Environment Agency

Annual Report and Accounts 2011-2012

Environment Agency
Annual Report and Accounts 2011-2012

Accounts presented to Parliament pursuant to Section 46 of the Environment Act 1995 as amended by the Government Resources and Accounts Act 2000 (Audit of Public Bodies) Order 2003

Annual Report presented to Parliament pursuant to Section 52 of the Environment Act 1995

Ordered by the House of Commons to be printed 13 July 2012

HC 360 London: The Stationery Office £29.75

Any enquiries regarding this publication should be sent to us at enquiries@environment-agency.gov.uk

This publication is also available for download at www.official-documents.gov.uk

This document is also available from our website at www.environment-agency.gov.uk

ISBN: 9780102978308

Printed in the UK by the Stationery Office Limited
On behalf of the controller of Her Majesty's Stationery Office

ID 2493120 07/12

Printed on paper containing 75% recycled fibre content minimum

Contents

Foreword

The Environment Agency has a strong track record of protecting and improving the environment. This year the impact of two exceptionally dry winters, and in East Anglia the driest six months since records began in 1921, provided an additional challenge. We have had to rescue fish from dried-up rivers even during the winter months. And in some parts of the country, the driest months for decades were followed by the wettest April on record.

Challenges such as this are likely to happen more often as climate change and a growing population place greater pressures on people, natural resources and the environment. We will work hard to help everyone adapt to these new conditions, so that the economy can grow without adversely affecting the environment.

On 1 October 2011, we took on a new role to help organisations in England prepare, plan and adapt to the impacts of a changing climate. We have been working with key business sectors, local authorities, utilities companies and other partners to develop advice and guidance, and to help improve resilience for future challenges.

This year will be – above all – the year of the London 2012 Olympic and Paralympic Games. When I visited the Olympic Park earlier this year, I was delighted to see how regeneration work has already transformed a previously polluted industrial area. The Lower Lee Valley provides a new green space for people and wildlife to enjoy. Our work has reduced the flood risk to over 3,000 homes in Canning Town. And it has given us the opportunity to work with partners, and ensure that the Games leave a legacy to benefit local communities long after they are finished.

This year has seen the transition to a new approach to funding flood and coastal resilience schemes. The partnership funding approach will allow us to work more closely with local communities and encourage more innovative flood defence schemes. Already this approach has secured over £34 million in partnership contributions for 2012-2013. It has been a challenging task, but communities in places like Morpeth, Sandwich, Louth and Cockermouth will see real, practical benefits from the new arrangements.

In November 2011, Welsh Government announced that it intended to create a Single Environmental Body for Wales, bringing together the work of Environment Agency Wales, Countryside Council for Wales and Forestry Commission Wales. We are working closely with Welsh Government to enable the new body to be up and running by 1 April 2013.

With increasing financial pressures, the spotlight has, more than ever, been on reducing the administrative burden on businesses. We worked closely with the Department for Environment, Food and Rural Affairs (Defra) to respond to the government's Red Tape Challenge. We contributed to the environment strand of the consultations to identify opportunities to make it easier for businesses to comply with legislation whilst still protecting people and the environment.

We have continued to make major efficiencies in the organisation this year. We are now a much slimmer organisation, but we still achieve outstanding results for people and the environment.

Following Defra's Arms Length Body Review in 2010, we are continuing to improve how we engage with other environmental bodies, and with local government. This year we have embedded our 'Single Voice' approach with Natural England and the Forestry Commission, to ensure that we give consistent advice and information to local authorities.

We have also established a catchment-based approach in England, working with partners to help achieve healthier, more resilient rivers. The programme looks at all the impacts on water quality within 25 pilot river catchments, including point-source pollution and diffuse pollution from agriculture, highways, urban run-off and misconnections. We are supporting projects with local community groups, non-governmental organisations, charities, farmers, local authorities and other organisations to improve water quality.

Every year I am intensely proud of the tireless work our staff do to protect and improve the environment. Their expertise and dedication is vital, and I am constantly reminded of their willingness to go above and beyond the call of duty, especially when emergencies arise.

This annual report shows how much we have achieved over the last year, in difficult economic circumstances, and despite major restructuring. We always try to remember that it's the environment – and the people who depend on it – that matter most.

RT HON LORD SMITH OF FINSBURY
CHAIRMAN
2 July 2012

Management commentary

1.1 About us

The Environment Agency is the leading public body for protecting and improving the environment in England and Wales. Our vision is to create a better place for people and wildlife. We reduce the risks to people and properties from flooding; make sure there is enough water for people and wildlife; protect and improve air, land and water quality and apply 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 we do.

We cannot do this alone. We work closely with a wide range of partners including government, businesses, local authorities, other agencies, civil society groups and the communities we serve.

On 31 March 2012 we had 11,471 permanent employees. Our annual budget in 2011-2012 was over £1.1 billion. We are responsible to the Defra in England and the Department for Environment and Sustainable Development of Welsh Government in Wales.

