income flow.

For the year ended 31 March 2017

Defra Group

		2016-17						
	Note/Ref	General Fund	Revaluation Reserve	Hedging Reserve	Taxpayers' Equity	Charitable Funds - Restricted/ Endowment	Charitable Funds - Unrestricted	Total Reserves
		£000	£000	£000	£000	£000	£000	£000
Balance at 1 April 2016		6,092	2,026,840	(39,625)	1,993,307	33,143	146,028	2,172,478
Net parliamentary funding - drawn down	SoCF	1,494,339	-	-	1,494,339	-	-	1,494,339
Net parliamentary funding - deemed		896,744	-	-	896,744	-	-	896,744
Funding to/ from other bodies		(120)	-	-	(120)	-	-	(120)
Supply (payable) adjustment		(602,231)	-	-	(602,231)	-	-	(602,231)
Payable to the Consolidated Fund	SoPS 4	(15,532)	-	-	(15,532)	-	-	(15,532)
Net operating costs for the year	SoCNE	(2,278,123)	-	-	(2,278,123)	10,326	1,220	(2,266,577)
Non-cash adjustments								
Non-cash charges-auditors' remuneration	3	1,029	-	-	1,029	-	-	1,029
Notional recharges and other non cash items		59	-	-	59	-	-	59
Movement in reserves								
Recognised in other comprehensive expenditure:								
Revaluation of PPE	OCE	-	113,843	-	113,843	-	-	113,843
Charitable funds revaluation	OCE	-	-	-	-	16	6,612	6,628
Revaluation of intangibles	OCE	-	8,411	-	8,411	-	-	8,411
Revaluation of investments	OCE	-	15	-	15	-	-	15
Pension actuarial movements	OCE	76,749	-	-	76,749	-	-	76,749
Revaluation/impairments - hedging reserve		-	-	(44,423)	(44,423)	-	-	(44,423)
Contributions in respect of unfunded benefits		8,900	-	-	8,900	-	-	8,900
Release of reserves to SoCNE	OCE	-	-	81,362	81,362	-	-	81,362
Transfers between reserves		113,344	(118,408)	-	(5,064)	49	5,015	-
Transfer to General Fund - net asset transfer		41	-	-	41	-	-	41
Balance at 31 March 2017		**(298,709)**	**2,030,701**	**(2,686)**	**1,729,306**	**43,534**	**158,875**	**1,931,715**

NFC became a charitable company (limited by guarantee) on 15 April 2016. Defra has therefore transferred its General Fund and revaluation reserve to the appropriate charitable funds category within the SoCTE as an in-year movement.

For the year ended 31 March 2016

Defra Group

	Note/Ref	General Fund	Revaluation Reserve	Hedging Reserve	Taxpayers' Equity	Charitable Funds - Restricted/ Endowment	Charitable Funds - Unrestricted	Total Reserves
		2015-16						
		£000	£000	£000	£000	£000	£000	£000
Restated balance at 1 April 2015		**(261,759)**	**1,899,123**	**251**	**1,637,615**	**22,501**	**132,537**	**1,792,653**
Net parliamentary funding - drawn down	SoCF	3,130,357	-	-	3,130,357	-	-	3,130,357
Net parliamentary funding - deemed		177,506	-	-	177,506	-	-	177,506
Funding to/from other bodies		25	-	-	25	-	-	25
Supply (payable) adjustment		(896,744)	-	-	(896,744)	-	-	(896,744)
Payable to the Consolidated Fund	SoPS 4	(47,362)	-	-	(47,362)	-	-	(47,362)
Net operating costs for the year	SoCNE	(2,506,605)	-	-	(2,506,605)	10,628	(1,906)	(2,497,883)
Non cash adjustments								
Non cash charges-auditors' remuneration	3	1,048	-	-	1,048	-	-	1,048
Movement in reserves								
Recognised in other comprehensive expenditure:								
Revaluation of PPE	OCE	-	189,127	-	189,127	-	-	189,127
Charitable funds revaluation	OCE	-	-	-	-	14	15,397	15,411
Revaluation of intangibles	OCE	-	4,998	-	4,998	-	-	4,998
Revaluation of investments	OCE	-	14	-	14	-	-	14
Pension actuarial loss	OCE	324,252	-	-	324,252	-	-	324,252
Revaluation/impairments - hedging reserve		-	-	(143,876)	(143,876)	-	-	(143,876)
Contributions in respect of unfunded benefits		9,900	-	-	9,900	-	-	9,900
Release of reserves to SoCNE	OCE	-	-	104,000	104,000	-	-	104,000
Transfers between reserves		66,422	(66,422)	-	-	-	-	-
Transfer to General Fund - net asset transfer		4,686	-	-	4,686	-	-	4,686
Non-operating General Fund movements		4,366	-	-	4,366	-	-	4,366
Restated balance at 31 March 2016		**6,092**	**2,026,840**	**(39,625)**	**1,993,307**	**33,143**	**146,028**	**2,172,478**

For the year ended 31 March 2017

Core Department and Agencies

	Note/Ref	General Fund	Revaluation Reserve	Hedging Reserve	Taxpayers' Equity	Charitable Funds - Restricted/ Endowment	Charitable Funds - Unrestricted	Total Reserves
		2016-17						
		£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Balance at 1 April 2016		(413,291)	151,229	(39,625)	(301,687)	-	-	(301,687)
Net parliamentary funding - drawn down	SoCF	1,494,339	-	-	1,494,339	-	-	1,494,339
Net parliamentary funding - deemed		896,744	-	-	896,744	-	-	896,744
Funding to/ from other bodies		(161)	-	-	(161)	-	-	(161)
Supply (payable) adjustment		(602,231)	-	-	(602,231)	-	-	(602,231)
Payable to the Consolidated Fund	SoPS 4	(15,532)	-	-	(15,532)	-	-	(15,532)
Net operating costs for the year	SoCNE	(2,255,034)	-	-	(2,255,034)	-	-	(2,255,034)
Non-cash adjustments								
Non-cash charges-auditors' remuneration	3	1,029	-	-	1,029	-	-	1,029
Notional recharges and other non cash items		(37,692)	-	-	(37,692)	-	-	(37,692)
Movement in reserves								
Recognised in other comprehensive expenditure:								
Revaluation of PPE	OCE	-	5,615	-	5,615	-	-	5,615
Revaluation of intangibles	OCE	-	3,857	-	3,857	-	-	3,857
Pension actuarial movements	OCE	(7,832)	-	-	(7,832)	-	-	(7,832)
Revaluation/impairments - hedging reserve		-	-	(44,423)	(44,423)	-	-	(44,423)
Contributions in respect of unfunded benefits		8,900	-	-	8,900	-	-	8,900
Release of reserves to SoCNE	OCE	-	-	81,362	81,362	-	-	81,362
Transfers between reserves		9,293	(9,293)	-	-	-	-	-
Transfer to General Fund - net asset transfer		(2,238)	-	-	(2,238)	-	-	(2,238)
Balance at 31 March 2017		**(923,706)**	**151,408**	**(2,686)**	**(774,984)**	**-**	**-**	**(774,984)**

For the year ended 31 March 2016

Core Department and Agencies

	Note/Ref	General Fund	Revaluation Reserve	Hedging Reserve	Taxpayers' Equity	Charitable Funds - Restricted/ Endowment	Charitable Funds - Unrestricted	Total Reserves
		2015-16						
		£000	£000	£000	£000	£000	£000	£000
Restated balance at 1 April 2015		**(413,813)**	**143,683**	**251**	**(269,879)**	**-**	**-**	**(269,879)**
Net parliamentary funding - drawn down	SoCF	3,130,357	-	-	3,130,357	-	-	3,130,357
Net parliamentary funding - deemed		177,506	-	-	177,506	-	-	177,506
Funding to/from other bodies		(22)	-	-	(22)	-	-	(22)
Supply (payable) adjustment		(896,744)	-	-	(896,744)	-	-	(896,744)
Payable to the Consolidated Fund	SoPS 4	(47,362)	-	-	(47,362)	-	-	(47,362)
Net operating costs for the year	SoCNE	(2,394,428)	-	-	(2,394,428)	-	-	(2,394,428)
Non cash adjustments								
Non cash charges-auditors' remuneration	3	1,048	-	-	1,048	-	-	1,048
Notional recharges and other non cash items		(31,947)	-	-	(31,947)	-	-	(31,947)
Movement in reserves								
Recognised in other comprehensive expenditure:								
Revaluation of PPE	OCE	-	20,981	-	20,981	-	-	20,981
Revaluation of intangibles	OCE	-	3,816	-	3,816	-	-	3,816
Pension actuarial loss	OCE	26,423	-	-	26,423	-	-	26,423
Revaluation/impairments - hedging reserve		-	-	(143,876)	(143,876)	-	-	(143,876)
Contributions in respect of unfunded benefits		9,900	-	-	9,900	-	-	9,900
Release of reserves to SoCNE	OCE	-	-	104,000	104,000	-	-	104,000
Transfers between reserves		17,251	(17,251)	-	-	-	-	-
Transfer to General Fund - net asset transfer		4,174	-	-	4,174	-	-	4,174
Non-operating General Fund movements		4,366	-	-	4,366	-	-	4,366
Restated balance at 31 March 2016		**(413,291)**	**151,229**	**(39,625)**	**(301,687)**	**-**	**-**	**(301,687)**

The notes on pages 77 – 117 form part of these accounts.

Notes to the Departmental Accounts

1 Statement of Accounting Policies

The financial statements have been prepared in accordance with the 2016–17 Government Financial Reporting Manual (FReM) issued by HM Treasury and are in accordance with directions issued by the Secretary of State for the Environment, Food and Rural Affairs.

The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS), as adapted or interpreted for the public sector context.

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

1.1 Significant Judgments and Estimation Uncertainty

The preparation of financial statements requires management to make judgements, 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. Where appropriate, the relevant notes to the accounts provide further detail on estimation techniques.

Details of significant judgements that management have made in the process of applying the Department's accounting policies are:

- revenue recognition – Single Payment Scheme (SPS) and Basic Payment Scheme (BPS) (see Note 1.5.1) and Rural Development Programme expenditure (see Note 1.5.2);
- Rural Payments Agency (RPA) – additional (post payment) claim amounts (see Note 1.5.3);
- Environment Agency (EA) accrued and deferred income (see Note 1.12);
- EA capital works expensed (see Note 1.15);
- Flood Re's liability arising from claims made under insurance contracts (see Notes 1.15 and 1.20);
- foreign exchange (see Note 1.17.3);
- provisions, including those for abandoned metal mines (see Note 14.5), foot and mouth disease burial sites (see Note 14.6) and onerous leases and dilapidations (in 'Estates Provisions', Note 14.7);
- property plant and equipment valuation (see Note 1.6.1); and
- pension liabilities (see Note 1.19). Independent and qualified actuaries assess the specific factors that influence the pension fund position.

1.2 Accounting Convention

These accounts have been prepared on an accruals basis under the historical cost convention, modified where materially significant to account for the revaluation of property, plant and equipment, intangible assets and certain financial assets and liabilities.

1.3 Going Concern

In common with other government departments, the future financing of Defra's liabilities is to be met by future grants of supply and the application of future income approved annually by Parliament. Approval for amounts required for 2017–18 is due to be given before the parliamentary recess and there is no reason to believe that future approvals will not be made. It has accordingly been considered appropriate to adopt a going concern basis for the preparation of these financial statements.

1.4 Basis of Consolidation

These accounts comprise a consolidation of the Core Department, executive agencies and those other delivery bodies which fall within the departmental boundary as defined in the FReM and make up the Defra group.

The consolidation of entities into Defra's Annual Report and Accounts (ARA) is based on the criteria within IFRS 10, as adapted by the FReM. The standard refers to consolidation being dependent on control by the parent over the subsidiary. The FReM adapts IFRS 10, so that control is based on the criteria used by the Office for National Statistics (ONS). The departmental boundary is therefore similar to the concept of a group under generally accepted accounting practice, but is based on the said control criteria used by the ONS to determine the sector classification of the relevant sponsored bodies. Based on this, HM Treasury has assessed that it would expect payments by insurers to Flood Re of levies mandated by the Water Act 2014 to be classified as taxation. HM Treasury have further indicated their expectation that Flood Re will be classified as a central government public body. Therefore, Flood Re is fully consolidated into the Defra ARA.

A list of those entities within the departmental boundary is given in Note 18. Flood Re is incorporated into the Defra group results, and the Forestry Commission (FC) is included within the results of the Core Department and executive agencies. Transactions between entities included in the consolidation have been eliminated.

1.5 Scheme Costs and Grants

1.5.1 RPA Reported Income and Expenditure

BPS and SPS expenditure for England is managed by the RPA on behalf of Defra. Defra has no managing authority status for BPS and SPS and consequently expenditure and associated European Commission (the Commission) income is recognised in RPA's ARA. Generally expenditure is recognised when RPA has a present obligation to make payments to claimants as a result of the completion of all substantive processes to validate each claim against Commission rules for the schemes, with the amount payable being reliably measurable and probable. BPS and SPS income for England is recognised by RPA when it is probable that it will receive a reimbursement from the Commission for scheme expenditure incurred and the amount to be received from the Commission is considered reliably measurable. These conditions are deemed to be met at the point that the related scheme expenditure is recognised, that is, upon the completion of all substantive processes to validate and reliably measure each claim.

Other UK paying agencies make payments to claimants under both the European Agricultural Guarantee Fund and the European Agricultural Fund for Rural Development. The payments made by the other UK paying agencies are funded by RPA and subsequently recovered by RPA from the Commission.

Scheme expenditure in relation to funding provided by RPA is recognised when RPA has a present obligation to make payment to the other UK paying agencies and the amount payable is considered reliably measurable and probable. These conditions are deemed to be met upon the receipt of a funding request from the other UK paying agencies, adjusted for amounts unspent by the paying agencies at period end.

Scheme income in relation to funding provided to the other UK paying agencies is recognised by RPA when it is probable that it will receive reimbursement from the Commission for scheme expenditure incurred and the amount to be received from the Commission is considered reliably measurable. These conditions are deemed to be met at the point that the related scheme expenditure is recognised.

1.5.2 Other Reported Scheme Income and Expenditure

Payments under Rural Development Programme for England (RDPE) are made by RPA on behalf of Defra, Natural England (NE), Rural Development and FC. FC had delegated authority from RPA to authorise and make its own payments up to 30 June 2015. Defra's status as managing authority for RDPE conveys the risks and rewards associated with budget responsibility and consequently RDPE expenditure and associated Commission income is recognised in the Core Department's ARA. Defra delegates authority to RPA to administer certain elements of RDPE, including validation and payments of eligible claims as authorised by NE and RPA. Generally the amounts are recognised when Defra has a present obligation as a result of the completion of all substantive processes to validate each claim and the amount payable being reliably measurable and probable. Expenditure for agri-environment scheme revenue agreements is recognised on the anniversary of the agreement start date, when it is deemed that contractual obligations have been met. RDPE Commission income is recognised at the same time as the Commission element of the expenditure is recognised.

1.5.3 Additional (Post Payment) Claim Amounts

In preparing the accounts an assessment is made of the extent to which adjustments are likely to be needed in relation to claims already paid where potential system or data issues have been identified post payment. This may result in additional payments or recoveries being required, and therefore management estimates are needed to assess additional amounts which might need to be recognised. In assessing the value of these future payments the RPA considers queries raised by the recipients of claim payments; the underlying accuracy of data supporting the claim; the input and processing of claims, their compliance with scheme rules and the application of any penalties or adjustments. Management also identifies the claim populations displaying similar characteristics to those individual claims found to be affected by system or data issues, so as to assess any additional liabilities. An extrapolation of the potential liability for queries not yet investigated has been undertaken using outcome data from those already resolved. Within these techniques the assumptions used are sensitive to change and not all claims in these populations will require corrective action. Management estimates the maximum potential liability based on the extrapolations could be £38 million. An accrual of £21 million has been recognised, which represents management's view of the most likely and reliable value of the liability. Since this liability will be funded through the European Commission, a receivable for the same amount has been recognised in accordance with RPA's accounting policies.

1.6 Property, Plant and Equipment

1.6.1 Recognition and Valuation

With the exception of EA's infrastructure assets (see below), freehold land and buildings and, where appropriate, assets under construction, are subject to professional valuation at no more than five yearly intervals. These are carried out by professionally qualified independent valuers, who adhere to the principles outlined in the Royal Institution of Chartered Surveyors (RICS) Red Book. The most recent valuation at the Core Department was completed in December 2014 by Montagu Evans, under the guidance of a qualified director in their valuation department. Full external professional valuation exercises were also completed at both EA and NE in March 2016.

Land and buildings are stated at fair value, which in practice is either depreciated replacement cost, open market value or existing use value. Non-specialised properties are stated at existing use value. Between professional valuations, annual desk top revaluations are conducted, which have regard to prevailing local and national conditions.

EA's infrastructure asset category represents those assets used in their service delivery and are specific in nature, location or function. It is not possible to effectively revalue these assets using market comparatives or professional valuations (with the exception of some operational assets which are land which are professionally valued and subject to indexation). EA infrastructure assets are held at depreciated replacement cost and are indexed annually.

In accordance with IFRS 13, Fair Value Measurement, non-property tangible assets are generally carried at fair value. However, where assets have short useful lives or low values, they are stated at depreciated historic cost. Fair value for non-current assets held for their service potential is current value in existing use.

Minimum levels of capitalisation within the departmental boundary are generally in the ranges of £2,000–£10,000 although, for all land at EA, no de minimis threshold is in force.

1.6.2 Operating Leases and Lease Breaks

Defra holds operating leases with landlords for rented properties. The expense is recognised in the Statement of Comprehensive Net Expenditure (SoCNE) on a straight line basis over the length of the lease. The future commitment for the leases is shown in the Operating Lease disclosure at Note 8.2.1.

Government spending controls and national property controls guidelines advise that lease breaks should be exercised upon expiry, unless a business case for retention is approved by the Minister for the Cabinet Office.

Financial commitments are therefore recognised to the first break or lease end, whichever is sooner. If, however, the evidence suggests that it is unlikely individual lease breaks will be exercised, the commitment is until the end of the lease.

Income received from subtenants is also recognised on a straight-line basis over the term of the sub lease arrangement, with the rent received being recognised in the SoCNE for the period occupied in year.

1.7 Assets Under Construction

Assets under construction are shown at accumulated cost with depreciation commencing when the asset is completed and brought into service.

1.8 Heritage Assets

NE fulfils a stewardship role in respect of National Nature Reserves (NNR). NNR land is classified as non-operational heritage assets, reported in the Statement of Financial Position (SoFP) at fair value, and is subject to professional valuation every five years, the latest being in March 2016. Between valuations, values are updated annually, where material, using a combination of indices. Any surplus compared to their historic cost is recognised in the revaluation reserve.

Royal Botanic Gardens Kew (RBG Kew) also holds heritage assets. RBG Kew has not capitalised heritage buildings acquired before 2001–02, as the cost of obtaining valuations for older collections and buildings is onerous compared to the benefit to the readers of the accounts. Subsequent to 2001–02, in accordance with FRS 30, Heritage Assets, additions for heritage land and buildings are recognised at cost and revalued every five years by external professionally qualified valuers, on the basis of either open market value for existing use or depreciated replacement cost. The last professional revaluation was carried out in March 2017, by Montagu Evans, Chartered Surveyors. Between professional revaluations, values are updated using indices provided by the professional valuers. Heritage collections purchased subsequent to 2001–02 are recognised at cost and are neither revalued nor depreciated, but are subject to impairment review at five yearly intervals, or when circumstances dictate.

1.9 Intangible Non-Current Assets

Intangible assets are defined as identifiable non-monetary assets without physical substance. These comprise software licences and internally developed IT software, including assets under construction.

