



Department
for Environment
Food & Rural Affairs

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Triennial Review of the Environment Agency and Natural England

June 2013

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Foreword

As I said at the start of this Triennial Review, improving our environment for future generations is one of the great challenges we face as a society. I have been working to reprioritise Defra so that the Department, and its work, is focused on growing our rural economy, improving the environment and safeguarding animal and plant health. In this context the roles of the Environment Agency (EA) and Natural England (NE) are more important than ever.



During this Review I have heard from many of the bodies' customers, who have told me how much they value what the EA and NE do, and about how their services have improved significantly in recent years. However, I have also heard ideas for ways to improve delivery. In particular, to give businesses who work with both bodies a more integrated and effective customer experience, and the need for further innovation and greater efficiency in order to allow the bodies to remain resilient in the face of difficult challenges ahead.

I have therefore concluded in this Review that the EA and NE should be retained as two separate public bodies with separate purposes and functions, but that both bodies should continue to reform how they deliver their services to their customers and drive further efficiencies.

The need to grow the rural economy in support of sustainable economic growth while improving the environment and delivering a better service has been at the forefront of my mind when finalising the conclusions of this Review. I am confident that the changes set out in this report strike the right balance between retaining two strong bodies with clear remits to deliver Defra's priorities, and making transformational changes to the way the bodies work, both individually and collectively, to ensure that they have a resilient and successful future.

The bodies themselves have worked closely with my Department throughout the Review and they are best placed to decide how to achieve the changes that are needed. I look forward to seeing their plans for implementing the conclusions of this Review.

A handwritten signature in black ink, appearing to read 'Owen Paterson', written in a cursive style.

Rt Hon Owen Paterson
Secretary of State for Environment, Food and Rural Affairs

Overview of the Environment Agency and Natural England

Environment Agency

The Environment Agency (EA) was established as a Non-Departmental Public Body (NDPB) under the Environment Act 1995, with the principal aim: *“in discharging its functions so to protect or enhance the environment, taken as a whole, as to make the contribution that the Secretary of State considers appropriate towards achieving sustainable development”*.¹

The EA works to protect and improve the environment in England. It reduces the risks to people and properties from flooding; makes sure there is enough water for people and wildlife; protects and improves air, land and water quality; and applies the environmental standards within which industry must operate. Acting to reduce climate change, and helping people and wildlife adapt to its consequences, are at the heart of all that the EA does. The EA is a Category 1 responder and works with other emergency services to prepare for and respond to incidents, and to help communities recover after an incident.²

The EA's priorities, as set out in its Corporate Plan (2011-15) are to:

- act to reduce climate change and its consequences;
- work with people and communities to create better places and to reduce the risks from flooding;
- protect and improve water, land and air; and
- work with businesses and other organisations to use resources wisely.

The EA works closely with a wide range of partners including national and local government, businesses, other agencies, civil society groups and communities.

2012/13³

Annual budget: £1,112m (inc. Grant in Aid from Defra plus £417m in income from fees, charges and other sources of income).

Staff: approximately 11,500 FTE based in England and Wales.

The figures above relate to the Environment Agency for England and Wales. From 1 April 2013 Environment Agency Wales became part of Natural Resources Wales.

2013/14

Annual budget: £1,096m (inc. Grant in Aid from Defra plus charges, levies, partnership funding and other income)

Staff: approximately 11,300 based in England

¹ Environment Act 1995

² www.cabinetoffice.gov.uk/content/civil-contingencies-act

³ Environment Agency Corporate Plan 2012-15 and Annual Report and Accounts 2011-2012

Natural England

The purpose of Natural England (NE), as defined by the Natural Environment and Rural Communities Act 2006, is to: *“ensure that the natural environment is conserved, enhanced and managed for the benefit of present and future generations, thereby contributing to sustainable development”*.⁴

NE is a national organisation which covers the whole of England, extending 12 nautical miles out to sea. As an independent organisation, NE provides a range of specialist advice and incentives at both local and national levels to maintain, protect and enhance the natural environment. NE makes available evidence and information on the natural environment which Government, local authorities, communities and others can use in their work.

NE's priorities, as set out in its Corporate Plan (2012-15) are to achieve the following outcomes:

- a healthy, well-functioning natural environment;
- people are inspired to value and conserve the natural environment;
- sustainable use of the natural environment; and
- a secure environmental future.

NE works closely with a wide range of partners including national and local government, businesses, other agencies, civil society groups and communities.

2012/13

Annual budget: £201m (inc. Grant in Aid from Defra plus £23m from other sources of income, and the administration of £468m paid to landowners under the Rural Development Programme for England).⁵

Staff: 2,063 FTE permanent employees plus 226 FTE fixed-term and short-term appointments.

2013/14

Annual budget: £193m (inc. Grant in Aid from Defra plus £21m from other sources of income, and the administration of £457m paid under agreement to landowners under the Rural Development Programme for England).

Staff numbers: 2,055 FTE permanent employees plus 197 FTE fixed-term and short-term appointments.

⁴ Natural Environment and Rural Communities Act 2006

⁵ Natural England Corporate Plan 2012-15

Introduction

1. Over the next decade Defra and its delivery bodies must be sharply focused on growing the rural economy, improving the environment and controlling plant and animal disease. The Environment Agency (EA) and Natural England (NE) are crucial for delivering these priorities.
2. The scale and nature of the challenges faced by the global environment have changed significantly since both bodies were established. At the same time, the global economic climate has changed dramatically, requiring the Government to do all it can to stimulate sustainable economic growth.
3. Growing the economy and improving the natural environment are not mutually exclusive; a healthy and productive environment is essential to future prosperity. The Government is committed to high levels of environmental protection and has set out a clear vision for this in the Natural Environment White Paper.
4. This Triennial Review has taken a fundamental look at how the EA and NE can continue to deliver the Government's priorities for the environment with improved resilience in the face of current and future environmental and economic challenges. The Review has looked at how the bodies can work in leaner, smarter ways to enable and drive sustainable growth, making best use of the resources available to them.
5. This Review is also part of the wider Government agenda to scrutinise how the Government delivers its objectives as effectively and efficiently as possible, achieving the best possible value for taxpayers and the public. This is vital given the continued need to reduce Government spending and address the fiscal deficit.

Section 1: Context

6. The Triennial Review of the EA and NE was launched in December 2012 with a Written Ministerial Statement and the publication of a Discussion Document.⁶ By reviewing both bodies together, the Review has engaged with the bodies' shared stakeholders, making the process as efficient as possible, while increasing the potential opportunities for reform and innovative delivery.
7. Specific characteristics of the two bodies that have shaped this Review are that many of their duties are statutory requirements, often derived from European legislation, which would still apply regardless of reforms to the bodies themselves. Many of their duties are also essential to the environmental and societal well-being of the country, including protection from environmental emergencies such as flooding. The Review has sought to ensure that the resilience of the bodies is maintained and the delivery of vital services is protected.
8. The Review has been carried out in line with the principles of transparency. The Review Team has worked with the bodies themselves and many stakeholders, ensuring regular communication with the EA and NE Boards.
9. The Review has also taken account of the activities of other bodies with functions that are linked to those of the EA and NE. The Joint Nature Conservation Committee (JNCC), the public body that advises the UK Government and the devolved administrations on UK-wide and international nature conservation, has also been subject to Triennial Review alongside this Review and the conclusions of this are published in parallel to this report. Information from each Review has informed the other.
10. The Forest Services functions of the Forestry Commission have also been reviewed alongside, though not as part of, this Review. The Forest Services Review has concluded that Forest Services should not be brought into the EA or NE. The full conclusions of the review of forestry functions will be reported in due course.
11. The Review recognises that other changes to the delivery of Defra's policy priorities are expected but that it is too early to take them fully into account in these conclusions. For example, there are ongoing discussions on the future

⁶ www.gov.uk/government/consultations/triennial-review-of-the-environment-agency-and-natural-england

delivery of the Common Agricultural Policy (CAP), which will need to take account of the outcome of negotiations on CAP reform. Decisions on CAP implementation may provide further opportunities to reform NE's functions in the future, building on the conclusions of this Review. Similarly, in the future there may be further opportunities for innovation in delivery of the EA's Flood and Coastal Erosion Risk Management (FCERM), which has not been considered in detail in this Review as very recent changes are still bedding down.

12. In addition, Defra, through its programme of work known as Strategic Alignment, is looking across its Executive Agencies, Non-Departmental Public Bodies (NDPBs) and other bodies to see how the Department can bring aspects of its business together to work better, smarter and more efficiently as one network. Defra's bodies have committed to work together to realise the potential benefits and savings from establishing a common support services function (which encompasses support functions such as IT, finance, procurement and estates).

Aim of the Review

13. At the beginning of the Review, Defra made clear that a successful Review would deliver better quality outcomes for the environment, for society and for the economy into the long term. This means having the right organisational capability and capacity to deliver current environmental priorities whilst also having the flexibility and resilience to respond to changing environmental priorities and pressures in future. It means being able to deliver environmental priorities whilst supporting growth through working effectively with business, contributing to required reductions in Government spending and working in partnership with local communities.

Approach to the Review

14. The Review was carried out in line with Cabinet Office Guidance for Triennial Reviews of NDPBs.⁷ The EA and NE are large and complex organisations with a wide range of functions and diverse customers and stakeholders. The Review considered all of the bodies' functions in detail, assessing them against the Government's tests for whether an activity was appropriate to be carried out by an NDPB. Annex A describes this analysis. As part of the process, the Review considered whether there were alternative delivery models or other opportunities for reform. Where significant potential opportunities for reform within the timescale of the Review were identified, particularly in activities where there was

⁷ www.gov.uk/government/uploads/system/uploads/attachment_data/file/62129/Cabinet-Office-Guidance-on-Reviews-of-Non-Departmental-Public-Bodies.pdf

commonality between the two bodies, these were considered in greater depth. Annexes D and E describes the functions considered in more detail.

15. The Review also considered the overall structural form of the EA and NE. The Discussion Document, which launched the Review, described a spectrum of scenarios for reform, ranging from retaining two separate bodies with further significant ongoing reform, through to creating a new single body. The Review has further developed the assessment of these scenarios and undertaken an analysis of their costs and benefits. The details of the analysis of form, and a summary of the cost benefit analysis undertaken, are set out in Annex F.
16. Throughout the Review, Defra Ministers and the Review Team have engaged extensively with the full range of stakeholders for the EA and NE to ensure that their views were taken into consideration. Views were invited on the Discussion Document published at the launch, and opportunities were also provided for stakeholders to offer their views in structured workshops and meetings. The Review Team is grateful to the many organisations and individuals who took time to offer their views, which have been taken into account in the evidence for the Review. A summary of stakeholder engagement is in Annex B. Annex C describes the external challenge and assurance process.
17. The Review Team also worked closely with the leadership and staff of the bodies themselves and is grateful for the invaluable advice and information they have provided. The Review Team recognises the many pressures which the bodies have faced during the period of the Review, including the EA's management of flooding emergencies, and has endeavoured to minimise any disruption to normal business.
18. This report reflects current Government policies and priorities. These may change and the EA and NE will need to reflect such changes at the appropriate time.

Section 2: Review Findings

19. **The EA and NE should be retained as two separate Non-Departmental Public Bodies (NDPBs) but with further ongoing reform of their functions and ways of working.**
20. **The EA and NE will need to work closely together to deliver their environmental outcomes in a climate of fiscal constraint. Defra will put in place the necessary measures to support them in this and to hold the leadership of the two bodies to account.**
21. The EA and NE have significant and valued roles in delivering the Government's ambitions on the environment and flood and coastal erosion risk management, whilst supporting sustainable economic growth.
22. The Review considered both the functions and the form of the two bodies. It has taken into account a wide range of views from stakeholders, evidence from the bodies themselves, and advice from the external Challenge Group and consultants.
23. From the analysis of **functions**, the Review found that there are significant opportunities to reform the delivery of the functions and services currently undertaken by the EA and NE, in order to improve both the effectiveness and efficiency of the services. The opportunities for functional reform are described in Annexes D and E.
24. These include better integration of land management capability and customer experience, and consolidation of the bodies' planning processes. The Review also found the bodies could go even further to drive a customer-focused culture, develop effective partnership working, further reduce regulatory burdens, secure back office reforms, and streamline marine conservation advice with JNCC.
25. On **form**, the Review has assessed whether the reforms to the delivery of functions are best achieved through retaining two separate bodies, or by creating a new single body through a merger of the two bodies.
26. The Review found that the functions and capabilities of the two bodies are different and stakeholders value their distinct roles and expertise. The Review's analysis suggests that the costs and disruption associated by a merger would not be sufficiently outweighed by the benefits to justify such a move, particularly

when significant further progress is possible within the existing structure. Merging the bodies would also require complex primary legislation.