We have teams based in England and Wales. Staff in our local offices work closely with other organisations including local authorities, and with communities to improve the local environment and promote sustainable development. Similarly, Environment Agency Wales works closely with other organisations in Wales. See Appendix A for more information about the history of the Environment Agency.

1.2 Our priorities

Our corporate plan, Creating a Better Place 2011-2015, outlines our vision of a better place for people and wildlife and what we will do to achieve this. It demonstrates our commitment to sustainable development and adapting to climate change. The corporate plan sets out our aims in five main areas:

- Act to reduce climate change and its consequences.
- Protect and improve water, land and air.
- Work with people and communities to create better places.
- Work with businesses and other organisations to use resources wisely.
- Be the best we can.

This report follows the same structure as our corporate plan, and outlines our performance in 2011-2012. Appendix B sets out our performance against corporate scorecard measures agreed with Defra and Welsh Government.

This management commentary focuses on key events and examples of how we are achieving our aims.

1.3 Act to reduce climate change and its consequences

Reducing carbon emissions and adapting to climate change

Climate change is one of the most significant challenges facing the world. Reducing carbon emissions and adapting to climate change is central to all of our work.

In October 2011, we took on a new responsibility to help businesses and the public sector in England adapt to a changing climate. We worked closely with Defra to find out what services customers wanted, both for this new role and more broadly what they wanted to see under the government's National Adaptation Programme. We held stakeholder workshops, carried out market research, and worked with key business sectors, local authorities and government. As a result of this engagement, we have developed the Climate Ready support service that provides online guidance as well as tailored support to seven theme areas: business and services, built environment, infrastructure, health and wellbeing, local government, natural environment, and agriculture and forestry.

The new Climate Ready support service was launched on 1 April 2012 and replaces the service formerly provided by the United Kingdom Climate Impacts Programme (UK CIP). This vital advisory role enables us to build on our existing work to help the economy withstand the impacts of climate change.

Our commitment to reducing carbon emissions, a major contributor to climate change, is reflected by our own achievement of reducing our carbon dioxide footprint by 15 per cent from the baseline year 2006-2007. Our new national office, Horizon House, has contributed to this reduction. The office features a natural ventilation system, intelligent lighting, rainwater harvesting and ground source heat pumps. In September 2011, as part of Bristol's Doors Open Day, we opened the building to the public to share our experiences and inspire other organisations to reduce their impact on the environment. See section 1.7 and Appendix C for more information on how we are reducing our corporate impact on the environment.

This was the first compliance year for the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme, requiring participants to report on their performance. In November 2011, we published the first ever CRC Energy Efficiency Scheme performance league table, which shows the reported emissions for 2,104 participants. This year the league table recognises organisations which have taken early action to improve their energy efficiency. We are working with the Department of Energy and Climate Change (DECC) to simplify and improve the scheme.

Supporting low-carbon technology

Our nuclear team has been working with the Office for Nuclear Regulation on the review of designs for new power stations. In December 2011, following four years of assessment work, we issued interim design assessments for two new nuclear reactor designs. A number of technical issues remain, and we will only consider giving final acceptance for the designs when we are satisfied that these issues have been addressed.

1.4 Protect and improve water, land and air

Managing water resources

Following two exceptionally dry winters, by the beginning of April 2012 seven water companies had restrictions in place on public water use in the south east and eastern England, and many other areas were at risk of environmental stress. Over the last 12 months we have played a lead role in coordinating and managing this situation to balance the water needs of people, farmers, businesses and the environment. In doing this we have advised and supported government, water companies, farmers, businesses and environmental organisations.

In March 2012, at the request of the Secretary of State for Environment, Food and Rural Affairs, we set up a national drought group to provide a high-level steer on water management across all the main sectors of water use. The group includes representatives from Defra, other government departments, water companies, Natural England and other organisations.

We have worked with farmers to extend their abstraction licences to allow them to abstract water to fill storage reservoirs at times of higher river flows. We have also been monitoring the environmental impacts of the dry weather, and helping to raise public awareness and reduce water consumption through our media messages.

We developed an evidence case to support the government's White Paper, *Water for Life*. We published two reports known as the Case for Change, which showed the potential impacts of climate change and population growth on water supply and demand. We also worked with Ofwat on an assessment of the current regulatory regime. We continue to work closely with government to deliver the commitments in the White Paper, particularly those relating to protecting the water environment and abstraction reform.

Improving and protecting inland and coastal waters

Improving the quality of bathing waters

In 2011, 98 per cent of bathing waters met the minimum standards of the European Bathing Waters Directive. 89 per cent of bathing waters met tougher UK guideline standards, which require lower concentrations of bacteria. This is the best ever result against the UK guideline standards, and an improvement of nearly three per cent since 2010. We continue to work with local authorities, water companies, farmers and beach users to further improve the quality of bathing waters.

From 2012 we will monitor bathing waters to the standards required by the revised Bathing Waters Directive. The revised Directive will use monitoring data over four years to classify each bathing water area as excellent, good, sufficient or poor. Our readings from 2012 will therefore contribute to the first official classification in 2015.