The Department holds various software licences, which were capitalised at purchase cost where this exceeded capitalisation thresholds. Such assets are revalued only where it is possible to obtain a reliable estimate of their market value.

The Department's expenditure on research activities is written off to the SoCNE as incurred. Capitalisation of development costs is contingent on fulfilment of the criteria noted in IAS 38, Intangible Assets.

Internally developed computer software includes capitalisation of internal IT employee costs on projects. The Department does not hold any intangible assets with an indefinite useful life. The capitalisation threshold for the Defra family generally ranges between £2,000 and £100,000. When fully operational in the business, internally generated computer software is stated at a proxy for fair value, which generally, if it is not income generating, is indexed depreciated replacement cost.

1.10 Depreciation and Amortisation

Depreciation and amortisation are provided using the straight line method over the estimated useful life of the asset.

Land, assets under construction, non-operational heritage assets and assets held for sale are not depreciated.

Componentisation has been adopted by certain entities within the consolidation boundary. In these instances, each component of an asset with a value deemed material to the total fair value of the asset is capitalised and depreciated separately. Where componentisation is not yet fully in place, proxy values have been estimated using the weighted average useful life method. Estimated useful lives, component values and residual values are appropriately set across the Defra group and are revised annually.

Assets are depreciated over the following timescales.

• Infrastructure assets (e.g. Thames Barrier)	15 to 100 years
• Freehold and leasehold buildings	Up to 80 years or remaining life of lease
• Vehicles, plant, machinery and equipment	Up to 30 years
• Intangible assets (e.g. Genesis payment system)	Up to 25 years

1.11 Impairment

Impairments are recognised when the recoverable amount of non-current assets falls below their carrying amount. An impairment review is carried out on an annual basis.

Any permanent diminution in the value of an asset due to clear consumption of economic benefit or service potential is recognised in full as an impairment loss in the SoCNE. An amount up to the value of the impairment is transferred from the revaluation reserve (to the extent that a balance exists) to the General Fund for the individual asset concerned.

Downward revaluations, resulting from changes in market value, only result in an impairment where the asset is revalued below its historical cost carrying amount. In these cases the accounting treatment is as for any other impairment, with amounts being firstly set against any accumulated balance in the revaluation reserve, and any amount in addition to this being recognised as an impairment and recorded in the SoCNE.

1.12 Income

Operating income relates directly to the operating activities of the Department. Income is recognised on an accruals basis and the amounts are recorded at fair value. The method adopted for measuring the stage of completion is as described in IAS 18, Revenue.

Accrued and deferred income has been included for EA's fees and charges balances where there is a surplus or deficit. These balances are only treated as deferred or accrued income where there is an expectation that they will be recovered over a reasonable period of time. The balances are considered when setting future years' fees and charges, to enable a break even position to be achieved over a reasonable time period, which is currently considered to be three years.

Flood Re's insurance income comprises the total premiums receivable for the whole period of cover provided by reinsurance contracts entered into during the reporting period. Premium income is recognised on the date that the policy incepts, and earned on a pro rata basis over the term of the underlying insurance contract. Unearned premiums are deferred to subsequent accounting periods. Reinsurance claims recoveries are recognised alongside the related gross insurance claims, according to the terms of the relevant contract. Also included is a commission income on Flood Re's outwards reinsurance arrangement.

Flood Re also receives a fixed annual levy from UK household insurers. Levy income is recognised when invoiced and measured at the fair value of consideration received or receivable. It is reviewed for impairment when indications or circumstances dictate, with any such amount being recognised in the SoCNE. Flood Re also has the ability to issue a compulsory call for additional funding from the industry through a Levy II top up mechanism. Levy II contributions received from the ordinary members of Flood Re is recognised in equity, whilst Levy II contributions received from non-members are treated as income in accordance with Levy I.

1.13 Cash and Cash Equivalents

Cash and cash equivalents comprise cash in hand and current balances with banks and other financial institutions, and short term investments.

1.14 Grant-in-Aid Funding

Grant-in-aid from the Core Department to non-departmental public bodies (NDPBs), both in respect of capital and revenue expenditure, is treated as funding.

1.15 Expenditure

In general, expenditure is recognised on an accruals basis. Expenditure which is capital in nature, but for which EA does not retain the risks and rewards in the future, or cannot reliably estimate the useful life of the assets, is expensed in year. It also includes assets where it is not possible to check for impairment. They are therefore written off to expenditure in year.

Gross insurance claims expenses, relating to Flood Re, are based on the estimated liability for compensation owed to contract holders. Claims include all insurance claims occurring during the year, an estimate of claims incurred but not reported and any adjustments to claims outstanding from previous years.

A significant period of time can elapse before the ultimate claims cost can be established with certainty. The ultimate liability for claims made under insurance contracts is estimated using standard actuarial techniques, based on empirical data and current assumptions. Estimation of the ultimate cost of losses resulting from catastrophic flood events is inherently difficult, due to the possible severity of catastrophe claims.

Flood Re has a high dependency on its outwards reinsurance programme. The ceded premium expense is recognised on the date on which the policy incepts. Premiums include any adjustments arising in the accounting period in respect of reinsurance contracts incepting in prior accounting periods. Unearned reinsurance premiums are deferred to subsequent accounting periods.

As indicated above, Flood Re's insurance claim expense (and related reinsurance claim income) is related to the severity of flood events, and therefore may be subject to considerable fluctuation.

1.16 Foreign Currency Transactions

The functional and presentational currency of the Department is sterling.

Transactions in foreign currencies, mainly relating to the BPS, SPS and the Rural Development Programme, are translated into sterling using the rate at the date of the transactions. Balances held in foreign currencies are translated at the rate of exchange ruling at the date of the SoFP.

Exchange differences are recognised in the SoCNE in the period in which they arise, except for exchange differences on transactions entered in to hedge certain foreign currency risks (RPA only, see Note 1.18).

1.17 Financial Instruments

1.17.1 Financial Assets

The Department holds receivables and other financial assets (including derivatives) with a positive fair value in this category. Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Flood Re's Reinsurance receivables comprise short-term premium balances due from policyholders, commission income and paid loss recoveries due from reinsurers. They are initially measured at fair value, and reviewed for impairment at each reporting date. Flood Re also invests in short duration, UK government backed securities (gilts, treasury notes and UK government backed liquidity funds), which are held at fair value.

1.17.2 Financial Liabilities

These comprise trade and other payables and other financial liabilities (including derivatives). They are initially recognised at fair value and are subsequently measured at amortised cost.

EA holds certain financial instrument liabilities as a result of reservoir operating agreements with two water companies entered into at their privatisation. These liabilities are treated as perpetuities and recorded in the SoFP at amortised cost. The annual payments arising from these liabilities increase annually in line with the Retail Price Index.

Reinsurance payables, pertaining to Flood Re, consist primarily of premiums payable for ceded reinsurance contracts and claims payable to policyholders. These are measured at fair value.

1.17.3 Derivative Financial Instruments

RPA enters into a variety of foreign exchange forward contracts to manage its exposure to foreign exchange rate risk. Derivative financial instruments are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each SoFP date. The resulting gain or loss is recognised in the SoCNE immediately, unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in the SoCNE depends on the nature of the hedge relationship. RPA designates certain derivatives as hedges of highly probable forecast transactions (cash flow hedges).

A derivative with a positive fair value is recognised as a financial asset, whereas a derivative with a negative fair value is recognised as a financial liability. A derivative is presented as a current asset or current liability if the remaining maturity of the instrument is less than 12 months or is greater than 12 months but is expected to be realised or settled within 12 months.

1.18 Hedge Accounting

In accordance with IAS 39, Financial Instruments: Recognition and Measurement, RPA elected to designate certain foreign currency derivatives as cash flow hedges.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in the cash flow hedge reserve within Taxpayers' Equity. The gain or loss relating to the ineffective portion is recognised immediately in the SoCNE.

Amounts previously recognised in the cash flow hedge reserve and accumulated in Taxpayers' Equity are reclassified to expenditure or income in the periods when the hedged item is recognised in the SoCNE, in the same line as the recognised hedged item.

1.19 Pensions

Generally pension benefits are provided through the civil service pension arrangements, full details of which can be found in the Remuneration Report.

Although the Principal Civil Service Pension Scheme (PCSPS) and the Civil Servant and Other Pension Scheme (CSOPS), known as alpha, are unfunded defined benefit schemes, in accordance with explicit requirements in the FReM, departments, agencies and other bodies account for the schemes as if they were defined contribution plans. Costs of the elements are recognised on a systematic and rational basis over the period during which it benefits from employees' services by payment to the schemes of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the schemes. The PCSPS and alpha pension schemes undergo a reassessment of the contribution rates by the government actuary at four-yearly intervals. In respect of defined contribution schemes, the Department recognises the contributions payable for the year.

Where the Department is responsible for pension schemes for delivery bodies, it has fully adopted IAS 19, Employee Benefits. The Department recognises a liability in respect of any deficit, being the excess of the present value of the scheme's liabilities over the value of the assets in the scheme, to the extent that the Department has a legal or constructive obligation to make good the deficit in the scheme. Scheme managers/trustees are required to undertake a sensitivity analysis for each significant actuarial assumption, showing how the defined benefit obligation would have been affected by changes in the relevant actuarial assumption that were reasonably possible at that date. Details of this can be found in Note 15.

1.20 Provisions

The Department provides for obligations arising from past events where the Department has a present obligation at the SoFP date, and where it is probable that it will be required to settle the obligation and a reliable estimate can be made. Where material, future costs have been discounted using the rates as directed by HM Treasury. Details of the Department's policy on disallowance provisions can be found in Chapter 3.

Some of Flood Re's insurance claims liabilities are subject to uncertainty in value and are consolidated under a single heading, Provision for Flood Re Insurance, in these accounts.

An actuarial estimate is made representing the best estimate within a range of possible outcomes; an additional risk margin is added by management. Flood Re's fixed pricing methodology means that a premium deficiency provision, consolidated under Provision for Flood Re Insurance, is expected to be required in most years. Premium deficiency represents the excess of the estimated value of claims and expenses attributable to the unexpired periods of policies in force at the balance sheet date over the unearned premiums provision in relation to such policies.

1.21 Contingent Liabilities

In addition to contingent liabilities disclosed in accordance with IAS 37, Provisions, Contingent Liabilities and Contingent Assets, the Department discloses, for parliamentary reporting and accountability purposes, certain statutory and non-statutory contingent liabilities where the likelihood of a transfer of economic benefit is remote. Further information is provided in the Remote Contingent Liabilities section in Chapter 6.

Where the time value of money is material, contingent liabilities are stated at discounted amounts.

1.22 Income Taxation

Taxation, applied at prevailing rates and based on Flood Re's net profits, is reported in the SoCNE. There are no other material transactions relating to income taxation.

1.23 Value-Added Tax

Most of the activities of the Core Department are outside the scope of VAT and, in general, output tax does not apply. Some delivery bodies have trading activities where VAT is charged at the prevailing rate and where related input VAT costs are recoverable. Input VAT is also recovered on certain contracted-out services. Irrecoverable VAT is charged to the relevant expenditure category or, if appropriate, capitalised with additions to non-current assets. Where output tax is charged or input tax is recoverable, the amounts are stated net of VAT.

1.24 Carbon Reduction Commitment

Defra is required to purchase and surrender allowances on the basis of carbon dioxide emissions. As carbon dioxide is emitted, a liability and an expense are recognised. The liability will be discharged by surrendering allowances. The liability is measured at the best estimate of the expenditure required to meet the obligation, normally at the current market price of the number of allowances required to meet the liability at the reporting date.

1.25 Corporate Recharges

Defra corporate services costs, comprising charges for legal, financial, HR, IT, estates, procurement and knowledge management services, are recognised by delivery bodies as notional charges, with the Core Department recording the associated credit.

1.26 Impending Application of Newly Issued Accounting Standards Not Yet Effective

IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors, 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. Those with relevance to the Department are outlined below. Defra has not adopted any new IFRS standards early.

IFRS 15 – Revenue from Contracts with Customers. This is effective from 1 January 2018. This standard replaces all existing IFRS guidance on revenue recognition.

IFRS 9 – Financial Instruments. This is effective from 1 January 2018. This standard brings together all three phases of the financial instruments project, classification and measurement, impairment and hedge accounting.

IFRS 16 – Leases. This standard is effective from 1 January 2019. It will supersede all existing IFRS standards on leases. It is likely to result in a uniform accounting treatment for all leases, with the distinction between operating and finance leases removed.

IFRS 17 – Insurance Contracts. This standard will apply to all types of insurance contract and proposes a building blocks approach based on the expected present value of future cash flows to measuring insurance contract liabilities. IFRS 17 is effective for annual periods beginning on or after 1 January 2021.

The Department will apply the standards upon formal adoption in the FReM. For IFRS 9 and IFRS 15, it is not anticipated that material adjustments to the financial statements will be required following the introduction of these standards. IFRS 16 is expected to have a considerable impact in financial reporting terms. This impact will be assessed when further guidance is forthcoming from HM Treasury. The adoption of IFRS 17 is anticipated to have a material impact on the Flood Re's financial statements and disclosures and the Department will work with Flood Re to monitor the impact of adoption.

2 Statement of Operating Costs by Operating Segment

The segmental analysis detailed below covers the key spending areas of the Department and is aligned with the internal reporting to the Board and Executive Committee. Defra reports regularly on this basis and performance is monitored against these areas.

The basis for accounting for any transactions between reportable segments is compliant with the rest of the Annual Report and Accounts and eliminates transactions between Defra's delivery bodies.

In 2016–17 Defra received funding of £3,290 million from the EU, 78 percent of its income (2015–16, £2,329 million, 75 percent), which falls mainly to the Chief Operating Officer (Rural Payments Agency) and Environment and Rural Group segments. Of the remaining income Defra does not rely on any one major customer.

	2016-17			2015-16 Restated		
Programme	**Gross Expenditure**	**Gross Income**	**Net Total**	Gross Expenditure	Gross Income	Net Total
	£000	**£000**	**£000**	£000	£000	£000
Chief Operating Officer[1]	3,753,124	(3,033,470)	719,654	2,595,375	(2,031,748)	563,627
Environment and Rural Group[2]	2,510,671	(1,069,588)	1,441,083	2,632,128	(956,546)	1,675,582
Strategy, International, Food and Farming Group	225,284	(119,444)	105,840	385,645	(126,971)	258,674
Net Operating Cost	**6,489,079**	**(4,222,502)**	**2,266,577**	5,613,148	(3,115,265)	2,497,883

1. Chief Operating Officer: provides central support functions and specialist advice to allow the Department to operate effectively and deliver on its objectives. It also includes CAP Disallowance. The net total Includes £135,892 for RPA made up of gross expenditure £3,069,425 and gross income £2,933,533 (2015–16, net total £146,965 gross expenditure £2,068,541 gross income £1,921,576).

2. The net total Includes £916,488 for Environment Agency made up of gross expenditure £1,335,704 and gross income £419,216 (2015–16, net total £847,978 gross expenditure £1,267,320 gross income £419,342) and £139,127 for Natural England made up of gross expenditure £154,643 and gross income £15,516 (2015–16, net total £137,886, gross expenditure £154,349, gross income £16,463).

The Operating Segments have been updated to reflect key spending areas of the Department in 2016–17. As a result, 2015–16 has been restated.

3 Expenditure

	2016-17		2015-16	
	Core Department and Agencies	**Defra Group**	Core Department and Agencies	Defra Group
	£000	**£000**	£000	£000
Staff Costs				
Wages and salaries	263,135	715,388	280,819	728,421
Social security costs	23,990	74,463	19,766	57,802
Other pension costs	47,124	69,612	50,234	72,025
Other Costs				
Rentals under operating leases	15,323	42,107	17,306	43,874
Interest charges	141	148	292	292
Travel, subsistence and hospitality	16,405	41,425	16,614	40,050
Off balance sheet PFIs and other service concession arrangement service charges	1,949	6,647	1,240	10,611
Research and development expenditure	30,669	55,023	48,546	81,498
Veterinarian costs	24,963	24,963	25,170	25,170
Consumables	11,755	29,464	11,350	27,122
IT service costs	108,398	181,582	112,939	189,787
Vessels	4,902	4,902	5,131	5,131
Estate management	54,126	96,319	62,093	95,637
Consultancy	3,449	22,897	3,928	13,878
Hired and contracted services	-	71,029	-	50,205
Training	3,422	11,374	3,635	11,517
Publicity, marketing and promotion	1,057	17,669	827	17,148
Stationery and printing	986	2,016	1,172	3,250
Office services	23,206	24,081	16,030	17,306
Early retirement	6,156	18,320	17,044	19,780
Exchange rate (gains)/losses - realised	6,919	6,919	(1,333)	(1,333)
Exchange rate (gains)/losses - unrealised	(2,136)	(2,136)	1,857	1,847
NAO auditors' remuneration	-	577	-	573
Other audit fees	2,538	2,828	2,234	2,234
Internal audit fees	186	656	217	634
Flood and coastal defence works	-	289,556	-	232,533
Operational maintenance	-	15,978	-	13,665
Fees and commissions	12,084	38,914	16,039	36,234
Reservoir operating agreements	-	21,857	-	21,215
Transport and plant costs	-	21,623	-	18,462
Aerial, surface and satellite surveillance	-	1,890	-	1,824
EU disallowance	(4,968)	(4,968)	1,722	1,722
Levy collection costs	-	917	-	927
Forestry Commission subsidy to Forest Enterprise England	28,037	28,037	20,519	20,519
Corporation tax paid by NDPBs	-	26,053	-	14
Payments to Defra executive agencies	6,675	6,675	-	-
Flood Re Insurance claims expense	-	592	-	-
Flood Re Reinsurance Expenditure	-	49,105	-	-
Flood Re set up costs	-	-	-	6,086
Bad debt expense	1,127	5,694	493	4,748
Other	77,360	92,696	78,375	109,135
Non-cash items				
Depreciation	23,666	122,399	24,429	112,592
Amortisation	31,258	51,122	22,337	50,442
Profit on the disposal of PPE and financial investments	(510)	(583)	(2,811)	(1,755)
Loss on the disposal of PPE and financial investments	664	964	466	901
Impairment	5,940	19,143	8,864	18,704
NAO auditors' remuneration	1,029	1,029	1,048	1,048
Pensions provided for in year/(written back)	19,959	122,247	22,682	134,550
Other provisions provided for/(written back) as detailed in note 14	261,706	270,548	341,399	342,348
Unwinding of discount on provisions	2,149	2,149	-	-
Capital grant-in-kind	-	-	1,640	1,640
Other non-cash items	(37,692)	59	(31,947)	-
Grants and subsidies: EU				
Capital grants	-	192	-	-
Current grants - Basic Payment Scheme	1,826,166	1,826,166	1,221,482	1,221,482
Current grants - Rural Development Programme for England	347,082	347,082	405,744	405,744
Current grants - payments to other paying agencies	1,044,160	1,044,160	633,092	633,092
Other EU current grants	39,706	39,852	32,198	32,841
Unrealised (gains)/losses	(653)	(653)	3,577	3,577
Grants and subsidies: other				
Capital grants	51,036	160,019	51,351	175,513
Current grants - Grant-in-Aid to NDPBs	973,758	-	923,912	-
Current grants - Rural Development Programme for England	68,043	68,043	64,589	64,589
Other current grants	287,707	302,249	420,571	434,297
Total	**5,714,152**	**6,489,079**	4,958,882	5,613,148

The majority of the corporation tax relates to Flood Re.

Other audit fees do not relate to National Audit Office work undertaken on the audit of the ARA but, primarily, to the Agricultural Funds audit. Included in the other audit fees is £178,000 for the audit of Flood Re's Annual Report and Financial Statements by Ernst and Young.