27. The Review has therefore concluded that the bodies should remain as two separate NDPBs, with both retaining their current purposes and statutory roles.
28. It is clear that transformational change is needed to meet the challenges of delivering our environmental outcomes, especially against a background of budgetary constraint. In recent years, the EA and NE have delivered significant structural and cultural change, developing new ways of working and embedding best practice. This now needs to be driven forward further and faster by the two bodies to meet the significant challenges ahead. This means ongoing substantial reform to how the EA and NE operate individually and together.
29. The bodies share environmental objectives, stakeholders, customers and delivery partners, particularly in relation to land management and planning functions. Although they have different skills and functions, this commonality of interest presents opportunities to deliver better and more efficiently together, providing a better, simpler service to their customers. The Review has considered how to incentivise both bodies to work more effectively together and with other partners, taking account of the fact that progress in this area since the Arm's Length Body Review (2010) has not yet gone as far as it could. It also considered how best to create the right culture and climate to drive through efficiency and innovation in delivery across the two separate organisations.
30. Defra will mandate the leadership of the EA and NE to continue to drive reform across the two bodies, focusing on: improving integration and innovation in delivery of environmental outcomes; delivering gains in efficiency and productivity; maintaining resilience; driving culture change and developing a better experience for customers; and supporting sustainable economic growth. The two bodies will themselves determine how best to deploy their resources to deliver these outcomes.
31. Defra will set a clear commission for the Chairmen and Chief Executives of both bodies to produce and deliver a joint plan for driving further integration to deliver environmental outcomes. This could include: piloting new ways of working; sharing skills and expertise; testing innovative ways of delivering land management objectives to achieve outcomes at lower cost; delivering a single point of contact for land management customers; and consolidating local planning teams.
32. Defra will also ask both organisations to commit to driving back office efficiencies and sharing of services, and to look for further efficiencies in middle office and

front line delivery to drive continuous improvement in cost efficiency across the whole of the EA and NE.

33. Defra will oversee these reforms through setting stretching objectives for the two bodies, using new performance measures and regular reporting on progress, in order to hold to account the leadership of both bodies for delivery of the conclusions of the Review.

34. The conclusions of the Review are listed below. Further detail is set out in the annexes on the opportunities for functional reform, the scope for driving greater efficiency savings and improving the bodies' customer engagement.

Box 1: Conclusions

Conclusion 1: For **land management services**, the EA and NE should work together to use their combined resources and processes in innovative ways, working with stakeholders and partners, to better integrate and improve their quality, resilience and efficiency.

Conclusion 2: Building on recent progress, there are further opportunities for the EA and NE to work together proactively on their **planning functions** to communicate a coherent offer to developers and government organisations, so that they are better aware of the full range of services offered.

Conclusion 3: Working together to build on recent progress, the EA and NE should consolidate their planning advice processes in the best way possible in order to provide a seamless **planning advice** service to developers on environmental issues.

Conclusion 4: The EA and NE should continue to develop effective partnerships working with private and voluntary organisations. In particular, NE should continue to explore opportunities to maintain or improve outcomes through increasing the involvement of delivery partners from the private and voluntary sectors in delivering **access and engagement** activities including, where appropriate, transferring responsibility for delivery to these partners, and the EA should continue to pursue partnership arrangements as part of its angling strategy.

Conclusion 5: The EA and NE have made good progress in implementing the ongoing programme of regulatory reform and should maintain the pace of reform to make it simpler and less burdensome for businesses to interact with the EA and NE. To support this, the EA and NE should ensure they have mechanisms in place to identify and implement further regulatory reforms and Defra will be encouraging more stretching targets for the EA and NE's **regulatory burden reduction**.

Conclusion 6: NE will work more collaboratively with JNCC when providing **marine conservation** advice that spans the 12 nautical mile boundary. In particular they will explore further the delegation of renewable energy advice for English offshore waters from JNCC to NE. This should produce a more streamlined and efficient service to the customer.

Conclusion 7: Defra will look to the EA and NE, working through the cross-network Strategic Alignment Programme, to deliver the maximum possible efficiencies in **support services**.

Conclusion 8: The bodies face a continuing need to make financial savings. The EA and NE should work with Defra to deliver as much of these savings as possible through efficiencies in support services and middle-office, and through looking at innovative approaches to delivering value for money front-line services.

Conclusion 9: Defra will look to the EA and NE, working through the cross-network Strategic Alignment Programme, to harmonise **data commissioning, collection and use** as far as practicable.

Conclusion 10: The leadership of the EA and NE should embed further changes across the two bodies to build on the 'yes if' culture, and develop a more pragmatic approach to how they **engage with customers**, whilst still delivering the necessary environmental outcomes.

Conclusion 11: Defra will examine, and improve the consistency of, its **engagement** with and **commissioning** of the bodies. This will be taken forward through the Strategic Alignment Programme, which is investigating how a stronger headquarters function could drive improved commissioning and outcomes across the network.

Conclusion 12: The EA and NE should be retained as **two separate bodies** but with further ongoing reform of their organisation, functions and ways of working.

Conclusion 13: Defra will put in place a package of measures to drive and monitor actions in response to this Review. This will include a clear commission to the leadership of both bodies to produce and deliver a **joint plan for driving further integration between the two bodies**, and a commitment to **driving back office efficiencies and sharing of services**.

Section 3: Delivering Change

Implementing Reform

35. Defra will task the leadership of the EA and NE with developing a clear, jointly-owned plan of action to drive reform across the two bodies in order to meet the Review's conclusions. As part of this, Defra will task the leadership teams to consider how to better integrate across the two bodies to drive efficiency and innovation. They will have discretion over exactly how they will achieve these outcomes, as they are best placed to drive reform. This action plan should set out the specific actions that the bodies will take in response to this Review along with target dates for their completion.
36. To ensure sufficient oversight of this plan, the bodies will be expected to work closely with Defra and the wider Defra Network. The bodies will then be expected to report to Defra's Supervisory Board on a regular basis on their collective progress in driving change in response to this Review. Defra will put in place a range of measures, including new performance measures, to hold to account the leadership of both bodies for the delivery of the reforms outlined in this Review.
37. Successful reform of the two bodies in response to the Review will rely on the full engagement of all staff within the two bodies. This will make the most of the experience and technical expertise of the staff and help to maximise the opportunities for improved delivery and efficiency. Defra will look to the leadership of the EA and NE to keep their staff fully informed as the conclusions of the Review are implemented and that staff have suitable opportunities to feed in their views.
38. Defra will look to the EA and NE to produce a plan for action in response to the Review's conclusions in Autumn 2013, to be followed by a progress report in June 2014.

Control and Governance

39. In line with the requirements of the second stage of Triennial Reviews, as set out in the Cabinet Office Guidance for Triennial Reviews,⁸ the Review has considered the control and governance arrangements in place to ensure that

⁸ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/62129/Cabinet-Office-Guidance-on-Reviews-of-Non-Departmental-Public-Bodies.pdf

retained NDPBs are complying with recognised principles of good corporate governance.

40. Defra has made a number of changes since the Arm's Length Bodies Review in 2010 to improve the accountability, performance management and governance of the EA and NE, and to ensure that effective sponsorship arrangements are in place. Details of how the bodies are currently performing against the principles of good corporate governance are set out alongside this document.⁹
41. As the further reforms described in this report are implemented, the control and governance arrangements will be kept under review to ensure that the bodies continue to comply fully with the principles.

⁹ Full Assessment of Compliance with the Principles of Good Corporate Governance
www.gov.uk/government/publications

Section 4: Annexes

- A. Analysis of Activity and Structure
- B. Stakeholder Engagement
- C. External Challenge and Assurance
- D. Functions Analysis
- E. Efficiency, Culture and Oversight
- F. Structural Form
 - i. Summary
 - ii. Cost Benefit Analysis of Structural Reform Scenarios
- G. Terms of Reference for the Review
- H. Terms of Reference for the Challenge Group
- I. The Review Team

Annex A: Analysis of Activity and Structure

Box 2 – What is a Triennial Review?

It is Government policy that a Non-Departmental Public Body (NDPB) should only be set up, or retained, if Departments can clearly demonstrate that it is the most appropriate and cost effective way of delivering the relevant functions.

In April 2011, the Government announced that all NDPBs must undergo a substantive review at least once every three years to:

- provide a robust challenge of the continuing need for individual NDPBs – both their functions and their form, employing the ‘three tests’ discipline (see Box 3); and
- where it is agreed that a particular body should remain as an NDPB, to review the control and governance arrangements in place to ensure that the public body is complying with recognised principles of good corporate governance.

The Environment Agency and Natural England are Executive NDPBs sponsored by Defra. This type of public body has varying degrees of operational autonomy and independence from Ministers and their sponsoring Department. All work within a strategic framework set by Ministers who, in turn, are ultimately accountable to Parliament and the public.

1. The Review undertook an analysis of both the functions and form of the EA and NE as required by Cabinet Office Guidance.¹⁰
2. The primary functions of the EA and NE are summarised in baseline information published by Defra in January 2013.¹¹ This information also details the main activities carried out by the bodies to deliver their primary functions.
3. The Review focused on the individual activities that make up the overarching functions, in order to challenge their continuing value and to identify opportunities for reform. The Review assessed all of the bodies’ activities in detail, identifying why they are carried out, considering any scope for alternative delivery approaches. It also assessed them against the Government’s specific tests for whether an activity was appropriate to be carried out by an NDPB. The results of the assessment against the Government’s tests are summarised in Box 3.¹²

¹⁰ www.gov.uk/government/uploads/system/uploads/attachment_data/file/62129/Cabinet-Office-Guidance-on-Reviews-of-Non-Departmental-Public-Bodies.pdf

¹¹ www.gov.uk/government/consultations/triennial-review-of-the-environment-agency-and-natural-england

¹² Paragraph 6.5 of the Cabinet Office Guidance for the reviews of NDPBs
www.gov.uk/government/uploads/system/uploads/attachment_data/file/62129/Cabinet-Office-Guidance-on-Reviews-of-Non-Departmental-Public-Bodies.pdf

4. The assessment recognised that a number of areas were already subject to ongoing review, or that recently completed reviews were currently being implemented. These included the EA's Flood and Coastal Erosion Risk Management (FCERM) functions and both bodies' regulatory functions. Some recent reviews have already considered alternative delivery models for some of the functions. This Triennial Review has reflected the conclusions of these reviews but has not repeated their work.
5. The assessment found that the majority of the activities are needed to deliver legal requirements, policy commitments, or both. Those activities that did not have a statutory or policy underpinning were either found to be inextricably linked to those that did, such as some of NE's evidence activities, or already were being wound down by the bodies.
6. The assessment highlighted the wide range of activities that both bodies carry out and the diverse customer groups they serve. It identified little direct duplication in activity across the two bodies. It did, however, identify areas where the bodies work with similar customers or carry out similar processes, such as: providing planning-related advice to developers and local planning authorities; providing consents; or commissioning and undertaking monitoring activity. It also found that the legal or policy requirement underpinning the activities often allows flexibility in the delivery method.
7. The activity assessment also considered how the activities were delivered, to assess the scope to improve benefits by changing delivery models. As a result, the Review identified areas of potential reform for further detailed analysis.
8. Overall the assessment found significant opportunities to reform the delivery of the EA and NE's services in order to improve both effectiveness and efficiency. Some of these opportunities were for better delivery of some activities by the bodies themselves; others were for potential alternative delivery approaches. These areas became the focus of the next phase of the Review, the results of which are set out in Annex D.