For more detailed disclosures regarding staff costs, see the Staff Report in Chapter 5.

4 Income - Analysis of Operating Income

	2016-17		2015-16	
	Core Department and Agencies	**Defra Group**	Core Department and Agencies	Defra Group
	£000	**£000**	£000	£000
Sales of goods and services				
Scientific advice, analysis and research	18,511	18,728	17,690	17,945
Animal disease surveillance and diagnostics	7,332	7,332	5,869	5,869
Veterinary research and development	2,534	2,534	2,370	2,370
Scientific products	1,308	1,308	834	834
Ofwat licence fee	5,255	5,255	5,000	5,000
TB compensation salvage receipts	22,577	22,577	21,050	21,050
Covent Garden Market income	2,280	2,280	9,954	9,954
Sale of other goods	2,640	8,698	4,504	10,004
Other services (including Defra group)	46,094	95,007	65,966	118,696
Income payable to the consolidated fund	5,782	5,782	47,362	47,362
Fees, levies and charges				
Veterinary medicines authorisations	7,086	7,086	7,327	7,327
Veterinary medicine residues surveillance	3,909	3,909	4,098	4,098
Plant health inspections and seeds charges	8,910	8,910	7,943	7,943
Environmental protection charges	-	166,095	-	168,170
Abstraction charges	-	112,643	-	119,906
Flood risk levies	-	39,959	-	30,172
Flood Re insurance income	-	206,104	-	-
Agriculture and horticulture levies	-	59,181	-	58,696
Sea Fish industry levies	-	8,366	-	7,979
Other fees, levies and charges	1,399	1,399	-	-
EU funding				
Basic Payment Scheme	1,841,313	1,841,313	1,278,175	1,278,175
Income payable to other paying agencies	1,047,951	1,047,951	632,975	632,975
Structural fund / RDPE income	347,082	347,082	405,744	405,744
TSE surveillance	399	399	386	386
Fisheries guidance	6,031	6,031	8,132	8,132
Other services	-	2,629	86	825
Other EU income	44,344	44,454	2,557	2,752
Licences				
Fishing licence duties	-	20,494	-	21,129
Navigation licence income	-	8,321	-	8,093
Marine and coastal licencing	-	3,390	-	3,110
Other licences	-	715	-	656
Other income				
Current grant income - EU	-	1,654	-	964
Current grant income - non EU	-	5,653	-	5,599
Capital grant income - non EU	3,090	38,365	225	37,857
Charity income	-	37,130	-	28,854
Recoveries for secondments outside Defra group	287	287	26	26
Other interest receivable	-	255	-	233
APHA income from devolved administrations	31,556	31,556	34,660	34,660
Other income	1,448	1,670	1,521	1,720
Total operating income	**3,459,118**	**4,222,502**	2,564,454	3,115,265

Included above is £6 million (2015–16, £47 million) payable to the Consolidated Fund.

5 Property, Plant and Equipment (PPE)

5.1 Non-Current – Defra Group

	Land	Buildings Excluding Dwellings	Dwellings	Infrastructure Assets	IT	Furniture and Fittings	Plant and Machinery	Vehicles	Assets Under Construction	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Cost or valuation										
At 1 April 2016	76,630	378,472	25,027	4,239,816	82,333	196,761	585,202	54,348	134,169	**5,772,758**
Additions	205	3,073	-	29,156	13,445	3,562	11,040	5,160	85,546	**151,187**
Transfers	(437)	3,018	-	-	-	1,949	(7,337)	-	(257)	**(3,064)**
Disposals	(2)	(345)	-	(64)	(3,916)	(6,201)	(4,620)	(182)	(30)	**(15,360)**
Impairment	2	2,337	(3,114)	(31,319)	(30)	(1,067)	-	-	(16,872)	**(50,063)**
Reclassifications	(10,466)	(4,146)	12,898	2,629	605	216	3,693	201	(2,203)	**3,427**
Reclassified as held for sale	(1,000)	270	(777)	1,258	-	-	-	-	-	**(249)**
Revaluation	1,634	24,699	7,340	237,858	4,923	507	1,641	1,592	-	**280,194**
At 31 March 2017	**66,566**	**407,378**	**41,374**	**4,479,334**	**97,360**	**195,727**	**589,619**	**61,119**	**200,353**	**6,138,830**
Depreciation										
At 1 April 2016	-	51,983	4,229	1,832,427	55,968	120,753	468,437	34,825	-	**2,568,622**
Charges in year	-	13,475	921	62,725	6,890	13,959	15,602	5,505	-	**119,077**
Transfers	-	-	-	-	-	68	(5,098)	-	-	**(5,030)**
Disposals	-	(242)	-	(2)	(3,805)	(6,100)	(4,281)	(182)	-	**(14,612)**
Impairment	-	60	(3,203)	(31,319)	-	-	-	-	-	**(34,462)**
Reclassifications	-	-	-	-	22	-	-	-	-	**22**
Revaluation	-	20,564	7,340	135,149	3,677	543	1,443	1,126	-	**169,842**
At 31 March 2017	**-**	**85,840**	**9,287**	**1,998,980**	**62,752**	**129,223**	**476,103**	**41,274**	**-**	**2,803,459**
Net book value 31 March 2017	**66,566**	**321,538**	**32,087**	**2,480,354**	**34,608**	**66,504**	**113,516**	**19,845**	**200,353**	**3,335,371**
Net book value 31 March 2016	76,630	326,489	20,798	2,407,389	26,365	76,008	116,765	19,523	134,169	3,204,136
Assets financing										
Owned	66,566	321,538	32,087	2,480,354	34,608	66,504	112,983	19,845	200,353	**3,334,838**
Finance leased	-	-	-	-	-	-	533	-	-	**533**
Net book value 31 March 2017	**66,566**	**321,538**	**32,087**	**2,480,354**	**34,608**	**66,504**	**113,516**	**19,845**	**200,353**	**3,335,371**
Of which:										
Core Department and agencies	31,047	277,340	-	-	12,731	35,457	18,577	145	22,008	**397,305**
NDPBs	35,519	44,198	32,087	2,480,354	21,877	31,047	94,939	19,700	178,345	**2,938,066**
Total	**66,566**	**321,538**	**32,087**	**2,480,354**	**34,608**	**66,504**	**113,516**	**19,845**	**200,353**	**3,335,371**

	Land	Buildings Excluding Dwellings	Dwellings	Infrastructure Assets	IT	Furniture and Fittings	Plant and Machinery	Vehicles	Assets Under Construction	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Cost or valuation										
At 1 April 2015	88,234	362,968	26,451	3,963,382	81,823	192,126	573,351	42,528	107,131	5,437,994
Additions	383	5,124	-	-	1,263	2,424	7,498	11,457	63,129	91,278
Transfers	(1,256)	1,685	-	-	78	-	-	-	470	977
Disposals	(4,293)	(6,296)	(456)	(111)	(1,899)	(251)	(2,660)	(422)	(2,656)	(19,044)
Impairment	(793)	(1,197)	(565)	(4,910)	-	(1)	(1,752)	-	(5,239)	(14,457)
Reclassifications	1,259	241	344	24,768	-	769	835	-	(28,666)	(450)
Reclassified as held for sale	(1,565)	(666)	-	1,019	-	-	-	-	-	(1,212)
Revaluation	(5,339)	16,613	(747)	255,668	1,068	1,694	7,930	785	-	277,672
At 31 March 2016	76,630	378,472	25,027	4,239,816	82,333	196,761	585,202	54,348	134,169	5,772,758
Depreciation										
At 1 April 2015	-	39,993	3,624	1,732,923	51,674	105,876	438,843	30,163	-	2,403,096
Charges in year	-	11,788	727	55,517	5,843	14,208	16,384	4,570	-	109,037
Disposals	-	(1,143)	(68)	-	(1,867)	(251)	(2,514)	(395)	-	(6,238)
Impairment	-	(931)	(60)	582	-	11	189	-	-	(209)
Reclassifications	-	-	-	-	-	90	(90)	-	-	-
Revaluation	-	2,276	6	43,405	318	819	15,625	487	-	62,936
At 31 March 2016	-	51,983	4,229	1,832,427	55,968	120,753	468,437	34,825	-	2,568,622
Net book value 31 March 2016	76,630	326,489	20,798	2,407,389	26,365	76,008	116,765	19,523	134,169	3,204,136
Net book value 31 March 2015	88,234	322,975	22,827	2,230,459	30,149	86,250	134,508	12,365	107,131	3,034,898
Assets financing										
Owned	76,630	326,489	20,798	2,407,389	26,365	76,008	116,219	19,523	134,169	3,203,590
Finance leased	-	-	-	-	-	-	546	-	-	546
Net book value 31 March 2016	76,630	326,489	20,798	2,407,389	26,365	76,008	116,765	19,523	134,169	3,204,136
Of which:										
Core Department and agencies	30,272	275,559	-	-	1,781	44,852	21,500	192	10,210	384,366
NDPBs	46,358	50,930	20,798	2,407,389	24,584	31,156	95,265	19,331	123,959	2,819,770
Total	76,630	326,489	20,798	2,407,389	26,365	76,008	116,765	19,523	134,169	3,204,136

Plant and machinery includes vessels owned by Cefas with a net book value of £7 million (2015–16, £7 million). Infrastructure assets include flood defences owned by EA, including the Thames Barrier with a net book value of £1,093 million (2015–16, £1,058 million).

Additions include a non-cash element represented by payables and transfers.

5.2 Right of Use Assets – Service Concession Arrangements

Defra entered into a contract with IBM for the supply of IT services. The contract was for a term of eight years from February 2010. The contract fell within the scope of IFRIC 12 and was disclosed within the accounts as a service concession arrangement. In March 2017, the related infrastructure assets, comprising laptops, servers and hardware, were purchased by the Core Department. The 2015–16 comparative are included in the SoFP under property, plant and equipment and investment properties, together with those assets detailed in Notes 5.1 and 5.4.

Defra Group

	2016-17	2015-16
	£000	£000
At 1 April	1,565	3,899
Extension to the service concession arrangement	-	-
Transfer of right of use asset	-	-
Depreciation	(852)	(1,377)
Adjustment to the service concession arrangement	(713)	(957)
At 31 March	**-**	1,565
of which:		
Core Department and agencies	-	1,123
NDPBs	-	442
Total	**-**	1,565

5.3 Heritage Assets

A heritage asset is a tangible asset with historical, artistic, scientific, chronological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture.

Heritage assets are held by both NE and RBG Kew. NE's heritage assets comprise National Nature Reserves, whilst RBG Kew's heritage assets comprise land and buildings and collections. Further details regarding the stewardship functions relating to these heritage assets can be found in their respective ARAs.

During 2016–17, all of RBG Kew's acquisitions of £12 million (2015–16, £12 million) were funded by grants and donations, much of which was spent on restoration work.

Of the £175 million of heritage assets relating to RBG Kew, £43 million are represented in restricted reserves. These represent funds given for specific purposes by donors.

Defra Group

		2016-17			2015-16	
	Operational	**Non-Operational**	**Total**	Operational	Non-Operational	Total
	£000	**£000**	**£000**	£000	£000	£000
Valuation						
At 1 April	206,123	50,210	256,333	177,219	71,668	248,887
Additions	12,676	455	13,131	11,515	-	11,515
Transfers	-	-	-	-	1,291	1,291
Impairment	-	(64)	(64)	-	1,662	1,662
Reclassifications	(6,876)	-	(6,876)	-	-	-
Revaluation	(3,046)	3,644	598	17,389	(24,411)	(7,022)
At 31 March	**208,877**	**54,245**	**263,122**	206,123	50,210	256,333
Depreciation						
At 1 April	38,258	-	38,258	33,268	-	33,268
Charged in year	2,470	-	2,470	2,178	-	2,178
Reclassifications	(598)	-	(598)	-	-	-
Revaluation	(9,655)	-	(9,655)	2,812	-	2,812
At 31 March	30,475	-	30,475	38,258	-	38,258
Net book value at 31 March	**178,402**	**54,245**	**232,647**	167,865	50,210	218,075
Net book value at 1 April	167,865	50,210	218,075	143,951	71,668	215,619
Assets financing						
Owned	178,402	54,245	232,647	167,865	50,210	218,075
Finance leased	-	-	-	-	-	-
Net book value 31 March	**178,402**	**54,245**	**232,647**	167,865	50,210	218,075
of which:						
NDPBs	178,402	54,245	232,647	167,865	50,210	218,075
Total	**178,402**	**54,245**	**232,647**	167,865	50,210	218,075

5.3.1 Summary of Heritage Asset Transactions

	2016-17	2015-16	2014-15	2013-14	2012-13
	£000	£000	£000	£000	£000
Purchased assets	13,131	11,515	9,306	717	815
Disposals	-	-	(508)	-	-
Impairments	(64)	1,662	(5,358)	-	(153)

5.4 Investment Properties

The following assets are included in the SoFP under property, plant and equipment and investment properties, together with those detailed in Notes 5.1 and 5.2.

	2016-17	2015-16
	£000	£000
Cost at 1 April	11,950	13,230
Disposals	(11,500)	-
Impairments	-	(1,730)
Transferred from PPE	3,518	450
Revaluation	50	-
Balance at 31 March	**4,018**	**11,950**
Of which:		
Core Department and Agencies	500	11,950
NDPBs	3,518	-
Total	**4,018**	**11,950**

The investment properties as at 31 March 2016 mainly relate to the Department's freehold ownership of Sand Hutton Estate. In July 2016 this property was sold.

5.5 Cash Additions

Cash additions (adjusted for capital accruals) for property, plant and equipment, heritage assets and agricultural assets amount to £161 million (2015–16, £107 million) as per the Consolidated Statement of Cash Flows (SoCF).

6 Intangible Assets

Defra Group

	2016-17				2015-16			
	Internally Generated Software	**Purchased Software**	**IT CIP**	**Total**	Internally Generated Software	Purchased Software	IT CIP	Total
	£000	**£000**	**£000**	**£000**	£000	£000	£000	£000
Cost or valuation								
At 1 April	684,691	91,966	34,677	811,334	612,164	88,162	55,395	755,721
Additions	12,372	5,743	23,087	41,202	139	505	47,384	48,028
Disposals	(42,108)	(521)	(42)	(42,671)	(305)	(1,759)	-	(2,064)
Impairments	(2,189)	-	(933)	(3,122)	(1,892)	-	(151)	(2,043)
Transfers	(11,318)	1,434	(5,615)	(15,499)	14,912	3,212	(18,238)	(114)
Reclassifications	8,052	583	(9,302)	(667)	48,334	807	(49,713)	(572)
Revaluation	18,426	9,043	-	27,469	11,339	1,039	-	12,378
At 31 March	**667,926**	**108,248**	**41,872**	**818,046**	684,691	91,966	34,677	811,334
Amortisation								
At 1 April	508,644	39,501	-	548,145	462,082	28,540	-	490,622
Charged in year	38,634	12,488	-	51,122	38,489	11,953	-	50,442
Disposals	(42,024)	(486)	-	(42,510)	(305)	(1,419)	-	(1,724)
Impairments	-	-	-	-	1,858	139	-	1,997
Transfers	(15,499)	-	-	(15,499)	-	-	-	-
Reclassifications	(22)	-	-	(22)	(572)	-	-	(572)
Revaluation	12,527	6,531	-	19,058	7,092	288	-	7,380
At 31 March	**502,260**	**58,034**	**-**	**560,294**	508,644	39,501	-	548,145
Net book value at 31 March	**165,666**	**50,214**	**41,872**	**257,752**	176,047	52,465	34,677	263,189
Net book value at 1 April	176,047	52,465	34,677	263,189	150,082	59,622	55,395	265,099
Assets financing								
Owned	165,666	50,214	41,872	257,752	176,047	52,465	34,677	263,189
Net book value 31 March	**165,666**	**50,214**	**41,872**	**257,752**	176,047	52,465	34,677	263,189
of which:								
Core Department and agencies	126,711	588	13,156	140,455	142,825	1,011	4,632	148,468
NDPBs	38,955	49,626	28,716	117,297	33,222	51,454	30,045	114,721
Total	**165,666**	**50,214**	**41,872**	**257,752**	176,047	52,465	34,677	263,189

The effective date of revaluation was 31 March 2017.

The net book value for internally generated software includes the following.

- £78.2 million for the Common Agricultural Policy Delivery Programme held by the RPA with a remaining amortisation period of six years.
- £16 million for the Genesis system held by the Core Department with a remaining amortisation period of eight years. Genesis is the IT system used by NE to deliver Environmental Stewardship Schemes.
- The carrying amount that would have been recognised had the revalued class of intangible assets been measured after recognition using the cost model is £19.3 million for the Core Department.

Cash additions (adjusted for capital accruals) shown in the SoCF amount to £42 million (2015–16, £55 million).

7 Impairments

	Note	2016-17		2015-16	
		Core Department and Agencies	**Defra Group**	Core Department and Agencies	Defra Group
		£000	**£000**	£000	£000
PPE - including investment properties		3,751	16,021	6,821	14,664
Intangibles		2,189	3,122	2,043	4,040
Total impairment charge for the year	3	**5,940**	**19,143**	8,864	18,704

8 Financial Commitments

8.1 Capital Commitments

Defra Group

	2016-17	2015-16
	£000	£000
Contracted capital commitments at 31 March for which no provision has been made:		
PPE	120,005	54,610
Intangible assets	5,511	799
Financial assets	45,100	-
Total	**170,616**	55,409
of which:		
Core Department and agencies	73,452	3,409
NDPBs	97,164	52,000
Total	**170,616**	55,409

At 31 March 2017 RPA had bridging payments capital commitments of £45.1 million (31 March 2016, £Nil). These payments were made in April 2017.

8.2 Commitments under Leases

8.2.1 Operating Leases

The total future minimum lease payments under operating leases are given in the table below.

	2016-17		2015-16	
	Core Department and Agencies	**Defra Group**	Core Department and Agencies	Defra Group
	£000	**£000**	£000	£000
Land and Buildings				
Not later than one year	15,925	27,848	55,795	68,308
Later than one year and not later than five years	55,066	84,540	58,190	91,014
Later than five years	44,483	75,327	26,782	61,017
Total	**115,474**	**187,715**	140,767	220,339
Other				
Not later than one year	643	8,254	610	11,492
Later than one year and not later than five years	500	8,663	768	11,683
Total	**1,143**	**16,917**	1,378	23,175

The consolidated land and buildings figures within this note show the costs related to properties leased by Defra, net of the proportion occupied by entities outside the Department's accounting boundary. These arrangements between the occupier and Defra reflect a future commitment to reimburse Defra for the underlying rentals paid to landlords for the provision of leasehold accommodation.

8.2.2 Right of Use Assets – Service Concession Arrangements

The finance lease charge for the Defra group at 31 March 2017 is £Nil (2015–16, £6 million)

Details of the service charge commitments are disclosed in Note 8.4 Other Financial Commitments.

The total amount charged to the SoCNE, in regard to the service element, is shown in Note 3.

8.3 Commitments under Private Finance Initiative (PFI) Contracts

8.3.1 Off-balance Sheet

The majority of PFI contracts associated with Defra are funded by NDPBs and public corporations.

An off-balance sheet contract was signed by the Department in February 2001. The scheme involved the grant of a 129 year ground lease to a PFI partner who constructed an office building for Defra, occupied in 2003, subject to a 30 year lease to 31 March 2033. The building is not an asset of the Department and will not revert to Defra at the end of the lease term. The freehold land subject to the ground lease is a Defra asset. Defra occupies 0 percent (2015–16, 0.4 percent) of the building and recharges other occupiers for their share of the costs, with NE occupying 17.26 percent (2015–16, 16.9 percent) of the site, APHA occupying 1.5 percent (2015–16, 1.5 percent) and RPA occupying 1.3 percent (2015–16, 1.3 percent).