Box 3 – Assessment of the Government’s “three tests”

The Review concluded that a substantial majority of the bodies’ activities passed at least one of the Government’s tests for being undertaken by an NDPB, with many passing two or three. In terms of the individual tests:

- **Technical function - is this a technical function (which needs external expertise to deliver):** the vast majority of activities passed this test, as they require technical expertise and knowledge of delivery that Defra does not have in the central Department. An example is the advice that both bodies provide to planning authorities.
- **Political impartiality - is this a function which needs to be, and be seen to be, delivered with absolute political impartiality (such as certain regulatory or funding functions):** the activities that were found to require political impartiality were, for example the regulation of industrial activities by the EA.
- **Facts and figures - is this a function which needs to be delivered independently of Ministers to establish facts and/or figures with integrity:** the activities that passed this test were, for example, NE’s monitoring of and reporting on the state of the Marine Protected Areas network.

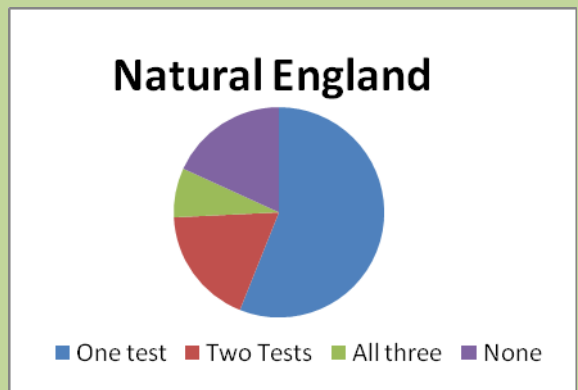
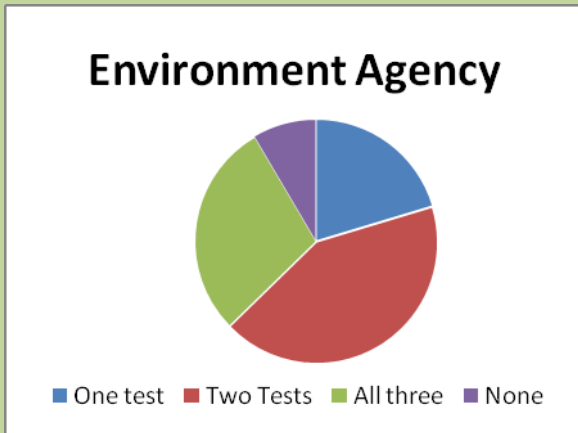
Most activities that did not pass any of the tests directly were found to underpin those that did, for instance certain NE activities providing the evidence base to deliver other activities. The group of functions which did not pass the tests either directly or indirectly were the EA’s navigation functions. These were examined further during the Review, and are discussed in Annex D.

Details of how many activities passed each of the tests is summarised on the next page.

The Review recognised that passing these tests does not necessarily mean that an activity must be delivered by an NDPB and could not benefit from reform and innovation. Conversely, where activities do not pass the tests, there needs to be a feasible and cost effective alternative delivery approach before they can be transferred away from the NDPB.

Box 3 continued: Assessment of the Government's "three tests"

Government "three tests"	
EA	How many activities passed:
	Technical Function 53
	Politically Impartial 37
	Establishing Facts & Figures 23
	How many activities passed:
	One test 12
	Two Tests 25
	All three 17
	None 5
	Total 59
NE	How many activities passed:
	Technical Function 52
	Politically Impartial 14
	Establishing Facts & Figures 10
	How many activities passed:
	One test 37
	Two Tests 12
	All three 5
	None 12
	Total 66



Annex B: Stakeholder Engagement

What stakeholders have said

1. Stakeholders' views have been a vital part of the review process. The Review Team has engaged extensively with a wide range of stakeholder organisations, including individuals, civil society organisations, businesses, trade associations and public sector bodies, both before and during the Review. A summary of stakeholder engagement activities is set out below, along with a list of the organisations that have been consulted as part of the Review.
2. The Review Team asked stakeholders about their experience of working with the bodies; in particular what changes they thought could be made to improve the way the bodies work and achieve better outcomes for the environment, economy and society.
3. Stakeholder views varied. There was significant support, across all groups, for the work of the two bodies and a positive picture of efforts the bodies have made to improve the way they work in recent years.
4. Stakeholders also highlighted areas where the current delivery landscape should be improved, for example, where problems had arisen as a result of duplication and conflicts between the bodies. Advice services were highlighted as an area of particular concern where problems with duplication and conflicts were seen to have led to confusion, inefficiency, and unnecessary bureaucracy by some stakeholders.
5. There was clear consensus on what stakeholders were looking for the Review to achieve, including:
 - a clear statement of priorities and clarity on functions and purpose;
 - a more consistent framework for decision making and improved transparency in decision making and advice;
 - more timely, consistent, evidence based advice;
 - a collaborative approach between the bodies and other delivery partners; and
 - continued access to local 'place based' advice and technical expertise.
6. There were strong views from stakeholders on whether there should be one or two bodies, with a mixture of preferences expressed. A significant number

of stakeholders, including individuals, strongly supported the retention of two bodies and maintaining a strong independent voice for nature. Some stakeholders advocated the benefits of moving to a single body, particularly over a longer time scale, whilst other stakeholders were agnostic about structure, stating no overall preference. Instead these stakeholders felt structure was a secondary issue as the priority should be about ensuring the right functions were delivered effectively.

7. Views from stakeholders have formed an important part of the evidence base for the Review, alongside the analysis that the Review team has undertaken. In particular, evidence from stakeholders guided the Review Team's thinking on the priority areas that the Review needed to focus on. A full summary of stakeholder views was published in April 2013.¹³

Summary of stakeholder engagement activities

8. The Review Team sought to engage the full range of stakeholder organisations with an interest in the work of both bodies, both before and during the Review. Four stakeholder workshops were held prior to the Review, one in July 2012 and three in October 2012, with the aim of raising awareness about the Review and using stakeholders' experience to inform the scope and lines of enquiry for the Review.
9. During the Review, there were a number of ways in which interested organisations and individuals were engaged:
 - an open invitation to respond to a Discussion Document setting out potential options for reform which was published at the start of the Review. 357 responses were received: 135 from organisations and 222 from individuals. A broad range of groups responded and all relevant stakeholder sectors gave views;
 - a stakeholder workshop was held on 24 January 2013, attended by around 90 organisations from a wide range of sectors. The event was introduced by Defra Secretary of State, Owen Paterson, and provided an opportunity for participants to discuss the scenarios for reform set out in the Discussion Document and the opportunities for improving the way the two bodies work;
 - the Review Team attended a number of stakeholder forums run by the two bodies including the EA Regulated Business Forum, the EA Charges Review Group, the Defra/EA Flood and Coastal Risk Management

¹³ www.gov.uk/government/uploads/system/uploads/attachment_data/file/186722/triennial-ea-ne-summary-responses.pdf

Stakeholder Forum, the EA England and Wales Fisheries Group, the NE Developer Industry Group, the NE Agri-Environment Stakeholder Group, the NE Access and Engagement Advisory Group, and the MMO Marine Stakeholder Focus Group; and

- a small, informal Stakeholder Reference Group of key stakeholders was set up to ensure the Review was informed by the expertise and experience of key stakeholders and to provide insight into the perspectives of the wider stakeholder community. The group met four times during the course of the Review and included individuals from the Wildlife Trusts, the Royal Society for the Protection of Birds, the National Trust, the National Farmers Union, the Country Land and Business Association, the Federation of Small Businesses, Energy UK, Water UK, the Environmental Services Association and local government.

List of organisations consulted as part of the Review

The Review Team has proactively engaged a wider range of stakeholders covering the wide ranging remits of the two bodies. A list of those organisations that have been engaged during the Review is set out below:

- ABPMer
- Action with Communities in Rural England (ACRE)
- ADAS UK
- Adapting to Climate Change
- ADEPT
- Age UK
- Agricultural Land Tribunals
- Agriculture Industries Confederation (AIC)
- Amphibian and Reptile Conservation
- Anaerobic Digestion and Biogas Association
- Anglian Water
- Angling Development Board
- Angling Trust
- Association of British Insurers
- Association of British Pharmaceutical Industry (ABPI)
- Association of Building Engineers
- Association of Drainage Authorities
- Association of Electrical Producers
- Association of Inshore Fisheries and Conservation Authorities
- Association of Local Environmental Record Centres (ALERC)
- Association of Local Government Archaeological Officers (ALGAO)
- Association of Local Government Ecologists (ALGE)
- British Association for Shooting and Conservation (BASC)
- Bat Conservation Trust
- Black and Veatch
- Better Regulation Executive
- Berkeley Strategic Land Limited
- British Poultry Council
- Bristol Natural History Consortium
- British Ecological Society
- British Geological Survey
- British Horse Society
- British Insurance Brokers Association
- British Marine Aggregate Producers Association
- British Marine Federation
- British Metals Recycling Association
- British Mountaineering Council
- British Ports Association
- British Property Federation
- British Rowing
- British Trust for Conservation Volunteers
- British Trust for Ornithology
- British Waterways
- Broads Authority
- Bovis Homes plc

- Butterfly Conservation
- Cabinet Office
- Campaign for National Parks (CNP)
- Campaign to Protect Rural England (CPRE)
- Canal & River Trust
- Confederation of British Industries (CBI)
- Cefas
- Central Association of Agricultural Valuers (CAAV)
- CEMEX
- Centre for Ecology and Hydrology
- Centrica
- Centrica Energy Renewables
- Chamber of Shipping
- Chartered Institute of Ecology and Environmental Management
- Chartered Institution of Wastes Management (CIWM)
- Chemicals Industry Association
- Chief Fire Officers Association
- Church of England
- Chemical Industries Association (CIA)
- Civil Aviation Authority
- Civil Society Advisory Board
- Chartered Institution of Water and Environmental Management (CIWEM)
- Civil Engineers Contractors Association
- Climate UK
- Coastnet
- Coastal Partnerships Network
- Commission for Rural Communities
- Coastal Groups
- Committee on Climate Change Secretariat
- Council of Mortgage Lenders
- Confor
- Consumer Council for Water
- Country Land and Business Association
- Countryside Council for Wales
- Countryside Properties (UK) Ltd
- Crown Estate
- DECC
- Defend our Coast
- Department for Communities and Local Government
- Department of Civil, Environmental and Geomatic Engineering, University College London
- Department for Business, Innovation and Skills
- Department for Transport
- DOENI
- Dorset Council
- EDF (New Nuclear Build)
- EDF (Nuclear Generation)
- EDF Energy
- EEF (The Manufacturers Organisation)
- The Environmental Industries Commission (EIC)
- Environmental Performance Partnerships Agreements
- Energy Networks Association
- Energy UK
- Engineering Employers Federation
- England Woodland Biodiversity Group
- England Woods and Timber Partnership
- English Coastal Groups
- English Heritage
- English National Park Authorities Association
- Environment Agency
- Environment, Food and Rural Affairs Parliamentary Select Committee
- ESA (Environmental Services Association)
- Estates Business Group
- Farming and Countryside Education (FACE)
- Food and Drink Federation (FDF)
- Fieldfare Trust
- Flood Forecasting Centre
- Flood Protection Association
- Food and Drink Federation
- Forestry Commission
- Friends of the Earth
- Federation of Small Businesses (FSB)
- Game & Wildlife Conservation Trust
- Geoconservation Commission
- GeoConservationUK
- Geologists' Association
- Geologists' Trusts
- Gloucestershire County Council
- Grasslands Trust
- Great Ouse Boating Association
- Greenspace
- Groundwork Trust
- Hampshire County Council
- Heritage Alliance
- Health Protection Agency
- Highways Agency
- HM Treasury