In addition, EA has entered into two public-private partnership contracts, the Broadland Flood Alleviation Project and Pevensey Bay beach maintenance. Contracted future commitments are £19 million (2015–16, £14 million) and £13 million (2015–16, £14 million), respectively. Full details of these public-private partnership contracts can be found in EA's ARA.

8.3.2 Charge to the Statement of Comprehensive Net Expenditure and Future Commitments

The total amount charged to the SoCNE, in respect of off-balance sheet (SoFP) transactions is shown in Note 3. The total payments to which the Department is committed are as follows:

Defra Group

	2016-17	2015-16
	£000	£000
Not later than one year	6,246	4,790
Later than one year and not later than five years	25,988	18,113
Later than five years	20,543	26,947
Total	**52,777**	49,850
Number of off-balance sheet PFI contracts	3	3
Total	**3**	3
Estimated capital value of off-balance sheet PFI's	177,815	178,338
Of which:		
Core Department and agencies	3,062	3,662
NDPBs	49,715	46,188
Total	**52,777**	49,850

8.4 Other Financial Commitments

The Department has entered into non-cancellable contracts (which are not leases, PFI contracts or other service concession arrangements). The payments to which the Department is committed are as follows:

	2016-17		2015-16	
	Core Department and Agencies	**Defra Group**	Core Department and Agencies	Defra Group
	£000	**£000**	£000	£000
Not later than one year	219,490	316,388	213,516	300,704
Later than one year and not later than five years	647,304	686,985	672,284	711,685
Later than five years	1,456,166	1,458,372	1,606,327	1,611,244
Total	**2,322,960**	**2,461,745**	2,492,127	2,623,633

Within the other financial commitments disclosure, £191 million (2015–16, £241 million) relates to facilities management costs associated with the occupation of buildings that are either owned or leased by Defra or specialised properties held on executive agencies' SoFPs.

Also included for the Defra group is the commitment of £122 million (2015–16, £114 million) to pay IBM for IT maintenance.

The Core Department entered into a seven year contract with Shared Services Connected Ltd. (SSCL) in November 2013 for the provision of shared services across HR, payroll and finance. The future commitment is £8 million (2015–16, £15 million).

The Core Department has agreements with local authorities on 25 waste infrastructure grant projects (formerly waste PFI projects) that are receiving grant payments. Defra will continue to support these projects while they meet the terms of their agreement with Defra. Future commitments are £1,983 million (2015–16, £2,090 million).

EA has a commitment of £44 million (2015–16, £55 million) for an outsourced ICT service contract with Capgemini. Full details regarding the contract can be found in EA's ARA.

The Core Department is committed to £36 million (2015–16, £47 million) with regards to the Fera joint venture 10 year framework agreement for provision of scientific services to Defra and other parts of government. The commitment only relates to the first five years of the framework agreement with £12 million being payable within one year.

9 Financial Instruments and Risk

	2016-17		2015-16	
	Core Department and Agencies	**Defra Group**	Core Department and Agencies	Defra Group
	£000	**£000**	£000	£000
Financial Assets				
Loans and investments	27,331	27,190	27,375	27,175
Other receivables	610,142	702,002	1,034,526	1,130,733
Cash and cash equivalents	602,231	907,529	896,744	1,086,008
Derivative financial instrument assets	2,086	2,086	2,336	2,336
Sub-total	**1,241,790**	**1,638,807**	1,960,981	2,246,252
Less: impairment of financial instruments	(2,393)	(6,371)	(2,784)	(14,337)
Total	**1,239,397**	**1,632,436**	1,958,197	2,231,915
Financial Liabilities				
Other payables	(628,498)	(867,024)	(1,620,051)	(1,850,562)
Bank overdraft	-	-	-	(204)
Derivative financial instrument liabilities	(5,713)	(5,713)	(99,884)	(99,884)
EA reservoir agreement	-	(141,606)	-	(141,600)
Total	**(634,211)**	**(1,014,343)**	(1,719,935)	(2,092,250)

IFRS requires disclosures in the financial statements that enable users to evaluate the significance of financial instruments to the financial position and performance, and the nature and extent of risks arising from financial instruments to which Defra is exposed during the year and at the financial year end, and how those risks are being managed.

Most of the Department's financial assets and liabilities are held at fair value (for instance, IAS 39 requires that loans and receivables are initially measured at fair value, and subsequently stated at amortised cost). As many of the Department's trade receivables and trade payables are, by their nature, short term in duration, they are recorded at fair value. On this basis, no systematic exercise to compare the fair value with carrying amount is conducted.

With the exception of the Eco-Business Fund investment (see Note 10), all financial instruments are classed under IFRS 13 as either level one or level two inputs, with no unobservable inputs being relevant.

As the cash requirements of the Department are met through the Estimates process, financial instruments play a more limited role in creating and managing risk than would apply to a non-public sector body of a similar size. The majority of financial instruments relate to contracts for non-financial items in line with the Department's expected purchase and usage requirements and the Department is therefore exposed to little credit, liquidity or market risk, except where detailed below.

9.1 Categories of Financial Instruments

Details of financial instruments held by the Department are included in Notes 10, 11, 12 and 13 (non-financial instrument balances relating to taxation, accruals and prepayments are also included in these notes). Further details are given below only where the risks are significant. For further information on financial instruments see RPA's and EA's ARAs.

9.2 Exposure to Risk

9.2.1 Credit Risk

A significant proportion of the Department's customers and counterparties are other public sector organisations. Minimal credit risk arises from these organisations.

For those customers and counterparties that are not public sector organisations the Department has policies and procedures in place to ensure credit risk is kept to a minimum.

The Department is not exposed to material credit risk.

9.2.2 Liquidity Risk

Excluding RPA, there is no significant exposure to liquidity risk, as the Department's net resource outturn is financed through resources voted annually by Parliament.

RPA has maintained liquidity, wherever possible, through timely submission of funding claims to the European Commission (the Commission). RPA does not undertake borrowing of funds other than from HM Treasury. Such borrowing, arising from short term in-year fluctuations in expenditure, if required, would be effected by Defra drawing monies from HM Treasury's Contingencies Fund on behalf of RPA. This facility is the subject of a formal standing arrangement agreed by HM Treasury. Drawings are repayable within the financial year.

9.2.3 Market Risk – Foreign Currency Risk

Excluding RPA, there is no significant foreign currency risk.

RPA's activities expose it to the financial risks of changes in foreign currency exchange rates. RPA enters into forward foreign exchange contracts to manage its exposure to foreign currency risk relating to euro denominated receipts from the Commission for BPS, SPS and Rural Development Programme scheme expenditure.

From January 2003, in accordance with Commission Regulation (EC) No. 1997/2002 (as amended), non-Eurozone member states, such as the UK, are reimbursed by the Commission in euros. However, the majority of distributions by RPA are paid in sterling, which creates an exposure to gains or losses from fluctuations in foreign exchange rates between the euro and sterling. RPA has managed its exposure to this risk through the purchase of forward foreign currency contracts. RPA holds derivative assets and liabilities for the purpose of managing foreign currency risk.

The carrying amounts of RPA's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Assets		Liabilities	
	31 March 2017	31 March 2016	**31 March 2017**	31 March 2016
	£000	£000	**£000**	£000
Euro denominated	**560,365**	1,072,152	**129,258**	121,884

The reduction of the euro denominated asset is owing to the fact that, with this being the second year of the BPS scheme, spend and reimbursement occurred more quickly than in the first (2015–16). Therefore, a larger proportion and amount of BPS payments went out in December 2016 and January 2017 than was the case in the previous year, and these payments were fully reimbursed in February and March 2017. As a result, because there is a lower volume of payments awaiting reimbursement than in the first scheme year, the Commission receivable account (a major constituent of the euro denominated asset) has less in it than at the same point in the previous year.

The following table details RPA's, and therefore the Department's, sensitivity to a 10 percent increase and decrease in sterling against the euro.

	Impact of Movement in Euro/Sterling Rate Sterling Appreciates by 10%		Impact of Movement in Euro/Sterling Rate Sterling Depreciates by 10%	
	31 March 2017	31 March 2016	**31 March 2017**	31 March 2016
	£000	£000	**£000**	£000
Net Operating Cost *	**(43,111)**	(95,027)	**43,111**	95,027
Derivative instruments:				
Net Operating Cost **	**22,900**	39,733	**(18,466)**	(38,585)
Other equity ***	**56,219**	102,507	**(51,785)**	(101,360)

*This is attributable to the exposure outstanding on euro receivables and payables at the SoFP date.

** This is the result of the changes in fair value of derivatives instruments held for trading.

***This is the result of the changes in fair value of derivatives instruments designated as cash flow hedges.

Some balances as at 31 March 2016 are different to those published in the 2015–16 ARA. This is because changes were made in RPA's published ARA at a stage too late to incorporate into Defra's 2015–16 counterpart. These changes are therefore included in the Department's 2016–17 ARA.

9.2.4 Market Risk – Inflation

EA is exposed to the risk of changes in the rate of inflation as a result of the reservoir operating agreements. The Retail Price Index has fluctuated significantly over the life of these financial liabilities. This is a macroeconomic risk that EA cannot manage in any way. However EA is able, through legislation, to recover the full cost of reservoir operating agreements through its charges on water abstraction.

9.2.5 Market Risk – Investments

As at 31 March 2017 the Department has £27.2 million in investments, £20 million of this is invested in the Eco-Business Fund and the majority of the remainder is a shareholding in Fera Science Limited. Further information is in Note 10.

9.3 Exposure to Insurance Contract Risk

The risks described below are attributable to Flood Re, which is consolidated into the departmental accounting boundary.

9.3.1 Credit Risk

Flood Re defines counterparty credit risk as the risk of not recovering money owed to Flood Re by third parties. The Company's maximum exposure to credit risk is the gross carrying value of its levy receivables, reinsurance premium receivables, reinsurance recoveries, trade and other receivables and cash and short-term deposits.

The Company uses issuer credit ratings provided by external credit rating agencies to monitor the ongoing creditworthiness of its counterparties together with other publicly available data and market information.

Ceded reinsurance arrangements do not relieve the Company from its obligations to policyholders. Reinsurance is only placed with counterparties that have a minimum credit rating of A- (Standards and Poor's credit ratings equivalent). No single reinsurer can exceed the maximum credit counterparty exposure thresholds established by Flood Re's Reinsurance Subcommittee.

9.3.2 Insurance Risk

Premium risk

Flood Re is exposed to premium risk, which is defined as the risk of loss or of adverse change in the value of insurance liabilities due to inadequate pricing assumptions.

The premium Flood Re charges is not reflective of the underlying risk that the Company assumes, as its principal objective is to enable the continued availability of affordable flood cover for households at risk of flooding and to manage a transition to a market with risk-reflective pricing over a 25 year period. Accordingly, the Company's premium risk strategy is to charge insurers a subsidised fixed rate which is set according to the council tax band associated with the insured property.

The Company expects that assumed premium will not be sufficient to cover the estimated mean cost of claims. The cost of the subsidy provided through the premium thresholds is met by a levy raised from all insurers writing home insurance in the UK. For the first five years, the levy is set at £180 million a year.

Reserving risk

Reserving risk is defined as the risk of loss or of adverse change in the value of insurance liabilities due to inadequate reserving assumptions. This is distinct from the premium risk as it is based on the development of claims after the premium has been set. For example, reserves would be understated if the severity of a claim is greater than the reserves set, which are based on actuarial best estimates of the liability.

The Company monitors flood risk exposure on a per risk basis and aggregate sum insured basis and performs exposure modelling on at least a quarterly basis or on the occurrence of an event.

The correlation of assumptions will have a significant effect in determining the ultimate claims liabilities. However, to demonstrate the sensitivity of key assumptions, Flood Re estimates the impact of an increase or decrease in both the average claims costs and the number of claims. The latter will have the most impact on profit. For more information see Flood Re's Annual Report and Financial Statements.

Catastrophe risk

Flood Re's most significant insurance risk exposure is to losses arising from low frequency, high severity catastrophe flood events. A catastrophe flood is defined by the Company as a single event UK flood that:

- impacts more than 250 properties ceded to the Company; or
- is expected to have claims costs in excess of £5 million.

Catastrophe loss events result in a high level of volatility in the financial results of the Company.

During the period ended 31 March 2017 the Company did not classify any flood activity in the United Kingdom as a catastrophe loss event.

Flood Re uses risk management software to assess catastrophe exposure. However, there is always a risk that the assumptions used in these models are unreliable or that claims will be greater than the model would suggest.

Flood Re purchases reinsurance as part of its overall risk mitigation programme. Reinsurance ceded is the Company's primary mechanism for managing and mitigating insurance risk.

The Flood Re Scheme document establishes the requirement for the Company to set an annual aggregate loss amount (liability limit). The scheme liability limit for the year ended 31 March 2017 is £2,100 million. The liability limit is set for a period of five years. During this period, as capital reserves are built up, Flood Re's retention limit (i.e. the amount of liability it assumes) will increase. Should claims exceed the liability limit, then relevant insurers will continue to be liable to policyholders in accordance with the terms of the reinsurance policy sold.

Flood Re requires that the outwards reinsurance protections purchased match the full £2,100 million liability limit. Furthermore, the government requires that Flood Re protects itself from an annual accounting loss above £100 million in any one accounting period. For more details, see Flood Re's Annual Report and Financial Statements.

9.3.3 Liquidity Risk

Flood Re must maintain sufficient liquidity at all times to support its cedents by settling claims quickly. The Company generates cash inflows primarily from Levy I, premium and investment income and is exposed to significant cash outflows arising from reinsurance premiums payable, claims costs and operating expenses.

The Company monitors its liquidity and future cash flow requirements on a daily basis and maintains a high quality, well balanced and liquid investment portfolio. There is uncertainty around the timing and severity of claims costs. The maturity profile of the Company's invested assets is aligned to the short term nature of the business underwritten whereby insurance contract liabilities are generally incurred and settled within one year.

The Company anticipates generating positive cash flows, absent a series of catastrophic flood events.

9.3.4 Market Risk

Flood Re has a conservative market risk strategy which prioritises capital preservation over investment return. The investment mandate restricts the type, duration and amount of holdings that may be invested in. Flood Re only invests in short duration, UK government backed securities (gilts, treasury notes and UK government backed liquidity funds).

9.3.5 Capital Adequacy

Flood Re has complied at all times with the regulatory minimum capital requirements and the solvency capital requirements. For more information, see Flood Re's Annual Report and Financial Statements.

10 Investments

	Stocks and Shares		Loans	
	Other	Fera Science Limited	RBG Kew Voted Loan	Total
	£000	£000	£000	£000
Defra Group				
Balance at 1 April 2015	491	6,670	-	7,161
Additions	20,000	-	-	20,000
Revaluations	14	-	-	14
Balance at 31 March 2016	20,505	6,670	-	27,175
Balance at 1 April 2016	20,505	6,670	-	27,175
Revaluations	15	-	-	15
Balance at 31 March 2017	**20,520**	**6,670**	**-**	**27,190**
of which:				
Core Department and agencies	20,175	6,670	486	27,331
NDPBs	345	-	(486)	(141)
Balance at 31 March 2017	**20,520**	**6,670**	**-**	**27,190**

The Department invested £20 million in the Eco-Business Fund in December 2015, comprising an initial subscription of £10 million for 288.6834 shares and a further binding obligation of £10 million for a number of shares to be confirmed at the execution date (15 August 2016). This investment formed part of the Department's official development assistance spend. The shares are, under IFRS 13, classed as level 3 unobservable inputs, as there is no principal market for the shares and the fair value cannot be reliably measured. Instead, data provided by the Eco-Business Fund on a quarterly basis will be the primary source of information regarding the current value of the shareholding. The investment is classified under IAS 39 as an available for sale financial asset, with gains and losses going to other comprehensive expenditure.

The Department has a 25 percent equity shareholding in Fera Science Limited (Fera), which provides science services. It is classified as an associate over which the Department has significant influence, the latter being the power to participate in the financial and operating policy decisions of Fera (but not control or joint control).

The government established Fera as a private limited company with two shareholders: Capita Business Services Limited with a 75 percent equity stake and the Department with a 25 percent equity stake. It began trading on 1 April 2015. Its head office is in London, UK. There has been no change in the Department's ownership for the reported year.

Fera prepares its accounts on an FRS101 (IFRS with limited disclosure) basis. There are no material differences between this and an IFRS basis of preparation and therefore no adjustments are required. The reporting date of Fera's financial statements is 31 December, the same date as its major shareholder and ultimate controlling entity. When applying the equity method of accounting, Fera's 2016 unaudited financial statements have been used and adjustments have been made for the effects of transactions between 31 December 2016 and 31 March 2017. In 2016–17, the share of profit and loss was zero, and the amount recognised in other comprehensive expenditure was also zero.

The Core Department issued museum loans to RBG Kew. These loans eliminated upon consolidation and therefore no assets or liabilities show for the Defra group.

11 Cash and Cash Equivalents

	2016-17		2015-16	
	Core Department and Agencies	**Defra Group**	Core Department and Agencies	Defra Group
	£000	**£000**	£000	£000
Balance at 1 April	896,744	1,086,008	177,506	335,307
Net change in cash balance	(294,513)	(178,479)	719,238	750,701
Balance at 31 March	**602,231**	**907,529**	896,744	1,086,008
The following balances at 31 March are held at:				
Government Banking Services	599,306	697,154	894,364	1,015,230
Commercial bank accounts and cash in hand	2,925	40,015	2,380	65,317
Short term investments	-	170,360	-	5,461
Balance at 31 March	**602,231**	**907,529**	896,744	1,086,008

For further information see the Net Cash Requirement section of Chapter 3.

The majority of the short term investment relates to Flood Re's short term deposits with a maturity of three months or less which are subject to insignificant risk of changes in value.