- Home Builders Federation
- Homes and Communities Agency
- IBM
- IEEP
- Inland Flood Risk Group
- Infrastructure Planning Commission
- Infrastructure UK
- Institution of Civil Engineers
- Institute of Fisheries Management
- Institute of Agricultural Secretaries & Administrators (IAgSA)
- Jacobs
- Jackson Civil Engineering
- Joint Nature Conservation Committee (JNCC)
- Joseph Rowntree Foundation
- Landscape Institute
- LEAF
- Learning Through Landscapes
- LGA Coastal Special Interest Group
- Linking Environment and Farming (LINK)
- Local Better Regulation Office
- Local Government Association (LGA)
- Local Government Information Unit
- Local Government Association Inland Flood Risk Group
- Local Government Flood Forum
- Local Government Technical Advisory Group Coastal & Fluvial
- Mammal Society
- Marine Biological Association
- Marine Conservation Society
- Marine Management Organisation
- Marine Stewardship Council
- Met Office
- Midlands (Trent) RFCC chair & LGA Flood Group
- Ministry of Defence
- Mineral Products Association
- Moorland Association
- National Association for AONBs
- National Farmers' Union
- National Pig Association (NPA)
- National Federation of Builders
- National Federation of Fishermen's Organisations
- National Flood Forum
- National Flood Partners Group
- National House-Building Council
- National Grid
- National Trust
- National Voice for Coastal Communities
- Natural England
- Network Rail
- New Earth Group
- New Economics Foundation
- New Forest Tourism
- New Under Ten Fishermen's Association
- Non Ferrous Alliance
- North Norfolk District Council
- North West Coastal Forum
- Northern Ireland Rivers Agency
- Ofwat
- Oil and Gas UK
- Open Spaces Society
- Ordnance Survey
- Peak District
- Peel Holdings
- Pennine Prospects
- People's Trust for Endangered Species
- Planning Inspectorate
- Plantlife
- Predation Action Group
- Ramblers
- Red Cross
- Regional Flood and Coastal Committees
- Renewable Energy Association
- Renewables UK
- River Restoration Centre
- Royal Botanic Gardens, Kew
- Royal Haskoning DHV
- Royal Institute of British Architects
- Royal Institute of Chartered Surveyors
- Royal Society for the Protection of Birds (RSPB)
- Royal Town Planning Institute
- Royal Yachting Association
- Rural Payments Agency
- Sainsbury's
- Salmon and Trout Association
- School of Built and Natural Environment, Northumbria University
- Scottish Government
- Scottish Power
- Scottish Environment Protection Agency (SEPA)
- Seabed User and Developer Group
- Shark Trust
- Shellfish Association of Great Britain
- Shropshire Council
- Small Woods Association
- Soil Association

- Sport and Recreation Alliance
- Sport England
- Statkraft (Chair of Renewable UK consents and licensing group)
- Sub-Sea Cables UK
- Tees Valley Industry Nature Conservation Association
- Tenant Farmers' Association (TFA)
- Thames User Group - Navigation
- Thames Water
- The Atlantic Salmon Trust
- The British Chambers of Commerce
- The Conservation Volunteers
- The Deer Initiative
- The River Trusts
- The Survey Association
- UK Association of National Park Authorities (UK ANPA)
- UK Forest Products Association
- UK Harbour Masters' Association
- UK Irrigation Association
- UK Major Ports Group
- UK Petroleum Industries Association (UKPIA)
- Veolia
- Water UK
- Welsh Government
- Whale and Dolphin Conservation Society
- Wildfowl & Wetlands Trust
- Wildlife and Countryside Link (WCL)
- Wildlife Trusts
- Wood Panel Industries Association
- Woodland Trust
- World Land Trust (WLT)
- WRAP (Waste and Resource Action Programme)
- WWF UK

Annex C: External Challenge and Assurance

1. The Review process and emerging findings were subject to challenge not only by stakeholders but also by an external Challenge Group and external consultants.
2. The Challenge Group was established in line with Cabinet Office guidance for Triennial Reviews to provide independent scrutiny of, and challenge to the Review. The Group comprised senior leaders from both within and outside Government, and was chaired by Dame Deirdre Hutton. Annex J provides the terms of reference and membership of the Challenge Group. The Group met three times:
 - at the beginning of the Review to help shape the work;
 - mid way through the Review to check direction and ensure the correct consideration of the issues; and
 - towards the end of the process to ensure that the conclusions that were being drawn were properly supported by the evidence and were workable.
3. The Challenge Group considered the process and methodology of the Review to be resilient and thorough.
4. An analytical quality assurance group, consisting of academic and public sector experts, has also provided valuable comments on the evidence and methodology behind the review's analysis of the bodies' functions and form.
5. The consulting group KPMG were commissioned to conduct further quality assurance of the Review methodology and to provide input into the cost benefit analysis for the Review on the form of the bodies. This provided assurance that the opportunities identified for further investigation by the Review Team were reasonable, and provided additional evidence on the costs and benefits of potential options for organisational change around a two or single body solution.

Annex D: Functions Analysis

1. The Review identified a range of opportunities to reform the ways in which the bodies carry out their functions, drawing on the evidence from the functional analysis and the views of stakeholders. The Review's conclusions on these opportunities are set out below.

Integrated delivery of land management services

2. Both bodies deliver services to land managers to improve statutory and policy-driven environmental outcomes. The EA deals with flood risk management and water quality and resources, while NE is responsible for biodiversity, landscape and access.¹⁴ These activities are distinct and there is a clear rationale for their split between the bodies.
3. There is little direct duplication in activity between the two bodies, with the consolidation of Catchment Sensitive Farming having removed the last remaining significant area of overlap.¹⁵
4. However, the bodies often advise the same customers in their respective roles, and some land managers feel the approach could be more effective. Some land managers are confused by the split in responsibilities between the bodies, particularly as the EA and NE are not the only organisations advising and influencing land managers on environmental issues. This confusion is particularly acute in the small number of instances where advice to individual managers conflicts, but is also felt when customers detect duplication of contact. Stakeholders also mention inconsistency in approach, both between the bodies and between the bodies' joint approach in different regions.
5. The Review has observed that a contributing factor to this confusion is that the policies and targets driving delivery activities are not always themselves fully joined up by Defra. However, the bodies also need more of a shared purpose for the full range of land management-related environmental outcomes, both nationally and locally.
6. As noted, while duplication in delivery activity is minimal, the bodies have common purpose, customers, policy levers and processes. This, together with the evidence from stakeholders and others, has led the Review to conclude there is scope for the bodies jointly to deploy their resources and delivery tools to deliver a shared environmental agenda more efficiently.

¹⁴ The Baseline Information contains further detail of the bodies' activities (www.gov.uk/government/consultations/triennial-review-of-the-environment-agency-and-natural-england).

¹⁵ www.gov.uk/catchment-sensitive-farming

7. The Review therefore proposes that, in order to enable the bodies to deliver significant further improvement that builds on the efficiencies already made, the EA and NE better integrate their capability, expertise and systems for delivering environmental outcomes relating to land management, including elements of objectives on water quality, biodiversity, climate change, landscape and flooding.
8. Under these arrangements, the bodies would be expected to:
- make it simpler and easier for customers to interact with the bodies;
 - drive efficiency savings by avoiding duplication and developing cost-effective and innovative delivery tools such as online information and advice;
 - develop internal mechanisms to ensure a consistent approach to delivering the agreed priorities. This should include mechanisms for quickly resolving issues around conflicting objectives;
 - work more closely with stakeholders and partners to deliver these objectives;
 - have access to the necessary local and technical expertise and sufficient senior management to make timely and consistent local decisions; and
 - deliver joint performance indicators on land management outcomes.

Conclusion 1: For **land management services**, the EA and NE should work together to use their combined resources and processes in innovative ways, working with stakeholders and partners, to better integrate and improve their quality, resilience and efficiency.

Planning-related advice

9. The EA and NE are both Statutory Consultees for planning applications, with distinct and separate areas of responsibility related to their statutory functions, and advise local authorities on environmental and flood risk aspects of development management.¹⁶ Increasingly, they both directly advise developers before they submit formal planning applications. Both have local teams of planning advisers and technical specialists who provide this advice, tailoring it to local areas.
10. This is an area where both bodies have substantial engagement with businesses and other Government organisations. Evidence collected about how the functions are currently delivered has not revealed significant duplication in the advice provided.¹⁷ However, they both provide advice to a similar group of customers and carry out similar processes when providing this advice.¹⁸

¹⁶ The Baseline Information contains further detail of specific situations where they are consulted (www.gov.uk/government/consultations/triennial-review-of-the-environment-agency-and-natural-england).

¹⁷ In the two years to April 2013, NE and EA were consulted on about 86,000 planning applications, pre-applications and environmental assessment consultations. Of these, they estimate 8,100 consultations (or 9%) were sent to both organisations.

¹⁸ This includes Local Planning Authorities, the Marine Management Organisation for marine developments and the Planning Inspectorate for nationally significant developments at the formal consultation stage. Both Bodies are increasingly consulting directly with developers on a discretionary basis before they submit formal applications.

11. Developers and Local Planning Authorities have recognised that the way the EA and NE give this advice has improved, but concerns about the service remain to varying degrees:

- developers sometimes find it challenging to engage with the bodies at an early stage of the planning process;
- the quality and consistency of advice provided by each body varies nationally. There is a perception that this reflects the availability of skills at the regional level;
- too much precaution is applied, particularly for low-risk cases; and
- financial constraints on the bodies and other Government organisations present a risk to the quality of service, and could lead to a loss of skills.

12. In relation to the structure of the bodies, some businesses value the transparency of having advice provided by two bodies on two sets of issues, and are concerned that this would be lost in a single organisation. But there is recognition that Government organisations should look for smarter ways to work together to make better use of their resources.

13. In line with these views, the Review agrees that it is important that the EA and NE play a constructive role in the planning system, whilst fulfilling their statutory duties. They should work closely together so that developers can have a single conversation with the range of organisations involved. Their advice should be solution focussed and provided early in the planning process, when there is greatest potential to adjust developments in order to deliver required environmental outcomes. Advice should be nationally consistent, whilst being locally adapted as necessary.

14. The Review has noted the number of recent changes that the EA and NE have made to improve this service and anticipates that these changes will address many of the issues raised in relation to planning. However, discussions have also highlighted that not everyone is aware of all of these improvements and the offer from the EA and NE. The bodies and Defra should do more to communicate the improvements to their performance and the service offered to developers and other Government organisations.

Conclusion 2: Building on recent progress, there are further opportunities for the EA and NE to work together proactively on their planning functions to communicate a coherent offer to developers and government organisations, so that they are better aware of the full range of services offered.

15. The Review has had feedback that, in some instances, agreed improvements and best practice are not consistently implemented by local teams. It also notes that some developers want greater national consistency in advice on both terrestrial and marine planning issues, particularly when they are operating on a national scale. The EA and NE should continue to develop internal mechanisms to improve the consistency and

quality of advice provided by local teams. This should ensure that reforms are fully implemented; knowledge is better shared between the teams; and commercial and technical skills are available at a local level.

16. Recognising that both bodies provide planning advice in a similar way and often engage with the same customers, there is potential to consolidate some of these activities to make more effective use of their resources. The Government would like to see a seamless planning advice service provided to developers on environmental issues, providing consistent and locally tailored advice early in the planning process. Building on the strength of the individual bodies' expertise, the Review expects the EA and NE to work together to continue to develop this approach, with increased commercial awareness.

17. The Review believes a consolidated planning advice service should:

- deliver efficiency savings in back and middle office areas of the functions;¹⁹
- support a broader range of skills at a local level, particular increased commercial awareness and a solutions focus;
- provide greater capacity for more proactive engagement with developers before the formal consultation stage;
- make it easier for other Government organisations to engage with the bodies;
- improve the consistency of advice provided by local teams, so that customers receive the same quality of advice regardless of where they are located.

18. The bodies will need to work closely together, with support from Defra, to identify the best approach to consolidation. This will need to take account of risks associated with disruption to advice and customers' views.

Conclusion 3: Working together to build on recent progress, the EA and NE should consolidate their planning advice processes in the best way possible, in order to provide a seamless planning advice service to developers on environmental issues.

19. As the bodies face continued pressures on budgets, they will need to focus on providing advice for planning consultations that has the greatest impact on their priority objectives. To enable this, the bodies will continue to develop and maintain standing advice for low-risk cases and input to Local Authority strategic planning documents, such as Local Plans. This will help limit the number of cases where the EA and NE need to provide bespoke responses.

¹⁹ Back office services provide general support to the body itself, e.g. IT, HR etc. Middle office services support the delivery of front line services while not involving direct contact with customers; e.g. form processing and grant administration.

Partnership working in access, engagement and angling

20. The Review found that both bodies have made significant progress in working with and through partner organisations since the Arm's Length Body Review (2010). However, there is further scope for both bodies to continue to develop effective working partnerships with private and voluntary organisations across their work.
21. In order to maintain expertise and capability, this should include drawing on other organisations such as the university sector, non-Government organisations and local/community groups. Consideration should be given to the transfer of responsibility for some activities to partner organisations where outcomes could be maintained or improved. This could maximise the effectiveness of current activities, and reduce duplication of effort.
22. There are already a number of different approaches to place-based working, including approaches based around water catchments and Local Nature Partnerships, and the bodies should continue to make best use of these.
23. In particular, NE should continue developing effective partnerships with businesses and voluntary groups to deliver activities related to public access to and engagement with the natural environment including, where appropriate, transferring responsibility for delivery to these partners in line with the Access & Engagement Strategy for NE published in March 2012.²⁰
24. Similarly, the EA should continue to pursue opportunities for greater partnership working in angling. As part of its 2005 angling strategy, '*Angling in 2015*', the EA has encouraged development of the angling sector to take on the role of angling promotion, with the Angling Trust taking the lead in coordinating angling promotion on behalf of the voluntary sector since 2010.²¹ The Angling Trust has engaged with 780 organisations and 29,000 individual anglers to identify issues affecting anglers, leading to the publication of a National Angling Strategy '*Fishing for Life*', launched in autumn 2012.²²

National Nature Reserves

25. The Review identified potential options to change the management of National Nature Reserves (NNR). These merit further investigation over a longer timescale, to ensure that we continue to offer the best value for money for the taxpayer, support economically and environmentally sustainable growth, and offer the best outcomes for businesses, customers and the public. These options would not include selling the NNR estate, but could include: (1) alternative management of sites where there is an appetite amongst NGOs or others for assuming responsibility; (2) investigation of

²⁰ <http://publications.naturalengland.org.uk/publication/2776293>

²¹ www.environment-agency.gov.uk/research/library/publications/38067.aspx

²² www.anglingtrust.net/page.asp?section=816

innovative funding streams; and (3) opportunities for efficiencies in management practices. Stakeholders will be fully engaged on any future changes.

Conclusion 4: The EA and NE should continue to develop effective partnerships working with private and voluntary organisations. In particular, NE should continue to explore opportunities to maintain or improve outcomes through increasing the involvement of delivery partners from the private and voluntary sectors in delivering access and engagement activities including, where appropriate, transferring responsibility for delivery to these partners; and the EA should continue to pursue partnership arrangements as part of its angling strategy.

Regulatory Activities

26. The EA's regulatory activities make up a substantial part of its business. Together they represent a core lever for delivering its priorities. In 2011/12 its total budget for this activity in England and Wales was £350 million, involving 5,858 full time equivalent staff (FTE).²³ NE carries out a smaller amount of regulatory activity; in 2011/12 it estimated that its budget for this activity is £3.4 million, with 93 FTE.
27. The Review Team heard mixed views from businesses about how well the bodies carried out these regulatory activities. Some thought that the EA's regulatory activities were fine, whilst others thought the permitting system needed to be reviewed. There were also concerns about consistency in approach, and how the regulatory activities interacted with the bodies' advisory roles.
28. Through the Government's programme of regulatory reforms, these activities have already been rigorously reviewed, for example through the Red Tape Challenge Environment Theme, with extensive input from businesses, environmental organisations and members of the public. The bodies are making good progress in reducing the burden of their regulation on businesses and also in making it easier for businesses to interact with them.²⁴ They should maintain the pace and ambition of reform to continue to make it simpler and less burdensome for businesses to interact with the bodies.
29. Through Defra's Smarter Guidance and Data reforms, the EA and NE are working with other bodies across the Defra Network to simplify guidance so that by March 2014 there is a single version of guidance on www.gov.uk.²⁵ This will be shorter, clearer and easier to find and follow. They are also doing a root and branch review of what

²³ Information on National Regulators, published as part of Focus on Enforcement: (<http://discuss.bis.gov.uk/focusonenforcement/list-of-regulators-and-their-remit/>). Also refer to the baseline information for details of specific regulatory activities carried out by the Bodies: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/69584/pb13728-red-tape-environment.pdf

²⁴ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/69584/pb13728-red-tape-environment.pdf

²⁵ www.guidanceanddata.defra.gov.uk

information they request from businesses and working to streamline the way information is collected and managed.

30. Defra is also taking forward work to share and co-ordinate enforcement intelligence more formally between regulators in the Defra Network to reduce duplication and more effectively target and deal with “rogue” operators. To ensure its success it is vital that the EA and NE are fully engaged with its development, and are willing to make any changes necessary to better share intelligence across the network.
31. Alongside these reforms, the EA and NE’s regulatory activities need to be efficient and provide value for money to the taxpayer and businesses alike. Both organisations should be taking every opportunity to drive down costs and operate more efficiently for this reason. In addition, both organisations should continue to work to adopt a consistent approach, both within the bodies themselves and with other bodies, to cost recovery where appropriate, in line with overarching Government principles of charging for services.²⁶
32. The bodies will also need to be prepared to implement future regulatory reforms. For example, the Government has recently consulted on its intention to introduce a statutory duty to require regulators to take into account the impact of their activities on the economic prospects of firms they regulate. If this measure is introduced, the EA and NE will work with Defra to understand how this will affect their existing duties and regulatory activities.
33. As part of this reform programme, Defra has welcomed proposals put forward by the bodies to improve how they regulate on the ground and the respective programmes the bodies have in place to implement the agreed reforms. To continue to drive this agenda, the bodies should ensure they have mechanisms in place to identify further regulatory reforms, making good use of feedback from regulated businesses. This should be done within a framework set by Defra to ensure consistency of approach and objectives across Defra’s delivery network.
34. The EA’s and NE’s performance indicators for reducing regulatory burdens are consistently achieved. This indicates that the EA and NE are making good progress on this agenda. However, there is scope for more stretching targets for regulatory burden reduction. This would encourage further regulatory improvements in line with the Government’s ambitions.

²⁶ Managing Public Money, HM Treasury – Chapter 6: Fees, Charges and Levies - http://www.hm-treasury.gov.uk/d/mpm_ch6.pdf

Conclusion 5: The EA and NE have made good progress in implementing the ongoing programme of regulatory reform and should maintain the pace of reform to make it simpler and less burdensome for businesses to interact with the EA and NE. To support this, the EA and NE should ensure they have mechanisms in place to identify and implement further regulatory reforms and Defra will be encouraging more stretching targets for the EA and NE's regulatory burden reduction.

Delivery of marine functions

35. The EA, NE and JNCC undertake work in the seas around England. The EA works close to the coast on issues such as water quality and pollution; NE provides advice on marine nature conservation out to 12 nautical miles from the coast. JNCC provides advice on marine nature conservation in UK offshore waters (beyond 12 nautical miles), coordinates UK wide marine issues and reporting, and provides standards and guidance to other country conservation bodies.²⁷
36. There are already a number of ongoing improvements to the co-ordination of marine delivery work within the EA, NE and JNCC, alongside bodies such as the Marine Management Organisation. A *Focus on Enforcement* review conducted during the autumn of 2012 examined the industry's day-to-day experience of regulation at the coast, and gathered views on how current enforcement practices could be reformed to remove unnecessary red tape. Industry raised some concerns that lack of coordination between regulators imposed unnecessary costs and uncertainty on firms. To respond to these concerns, Defra is working with these bodies to introduce a Marine and Coastal Development Concordat, which should be in operation by September 2013. This will make life easier for businesses by providing applicants for marine licences with a single point of entry spanning all of the regulatory systems, guiding them through the full range of consents, permissions and licences they will require for their development, and improving and streamlining existing processes.²⁸
37. As part of the Triennial Review process, work has been carried out to assess the EA, NE and JNCC marine functions. Further detail is set out in the report on the Triennial Review of the JNCC.²⁹ This has identified that there is further scope to improve the way in which certain marine functions are delivered, including better join-up between JNCC and NE in providing marine conservation advice. Stakeholders, in particular those from the renewable energy sector, expressed some concern about clarity of NE and JNCC's roles around the delivery of advice, in particular for offshore renewable cases.

²⁷ The Marine Management Organisation (MMO) also has a significant role, but was outside the scope of this Review.

²⁸ Defra response to the Focus on Enforcement Review of Coastal Projects and Developments (February 2013): <http://discuss.bis.gov.uk/focusonenforcement/review-findings/government-takes-action-to-cut-red-tape-for-coastal-projects-and-investments-summary/>

²⁹ <https://www.gov.uk/government/consultations/triennial-review-of-the-joint-nature-conservation-committee>

Conclusion 6:

NE will work more collaboratively with JNCC when providing **marine conservation** advice that spans the 12 nautical mile boundary. In particular they will explore further the delegation of renewable energy advice for English offshore waters from JNCC to NE. This should produce a more streamlined and efficient service to the customer.

CAP delivery

38. NE manages and delivers agri-environment schemes under the Rural Development Programme for England, which forms part of Pillar 2 of the Common Agricultural Policy (CAP). Payments to farmers and land managers are made by the Rural Payments Agency (RPA), an Executive Agency of Defra, which also manages direct payments to farmers under CAP. Reforms to CAP for the period 2014-20 are currently under negotiation within the EU and decisions on how CAP should be delivered in the future in England have not yet been taken. Many stakeholders value NE's role in delivering agri-environment schemes as central to its core purpose.
39. The Review considered whether there was scope, in the shorter term, for some administrative and processing elements of agri-environment delivery to be transferred to RPA in order to achieve efficiency savings and simplification for customers.
40. The delivery of agri-environment schemes is of major importance to NE, involving around one third of its staff, of which pure back office functions represent a very small proportion. It is closely linked to the achievement of many of NE's environmental priorities, including biodiversity, natural resource protection and landscape.
41. The Review concluded that: in the short term, cost savings from a transfer of the back office processing functions alone would be limited; that it would be difficult to make changes ahead of the implementation of new IT systems; and there would be risks of disruption to customers. There was therefore not a strong case for making this change ahead of the wider CAP implementation.
42. Defra is now taking forward further work, both to design the future Pillar 2 schemes and, as part of the Strategic Alignment Programme, the optimum future delivery of CAP in England. This might provide the opportunity for further reform of NE's functions and the opportunity to achieve more efficiency savings in the Defra Network.

Navigation responsibilities

43. The EA is the second largest navigation authority in England and Wales, and is responsible for managing nearly 1,000km of rivers and maintaining these waterways and neighbouring land for boaters and other users. The Review's initial assessment concluded that the EA's navigation functions did not need to be undertaken by an

NDPB. In February 2011, the Government set out its vision for these waterways to be managed by the new waterways charity, the Canal & River Trust (CRT).³⁰ The Government said it was intended that this transfer would take place in 2015/16 if sufficient funding could be found, and subject to the agreement of the CRT trustees. The Review noted that further consideration of these issues was already being taken forward separately and therefore did not duplicate this work. Further announcements will be made in due course.