12 Trade Receivables, Financial and Other Assets

	31 March 2017		31 March 2016	
	Core Department and Agencies	**Defra Group**	Core Department and Agencies	Defra Group
	£000	**£000**	£000	£000
Amounts falling due within one year				
Trade receivables	19,961	58,273	22,261	73,681
Bad debt impairment	(2,393)	(6,371)	(2,784)	(14,337)
Deposits and advances	269	371	340	450
Flood Re reinsurance receivables	-	17,839	-	-
Other receivables	28,339	33,050	28,264	31,692
VAT	14,066	49,923	12,580	37,931
Prepayments and accrued income	74,255	148,844	131,329	187,592
Accrued income relating to EU funding	510,518	510,518	927,815	927,902
Trade and other receivables	**645,015**	**812,447**	1,119,805	1,244,911
Current part of derivative financial instrument asset	2,086	2,086	2,336	2,336
Other financial assets	**2,086**	**2,086**	2,336	2,336
Amounts falling due after one year				
Trade receivables	14	44	14	14
Other receivables	11,738	11,746	10,907	10,911
Prepayments and accrued income	52	52	27	27
Receivables due after more than one year	**11,804**	**11,842**	10,948	10,952
Total receivables	**658,905**	**826,375**	1,133,089	1,258,199

13 Trade Payables and Other Current Liabilities

	31 March 2017		31 March 2016	
	Core Department and Agencies	**Defra Group**	Core Department and Agencies	Defra Group
	£000	**£000**	£000	£000
Amounts falling due within one year				
VAT	1,355	2,938	1,752	2,828
Other taxation and social security	7,626	33,616	5,014	16,448
Flood Re reinsurance payables	-	19,750	-	-
Trade payables	19,745	56,777	21,436	37,078
Other payables:				
EU	3,518	3,518	5,547	5,550
Other	21,426	32,117	23,656	104,769
Bank overdraft	-	-	-	204
Accruals and deferred income	588,103	975,476	676,701	943,495
Current part of finance leases	190	190	2,706	3,710
Amounts issued from the Consolidated Fund for supply but not spent at year end	602,231	602,231	896,744	896,744
Trade and other payables	**1,244,194**	**1,726,613**	1,633,556	2,010,826
Current part of derivative financial instrument liability	5,713	5,713	99,685	99,685
Other financial liabilities	-	-	199	199
Other financial liabilities	**5,713**	**5,713**	99,884	99,884
Amounts falling due after more than one year				
Other payables, accruals and deferred income	142,315	144,899	131,767	134,849
Finance leases	212	212	2,288	3,096
Other Payables	**142,527**	**145,111**	134,055	137,945
Environment Agency reservoir agreement	-	141,606	-	141,600
Other financial liabilities	**-**	**141,606**	-	141,600
Total payables	**1,392,434**	**2,019,043**	1,867,495	2,390,255

14 Provisions for Liabilities and Charges

14.1 Provisions for Liabilities and Charges (Excluding Pension Liabilities)

	CAP Disallowance	Basic Payment Scheme	Flood Re Insurance	Metal Mines	FMD Sites	Core Estates Provisions	Other Provisions	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Defra Group								
Balance at 1 April 2015	64,513	-	-	70,750	38,644	1,117	48,968	223,992
Provided in the year	17,224	25,250	-	200,494	83,993	5,795	12,558	345,314
Provisions not required written back	-	-	-	-	-	(265)	(2,701)	(2,966)
Provisions utilised in year	(64,099)	-	-	(1,854)	(1,000)	-	(5,986)	(72,939)
Balance at 31 March 2016	17,638	25,250	-	269,390	121,637	6,647	52,839	493,401
Provided in the year	229,572	6,705	10,653	3,942	-	58,731	2,065	**311,668**
Provisions not required written back	-	-	-	(5,802)	-	(5,972)	(29,346)	**(41,120)**
Provisions utilised in year	(2,772)	(31,955)	-	(1,648)	(974)	-	(4,140)	**(41,489)**
Unwinding of discount	-	-	-	-	601	1,546	2	**2,149**
Balance at 31 March 2017	**244,438**	**-**	**10,653**	**265,882**	**121,264**	**60,952**	**21,420**	**724,609**

	CAP Disallowance	Basic Payment Scheme	Flood Re Insurance	Metal Mines	FMD Sites	Core Estates Provisions	Other Provisions	Total
of which:	£000	£000	£000	£000	£000	£000	£000	£000
31 March 2016								
Core Department and agencies	17,638	25,250	-	269,390	121,637	6,647	38,761	479,323
NDPBs	-	-	-	-	-	-	14,078	14,078
Total	17,638	25,250	-	269,390	121,637	6,647	52,839	493,401
31 March 2017								
Core Department and agencies	244,438	-	-	265,882	121,264	60,952	11,746	**704,282**
NDPBs	-	-	10,653	-	-	-	9,674	**20,327**
Total	**244,438**	**-**	**10,653**	**265,882**	**121,264**	**60,952**	**21,420**	**724,609**

The core estates provision is made up of:

- Dilapidations £25.2 million (2015–16, £1 million);
- Onerous leases £35.6 million (2015–16, £104,000);
- Rent reviews £113,000 (2015–16, £52,000); and
- Sand Hutton maintenance £Nil (2015–16, £5.5 million).

14.2 Analysis of Expected Timing of Discounted Flows (Excluding Pension Liabilities)

	2016-17							
	CAP Disallowance	Basic Payment Scheme	Flood Re Insurance	Metal Mines	FMD Sites	Core Estates Provisions	Other Provisions	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Defra Group								
Not later than one year	244,438	-	8,110	1,730	1,028	5,191	13,321	**273,818**
Later than one year and not later than five years	-	-	2,543	6,920	4,404	18,879	7,652	**40,398**
Later than five years	-	-	-	257,232	115,832	36,882	447	**410,393**
Total	**244,438**	**-**	**10,653**	**265,882**	**121,264**	**60,952**	**21,420**	**724,609**
of which:								
Core Department and agencies	244,438	-	-	265,882	121,264	60,952	11,746	**704,282**
NDPBs	-	-	10,653	-	-	-	9,674	**20,327**
Total	**244,438**	**-**	**10,653**	**265,882**	**121,264**	**60,952**	**21,420**	**724,609**

The timing of cash flows for the provisions requires management to make estimates and assumptions. All estimates for provisions are based upon knowledge of current facts and circumstances, assumptions concerning past events, and forecasts of future events and actions. Some of the assumptions made have limitations that will mean that the actual timings of cash flows could vary significantly from these estimates.

The change in the discount rate for general provisions can have a significant impact on the stated value of liabilities. The real rates for general provisions, as advised by HM Treasury, are as follows:

	2016–17	2015–16
	%	%
Short term	(2.7)	(1.55)
Medium term	(1.95)	(1.00)
Long term	(0.8)	(0.8)

14.3 Disallowance Provisions

The European Commission (the Commission) can apply financial corrections if Defra (through RPA) does not comply with the Commission's regulations for payments funded through the Common Agricultural Policy (CAP). Any amounts disallowed depend on the assessed severity of the breach of regulations and on subsequent negotiations with the Commission, in accordance with the Commission's clearance of accounts procedure. If disallowance is imposed by the Commission this materialises as cash refused (i.e. a deduction) in the UK's claim for reimbursement of claims under CAP. This results in Defra being liable for the amount of deduction.

Liabilities exist for all schemes where the results of external Commission audit have indicated that a financial correction is likely, and where there is an indication of the severity of the issues leading to that correction. This enables an estimate to be made. The final estimates reflect the best information available at the year end.

Liabilities which are expected to impact in future accounting periods are disclosed as provisions, covering all relevant schemes. As the process of Commission reviews progresses, the likelihood of disallowance penalties are confirmed by the Commission (and are reasonably certain). In practice, this is when the Commission has notified a penalty which the Department will not contest. It is at this stage that amounts are reflected in the financial statements as an accrual. Finally, the point at which the cash refused is physically transacted may come sometime after the accrual point and typically in a later accounting period. Therefore it is important to recognise that liabilities for disallowance can cover a number of scheme years and do not just reflect any disallowance imposed in the financial year covered by any single year's accounts.

There is an ongoing contingent liability in respect of financial corrections, which at present is uncertain and unquantifiable as a letter from the Commission has yet to be received. In addition there is a remote contingent liability disclosed where an audit has yet to take place by the Commission.

For further information on the Disallowance provision, please refer to Chapter 3.

14.4 Flood Re Insurance Provision

A provision is recognised as both the value and timing of the insurance claim liability is uncertain. Delays can be experienced in the settlement and notification of claims, and consequently the ultimate cost cannot be known at the reporting date.

The liability is calculated at the reporting date using a standard range of actuarial projection techniques, based on empirical data and current assumptions. An actuarial estimate is made representing the best estimate plus a risk margin within a range of possible outcomes. The liability is not discounted for the time value of money.

The liabilities are derecognised when the obligation to pay a claim expires, is discharged or cancelled.

14.5 Abandoned Metal Mines Provision

Abandoned metal mines are a pollution threat, potentially discharging mine water containing heavy metals and other pollutants into rivers and aquifers. When the abandoned mines are closed, pumps are switched off and the groundwater level subsequently rises until it reaches the surface or discharges into overlying aquifers. Owners/operators of abandoned mines cannot be held responsible for discharges made at abandoned metal mines before 31 December 1999. Following the Pollution Prevention and Control Act 1999 responsibility for permitting and monitoring was transferred to a new framework. Accordingly, Defra has a constructive obligation at certain sites, managed via memorandums of understanding (MoU) with the Coal Authority.

The Department therefore funds the ongoing running costs of water treatment schemes built at three abandoned metal mine sites. These schemes clean polluted water which flows out of the abandoned mines and into water bodies, thus helping to meet Defra's objectives for good water body status under the EU's Water Framework Directive and regulations governing the levels of specific chemical pollutants in water and the wider environment (Environmental Quality Standards Directive and the Priority Substances Directive). The Wheal Jane scheme has been running since 2000, with Force Crag coming into operation in 2014 and Saltburn Gill in 2015.

There is uncertainty over the estimation of the value of the liability. The Department has an evidenced cost base until the end of the current MoUs. The time frames involved are less certain, but are based on scientific and geological research.

A report by Newcastle University explored alternatives to expensive active treatment schemes, and Defra subsequently commissioned Newcastle University to develop low cost 'compost bioreactors'. These reactors have been used at Force Crag since November 2015 and have resulted in lower costs for running that scheme. The likelihood of further technological advances makes it difficult to predict future costs for remediation. Separately, there is the possibility of local funding being sought from those who benefit from the schemes, to reduce the amount of Defra funding required.

The mine water treatment provision represents the ongoing future liabilities relating to remediating mine water pollution arising from abandoned metal mines. The provision is calculated over 100 years as conditions for causing pollution are likely to continue, and there is no foreseeable option to dispensing with treatment schemes. Updates to the discount rates for provisions as advised by HM Treasury can cause the liability to vary significantly. We have carried out a sensitivity analysis to ascertain the responsiveness of the provision to changes to the underlying assumptions i.e. costs, the period of liability and discount rate in value and percentage. Details are outlined in the table below.

Change in assumption	**Effect on provision (in £)**	**Effect on provision (in % terms)**
0.5% increase/decrease in Treasury Discount Rate (see 14.2)	decrease/increase of £63m/£90m	decrease/increase of 24%/34%
10% increase/decrease in underlying costs	increase/decrease of £27m/£27m	increase/decrease of 10%/10%
10 year increase/decrease in timeframe of the provisions	increase/decrease of £40m/£37m	increase/decrease of 15%/14%

Defra is committed to reviewing operations and new technologies, and alternative preventative schemes to reduce this ongoing liability as part of value for money initiatives.

14.6 Foot and Mouth Disease (FMD) Burial Sites Provision

Since the FMD outbreak in 2001, the Department has a constructive obligation for managing several burial sites across the UK as it has committed to actively manage these sites to prevent the discharge of contaminants through groundwater pollution. The provision for FMD sites represents the ongoing future liabilities relating to preventing and remediating any leachate pollution arising from burial sites. There are significant uncertainties as to the time period over which conditions for causing pollution will continue at the sites, the provision has therefore been estimated based on 100 years from burial with 84 years remaining. Work in year by the Science Advisory Council (SAC) has provided assurances regarding management of the risk of contamination.

The Department is committed to reviewing operations and alternative technologies at FMD sites, to reduce this ongoing liability as part of value for money initiatives. A review by the SAC has provided assurances over current practices and that the residual environment risk remains negligible. It has also recommended a revised monitoring programme to enable better assessment of any residual risk and assessment of the lifetime of the potential residual risk. The monitoring regime prescribed by the SAC will provide the Department with a basis to accurately assess the effective life of the burial sites. This regime is expected to capture the appropriate scientific evidence to assess the lifetime. The cost of implementing the revised monitoring regime is deemed negligible and is expected to be more than offset by efficiencies in working practices in managing the burial sites. The assessment of annualised running costs, upon which the provision is based, is therefore deemed to remain a robust assessment and is in line with spending in 2016–17.

Sensitivity analysis has flagged potential volatility in the carrying value of the provision if there are changes to the lifetime, annual cost and discount rates in value and percentage as outlined in the table below. These factors will continue to be monitored.

Change in assumption	Effect on provision (in £)	Effect on provision (in % terms)
0.5% increase/decrease in Treasury Discount Rate (see 14.2)	decrease/increase of £25m/£34m	decrease/increase of 20%/28%
10% increase/decrease in underlying costs	increase/decrease of £12m/£12m	increase/decrease of 10%/10%
10 year increase/decrease in timeframe of the provisions	increase/decrease of £21m/£19m	increase/decrease of 17%/16%

The Core Department continues to disclose a remote unquantifiable contingent liability for FMD sites, relating to claims for contamination for onsite farm burials (Chapter 6).

14.7 Estates Provisions

An onerous lease is a contract in which the unavoidable costs of meeting the obligation under the contract exceed the economic benefits expected to be received under it. For this definition to be met, the leased property must have a level of non-occupancy where the financial impact may be material and the non-occupancy is expected to extend into the future. To inform the accounting treatment, a review of the vacant space across the estate was undertaken by Montagu Evans (Defra's contracted professional property management agent) and the Defra asset management team (surveyors).

A provision is recognised where the value of the onerous lease can be calculated (as there are known contractual amounts to be paid), as the result of a past event (for example, a tenant or the Department vacating a property), but the timing of future payments is not certain, due to the potential for future actions in order to mitigate the loss by subletting a property, thereby mitigating the onerous element of the lease. When calculating the value of the Onerous Lease provision, the main factor contributing to the value are the costs of the leases for the length of their term (or to the earliest break point if one exists).

The main constituents of the onerous lease provision relate to the King's Pool building in York, and Dragonfly House in Norwich.

A contractual liability for dilapidations arises to the extent that the Defra as a tenant fails to repair, maintain or decorate in accordance with the terms of the lease. Under the lease agreement, a Landlord is entitled to make a claim in respect of breaches of the repairing obligation imposed on Defra. This usually arises at the end or towards the end of a lease but may arise at any time if Defra fails to comply with the lease obligations.

Defra holds two provisions to recognise the contractual liability for dilapidations. The first recognises those leases that are near a break or are at their natural end and a business decision is pending in relation to the future of the property and an independent valuation instructed. At this point a firmer view of the liability can be assessed and correspondence with the landlord is more likely. The second recognises those leases where a significant length of the lease remains, there is no business decision pending and there is no independent valuation instructed. The purpose of this provision is to recognise the contractual obligations to return the property to its agreed state. Both meet the criteria for a provision as the lease agreement is deemed as giving rise to a probable liability. There remains a degree of uncertainty as to both the timing and amount of these provisions.

To enable a reasonable estimate of the liability professional judgement is sought in relation to the national average cost per metre square for dilapidation. This is replaced where there is evidence of either a professional assessment from surveyors or the landlord has submitted a claim.

14.8 Other Provisions

The Defra group has a total of £21.4 million relating to smaller provisions, none of which have an individual value greater than £10 million.

15 Pension Liabilities

15.1 Pension Schemes Managed by the Department

The Department contributes to the PCSPS and CSOPS, known as alpha, as reported in Chapter 5.

The following pension schemes are managed by and included within the Core Department's disclosures (the liabilities reported under the Core Department and executive agencies solely relate to the Core Department).

- EA Pension Liability (Closed Scheme) (funded).
- Nature Conservancy Council Pension (by-analogy).
- Former Countryside Agency Pension Schemes (Rural Community Council and Ex-Chairmen Schemes) (by-analogy).
- Horticultural Research International Pension Scheme (by-analogy).

The following pension schemes are managed by and included within the NDPB disclosures.

- Home Grown Cereals Authority Pension Scheme (funded).
- EA Active Pension Scheme (funded).
- NE Pension Scheme (by-analogy).
- Sea Fish Industry Authority (funded).
- Meat and Livestock Commission (MLC) Pension Scheme (funded).

All by-analogy schemes are unfunded schemes.

The details for the material schemes are noted below, full details for the other schemes can be found in the delivery bodies' ARAs where appropriate.

Net liabilities represent the gap between the money held by the scheme and the total present value of the funded and unfunded obligations. The assumptions underlying the calculation of the net liability are only used for accounting purposes as prescribed under IAS 19. In particular, IAS 19 has no impact on the level of cash contributions paid by the Department and there is no requirement for the net liability to be met as a lump sum or otherwise. Cash contributions will continue to be set by reference to assumptions agreed at each actuarial valuation of the scheme.

15.1.1 EA Pension Liability (Closed Scheme)

The EA Closed Fund (the Fund) is vested in EA by Regulation 2(1) of the Local Government Pension Scheme Regulations 1996 and the Environment Act 1996 and is maintained for the purposes of Section 7 of the Superannuation Act 1972. The Secretary of State has the function conferred by Section 173 of the Water Act 1989 to make such payments into the Fund as may be considered appropriate in respect of the actual and contingent liabilities falling from time to time. This was reaffirmed through the memorandum of understanding between the accounting officers of Defra and EA, 17 May 2005. These are met out of the Fund to persons who were ex-employees of regional water authorities and other water industry bodies at the time of water privatisation in 1989 (the Closed Fund members).

All calculations have been made by a qualified independent actuary. As required under IAS 19, the projected unit credit method of valuation has been used. The last formal valuation of the Fund was carried out as at 31 March 2016.

The estimated sponsor's contributions for the year to 31 March 2018 will be approximately £71 million.

15.1.2 EA Active Pension Scheme

EA operates a defined benefit pension scheme for employees and transferees from the former Defra, National Rivers Authority, Her Majesty's Inspectorate of Pollution, London Waste Regulation Authority and other local waste regulation authorities. It is a statutory scheme, administered in accordance with the Local Government Pension Scheme Regulations 2013 and the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014. It is contracted out of the State Second Pension.

EA has awarded a contract to SSCL, who participate in the Fund on a risk sharing basis. To reflect the risk sharing agreement between EA and SSCL:

- the value of the assets and liabilities for SSCL have been included in EA's IAS 19 position;
- contributions paid by SSCL have been included as contributions made by EA to the fund; and
- the SSCL membership statistics have been included with the membership statistics of EA.

All calculations have been made by a qualified independent actuary. As required under IAS 19, the projected unit credit method of valuation has been used. The last formal valuation of the fund was carried out as at 31 March 2016.

The estimated employers' contributions for the year to 31 March 2018 will be approximately £45.3 million.