Flood and Coastal Erosion Risk Management (FCERM)

44. Flood and Coastal Erosion Risk Management is one of the EA's core functions, representing about 38% of its staff and nearly half of its total budget (2012/13). The EA is structured to provide resilience to deal with emergencies, including flooding, so that staff can be deployed quickly and flexibly across its different functions, if necessary to respond to an incident.
45. At the time of the Review, the changes in the EA's FCERM functions made following the Pitt Review of flooding in 2008 had only recently been implemented and were still bedding down. It was also noted that the EA had introduced a number of innovations to its delivery, including greater partnership working. The Review did not, therefore, carry out any in depth analysis of flooding functions. However, in considering options for structural change, it was mindful of the need to retain the necessary resilience to respond to emergencies. The Review recognised that alternative delivery models for FCERM functions had from time to time been proposed and that, given the significant resource implications, it would be necessary to retain flexibility to revisit these in future.

³⁰ <https://www.gov.uk/government/news/transfer-of-environment-agency-navigations-to-new-waterways-charity>

Annex E: Efficiency, Culture and Oversight

Driving Efficiency to Achieve Changes

1. Both bodies will face reduced budgets in future as Defra's spending continues to fall. Measures to improve the efficiency of delivery throughout the bodies will be vital to ensure that the reductions in spending can be met with as little impact on front line services as possible.
2. The bodies responded well to the pressures of the 2010 Spending Review (SR) and have taken major steps to reduce costs in a way that minimises impacts on delivery. A summary of some of the key measures is in Box 5.

Box 5: Measures being taken by the bodies to improve efficiency and deliver financial savings

Environment Agency	Natural England
<ul style="list-style-type: none">• Reducing administrative costs by 33% in real terms over the SR10 period• Reduce senior managers in England by 20%• Restructuring regional and local offices to reduce overheads and focus on delivery• Reform of head office structures	<ul style="list-style-type: none">• Reduction in total costs of £44m (21.5%)• 40% reduction in cost of back office functions• 25% reduction in total staff numbers, and 44% reduction in senior management staff• Removal of redundant regional layers and streamlining of operations

3. The challenge of tackling fiscal pressures in the wider context is not abating so the drive for greater efficiency and productivity must be relentless. Therefore the bodies will have to work harder to come up with innovative solutions to delivery to be able to drive efficiency and meet the financial challenge.
4. The Review has found that there are likely to be opportunities to drive efficiency further from within the bodies across support services, middle office and in front-line engagement with customers. This is consistent with views from stakeholders and has been backed up by input from both the Review's Challenge Group and from KPMG, acting as external consultants.
5. The Review has concluded that the leadership of both the EA and NE need to be given a clear mandate to drive financial savings, and to be held to account by Defra to ensure that they are maximising opportunities for savings across the organisations. The bodies need to do this from within but it is legitimate to give a clear steer that reflects Ministers' priorities and budget pressures.
6. A prime area for efficiency savings is in support services such as IT, finance, HR and procurement. This is because a similar function is typically required both across both

organisations and in other organisations. Both bodies have made substantial efficiencies in support services, with NE accessing a Defra shared service for the majority of its support services. Both bodies are continuing to work with the Government-wide programme seeking to achieve greater sharing of services, capability and expertise in the public sector.

7. Defra is committed to further changes in support services through its Strategic Alignment Programme. This has recently committed to working towards a single set of support services for Defra and its network bodies over the medium term, seeking to achieve substantial reductions in cost and greater flexibility across the Defra Network.
8. The opportunity for continued savings in support services functions are therefore most likely to be realised through the continued cross-network efforts, as opposed to specific requirements for the EA and NE alone. It is vital that the bodies work closely with Defra's cross-network Strategic Alignment Programme to move to integrated support services functions and drive further efficiencies in support services functions.
9. Further efficiencies may be possible from reforms to middle and front office such as through greater standardisation of processes and greater integration of local delivery. For example, as set out in Annex D, the bodies will be tasked with examining how they could achieve greater integration of their land management services through the two bodies' field forces, enabling greater efficiency as well as a more joined up service for customers.
10. There are likely to be opportunities for further savings from taking innovative new approaches to process and delivery, allowing them to maintain outcomes under substantially reduced budgets. Defra will need to work closely with the two bodies to identify areas where there are opportunities for innovation in delivery and prioritise effectively to ensure that resources are focused on delivering on its key priorities.
11. Within the timescale and resources of the Review it has not been possible to assess these opportunities in detail to make a robust estimate of the scope of efficiency savings and the exact measures which would need to be undertaken by the bodies. To undertake this will require in-depth analysis by the bodies themselves.
12. The Review Team is not setting specific efficiency targets for the bodies. Instead, Defra will look to the bodies to achieve as much as possible of the spending reductions required in the Spending Review for 2015/16 through efficiency savings across support services, middle office and front line delivery. These should be enabled by the conclusions of this Review. We will ask the bodies to report back to Defra on the opportunities they have identified and the proposed measures which they intend to undertake to achieve the desired efficiency savings.
13. Defra's Strategic Alignment Programme will support the bodies in this activity, by identifying a number of key principles for the Defra Network which will seek to drive the

network as a whole to be efficient, flexible and with the right capability to be able to deliver on its outcomes.

Conclusion 7: Defra will look to the EA and NE, working through the cross-network Strategic Alignment Programme, to deliver the maximum possible efficiencies in support services.

Conclusion 8: The bodies face a continuing need to make financial savings. The EA and NE should work with Defra to deliver as much of these savings as possible through efficiencies in support services and middle-office, and through looking at innovative approaches to delivering value for money front-line services.

Efficiencies in monitoring and data collection

14. The EA and NE collect the majority of environmental monitoring and surveillance data on behalf of Defra's network, informing both delivery and policy development. The Review has identified potential for a more efficient, rationalised approach, through better commissioning, prioritisation and integration of evidence work across the Defra Network and with external partners. The Triennial Review of the JNCC similarly outlines opportunities for the EA, NE and JNCC to collect marine evidence more efficiently.³¹
15. The Review recognises that the most effective way to achieve this is through the work of the consolidated evidence project of the Strategic Alignment Programme, which aims to integrate evidence commissioning, gathering and use across the Defra Network. The project will deliver options for short and medium term savings and has already developed (and had approval for) a model for a network-wide approach for the delivery of all monitoring activities.
16. The Review has also found opportunity for evidence to be more consistently and effectively disseminated from the centre to the local level to inform decision-making and to maintain expertise on the ground.³² Stakeholders valued the role of the EA and NE in gathering data to support decision making and in making this available to others, but noted that greater consistency in collection and usage of data could improve the customer experience and reduce costs, particularly through improved dissemination of local data.
17. The Review considers that the EA and NE should consider innovative ways of making best use of data from monitoring at the local level to help support the delivery of environmental outcomes.

³¹ [Ref JNCC Report](#)

³² Defra has a wide network of partners, some of whom provide us with advice, and some of whom deliver our policies to our customers. (<https://www.gov.uk/government/organisations#department-for-environment-food-rural-affairs>).

Conclusion 9: Defra will look to the EA and NE, working through the cross-network Strategic Alignment Programme, to harmonise data commissioning, collection and use as far as practicable.

Changing Culture to Engage More Constructively

18. Both the EA and NE have made significant progress in changing their culture in recent years. The EA is largely perceived as a professional, well led organisation which has managed the recent budget reductions effectively and driven significant cultural change through such ways of working as its 'yes, if' approach, although it does still attract complaints and concerns. NE is also recognised as having made real progress in improving its responsiveness to customers, with increasing levels of customer satisfaction. However, some businesses and local authorities told the Review they wanted NE to be more business minded, flexible and show greater awareness of the economic and social context for their decisions.
19. Defra needs NE to continue to deliver successfully against its statutory remit for the environment. However, it is important that it should do so in a way that minimises impacts on business, makes it as easy as possible for industry to comply with environmental requirements, and understands the economic drivers, without undermining the required environmental outcomes. Some of the concerns raised could be addressed by ensuring that front line delivery staff adopt a more pragmatic approach, where this is possible within their statutory remit, and show better awareness of the wider context in their dealings with customers even where there is no flexibility. To achieve this improved engagement, changes in culture are required. NE has already begun to address such concerns through initiatives to become more collaborative, customer-focused and flexible.
20. Across the public sector there is increased focus on ensuring all services have the right people with the right skills in place to deliver effectively, and the right leadership to drive continuous improvement. An important aspect for achieving this improved performance will be for the EA and NE to ensure, jointly in areas of shared interest, that people with the right skills are in the most appropriate roles to deliver the organisations' functions, and to regularly review this position.

Conclusion 10: The leadership of the EA and NE should embed further changes across the two bodies to build on the 'yes if' culture, and develop a more pragmatic approach to how they engage with customers, whilst still delivering the necessary environmental outcomes.

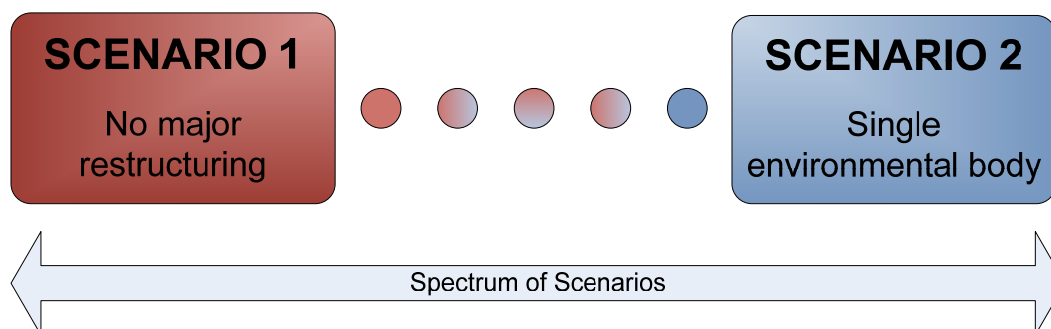
Defra Commissioning and Oversight

21. The Review has looked at the current arrangements within Defra for setting priorities for the bodies to ensure these arrangements are robust and enable the bodies to deliver effectively on behalf of Defra.
22. This has found that sponsorship arrangements and the tasking of the bodies are in general working well and that continued progress has been made in managing the relationships with the bodies. In particular, financial accountability and performance monitoring of Defra's NDPBs has significantly increased since 2010 and is now similar to the level of oversight for the Executive Agencies.
23. Although it works well in general, the Review has found that there is the opportunity for further improvements in how Defra engages with the two bodies. The Review has found substantial variation in how Defra works with the bodies across different areas and there can be issues such as a lack of clarity over the degree of oversight required by Defra and the amount of information provided to Defra.
24. Given the nature of NDPBs and the wide variety in the roles of the two bodies, a single approach to engagement would not be expected. Some activities would be expected to have a higher degree of oversight or a more specific commission due to their nature. Therefore, the Review is not advocating a single approach to commissioning or that oversight should be so in depth that it might risk the independent status of the bodies.
25. However, there are a number of general principles for engaging with the bodies which could lead to better outcomes and greater clarity. Close engagement between policy teams and delivery teams is needed to ensure a constructive relationship in order to agree on the outcomes to be delivered and the activities needed for delivery. Close links between sponsorship teams and policy teams are needed to ensure that the strategic steer to the bodies is backed up by an effective prioritisation and an understanding of the synergies and trade-offs between different policies and targets. Close links between policy teams within Defra are also required to ensure that environmental priorities are balanced with the financial and physical resources available.

Conclusion 11: Defra will examine, and improve the consistency of, its **engagement** with and **commissioning** of the bodies. This will be taken forward through the Strategic Alignment Programme, which is investigating how a stronger headquarters function could drive improved commissioning and outcomes across the network.

Annex Fi: Structural Form: Summary

1. The Review has considered a spectrum of scenarios ranging from maintaining two separate bodies with further ongoing reform, to combining them into a single body.



2. We present here the costs and benefits of two main scenarios: a single body scenario and a reformed two-body scenario. The Review has looked at both the financial and non-financial costs and benefits of these scenarios, and tested them against the aims of the Review summarised in section 1. It has also considered how the form of the two bodies might affect the potential scale and likelihood of success of the other proposed reforms set out in the Review.