15.2 Change in the Fair Value of Plan Assets, Defined Benefit Obligation and Net Liability – Totals

as at 31 March 2017	**Total Core Department and Agencies**				**Total Departmental Group**			
	Assets	**Obligations**	**Adjustments**	**Net (liability) /asset**	**Assets**	**Obligations**	**Adjustments**	**Net (liability) /asset**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Fair value of employer assets	219,400	-	-	219,400	2,941,120	-	-	2,941,120
Present value of funded liabilities	-	(668,100)	-	(668,100)	-	(3,847,728)	-	(3,847,728)
Present value of unfunded liabilities	-	(121,741)	-	(121,741)	-	(125,968)	-	(125,968)
Less irrecoverable surplus	-	-	-	-	-	-	(3,757)	(3,757)
Opening Position as at 31 March 2016	**219,400**	**(789,841)**	**-**	**(570,441)**	**2,941,120**	**(3,973,696)**	**(3,757)**	**(1,036,333)**
Service cost								
Current service cost	-	-	-	-	-	(75,707)	-	(75,707)
Past service cost (including curtailments)	-	-	-	-	-	(9,869)	-	(9,869)
Other expenses	(800)	-	-	(800)	(821)	-	-	(821)
Total service cost	**(800)**	**-**	**-**	**(800)**	**(821)**	**(85,576)**	**-**	**(86,397)**
Net interest								
Interest income on plan assets	7,900	-	-	7,900	102,636	-	-	102,636
Interest cost on defined benefit obligation	-	(27,059)	-	(27,059)	-	(138,362)	-	(138,362)
Impact of asset ceiling on net Interest	-	-	-	-	-	-	(124)	(124)
Total net interest	**7,900**	**(27,059)**	**-**	**(19,159)**	**102,636**	**(138,362)**	**(124)**	**(35,850)**
Total defined benefit cost recognised in profit or (loss)	**7,100**	**(27,059)**	**-**	**(19,959)**	**101,815**	**(223,938)**	**(124)**	**(122,247)**
Cashflows								
Plan participants' contributions	-	-	-	-	23,083	(23,083)	-	-
Employer contributions	66,900	-	-	66,900	129,705	-	-	129,705
Contributions in respect of unfunded benefits	8,900	-	-	8,900	8,900	-	-	8,900
Benefits paid	(64,400)	66,353	-	1,953	(146,623)	148,576	-	1,953
Unfunded benefits paid	(8,900)	8,900	-	-	(9,143)	9,152	-	9
Expected closing position	**229,000**	**(741,647)**	**-**	**(512,647)**	**3,048,857**	**(4,062,989)**	**(3,881)**	**(1,018,013)**
Remeasurements								
Change in demographic assumptions	-	6,100	-	6,100	-	1,220	-	1,220
Change in financial assumptions	-	(56,628)	-	(56,628)	-	(628,797)	-	(628,797)
Other experience	-	(204)	-	(204)	-	229,660	-	229,660
Return on assets excluding amounts included in net interest	42,900	-	-	42,900	472,596	-	-	472,596
Changes in asset ceiling	-	-	-	-	-	-	2,070	2,070
Total remeasurements recognised in Other Comprehensive Income (OCI)	**42,900**	**(50,732)**	**-**	**(7,832)**	**472,596**	**(397,917)**	**2,070**	**76,749**
Fair value of employer assets	271,900	-	-	271,900	3,521,453	-	-	3,521,453
Present value of funded liabilities	-	(671,900)	-	(671,900)	-	(4,336,219)	-	(4,336,219)
Present value of unfunded liabilities	-	(120,479)	-	(120,479)	-	(124,687)	-	(124,687)
Less irrecoverable surplus	-	-	-	-	-	-	(1,811)	(1,811)
Closing position as at 31 March 2017	**271,900**	**(792,379)**	**-**	**(520,479)**	**3,521,453**	**(4,460,906)**	**(1,811)**	**(941,264)**

as at 31 March 2016	Total Core Department and Agencies				Total Departmental Group			
	Assets	Obligations	Adjustments	Net (liability) /asset	Assets	Obligations	Adjustments	Net (liability) /asset
	£000	£000	£000	£000	£000	£000	£000	£000
Fair value of employer assets	213,000	-	-	213,000	2,911,087	-	-	2,911,087
Present value of funded liabilities	-	(729,000)	-	(729,000)	-	(4,128,756)	-	(4,128,756)
Present value of unfunded liabilities	-	(140,067)	-	(140,067)	-	(144,638)	-	(144,638)
Less irrecoverable surplus	-	-	-	-	-	-	(5,361)	(5,361)
Opening Position as at 31 March 2015	213,000	(869,067)	-	(656,067)	2,911,087	(4,273,394)	(5,361)	(1,367,668)
Service cost								
Current service cost	-	-	-	-	-	(87,147)	-	(87,147)
Past service cost (including curtailments)	-	-	-	-	-	(1,459)	-	(1,459)
Other expenses	(900)	-	-	(900)	(918)	-	-	(918)
Total service cost	(900)	-	-	(900)	(918)	(88,606)	-	(89,524)
Net interest								
Interest income on plan assets	7,600	-	-	7,600	93,876	-	-	93,876
Interest cost on defined benefit obligation	-	(29,382)	-	(29,382)	-	(138,691)	-	(138,691)
Impact of asset ceiling on net Interest	-	-	-	-	-	-	(211)	(211)
Total net interest	7,600	(29,382)	-	(21,782)	93,876	(138,691)	(211)	(45,026)
Total defined benefit cost recognised in profit or (loss)	6,700	(29,382)	-	(22,682)	92,958	(227,297)	(211)	(134,550)
Cashflows								
Plan participants' contributions	-	-	-	-	22,432	(22,432)	-	-
Employer contributions	69,900	-	-	69,900	129,632	-	-	129,632
Contributions in respect of unfunded benefits	9,900	-	-	9,900	9,900	-	-	9,900
Benefits paid	(67,900)	69,985	-	2,085	(152,359)	154,460	-	2,101
Unfunded benefits paid	(9,900)	9,900	-	-	(9,900)	9,900	-	-
Expected closing position	221,700	(818,564)	-	(596,864)	3,003,750	(4,358,763)	(5,572)	(1,360,585)
Remeasurements								
Change in demographic assumptions	-	971	-	971	-	3,828	-	3,828
Change in financial assumptions	-	3,283	-	3,283	-	327,600	-	327,600
Other experience	-	24,469	-	24,469	-	53,639	-	53,639
Return on assets excluding amounts included in net interest	(2,300)	-	-	(2,300)	(62,630)	-	-	(62,630)
Changes in asset ceiling	-	-	-	-	-	-	1,815	1,815
Total remeasurements recognised in Other Comprehensive Income (OCI)	(2,300)	28,723	-	26,423	(62,630)	385,067	1,815	324,252
Fair value of employer assets	219,400	-	-	219,400	2,941,120	-	-	2,941,120
Present value of funded liabilities	-	(668,100)	-	(668,100)	-	(3,847,728)	-	(3,847,728)
Present value of unfunded liabilities	-	(121,741)	-	(121,741)	-	(125,968)	-	(125,968)
Less irrecoverable surplus	-	-	-	-	-	-	(3,757)	(3,757)
Closing position as at 31 March 2016	219,400	(789,841)	-	(570,441)	2,941,120	(3,973,696)	(3,757)	(1,036,333)

15.3 Changes in the Fair Value of Plan Assets, Defined Benefit Obligation and Net Liability – Material Schemes

as at 31 March 2017	Environment Agency Closed Scheme (within Core Department)				Environment Agency Active Scheme (within NDPB)				Other (all other schemes)			
	Assets	Obligations	Adjustments	Net (liability) /asset	Assets	Obligations	Adjustments	Net (liability) /asset	Assets	Obligations	Adjustments	Net (liability) /asset
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Fair value of employer assets	219,400	-	-	219,400	2,462,257	-	-	2,462,257	259,463	-	-	259,463
Present value of funded liabilities	-	(668,100)	-	(668,100)	-	(2,921,733)	-	(2,921,733)	-	(257,895)	-	(257,895)
Present value of unfunded liabilities	-	(85,800)	-	(85,800)	-	-	-	-	-	(40,168)	-	(40,168)
Less irrecoverable surplus	-	-	-	-	-	-	-	-	-	-	(3,757)	(3,757)
Opening Position as at 31 March 2016	**219,400**	**(753,900)**	**-**	**(534,500)**	**2,462,257**	**(2,921,733)**	**-**	**(459,476)**	**259,463**	**(298,063)**	**(3,757)**	**(42,357)**
Service cost												
Current service cost	-	-	-	-	-	(74,160)	-	(74,160)	-	(1,547)	-	(1,547)
Past service cost (including curtailments)	-	-	-	-	-	(9,869)	-	(9,869)	-	-	-	-
Other expenses	(800)	-	-	(800)	-	-	-	-	(21)	-	-	(21)
Total service cost	**(800)**	**-**	**-**	**(800)**	**-**	**(84,029)**	**-**	**(84,029)**	**(21)**	**(1,547)**	**-**	**(1,568)**
Net interest												
Interest income on plan assets	7,900	-	-	7,900	86,394	-	-	86,394	8,342	-	-	8,342
Interest cost on defined benefit obligation	-	(25,800)	-	(25,800)	-	(102,848)	-	(102,848)	-	(9,714)	-	(9,714)
Impact of asset ceiling on net Interest	-	-	-	-	-	-	-	-	-	-	(124)	(124)
Total net interest	**7,900**	**(25,800)**	**-**	**(17,900)**	**86,394**	**(102,848)**	**-**	**(16,454)**	**8,342**	**(9,714)**	**(124)**	**(1,496)**
Total defined benefit cost recognised in profit or (loss)	**7,100**	**(25,800)**	**-**	**(18,700)**	**86,394**	**(186,877)**	**-**	**(100,483)**	**8,321**	**(11,261)**	**(124)**	**(3,064)**
Cashflows												
Plan participants' contributions	-	-	-	-	22,756	(22,756)	-	-	327	(327)	-	-
Employer contributions	66,900	-	-	66,900	61,874	-	-	61,874	931	-	-	931
Contributions in respect of unfunded benefits	8,900	-	-	8,900	-	-	-	-	-	-	-	-
Benefits paid	(64,400)	64,400	-	-	(68,794)	68,794	-	-	(13,429)	15,382	-	1,953
Unfunded benefits paid	(8,900)	8,900	-	-	-	-	-	-	(243)	252	-	9
Expected closing position	**229,000**	**(706,400)**	**-**	**(477,400)**	**2,564,487**	**(3,062,572)**	**-**	**(498,085)**	**255,370**	**(294,017)**	**(3,881)**	**(42,528)**
Remeasurements												
Change in demographic assumptions	-	6,100	-	6,100	-	(6,016)	-	(6,016)	-	1,136	-	1,136
Change in financial assumptions	-	(49,700)	-	(49,700)	-	(525,900)	-	(525,900)	-	(53,197)	-	(53,197)
Other experience	-	(700)	-	(700)	-	228,033	-	228,033	-	2,327	-	2,327
Return on assets excluding amounts included in net interest	42,900	-	-	42,900	396,235	-	-	396,235	33,461	-	-	33,461
Changes in asset ceiling	-	-	-	-	-	-	-	-	-	-	2,070	2,070
Total remeasurements recognised in Other Comprehensive Income (OCI)	**42,900**	**(44,300)**	**-**	**(1,400)**	**396,235**	**(303,883)**	**-**	**92,352**	**33,461**	**(49,734)**	**2,070**	**(14,203)**
Fair value of employer assets	271,900	-	-	271,900	2,960,722	-	-	2,960,722	288,831	-	-	288,831
Present value of funded liabilities	-	(671,900)	-	(671,900)	-	(3,366,455)	-	(3,366,455)	-	(297,864)	-	(297,864)
Present value of unfunded liabilities	-	(78,800)	-	(78,800)	-	-	-	-	-	(45,887)	-	(45,887)
Less irrecoverable surplus	-	-	-	-	-	-	-	-	-	-	(1,811)	(1,811)
Closing position as at 31 March 2017	**271,900**	**(750,700)**	**-**	**(478,800)**	**2,960,722**	**(3,366,455)**	**-**	**(405,733)**	**288,831**	**(343,751)**	**(1,811)**	**(56,731)**

as at 31 March 2016	Environment Agency Closed Scheme (within Core Department)				Environment Agency Active Scheme (within NDPB)				Other (all other schemes)			
	Assets	Obligations	Adjustments	Net (liability) /asset	Assets	Obligations	Adjustments	Net (liability) /asset	Assets	Obligations	Adjustments	Net (liability) /asset
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Fair value of employer assets	213,000	-	-	213,000	2,418,943	-	-	2,418,943	279,144	-	-	279,144
Present value of funded liabilities	-	(729,000)	-	(729,000)	-	(3,126,206)	-	(3,126,206)	-	(273,550)	-	(273,550)
Present value of unfunded liabilities	-	(100,100)	-	(100,100)	-	-	-	-	-	(44,538)	-	(44,538)
Less irrecoverable surplus	-	-	-	-	-	-	-	-	-	-	(5,361)	(5,361)
Opening Position as at 31 March 2015	213,000	(829,100)	-	(616,100)	2,418,943	(3,126,206)	-	(707,263)	279,144	(318,088)	(5,361)	(44,305)
Service cost												
Current service cost	-	-	-	-	-	(85,583)	-	(85,583)	-	(1,564)	-	(1,564)
Past service cost (including curtailments)	-	-	-	-	-	(1,459)	-	(1,459)	-	-	-	-
Other expenses	(900)	-	-	(900)	-	-	-	-	(18)	-	-	(18)
Total service cost	(900)	-	-	(900)	-	(87,042)	-	(87,042)	(18)	(1,564)	-	(1,582)
Net interest												
Interest income on plan assets	7,600	-	-	7,600	77,571	-	-	77,571	8,705	-	-	8,705
Interest cost on defined benefit obligation	-	(28,000)	-	(28,000)	-	(100,652)	-	(100,652)	-	(10,039)	-	(10,039)
Impact of asset ceiling on net Interest	-	-	-	-	-	-	-	-	-	-	(211)	(211)
Total net interest	7,600	(28,000)	-	(20,400)	77,571	(100,652)	-	(23,081)	8,705	(10,039)	(211)	(1,545)
Total defined benefit cost recognised in profit or (loss)	6,700	(28,000)	-	(21,300)	77,571	(187,694)	-	(110,123)	8,687	(11,603)	(211)	(3,127)
Cashflows												
Plan participants' contributions	-	-	-	-	22,092	(22,092)	-	-	340	(340)	-	-
Employer contributions	69,900	-	-	69,900	58,802	-	-	58,802	930	-	-	930
Contributions in respect of unfunded benefits	9,900	-	-	9,900	-	-	-	-	-	-	-	-
Benefits paid	(67,900)	67,900	-	-	(70,513)	70,513	-	-	(13,946)	16,047	-	2,101
Unfunded benefits paid	(9,900)	9,900	-	-	-	-	-	-	-	-	-	-
Expected closing position	221,700	(779,300)	-	(557,600)	2,506,895	(3,265,479)	-	(758,584)	275,155	(313,984)	(5,572)	(44,401)
Remeasurements												
Change in demographic assumptions	-	-	-	-	-	-	-	-	-	3,828	-	3,828
Change in financial assumptions	-	3,000	-	3,000	-	317,902	-	317,902	-	6,698	-	6,698
Other experience	-	22,400	-	22,400	-	25,844	-	25,844	-	5,395	-	5,395
Return on assets excluding amounts included in net interest	(2,300)	-	-	(2,300)	(44,638)	-	-	(44,638)	(15,692)	-	-	(15,692)
Changes in asset ceiling	-	-	-	-	-	-	-	-	-	-	1,815	1,815
Total remeasurements recognised in Other Comprehensive Income (OCI)	(2,300)	25,400	-	23,100	(44,638)	343,746	-	299,108	(15,692)	15,921	1,815	2,044
Fair value of employer assets	219,400	-	-	219,400	2,462,257	-	-	2,462,257	259,463	-	-	259,463
Present value of funded liabilities	-	(668,100)	-	(668,100)	-	(2,921,733)	-	(2,921,733)	-	(257,895)	-	(257,895)
Present value of unfunded liabilities	-	(85,800)	-	(85,800)	-	-	-	-	-	(40,168)	-	(40,168)
Less irrecoverable surplus	-	-	-	-	-	-	-	-	-	-	(3,757)	(3,757)
Closing position as at 31 March 2016	219,400	(753,900)	-	(534,500)	2,462,257	(2,921,733)	-	(459,476)	259,463	(298,063)	(3,757)	(42,357)

15.4 History of Experience Gains and Losses

	EA Closed Scheme (funded)					EA Active Scheme (funded)				
Year Ended :	31/03/17	31/03/16	31/03/15	31/03/14	31/03/13	31/03/17	31/03/16	31/03/15	31/03/14	31/03/13
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Fair value of employer assets	271,900	219,400	213,000	165,800	166,800	2,960,722	2,462,257	2,418,943	2,091,318	2,114,191
Present value of defined benefit obligation	(750,700)	(753,900)	(829,100)	(852,600)	(879,600)	(3,366,455)	(2,921,733)	(3,126,206)	(2,544,001)	(2,492,059)
(Deficit)/surplus	(478,800)	(534,500)	(616,100)	(686,800)	(712,800)	(405,733)	(459,476)	(707,263)	(452,683)	(377,868)
Experience gains/(losses) on assets	42,900	(2,300)	38,800	(10,600)	10,900	396,235	(44,638)	228,030	78,494	161,386
Experience gains/(losses) on liabilities	(700)	22,400	6,900	24,900	(3,900)	228,033	25,844	14,700	(130,360)	-
Actuarial gains/(losses) on employer assets	42,900	(2,300)	38,800	(10,600)	10,900	396,235	(44,638)	228,030	78,494	161,386
Actuarial gains/(losses) on obligation	(44,300)	25,400	(24,500)	(24,400)	(31,200)	(303,883)	343,746	(449,234)	(177,053)	(302,810)
Actuarial gains/(losses) recognised in SoCTE	(1,400)	23,100	14,300	(35,000)	(20,300)	92,352	299,108	(221,204)	(98,559)	(141,424)

15.5 Fair Value of Assets in the Fund

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

	EA Closed Scheme	EA Active Scheme
as at 31 March 2017	**£000**	**£000**
Equities	-	1,641,512
Bonds	255,900	847,808
Property	-	258,670
Cash	16,000	212,732
Insurance policy	-	-
Total 31 March 2017	**271,900**	**2,960,722**
Percentage of closing fair value	**%**	**%**
Equity	-	55
Bonds	94	29
Property	-	9
Cash and insurance policy	6	7
Total	**100**	**100**
as at 31 March 2016	**£000**	**£000**
Equities	-	1,363,123
Bonds	205,000	848,535
Property	-	196,286
Cash	14,400	54,313
Insurance policy	-	-
Total 31 March 2016	**219,400**	**2,462,257**
Percentage of closing fair value	**%**	**%**
Equity	-	55
Bonds	93	35
Property	-	8
Cash and insurance policy	7	2
Total	**100**	**100**

15.6 Financial Assumptions

The major financial assumptions used by the actuary when providing the assessment of the accrued liabilities as at the following dates.

	EA Closed Scheme	EA Active Scheme
	% pa	% pa
as at 31 March 2017		
Inflation/pension increase rate (CPI)	2.6	2.1
Salary increase rate	-	2.4
Discount rate	2.8	2.6
as at 31 March 2016		
Inflation/pension increase rate (CPI)	2.2	1.9
Salary increase rate	-	3.4
Discount rate	3.6	3.5

15.7 Mortality Assumptions

There is also uncertainty around the life expectation 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 mortality assumptions used by the actuary were:

	EA Closed Scheme		EA Active Scheme	
	Male	**Female**	**Male**	**Female**
Average future life expectancies at age 65				
Current pensioners (years)	20.6	22.7	22.6	24.4
Future pensioners (years)	21.1	23.3	24.3	26.7

15.8 Sensitivity Analysis

IAS 1 requires the disclosure of the sensitivity of the results to the methods and assumptions used. Any changes in assumptions would impact on the EA pension schemes.

The sensitivities regarding the principal assumptions used to measure the EA Closed scheme liabilities are set out below:

Change in assumptions at year ended 31 March 2017	**Approximate % Increase in Employer Liability**	**Approximate Monetary Amount**
	%	**£000**
0.5% decrease in real discount rate	3	23,228
1 year increase in member life expectancy	3	22,523
0.5% increase in pension increase rate	3	23,170

The sensitivities regarding the principal assumptions used to measure the EA Active scheme liabilities are set out below:

Change in assumptions at year ended 31 March 2017	**Approximate % Increase in Employer Liability**	**Approximate Monetary Amount**
	%	**£000**
0.5% decrease in real discount rate	11	371,366
1 year increase in member life expectancy	3	100,994
0.5% increase in salary increase rate	2	78,943
0.5% increase in pension increase rate	9	286,577

16 Contingent Liabilities and Contingent Assets

16.1 Contingent Liabilities

16.1.1 Quantifiable

The Department has the following quantifiable contingent liabilities as at 31 March 2017. Unless otherwise stated liabilities relate to the Core Department.

- An application for judicial review (JR) has been made by Lancashire County Council against Defra's decision to withdraw the payment of an outstanding waste infrastructure grant.

- A £30 million liability is expected to arise to meet the shortfall in EA pensions as a result of staff transferring from EA to the Core Department. There is uncertainty regarding the formal date of transfer between Defra and EA. Neither a legal nor constructive obligation exist, as whilst an announcement concerning staff transfer has occurred and a memorandum of understanding has been produced, there has been no formal sign off of transfer date or an announcement on pension options to staff. Therefore, disclosure as a contingent liability, rather than as a provision, is deemed appropriate.

- Small potential liabilities against the Defra group are estimated at no more than £7.2 million (2015–16, £2.4 million).

16.1.2 Unquantifiable

The Department has the following contingent liabilities which are unquantifiable due to their variable nature. Unless otherwise stated liabilities relate to the Core Department.

- As part of the revised contract with Defra's facilities management providers it has been agreed that under certain conditions arising from the rationalisation of the estate and subsequent reduction in demand, any restructuring costs such as redundancies or early retirement will be recharged to the Core Department.

- There is an ongoing independent assessment which was set up following recommendations in a report from the Parliamentary and Health Service Ombudsman, in relation to a claim for maladministration.

- In addition to the provision for dilapidations where Defra leases properties from landlords, there remains a potential liability for dilapidations where Defra occupies properties leased by other government departments under a memorandum of terms of occupation (MOTO) agreement. The potential for and the value of a dilapidation claim for these properties is more uncertain, hence is disclosed as a contingent liability, rather than as a provision.

- RPA is currently in receipt of appeals from scheme claimants of claims covering the Basic Payment Scheme, Single Payment Scheme and trader related schemes. If the appeals are successful they could either result in a liability for EU or Exchequer funded payments.

- There is a potential liability in respect of financial corrections for disallowance, however this is unquantifiable at present as notification has not been received from the Commission.

- Natural England (NE) has identified a contingent liability in relation to an issue being considered under the HMRC compliance audit which has been ongoing in 2016–17. Work continues in finalising the compliance audit over 2017–18 and part of this will identify and confirm whether NE does have a present obligation which could lead to a future outflow of resources. At this stage the amount of any such potential liability is unquantifiable.

16.2 Contingent Assets

- The Core Department is entitled to a future share of enhancement in value on a number of properties and land previously sold. These enhancements generally arise from the planning and development process and are based on a number of trigger points, planning thresholds and increased values.

- The Defra group has other potential small assets, with an estimated value of £3.2 million (2015–16, £2 million).

17 Related Party Transactions

The Department is the sponsor of the executive agencies, NDPBs and levy funded bodies, all of which are within the departmental accounting boundary, shown in Note 18. Public corporations are outside the accounting boundary, and are shown in Note 19. All the bodies above are regarded as related parties with which the Department has had various material transactions during the year. These bodies also trade with each other and have had material transactions during the year.

In addition, the Department has had a number of transactions with other government departments and the devolved administrations.

Where Defra Board members claim CAP scheme payments as detailed below, the standard EU terms and conditions for these schemes apply.

Lord Gardiner (Parliamentary Under Secretary of State for Rural Affairs and Biosecurity and Lords Minister) has a one-third share in a farm which received £52,913 in respect to Basic Payment Scheme.

Details for related party transactions for executive agencies, NDPBs and levy funded bodies can be found in the notes to their ARAs.

Other than those disclosed above, none of the Defra Board members or other related parties has undertaken any material transactions with the Department during the year.

18 Entities Within the Departmental Boundary

The entities within the departmental boundary during 2016–17 comprise supply financed agencies and those entities listed in the designation and amendment orders presented to Parliament.

Executive Agencies

Animal and Plant Health Agency
Centre for Environment, Fisheries and Aquaculture Science
Rural Payments Agency
Veterinary Medicines Directorate

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

Forestry Commission (FC) is a non-ministerial department but is included in Defra's Estimate and therefore is fully consolidated and included within the results for the Core Department and executive agencies.

Executive NDPBs

Consumer Council for Water
Environment Agency
Joint Nature Conservation Committee
Marine Management Organisation
Natural England
Royal Botanic Gardens, Kew

Levy Funded Bodies

Agriculture and Horticulture Development Board
Sea Fish Industry Authority

Non-profit institution within the public sector, specifically Central Government

National Forest Company

Other

Flood Re is a not-for-profit reinsurance body, run and managed by the insurance industry. Its net expenditure/ income is classified as Annually Managed Expenditure and in accordance with the requirements of the Government Resources and Accounts Act 2000 (Estimates and Accruals) (Amendment) Order 2015, is consolidated into these accounts. The latter is done on the basis that HM Treasury has assessed that it would expect payments by insurers to Flood Re of levies mandated by the Water Act 2014 to be classified as taxation. Although Flood Re is awaiting classification by Cabinet Office and the Office for National Statistics, HM Treasury have further indicated their expectation that Flood Re will be classified as a central government public body.

Executive NDPBs, levy funded bodies, National Forest Company and Flood Re's ARAs are published separately.

Advisory NDPBs (Defra Funded)

Advisory Committee on Releases to the Environment
Independent Agricultural Appeals Panel
Science Advisory Council
Veterinary Products Committee

Tribunal NDPBs (Defra Funded)

Plant Varieties and Seeds Tribunal (dormant)

The advisory and tribunal NDPBs do not produce a separate ARA as they are accounted for as part of the Core Department accounts.

19 Entities Outside the Departmental Boundary

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

Public Corporations

Covent Garden Market Authority
Forest Enterprise England

Other Bodies

National Parks Authorities (x9)
Water Services Regulation Authority (Ofwat)
Broads Authority

20 Events After the Reporting Period

Defra's financial statements are laid before the House of Commons by HM Treasury. IAS 10, Events after the reporting period, requires Defra to disclose the date on which the accounts are authorised for issue.

There were no reportable events after the reporting period.

The Annual Report and Accounts were authorised by the accounting officer for issue on the date of the Comptroller and Auditor General's audit certificate.

Annexes

These annexes do not form part of the financial statements and have not been subject to audit.

Annex 1: Core Tables 2016–17

The tables provide an explanation of what Defra spends money on. The analysis shows departmental expenditure split between resource consumption and capital investment.

HM Treasury publishes a glossary in the Public Expenditure Statistical Analyses Report (CM 9322)[18] that explains the majority of the terms used in the Core Tables and in the commentary below so these are not all repeated here.

Details of the Parliamentary Main Estimate[19] and Parliamentary Supplementary Estimate[20] are published separately.

Tables 1 and 2 – Defra's Resource and Capital Budget

Table 1 sets out a summary of the resource and capital budget expenditure for the Department, covering the period from 2012–13 to 2019–20. It shows Departmental Expenditure Limit (DEL) and Annually Managed Expenditure (AME) elements separately for control purposes. Future years' figures reflect the budgeted figures agreed with HM Treasury for the Department.

Table 2 shows the administration costs of running the Department in more detail. The administration budget includes staff costs, resource expenditure on accommodation, utilities and services etc., where they are not directly associated with front-line service delivery. The commentary on administration costs is included in the detailed analysis below, but in general terms, the administration budget reflects the savings required by the 2010 spending review (SR10), the 2013 spending round (SR13) and the 2015 spending review (SR15).

These tables follow the layout of the Part II Table of the 2016–17 Supplementary Estimate and have been produced from HM Treasury's Online System for Central Accounting and Reporting (OSCAR) database and are on the same basis as the Statement of Parliamentary Supply.

Resource Budget (Programme and Administration) DEL

Food and Farming

The changing profile of spend is primarily due to the profile of Common Agricultural Policy (CAP) disallowance payments. The CAP Disallowance budget has been transferred between years to match the expected profile of payments. These transfers were agreed with HM Treasury and are in line with the spending review settlements to allow flexibility between years to handle the timing of disallowance costs which are outside the Department's control, being dependent on the timing of European Commission (the Commission) decisions. There are also reductions in later years due to the completion of the development of the CAP delivery programme and the transfer of corporate service budgets from the Rural Payments Agency (RPA) following the centralisation of corporate service budgets within the Core Department as part of the integration of corporate service teams across the Defra group.

Improve the Environment

The increase from 2017–18 onwards reflects the additional budget for official development assistance.

Protect the Country from Floods

Decreases in 2015–16 and 2016–17 reflect the end of a number of schemes in 2014–15 such as the Community Pathfinder Grants and Land Management schemes; and the transfer of the Local Service Support Grant for Lead Local Flood Authorities to the Department for Communities and Local Government from 2016–17.

[18] https://www.gov.uk/government/statistics/public-expenditure-statistical-analyses-2016
[19] https://www.gov.uk/government/collections/hmt-main-estimates
[20] https://www.gov.uk/government/collections/hmt-supplementary-estimates

Animal and Plant Health

The increase from 2013–14 is primarily due to an increase in measures to tackle endemic animal disease. The decrease from 2016–17 onwards is due to the transfer of corporate service budgets from the Animal and Plant Health Agency following the centralisation of corporate service budgets within the Core Department as part of the integration of corporate service teams across the Defra group. Overall, we are maintaining expenditure on Animal and Plant Health revenue spend and investing in vital scientific facilities.

Countryside and Rural Services

The changing profile of spend is mainly due to the Rural Development Programme England (RDPE). The RDPE scheme provides a degree of flexibility over the percentage split between Exchequer and EU funded payments across years, as long as the overall total is in line with the scheme rules. There was also a planned decrease in RDPE spend through SR10 as several RDPE schemes came to an end and fewer new agreements were signed.

Departmental Operating Costs

The corporate service costs of the Defra group are reducing over the Spending Review period. The one off decrease in 2014–15 relates to the sale of 75 percent of Fera to Capita plc following the creation of the new Fera Science Limited. The increase in departmental operating costs from 2015–16 onwards reflects the consolidation of Defra group corporate services functions. This includes the transfer of budgets and staff from the Animal and Plant Health Agency (APHA), the Forestry Commission (FC), Natural England (NE), RPA and the Environment Agency (EA).

Improve the Environment (ALB)(Net)

The downward trend reflects savings identified by an internal efficiency programme and the phased transfer of budgets from Natural England and the Environment Agency (EA) following the centralisation of corporate service budgets within the Core Department as part of the integration of corporate service teams across the Defra group.

Protect the Country from Floods (ALB)(Net)

The increases from 2014–15 reflect the additional funding allocated to flood and coastal erosion risk management announced in the 2014 and the 2016 Budgets. The decrease from 2017–18 is due to the transfer of budgets from EA following the centralisation of corporate service budgets within the Core Department as part of the integration of corporate service teams across the Defra group. The further decrease in 2018–19 is due to a reduced depreciation requirement.

Resource Budget AME

Resource AME balances vary greatly over the years due to the volatility of provisions recorded as AME. A debit (a positive) is recorded as provisions are created, and a credit (a negative) recorded when a provision is utilised.

Food and Farming

As described in the DEL section earlier, the changing profile of spend in this area is primarily due to the profile of the CAP Disallowance provision. Budget has been transferred between years so that the AME credit entries recorded here match the expected profile of the payments recorded under resource DEL. In addition to this, any movements to the CAP Disallowance provision are recorded in this section. Debit balances are seen where increases to the provision are higher than payments made in that particular year. As with the timing of disallowance payments, changes in the value of the provision are also reliant on Commission decisions. The increase in 2016–17 is due to the increase in the CAP Disallowance provision following the Commission audits for the Basic Payment Scheme and cross compliance covering 2015 and 2016.

Improve the Environment

The increase in 2015–16 is due to the increase in the Metal Mines provision following a decrease in the discount rate used for valuing provisions, as per HM Treasury guidance, and an increase due to an accrual being raised to cover Defra's commitments in relation to South West Water for the financial years 2016–2020.

Departmental Operating Costs

The increase in 2014–15 is primarily due to property impairments across the Defra estate, as a result of the quinquennial property valuation and also the change in classification of the Sand Hutton site to an investment property. In addition to this, a provision was created for Foot and Mouth Disease (FMD) burial sites, which represents the ongoing future liabilities relating to preventing and remediating any leachate pollution arising from burial sites. In 2015–16 this provision was revalued following a decrease in the discount rate used for valuing provisions, as per HM Treasury guidance.

Protect the Country from Floods (ALB)(Net)

The increase in 2015–16 is partially due to the set up costs of Flood Re. The decrease in 2016–17 reflects the surplus position for Flood Re's 2016–17 final accounts. From 2017–18 onwards, the budget reflects the maximum impact Flood Re can have on public sector net borrowing.

Capital Budget DEL

Food and Farming

The increase from 2013–14 mainly relates to the investment in the CAP delivery programme which completed in 2016–17.

Improve the Environment

The changing profile of spend is mainly due to the ring-fenced budget for the International Climate Fund.

Protect the Country from Floods

The 2014–15 and 2015–16 outturn included claims on the reserve for the Repair and Renew Grant scheme, for households affected by the 2013–14 winter floods. This was a time-limited project, that completed in 2015–16, in which grants were made to property owners affected by flooding to install flood resilience.

Animal and Plant Health

The reduction in spend from 2014–15 is due to various projects completing, including the Veterinary Delivery Partnership project for the delivery of veterinary managed services and the changing profile of research and development expenditure.

Departmental Operating Costs

The decrease in 2014–15 is due to various projects completing within the Defra network estate and an increased level of capital income, following the sale of various properties. Similarly in 2015–16 where capital income exceeds spend. The increase from 2016–17 onwards reflects the first tranche of the investment from the Spending Review to fund critical health and safety works ensuring science and containment facilities (Weybridge) are fit for purpose, invest to save works in rationalising the estates footprint, and investment in our IT infrastructure, such as new IT hosting services and improvements in connectivity, across Defra. This additional investment will lead to efficiencies in future running costs.

Improve the Environment (ALB) (Net)

The increase from 2016–17 onwards is partially due to the increased investment in the science estate.

Protect the Country from Floods (ALB)(Net)

The increase from 2013–14 reflects additional investment in flood and coastal erosion risk management. This includes additional funding announced in the 2012 Autumn Budget Statement and the 2014 Budget, the majority of which was allocated to 2014–15. The profile from 2016–17 onwards reflects the funding profile following the SR15 settlement and the increased funding announced in the 2016 Budget and Autumn Statement. This included additional funding following the 2015 winter floods and flood resilience work.

Table 1 – Defra's Resource and Capital Budget

	2012-13 Outturn £000	2013-14 Outturn £000	2014-15 Outturn £000	2015-16 Outturn £000	2016-17 Outturn £000	2017-18 Plans £000	2018-19 Plans £000	2019-20 Plans £000
Resource DEL								
Food and Farming	214,217	213,713	272,719	224,889	163,012	202,415	147,543	133,177
Improve the environment	226,074	256,066	237,709	228,495	233,105	262,010	263,926	266,617
Protect the country from floods	19,405	20,991	23,184	14,696	1,156	1,612	1,495	1,495
Animal and plant health	188,533	207,023	215,617	207,595	161,812	161,355	146,589	143,072
Marine and fisheries	31,712	26,434	24,703	25,666	26,517	29,242	29,015	28,995
Countryside and rural services	326,226	238,056	191,050	201,837	205,629	196,734	213,115	205,267
Departmental operating costs	165,980	139,417	124,765	140,355	234,528	442,813	368,922	340,147
Food and farming (ALB) (net)	(845)	(837)	-	-	-	-	-	-
Improve the environment (ALB) (net)	457,329	449,749	403,238	332,543	337,582	219,902	211,951	196,308
Protect the country from floods (ALB) (net)	318,288	305,578	341,434	339,313	365,691	337,614	331,254	332,174
Marine and fisheries (ALB) (net)	27,876	24,755	19,475	19,133	12,270	16,597	15,101	12,997
Countryside and rural services (ALB) (net)	3,258	2,319	1,983	2,078	2,320	2,611	2,611	2,611
Total Resource DEL	**1,978,053**	**1,883,264**	**1,855,877**	**1,736,600**	**1,743,622**	**1,872,905**	**1,731,522**	**1,662,860**
Resource AME								
Food and Farming	(1,925)	(54,362)	1,337	(39,601)	207,302	(14,255)	26,801	40,801
Improve the environment	72,468	(80,480)	(44,310)	313,107	(43,272)	(43,615)	(44,015)	(42,415)
Animal and plant health	10,065	10,252	2,729	(2,370)	(5,986)	6	-	-
Marine and fisheries	800	(351)	1,198	1,899	(416)	5	-	-
Countryside and rural services	(2,264)	25	(885)	(497)	(340)	(345)	(295)	(250)
Departmental operating costs	(4,864)	6,314	123,429	91,813	50,751	50,420	50,403	50,403
Food and farming (ALB) (net)	(3,060)	2,149	(405)	1,682	(1,913)	1,199	60	435
Improve the environment (ALB) (net)	4,031	(4,786)	(20,584)	(11,448)	(35,109)	(9,641)	(5,341)	(2,341)
Protect the country from floods (ALB) (net)	11,310	28,841	12,659	34,335	(85,707)	121,284	121,284	121,284
Marine and fisheries (ALB) (net)	(1,999)	(96)	2,515	1,831	778	285	61	61
Countryside and rural services (ALB) (net)	21	(3)	(7)	(10)	(14)	4	-	-
Total Resource AME	**84,583**	**(92,497)**	**77,676**	**390,741**	**86,074**	**105,347**	**148,958**	**167,978**
Total Resource Budget	**2,062,636**	**1,790,767**	**1,933,553**	**2,127,341**	**1,829,696**	**1,978,252**	**1,880,480**	**1,830,838**
Of which:								
Depreciation - DEL	188,999	196,692	189,722	168,303	187,631	243,919	240,730	239,140
Depreciation - AME	20,410	21,453	88,560	12,058	4,180	737	767	767
Total Depreciation[1]	209,409	218,145	278,282	180,361	191,811	244,656	241,497	239,907
Capital DEL								
Food and Farming	21,967	38,425	51,635	33,013	21,048	7,352	-	-
Improve the environment	43,680	42,399	50,464	45,876	38,667	43,468	40,375	36,165
Protect the country from floods	99	458	11,988	12,621	(120)	183	-	-
Animal and plant health	29,836	32,378	21,045	18,018	8,707	7,790	2,042	1,785
Marine and fisheries	9,834	10,367	7,646	6,014	7,234	6,539	3,404	2,722
Countryside and rural services	20,189	25,338	27,451	25,194	25,517	28,920	36,378	29,468
Departmental operating costs	16,824	20,689	1,579	(3,026)	34,950	104,891	80,943	34,077
Improve the environment (ALB) (net)	55,713	42,045	29,292	26,459	47,946	42,957	40,458	32,083
Protect the country from floods (ALB) (net)	289,489	336,586	489,355	405,084	470,634	443,000	470,400	382,000
Marine and fisheries (ALB) (net)	567	493	388	261	182	-	-	-
Countryside and rural services (ALB) (net)	(756)	324	786	402	211	-	-	-
Total Capital DEL	**487,442**	**549,502**	**691,629**	**569,916**	**654,976**	**685,100**	**674,000**	**518,300**
Capital AME								
Food and farming (ALB) (net)	(1,502)	(836)	1,586	75	596	500	500	500
Marine and fisheries (ALB) (net)	228	91	54	167	266	-	-	-
Total Capital AME	**(1,274)**	**(745)**	**1,640**	**242**	**862**	**500**	**500**	**500**
Total Capital Budget	**486,168**	**548,757**	**693,269**	**570,158**	**655,838**	**685,600**	**674,500**	**518,800**
Total departmental spending[2]	**2,339,395**	**2,121,379**	**2,348,540**	**2,517,138**	**2,293,723**	**2,419,196**	**2,313,483**	**2,109,731**
Of which:								
Total DEL	2,276,496	2,236,074	2,357,784	2,138,213	2,210,967	2,314,086	2,164,792	1,942,020
Total AME	62,899	(114,695)	(9,244)	378,925	82,756	105,110	148,691	167,711

1. Includes impairments

2. Total departmental spending is the sum of the resource budget and the capital budget less depreciation. Similarly, total DEL is the sum of the resource budget DEL and capital budget DEL less depreciation in DEL, and total AME is the sum of resource budget AME and capital budget AME less depreciation in AME.

These tables now reflect the prior period adjustment that affected 2014–15, the machinery of government changes relating to the Department for Business, Energy and Industrial Strategy and the research and development re-recording of expenditure from resource to capital in line with HM Treasury guidance and are therefore different to those published in the 2015–16 Annual Report and Accounts.

The 2017–18 to 2019–20 plans figures are based on provisional allocations and are subject to change, following further business planning decisions.