Single Body

3. The assessment found that the largest benefits could be delivered through a single body. This would be more likely to deliver the required joined up services, culture change and greater resilience and flexibility described in Annex D. There is also potential to reduce costs to customers as the interface between customers and the bodies is streamlined. That said, the actual extent of the estimated benefits is relatively modest because the areas of commonality between the two bodies are limited relative to the full range of their functions, applying to some key environmental objectives, customers and processes.
4. There would be substantial upfront costs associated with moving to a single body, as well as complex legislative change. The need for primary legislation means that it would take at least two to four years to get new structures fully in place before the benefits could start to be delivered.
5. The Review estimated that around £9m of benefits could be delivered each year with around £45m upfront costs. Assuming costs are incurred over three years from the year of vesting and benefits start to be realised the year following vesting, this implies a

Net Present Value (NPV) of £26m over ten years.³³ The time required to move to a single body, and the associated cost and complexity, means that the costs and disruption of change would outweigh the benefits for at least five years. The benefits of a single body are not only longer term but are also much more uncertain than its costs.

6. The Review therefore found the benefits of a single body to be modest relative to the cost and disruption, even in the longer term, and upfront costs to be substantial. Merging the bodies would also mean losing the individual identities of the two bodies and their environmental objectives, which are valued by stakeholders.
7. As noted, the bodies do have areas of common interest, sharing environmental objectives, stakeholders, customers and delivery partners. To deliver on a number of the recommendations of the Review requires closer working between the two bodies and better alignment in how they work with similar customer groups. In addition, there is a continuing need to make transformational change to meet the challenges of delivering environmental priorities under fiscal constraints, and in ways that are responsive to customer needs.

Two Bodies

8. The Review therefore looked at how the desired outcomes could be delivered without structural change. This took account of the substantial reforms that the two bodies have already delivered and their ongoing change, but noted that the joining up of delivery proposed in the ALB review has not happened to the extent that some stakeholders would wish.
9. The Review found that a significant proportion of the benefits of a single body can potentially be delivered under existing structural arrangements, depending on how successfully the bodies are able to implement the recommended reforms under the current structure. The Review estimated the annual potential benefits of the two-body model are between £0-9m, with a central estimate of £4.5m, and upfront costs of £4-11m. Assuming that costs are incurred over two years, with benefits beginning in the second year, the resulting NPV over 10 years is between £-3.8m and 56m, with a central estimate of £26m. The ranges indicate the uncertainty over these estimates.
10. Based on the quantitative and qualitative analysis of both models, the Review concludes that a two body model, with a strong mandate to work together where it is efficient and effective to do so, would be the most cost-effective way to drive forward the required transformational change. The two bodies will be tasked with producing and delivering a joint plan for delivering environmental outcomes where they have a shared interest, in order to drive forward reform and closer alignment, while preserving the

³³ The net present value is a method for comparing current and future costs and benefits on a consistent basis. The net present value has been calculated in line with HMT's Green Book guidance (<https://www.gov.uk/government/publications/the-green-book-appraisal-and-evaluation-in-central-government>).

bodies' individual identities and environmental objectives. This enables much of the benefit associated with a single body to be delivered but without the high cost and disruption associated with a major structural reform.

11. This conclusion depends on Defra giving the two bodies a clear mandate to work across the two organisations to deliver the benefits from sharing back and middle office services and joining up to deliver a shared set of environmental priorities as efficiently as possible. The Review has concluded that significant change is best driven from within the organisations, drawing on the skills, knowledge and experience of those directly concerned. The leadership teams will therefore determine how best to drive change in a way which maximises the benefits whilst maintaining business as usual and minimising disruption.
12. The approach will preserve the many positive aspects of the existing delivery arrangements that have been highlighted by stakeholders. This includes maintaining NE's role in enhancing the natural environment and biodiversity and ensuring that the EA retains the ability to respond to serious flood incidents. At the same time, it presents a positive opportunity to drive transformation together for the very important functions undertaken by the two bodies, enabling greater flexibility and resilience in response to changing environmental and policy pressures.
13. Defra will mandate the leadership of the EA and NE to continue to drive reform across the two bodies, focusing on improving integration and innovation in delivery of environmental outcomes, delivering gains in efficiency and productivity, maintaining resilience, driving culture change and developing a better experience for customers, supporting sustainable growth.
14. Defra will set a clear commission for the Chairmen and Chief Executives of both bodies to produce and deliver a joint plan for driving further integration to deliver environmental outcomes. This could include: piloting new ways of working to jointly deploy resources and tools to deliver a common agenda and share skills and expertise; testing innovative ways of delivering land management objectives to achieve outcomes at lower cost; delivering a single point of contact for land management customers; and consolidating local planning teams.
15. Defra will also ask both organisations to commit to driving back office efficiencies and sharing of services and look for further efficiencies in middle office and front line delivery to drive continuous improvement in cost efficiency across the whole of the EA and NE.
16. Defra will set a clear commission for the Chairmen and Chief Executives of both bodies to produce and deliver a joint plan for driving further integration to deliver environmental outcomes. Defra will oversee these reforms through setting stretching objectives for the two bodies, using new performance measures and regular reporting

on progress, in order to hold to account the leadership of both bodies for delivery of the conclusions of the Review.

17. The analysis which supported the decision on structural form is summarised in Annex Fii.

Conclusion 12: The EA and NE should be retained as two separate bodies but with further ongoing reform of their organisation, functions and ways of working.

Conclusion 13: Defra will put in place a package of measures to drive and monitor actions in response to this Review. This will include a clear commission to the leadership of both bodies to produce and deliver a joint plan for driving further integration between the two bodies, and a commitment to driving back office efficiencies and sharing of services.

Annex Fii: Structural Form: Cost Benefit Analysis of Structural Reform Scenarios

Problem under consideration and objectives

1. The Review has assessed whether the functional reforms and wider organisational reforms are best achieved through retaining two separate bodies, or by creating a new single environmental body through a merger of the two bodies.

Scenarios considered and preferred scenario

2. The two main structural reform scenarios considered are:

Single body, comprising functions of the EA and NE, with a single Chief Executive, Board and executive team.

Two-body model, with ongoing reform of organisation, functions and ways of working.

3. A two-body model is preferred because, on the basis of the evidence, and providing that the right governance tools are used to support reform, much of the potential benefit is likely to be available at significantly lower cost and risk.

Methodology for the analysis

4. The Triennial Review team analysed the reform scenarios using evidence from a range of sources. The quantitative and qualitative evidence were assessed separately, as explained here, and were then brought together to summarise the scenarios.

Quantitative costs and benefits of structural reform

5. This focused on the direct financial costs and benefits associated with structural reform, especially the transition costs associated with reform and the savings that might result. The impacts were identified with help from the EA and NE, and drew on the Welsh Assembly Government's experience of setting up National Resources Wales. Additional input was provided by KPMG, acting as an external consultant to the Review and providing estimates of the potential costs and benefits of structural reform based upon their experience of public sector reform.
6. These costs and benefits were quantified where possible within the timescale of the Review although, given limits to the available data, **all estimates should be treated**

as indicative. Further work would be needed to develop a more detailed financial business case to support structural reform.

7. For simplicity, in the analysis we assume that the bodies' budgets remain constant. This allows us to compare the net benefits of the scenarios in financial terms. It does mean that the figures below do not reflect actual spending impacts, as they include both financial costs and savings that will be incurred anyway due to expected budget reductions.

Qualitative costs and benefits of structural reform

8. This covered the potential impacts of structural reform that could not be quantified, either by their nature or because of limited evidence available to the Review. Issues in this category included resilience and flexibility of the resulting structure, legislative risks in delivering the model and the chances of delivering the Review's individual conclusions. For instance, we assessed how much of the potential for joined up customer engagement and environmental delivery might be delivered by each of the scenarios.
9. The Review assessed these issues in terms of their likely significance under each scenario and how they would meet the Review's aims. The estimated impacts were then considered alongside the quantitative results in order to summarise the scenarios.

Description, costs and benefits of the scenarios considered

Baseline

10. The costs and benefits of the two scenarios are compared to the baseline. This consists of the current delivery structure and resources and includes the delivery of a single Defra Network back-office solution as recently committed to by Defra and the Network Chief Executives as part of the Strategic Alignment Programme. This is discussed in Annex E. As explained above, the baseline does not include the impacts of ongoing budget reductions, so we in effect assume that budgets and outcomes remain constant. This allows us to compare the net efficiency benefits of the scenarios in financial terms.

Single Body Scenario

11. This scenario involves merging the EA and NE to form a single body, requiring primary legislation. This analysis is based on the assumption that the body consists of merging the EA and NE as currently constituted.
12. The costs and benefits set out here are largely based on work carried out for Defra by KPMG to consider the potential benefits from consolidating the services and processes

of the two bodies. Their quantitative estimates were made in the context of this scenario, i.e. a move to a single body.

Summary of Indicative Costs and Benefits of a Single Body Relative to the Baseline

	One-off Transitional	Long-term annual	Source/Comments/ Risks
Potential Benefits			
Integrated service delivery		£9m	Estimate of potential benefits from joining up the process (particularly mid-office) of delivering advice, regulation, evidence, grant issuing, etc.
Board Savings		£350K	Based on current salary costs, assuming consolidate the Chairman and Chief Executive posts and move from 12 EA and 10 NE Board posts to 13 single body Board posts.
Total		£9.4m	
Costs (Economic Resource Costs)			
Implementation team	£9m		Estimate based on experience of moving to NRW in Wales and from setting up of NE (Over 3 years)
Consultancy	£9m		Estimate of costs of managing change, HR, culture etc. Based on establishment of NE
Staff T&C	£10m one-off		Payments to harmonise T&C. (KPMG and Defra estimates)
Pensions	£0.5m		Estimated cost of £0.5m admin costs to transfer NE staff to EA scheme.
Redundancy	£7m		Based on reduction in staff numbers to achieve savings, estimated cost of £43k per capita. Note: these costs are assumed to follow from, and be in proportion to, the efficiencies above. In practice, the efficiencies may be realised in other ways as part of the bodies' response to their projected spending settlements.
Contingency	£9m		Lump sum to encompass other potential costs not captured elsewhere.
Total	£44.5m		

13. These figures, together with our estimates of timings, imply the following sequence of costs and benefits over ten financial years, resulting in an estimated **net present value of £26m**.

Financial Year	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Benefits		0.4	9.4	9.4	9.4	9.4	9.4	9.4	9.4	9.4	9.4
Costs		34	7.5	3							
Net Benefit (NPV = 26)		-33.6	1.9	6.4	9.4	9.4	9.4	9.4	9.4	9.4	9.4

Assessment of qualitative costs and benefits

14. A single body offers a positive long term net benefit relative to the baseline, as it would allow maximum integration of delivery, a more joined up approach to delivering the full range of benefits and innovative solutions to environmental challenges, a single point of contact for customers, and streamlined internal structures and processes. Thus it would generate as much as possible of the potential benefit from delivery integration identified in the functions analysis in annex D.

15. Because it delivers full integration and a larger scale, a single body also provides greater resilience and flexibility in the longer term. It is also more likely that reforms to culture and management structures will be delivered as part of organisational change.

16. However, moving to a single body also comes with substantial disruption in the short term both to the bodies, and therefore potentially their outcomes, and to their customers. These customers would include groups who only work with one of the bodies and who would therefore be unlikely to benefit from closer alignment in the longer term. There are also substantial legislative requirements, with a significant risk that these could prove insurmountable within the time available, meaning that the model would not in fact be deliverable. In the longer term, there is a challenge around management focus and capacity as a result of the broader portfolio of responsibilities, although these could be mitigated using clear objectives, sufficient senior management, and appropriate governance arrangements.

17. Moreover, on balance this model is less popular with stakeholders, as many fear that it would risk a loss of focus on conserving and improving the natural environment.