Table 2 – Defra's Administration Costs

	2012-13 Outturn £000	2013-14 Outturn £000	2014-15 Outturn £000	2015-16 Outturn £000	2016-17 Outturn £000	2017-18 Plans £000	2018-19 Plans £000	2019-20 Plans £000
Resource DEL								
Food and Farming	106,414	105,852	116,912	110,468	90,658	49,858	49,592	49,283
Improve the environment	31,062	32,185	31,316	24,659	23,907	25,606	29,814	29,844
Protect the country from floods	1,622	1,939	2,119	1,930	1,144	1,070	1,070	1,070
Animal and plant health	(118)	(3,830)	7,051	20,205	11,321	10,232	10,232	10,232
Marine and fisheries	2,968	2,666	2,243	3,651	7,353	6,127	8,839	8,832
Countryside and rural services	21,121	17,957	14,188	13,314	6,822	8,826	8,876	8,876
Departmental operating costs	153,287	133,025	104,858	116,485	153,450	267,323	243,153	238,568
Food and farming (ALB) (net)	(845)	(837)	-	-	-	-	-	-
Improve the environment (ALB) (net)	149,171	158,765	133,668	132,263	98,052	50,327	51,042	51,069
Protect the country from floods (ALB) (net)	79,949	73,829	69,803	69,572	56,964	54,662	54,662	54,662
Marine and fisheries (ALB) (net)	5,038	4,875	4,402	4,379	2,682	2,398	2,398	2,398
Countryside and rural services (ALB) (net)	801	327	323	296	281	403	403	403
Total administration budget	**550,470**	**526,753**	**486,883**	**497,222**	**452,634**	**476,832**	**460,081**	**455,237**

These tables now reflect the prior period adjustment that affected 2014–15, the machinery of government changes relating to the Department for Business, Energy and Industrial Strategy and the research and development re-recording of expenditure from resource to capital in line with HM Treasury guidance and are therefore different to those published in the 2015–16 Annual Report and Accounts.

The above table shows an overall decline in administration costs across the years with the 2019–20 budget being £95 million lower than spend in 2012–13. As shown in the Statement of Parliamentary Supply, the 2016–17 administration outturn shows an underspend of £59 million against the plans for that year. A similar pattern is expected to continue in future years.

Within the detail of the table, the budget for Departmental Operating Costs increases in 2017–18 with the majority of the other lines showing a corresponding decrease. This largely reflects the consolidation of Defra group corporate service functions, as explained in the Resource DEL section.

Annex 2: Commentary on Sustainable Performance

Background

The environmental data and associated financial costs presented in the following pages are consistent with the requirements of HM Treasury's Public Sector Annual Reports: Sustainability Reporting Guidance 2016–17.

The information contained within this annex has not been subject to audit and does not form part of the auditors' opinion on the accounts.

Introduction

This annex sets out Defra's performance against the sustainability objectives of its estate and operations.

This report focuses on the most significant estate and travel impacts identified through the Defra group's environmental management systems measured against the Greening Government Commitments (GGC) targets. These targets are for reductions in greenhouse gas (GHG) emissions, waste arisings, water use and for increasing procurement of more sustainable goods and services.

Other aspects of the Defra group's operations contribute to its environmental impact including the embedded carbon and water of purchased items, supplier transport, waste handling and water supply. These impacts are not captured by this report but some of these are mitigated through sustainability criteria stipulated in procurement and services contracts. Data to report these impacts is not always readily available.

The targets, which are measured from a 2009–10 baseline, are as follows.

- Reduce GHG from the whole estate and business related transport by 38 percent.
- Reduce the amount of waste to landfill to below 10 percent.
- Reduce water consumption and report on office water use against best practice benchmarks.
- Reduce the number of domestic flights by 30 percent.
- Ensure that more sustainable and efficient products are bought and undertake engagement with suppliers to understand and reduce the impacts of the supply chain.
- Cut paper use by 50 percent.

The targets are scheduled to run until April 2020.

Performance against these targets is defined using the following terms.

- Exceeding target: the target for April 2020 has been exceeded.
- On target: performance has met the April 2020 target.
- Ahead of milestone: performance is on track to meet April 2020 target.
- Behind milestone: performance has not reached the required level and therefore needs to improve in order to meet the April 2020 target.
- Increase from baseline: no reduction made and performance in this area has worsened since the baseline year.

Assurance and data

The data in Table 1 presents the GHG, energy consumption, water use and waste arisings figures as reported as part of the GGC and reports performance for 1 April 2016 to 31 March 2017. Cost data is not reported as part of the GGC, therefore all financial data presented in this report is sourced from accounting records for this period.

Energy and water data is primarily taken from supplier invoices. In most cases, the data in these invoices is informed by manual meter readings or half hourly smart meter readings. All consumption and cost data is also subject to validation and verification by Defra's Utility Bureau. These processes provide a high level of assurance that reported data is accurate and robust. The Environment Agency, RBG Kew and Forestry Commission have their own data assurance processes and produce their own Annual Report and Accounts.

Waste data is derived from figures provided by the Defra group's waste contractors. Wherever possible actual weights are used but where this is not possible waste data is calculated using a metric based on the number of bins emptied. Audits have been undertaken to validate and improve the accuracy of this data for common waste streams, using a number of key sites to establish the average weights and waste ratios. This estimation methodology will result in a small margin of error. It is not currently cost effective to weigh all waste streams.

Defra Group Performance[21]

This section of the report provides an overview of Defra group performance against the GGC targets. For the purposes of GGC reporting the Defra group comprises the following bodies.

- Defra Core Department
- Executive agencies
  - Animal and Plant Health Agency (APHA)
  - Centre for Environment, Fisheries and Aquaculture Science (Cefas)
  - Rural Payments Agency (RPA)
  - Veterinary Medicines Directorate (VMD)
- Non-departmental public bodies
  - Environment Agency (EA)
  - Marine Management Organisation (MMO)
  - Natural England (NE)
  - Royal Botanic Gardens Kew (RBG Kew)
- Forestry Commission (FC)
- Other Defra group bodies and other government departments
  (Under the major occupier rule, Defra reports the environmental impact of other government departments which occupy its buildings. Also included are some of Defra group bodies which do not meet the threshold for GGC reporting, but are of insufficient materiality to remove from the departmental dataset).

Governance

Progress against the GGC targets is reported to the Estates Director on a quarterly basis.

Quality assurance is managed through the central estates team who are responsible for producing the Defra group sustainability reports. These have been subject to internal audit in the past and found to be compliant with GGC and HM Treasury guidelines.

The Department's Commercial Director is the senior responsible owner for Defra's participation in the Carbon Reduction Commitment Energy Efficiency Scheme (CRC), European Union Emissions Trading System (EU ETS) and is signatory for the Department's Environmental Policy.

GGC Performance and Future Strategy

The Defra group aims to keep sustainability at the heart of its business delivery and operations and the Defra group strategy puts environmental improvement as its first objective. This means that it strives to operate in the most sustainable and environmentally responsible manner: improving the way we use our work spaces; reducing energy and water use; reducing the amount of waste generated; making strategic energy and waste

[21] The data contained in this annex is reported as absolute values. It has not been normalised against metrics such as FTE staff, financial turnover or metre squared floor space. The diverse business delivery across the estate is influenced by numerous factors such as weather, scientific undertakings and tourism numbers. This makes it difficult to report trends and make comparisons to other organisations.

savings from IT services; and assessing the products and services that are purchased to support all operational activities. The commitment to the sustainability of our own operations is captured in a sustainability strategy.

Estates

Business activities in the Defra group's buildings are the most significant contributor to overall environmental impact. The Defra group's portfolio comprises a diverse mix of properties which includes office buildings, storage facilities, pumping stations, forestry facilities, botanic gardens, experimental farms and complex laboratory campus facilities.

The wide range of activities undertaken presents considerable challenge in delivering savings in energy and water used and waste generated. The following section details performance and also outlines future plans for meeting all of the GGC targets.

Targets and Performance

	Current Achievements	**Milestone Target**	**Target April 2020**	**Current Performance**
GHG Reduction 2016–17 vs. Baseline	37.2% reduction	26.6% reduction	38% reduction	Ahead of Milestone
Waste Reduction 2016–17 vs. Baseline	18.7% to landfill	15.4% to landfill	Below 10% to Landfill	Behind Milestone
Water Reduction 2016–17 vs. Baseline	6.2% increase	23% reduction	Reduce from 14–15 level of 23% reduction	Increase from Baseline
Domestic Flights Reduction 2016–17 vs. Baseline	29% reduction	21% reduction	30% reduction	Ahead of Milestone
Paper Use Reduction 2016–17 vs. Baseline	49% reduction	35% reduction	50% reduction	Ahead of Milestone

Performance against the GHG target has improved during the 2016–17 year.

Defra is committed to reducing expenditure on energy costs and has contracted Breathe Energy via the RE:FIT framework. The project will deliver works in 37 of Defra group's mixed use properties that will deliver savings of around £1 million per annum guaranteed for 15 years which is the duration of the contract. Works started in March 2017 and the first phase is expected to be completed in 2018–19 and the second phase in 2019–20.

In addition to this, further rationalisation of other parts of the estate will bring more carbon, waste and water reductions in the long term making Defra's portfolio more sustainable.

At the Defra office building in Newcastle, Lancaster House, two aging boilers were replaced with new, more efficient boilers in November 2015. The winter of 2016–17 showed gas efficiency improvements of 29 percent were achieved compared to the winter of 2014–15, factoring in temperature differences.

In 2016–17 the Environment Agency (EA) introduced some innovative new measuring equipment. Pluvio rain gauges were installed at 75 sites across the country, replacing old rain gauges. The new gauges can give EA readings on all types of weather, including snow and hail as well as rain. They have no moving parts and only require one or two visits a year each due to their reliability and accuracy. This is compared to up to 12 times a year for the old rain gauges. The reduction in mileage and staff time is expected to save EA a significant amount of money and reduce carbon output.

A Government scheme to make best use of unused furniture has diverted 2.8 tonnes of waste away from Defra's figures and saved the Department £16,000 since April 2016 according to the figures provided by the scheme. The avoided waste also has an environmental benefit of not releasing an estimated 12.8 tonnes of CO_2e

The Defra group has made a 6 percent increase in water consumption from the baseline. The water reduction target requires an absolute reduction on baseline consumption and to improve on the 2014–15 achievement of

23 percent reduction. Both the RBG Kew and Forestry Commission's estates saw peaks in water use in the first half of 2016–17. RBG Kew are currently undertaking water surveys and intend to install water sub metering to improve visibility of how their water is being used and set reduction targets. Forestry Commission believe that some of their increase is due to extra water meters being installed in their estate so are now reporting more data. They are also investigating if watering at nurseries has increased too.

The Defra group currently has an average performance of $5m^3$ of water per full time equivalent (FTE) per annum within the office estate.

There is no target for scope 1 water reduction. Scope 1 water is water controlled or owned by Defra, such as in lakes or boreholes.

Environmental Management System

A certified ISO14001 Environmental Management System (EMS) covers 30 sites on the Defra group estate. These are the larger sites and those which carry the most significant environmental risk across the portfolio. Achieving and retaining the standard recognises continuing commitment to reducing environmental impact, implementing sound environmental practice and ensuring environmental policy is taken into account when making decisions and delivering projects across the estate. There are a number of grounds maintenance and land management regimes at Defra properties that aim to enhance biodiversity including: reducing the frequency of mowing regimes and leaving grassland patches to grow wild providing food and shelter for pollinators; incorporating features such as bird and bat boxes, indigenous planting and maintenance and care of wild flower meadows/areas. The EMS system is supported by environmental and energy policies.

Green Information and Communications Technology (ICT)

Defra group leads a cross-departmental group (the Green ICT Delivery Unit (GDU)) on the development and implementation of the Greening Government ICT Strategy, carrying out annual assessments across departments and publishing annual reports on progress, and starting preparation of a new cross-government 2020 sustainable digital services and technology strategy[22].

With the 2015 greening government ICT strategy now completed the GDU introduced a new portfolio of 44 best practices for achieving sustainable use of ICT into the 2015–16 assessment. In this first assessment Defra was able to report adoption of 23 of these best practices.

2015–16 saw a further reduction in the energy footprint of IBM services of 145kWH per employee, taking the total footprint to 854 kWh per employee, close to the average 856kWh figure across all 12 organisations (500,000 staff) providing this assessment .

The number of servers deployed for Defra work at IBM data centres continues to decline as virtualisation techniques are adopted and use is made of more efficient operating systems and server models. This year there has been a further saving of 173 servers from an estate of 960 at the start of the year, and net GHG emissions have reduced from 217kg CO_2e to 174kg CO_2e per month.

Defra continues to drive down the amount of non-recyclables from disposal of its ICT assets. When IT hardware is no longer required, Defra's strategic supplier of ICT services (IBM) seeks to reuse it across the Department. Items that cannot be reused are then collected by its subcontractor Northern Realisation for reuse by schools and charities, recycling of components and materials and as a last resort sent for incineration.

In its pursuit of aiding more flexible, sustainable and timely working for its 22,000 staff, Defra has embarked on implementing unified communications across the Core Department and its executive agencies, reducing desk phones and enabling staff to conduct all communications and e-conferencing through their laptops and other digital devices using common systems.

[22] https://www.gov.uk/government/collections/ict-strategy-resources#greening-government-ict

Transparency Reporting

In addition to the high level GGC targets, the Defra group also publishes a transparency statement as part of its commitment[23]. This covers climate change adaptation, biodiversity and natural environment, procurement of food and catering services, sustainable construction and people.

Further information

Quarterly updates on the Defra group's performance towards the GGC can be found online[23].

This report should be read in conjunction with the Annual Report and Account Sustainability Reports produced by each of the Defra group bodies.

GGC reporting processes use the Defra reporting standards. All energy and carbon reporting in this document uses the conversion factors described in this document.

[23] https://www.gov.uk/government/organisations/Department-for-environment-food-rural-affairs/about/our-energy-use

Table 1

ENERGY			Baseline	2013-14	2014-15	2015-16	2016-17
Non financial indicators **(kWh)**	Energy consumption	Total energy consumption	247,207,792	221,414,446	188,455,924	193,850,034	188,241,081
		Total electricity	119,777,315	97,973,907	83,313,477	93,525,801	89,955,395
		Electricity: standard	23,281,240	11,105,976	11,399,995	3,649,962	3,747,681
		Electricity: green	96,369,935	86,073,587	71,006,217	88,880,800	85,365,988
		Electricity: purchased CHP	126,140	794,344	907,265	995,040	841,726
		Gas	90,501,824	80,018,841	82,409,988	81,993,131	76,686,338
		Oil	23,701,612	35,090,862	15,487,272	13,076,858	13,542,255
		Biomass	2,604,841	1,600,098	2,682,458	3,404,249	6,941,837
		CHP	8,406,109	5,140,531	3,361,000	-	-
		Whitehall district heating system (WDHS)	343,300	-	-	-	-
		Self generated renewables	149,084	721,749	510,597	666,018	549,273
		LPG	555,812	643,462	536,181	434,071	565,984
		Other	1,167,895	224,996	154,951	749,906	-
Financial indicators **(£000)**	Total energy costs		17,202	17,896	17,149	17,537	15,406

WASTE		Baseline	2013-14	2014-15	2015-16	2016-17
Non financial indicators **(000 kgs)**	Total waste	8,116	5,427	5,424	5,159	4,861
	Hazardous waste	1,063	115	93	86	71
	IT waste recycled and unrecyclable	14	58	43	34	22
	Recycled	2,810	2,112	2,542	2,216	1,933
	Composted	75	77	37	49	35
	Incinerated with energy recovery	1,309	1,230	1,565	1,408	1,547
	Incinerated without energy recovery	471	631	459	508	418
	Landfill	3,437	1,320	780	952	904
Financial indicators **(£000)**	Total disposal cost	3,374	3,580	4,083	4,523	3,446
	Hazardous waste	n/a	918	892	641	601
	Recycled, composted (combined)	n/a	401	266	453	482
	Incinerated with energy recovery	n/a	70	229	387	412
	Incinerated without energy recovery	n/a	n/a	n/a	n/a	n/a
	Landfill	n/a	249	31	177	139

WATER			Baseline	2013-14	2014-15	2015-16	2016-17
Non financial indicators **(m3)**	Water consumption	Total scope 2 water consumption	651,542	682,655	508,374	485,439	691,783
		Supplied (office estate scope 2)	126,867	111,120	99,198	84,928	85,420
		Supplied (non office estate scope 2)	524,675	571,534	409,176	400,511	606,363
		Abstracted (scope 1)	n/a	21,584,846	28,000,000	37,881,537	n/a
Financial indicators **(£000)**	Water supply costs		1,492	1,807	1,502	1,402	1,253

GREEN HOUSE GAS EMISSIONS		Baseline	2013-14	2014-15	2015-16	2016-17
Non financial indicators **(000 kgs CO2e)**	Scope 1: direct emissions	38,768	39,069	32,131	27,496	27,831
	Scope 2: indirect emissions	59,230	43,011	40,413	42,753	37,066
	Scope 3: emissions from official business travel	21,110	14,515	13,506	12,565	10,073
	Total emissions	119,108	109,397	86,049	82,814	74,970
	Emissions eligible for CRC scheme	n/a	76,262	55,885	55,938	n/a
Financial indicators **(£000)**	Carbon Reduction Commitment (CRC)	n/a	915	944	945	n/a
	Expenditure on official business travel	23,359	30,535	25,328	24,137	25,652

OTHER TARGET AREAS		Baseline	2013-14	2014-15	2015-16	2016-17
Non financial indicators	Number of domestic flights	3,351	3,128	3,412	2,429	2,365
	Paper use (reams)	151,529	114,924	106,643	92,200	77,168

Notes

(i) Under GGC reporting, areas of a building occupied by non-government occupants are not included. Where this is the case buildings have been apportioned according to floor space occupancies.

(ii) Scope 3: Emissions from Official Business Travel data does not include international travel in accordance with the GGC reporting requirements.

(iii) The abstracted water figure for 2016–17 is not available at the time of publication.

(iv) Gas used in CHP units is not included in the gas figure as GGC reporting guidance states that this energy is reported as CHP output.

(v) The first CRC payment was made for 2011–12. Payment for 2016–17 is not due to be made until September 2017.

(vi) All consumption data presented in this report reflects reported GGC figures. Cost figures reflect the accounting records for the respective year.

(vii) Hazardous waste is included in the landfill waste figure as per GGC reporting.

(viii) Historically, a breakdown of waste costs was not available due to the contractual agreement in place at this time.

(ix) Previous years' data has been revised from last year's publication to incorporate any corrections, adjustments and to remove the data for the Sand Hutton Laboratory site that was sold from the Defra portfolio. For this reason tables and performance may appear differently to previous year's reports.

(x) Some Baseline figures include data from various years where data from 2009–10 was not available. In such instances data from subsequent years was substituted as per the GGC guidance.

(xi) RBG Kew do not have a provision for capturing domestic travel data, however the emissions are understood to be not material.

(xii) Composted and reused waste data was not available across the group as a separate stream to recycled waste prior to 2013–14. From 2013–14 some parts of the group provide separated compost and reused waste figures but these do not cover the entire Defra group.

(xiii) Emissions from electricity are captured across scope 2 and 3 as electricity generated and supplied to the national grid and due to losses in transmission and distribution of electricity through the national grid to the consumer, as defined by the GHG protocol.

(xiv) Public transport emissions are captured within the scope 3 emissions. For the purposes of taxi travel, mileage is estimated from the spend on taxis using a rate of £2.39 per mile.

(xv) Reused assets are not considered to be waste for GGC reporting purposes (except reused ICT) and so is not reported or captured in these figures.

ISBN 978-1-4741-4625-8
9 781474 146258