Summary of the single body scenario

18. The Review found that the **single body** offers the greater potential long term benefit as it presents the most straightforward way to drive change and integration of delivery and to maximise the resulting benefits. However, the changes will take longer to deliver than for a two bodies model as a result of the longer transition period, and will have greater short term costs given the scale of change. Benefits will therefore take longer to emerge. The uncertainty of the benefits and the large transition costs and disruption, the legislative requirements and potential loss of focus on conservation, mean that this model is also the most risky.

Two Bodies Scenario

19. This model keeps the current two-body structure, with each body having a clear legal identity and responsibilities. However, through the use of shared objectives, joint plans and other governance tools, as described in Section 2 of this Review, it enables transformational change in how NE and the EA operate both individually and collectively, to secure innovative new ways of delivering their outcomes at lower cost.
20. The costs and benefits set out here are largely based on the estimates of the costs and benefits of a single environmental body set out above. They represent estimate of the ranges of benefits likely to be achievable, and costs incurred, under a reformed version of the current structure, relative to the single body model.
21. The Review's analysis of the potential costs, benefits and risks under this scenario suggests that the full benefits are potentially available at a significantly lower cost, if the reformed mandate and governance arrangements are sufficiently effective. Under this scenario we would mandate the two bodies to work together to maximise the opportunities for efficiencies across both bodies, including shared processes and outcomes. However, this also recognises that without a single body, there is more uncertainty over the delivery of the benefits. Therefore we allow for the possibility that the efficiency benefits may be lower than for the single body.
22. The estimated costs of delivering the reforms through a two body model are based on assumptions as to the proportion of the costs of establishing a single body that might be incurred in this case. In practice, it is likely that they would be delivered at a much lower additional cost than estimated here, as part of the bodies' planning in response to budget reductions.

Summary of Indicative Costs and Benefits of the Two Bodies Model Relative to the Baseline

	One-off Transitional	Long- term annual	Source/Comments/ Risks
Potential Benefits			
Integrated service delivery		£0-9m	Estimate of potential benefits from joining up the process (particularly mid-office) of delivering advice, regulation, evidence, grant issuing, etc. Defra estimate that between none and all of these benefits could be delivered by the two bodies model.
Total		£0-9m	
Costs (Economic Resource Costs)			
Implementation team	£2m		Estimate that the cost of implementing this model would be under one third of the cost of single body implementation set out above, and would be incurred over two years. There is an unquantified risk that there would be further ongoing costs of delivering integrated services/ outcomes under this model.
Consultancy	£2m		Estimate that this would incur around a quarter of cost of single body implementation (majority of single body costs are HR which don't apply here)
Redundancy	£0-7m		Based on reduction in staff numbers to achieve savings. Figures based on proportion of single body estimates corresponding to % of efficiency savings realised. Note: these costs are assumed to follow from, and be in proportion to, the efficiencies above. In practice, the efficiencies may be realised in other ways as part of the bodies' response to their projected spending settlements.
Total	£4-11m		

23. These figures, together with our estimates of timing, imply the following sequence of costs and benefits over the next 10 financial years, resulting in an estimated **net present value of £-3.8 to £56m, with a central estimate of £26m**. Sensitivity analysis shows that the benefits need to be only around £0.5m per year for the model to break even in NPV terms.

Financial Year	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Benefits	0	0-9	0-9	0-9	0-9	0-9	0-9	0-9	0-9	0-9
Costs	2-9	2	0							
Net Benefit (NPV:-3.8-55.6)	-2 to -9	-2 - 7	0 - 9	0 - 9	0 - 9	0 - 9	0 - 9	0 - 9	0 - 9	0 - 9

Assessment of qualitative costs and benefits

24. This model would involve Defra providing to the bodies a strong mandate to drive culture change and joint responsibility for environmental outcomes. It provides greater opportunity than the baseline to identify areas for more joined up working, implement improvement across the two bodies and tap into cross-organisation efficiency savings. This in turn should enable greater flexibility to respond to changing pressures and priorities and greater resilience. As with the quantified benefits, these benefits may be realised to a somewhat lesser extent than under the single body, given that full integration of delivery and processes may not be possible.

25. Correspondingly, the potential costs of disruption are significantly lower under this model than under the single body, and as it does not involve primary legislation, it avoids any risks related to the legislative timetable.

26. An advantage of this model over the single body is that in retaining both bodies it maintains their capacity to deal with the full portfolio of responsibilities across the two bodies. It also retains clarity of purpose between the two bodies, and in particular the strong voice for conservation that stakeholders value in NE. Risks include a less clearly defined customer interface and a perceived weakened clarity of purpose particularly where the bodies move to a single point of contact for certain functions. This risk however, in contrast to the single body, is balanced by the fact that, the bodies do retain their separate identities and responsibilities.

27. However, as set out above, while we believe that the potential efficiencies could be delivered under this model, the cost benefit analysis allows for the risk that they may not be. Thus we recognise that in terms of realising efficiency benefits, the risks are higher than in the single body model.

Summary of the two-bodies scenario:

28. The Review found the **two-bodies** model has the potential to deliver many of the benefits of the single body model through closer working between the two bodies but without the costs and disruption of change. The two-body model, with a strong mandate and support from Defra to deliver on joint plans for related objectives, maximising synergies and dealing effectively with trade-offs, will enable the bodies to integrate delivery effectively. This will enable delivery teams in both bodies to work together to resolve issues. Benefits would occur more quickly than for the single body model and with lower risks in both the short term and the long term.

29. Although the benefits are likely to be smaller in scale under the two body model, the net financial benefits are likely to be comparable, given the significantly lower levels of costs. Therefore, given its additional qualitative advantages, the analysis favours the two-bodies model.

Overarching risks, assumptions and conclusions

30. There are significant uncertainties for both the two bodies model and the single body around the levels of costs, and particularly benefits, due to gaps in the data. Therefore, this analysis can only be seen as being illustrative of the likely scale of costs and benefits associated with change.

31. There are two important assumptions, and hence risks, that could affect the choice between the scenarios:

- Firstly, support services savings are assumed to be delivered through the Strategic Alignment Programme independently of the Triennial Review decision. If a single network infrastructure was not delivered through this work, then the potential savings which could be achieved from closer alignment of the two bodies could be substantial. However, the likelihood of not delivering a single network infrastructure is assumed to be low as commitment to a single set of support services functions was recently agreed by senior Defra officials and the Network Chief Executives.
- Secondly, under the two bodies model, it will be more difficult to put in place the processes by which the bodies will work together to deliver joint plans and joint objectives. There is therefore a risk that the potential delivery efficiencies may be realised to a lesser extent than might be possible under the single body. This risk is captured by assuming a range of benefits under this scenario.

32. These risks imply that the Review's conclusion, that the two bodies model could deliver a significant proportion of the benefits of the single body, with significantly lower costs, is robust under two conditions:

- (a) that Defra will give the leadership teams of the two bodies the mandate, tools and support to maximise the benefits of joint service delivery, and
- (b) that the two bodies, working with the other Network Chief Executives through the Strategic Alignment Programme, will deliver the substantial majority of the back-office benefits that could be delivered under a single body.

Annex G: Terms of Reference for the Review

Review of the Environment Agency and Natural England

Terms of reference

December 2012

- To undertake a review of the functions and form of the Environment Agency (EA) and Natural England (NE). The EA and NE have significant roles in delivering the Government's ambitions on the environment and flood and coastal risk management and are key bodies within Defra's network of Arms Length Bodies.
- To assess how the relevant parts of Defra's delivery network, or any proposed reforms, can achieve better quality outcomes for the environment, the economy and for society on a sustainable basis. The Review will need to examine:
 - whether the existing delivery arrangements are efficient and affordable;
 - whether the existing delivery arrangements offer opportunities for ongoing improved services for customers and cost savings, and to stimulate and sustain economic growth; and
 - whether alternative delivery models may lead to better quality outcomes and the benefits, costs and risks associated with any potential alternative delivery options.
- To confirm that the governance arrangements applying to the EA and NE are sufficiently robust and transparent so that there is due accountability to Government and the public.
- The Review will be conducted in an open and inclusive way, working closely with the EA and NE, other Government Departments, Parliament and the broad range of customers and stakeholders. It will focus primarily on functions delivered in England, taking into account the formation of Natural Resources Wales and recognising that activities in border areas are of interest to people in Scotland and Wales.

Governance of the Review

The Review is conducted on behalf of the Secretary of State for the Environment Food and Rural Affairs and will be carried out in accordance with Government guidelines for Triennial Reviews.³⁴ The Review team will comprise officials from Defra.

A Challenge Group ('the Group') has been established to test and challenge rigorously and robustly the scope, Terms of Reference, assumptions, methodology and conclusions of the Review.

The Review will commence on 12 December 2012 and is expected to publish conclusions in spring 2013.

³⁴ Cabinet Office Guidance on Reviews of Non Departmental Public Bodies p.4-5 - www.civilservice.gov.uk/wp-content/uploads/2011/09/triennial-reviews-guidance-2011_tcm6-38900.pdf

Annex H: Terms of Reference for the Challenge Group

Challenge Group – Terms of Reference, Members

Background:

Defra is carrying out triennial reviews of its Non Departmental Public Bodies (NDPBs) in the 2011-14 period in line with Cabinet Office Guidance on Reviews of NDPBs.

The Guidance set out that the purpose of triennial reviews is:

- To provide a robust challenge of the continuing need for individual NDPBs, including both their functions and their form;
- Where it is agreed that a particular public body should remain as an NDPB, to review the control and governance arrangements in place to ensure that the public body is complying with recognised principles of good corporate governance.

A joint triennial review (the Review) of the Environment Agency (EA) and Natural England (NE) will take place in 2012/13.

In line with Cabinet Office Guidance, a Challenge Group is being established to provide robust external challenge and scrutiny to the Review. The Challenge Group are part of the assurance process to lead to informed decisions by the Secretary of State for Environment, Food and Rural Affairs who has commissioned the Review.

Role and meeting schedule:

The role of the Challenge Group (the Group) is rigorously and robustly to test and challenge the scope, Terms of Reference, assumptions, methodology and conclusions of the Review.

The Group will also ensure that the six principles for the appropriate conduct of triennial reviews, as set out in Cabinet Office Guidance, are followed. These state that triennial reviews should be proportionate, timely, challenging, inclusive, transparent and offer value for money.

The Group is expected to meet at least around the following key milestones during the course of the Review, and may meet on other occasions by agreement:

- early in December to consider the proposed scope and launch of the Review;
- towards the end of the first stage of the Review, which will focus on the emerging findings on functions and form (early 2013); and
- towards the end of the Review, to test and robustly challenge the emerging conclusions (Spring 2013).

Members:

Members are appointed in their personal capacity and not to represent any interest group.

Chair

Dame Deirdre Hutton – Chair of the Civil Aviation Authority and HM Treasury Non-Executive Director

Members

Dr Andrew Brown CBE – Former Chief Executive of English Nature, former Deputy Chairman of the Environment Agency

Professor Richard Macrory CBE – Professor of Environmental Law, University College London

Ed Welsh – Cabinet Office Executive Director of Efficiency and Reform Group

Iain Ferguson CBE – Defra Non Executive Director

Ian Trenholm – Defra Chief Operating Officer

Annex I: Review Team

Defra established a dedicated team to manage Defra's programme of Triennial Reviews, which undertook the work on this Review. The team was led by a Defra Director, and was made up of Defra civil servants (policy analysts and economists) and secondees from the EA and NE. The team was supported by a Steering Group comprising Defra Directors General for Strategy, Evidence and Customers, and Policy Delivery Group, the Chief Operating Office, and Directors of related finance and policy areas.

Following a competitive tendering process using the Government's standard framework agreement, Defra appointed KPMG to carry out a number of tasks related to the Review. That contract was awarded for the cost of £98,686.

The EA and NE were asked to provide information on the extra costs incurred by them as a result of the Review, comprising additional costs to the core team, secondees to Defra's Triennial Review Team and additional costs to the Board. Between 1 April 2012 and 31 May 2013, the EA attributed additional costs of £210,500, while NE attributed £144,250.