Based on our monitoring for the 2011 bathing waters season, we predict that 91 per cent of bathing waters will achieve at least the sufficient classification in 2015 under the revised Directive.

Creating healthier river catchments

To help achieve healthier, more resilient rivers and water habitats we have set up a catchment pilot programme in England. We have worked with partners to select 10 varied catchments to focus on, each including rivers that are currently not meeting good status under the Water Framework Directive.

The programme is testing new and better ways of getting people and organisations involved in improving rivers. We are learning a great deal from working with our partners, and through using evidence and action planning. We are establishing new relationships as a foundation for joint decision-making about the future management of land and water in catchments.

One of our catchment pilots is in the Adur and Ouse catchment in Sussex. Here we have already forged strong partnerships with the Rivers Trust, the National Trust, Sussex Wildlife Trust and the Woodland Trust, as well as with the local authorities, key landowners and local businesses. We have prepared plans for work to begin on four sites in 2012.

Defra has also asked us to administer the Catchment Restoration Fund, through which we will allocate up to £10 million per year to charities for projects to improve water quality.

Defra allocated an extra £9 million of grant-in-aid funding this year to help achieve good status for waters under the Water Framework Directive. This is the first of four years of a funding package, which is also allocated to Natural England, the Coal Authority and non-governmental organisations. Over the project’s four years we estimate that the funding will improve some 6,900 kilometres of rivers and up to 10 hectares of lakes. It will also result in around 50 water bodies achieving good status under the Water Framework Directive by 2015. Projects will include improving wildlife habitats, reducing run-off from roads and farmland, and removing barriers that prevent fish swimming freely along rivers.

Reducing water pollution

In March 2012 we published a report evaluating the impacts of abandoned metal mines on the environment in England and Wales. Although most of these mines were abandoned many decades ago they can still cause pollution, as water draining from the mines often contains high concentrations of heavy metals. The study, conducted in partnership with Defra and Welsh Government, found that almost seven per cent of rivers are affected by pollution from abandoned metal mines. Defra awarded us £10.5 million over the next four years to work in partnership with the Coal Authority to investigate how we can reduce pollution from abandoned mines.

Minimising environmental impacts from farming

This year we have worked with Defra to streamline the many initiatives, advice services, regulatory approaches and incentive schemes on diffuse pollution of water from agriculture. Diffuse pollution is pollution that comes from multiple sources, including run-off contaminated with pesticides, manufactured fertilisers, slurry and manure. We will now be able to give more consistent information, making it easier for farmers to manage nutrients better and reduce adverse impacts on water quality.

To help address diffuse agricultural pollution we have also increased the time our staff spend gathering evidence of pollution and other issues in high-risk catchments. This helps us target actions in the areas that need them most.

Improving habitats and enhancing biodiversity

In 2011-2012, we created 479 hectares of UK Biodiversity Action Plan habitat, improved 297 kilometres of river habitats, and improved fish and eel passages at 123 sites in England and Wales.

In June 2011, the government's Natural Environment White Paper committed to establishing 12 Nature Improvement Areas (NIAs). Defra ran a competition to select the NIAs, which were proposed by local partnership groups. We played a major role in the competition assessment process, and were represented on the national judging panel. We are also working with Natural England and the Forestry Commission to follow up projects which were not selected as NIAs, but support the Water Framework Directive measures or reduce flood risk in an area.

This year we have established the England and Wales Fisheries Group which represents anglers and others with an interest in our fisheries work. The group has played a key role in setting up a joint National Angling Participation Action Plan to transfer more angling promotion and participation work to the voluntary sector. It has also given valuable advice on local arrangements to help us engage with the angling sector.

Regulating businesses fairly

We have worked closely with Defra in responding to the Cabinet Office's Red Tape Challenge process. One of the areas focused on in 2011-2012 was environmental legislation. We gathered ideas from across the organisation and fed these into the process, as well as assessing suggestions from the wider public consultation.

We worked with Defra to ensure that proposals – in particular the extensive changes suggested for waste and producer responsibility legislation – improved and simplified legislation without increasing risks to people and the environment. We will continue to work with Defra and government to progress these proposals.

Alongside this, we are developing a simpler way for business to report environmental information to us. We are also reducing the amount of environmental data businesses need to provide to us. We ran a successful trial with the landfill and waste sectors on using operator data portals for reporting site environmental data. We are extending this approach to other sectors.

We are working closely with government and other arm's length bodies to deliver the recommendations from the Penfold Review of non-planning consents. We have published draft guidance to help developers understand the options available to them when submitting planning and environmental permitting applications. We are working with government to assess how much the appointment of Environmental Account Managers could improve the process of issuing consents for more complex developments. Early indications show that we are meeting the recommended 13-week deadline for determining permits.

We have worked closely with Defra in responding to the independent Farming Task Force Report, published in May 2011, recommending ways to reduce regulatory burdens on farmers. Government accepted many of our recommendations in its response to the report and acknowledged our active engagement.

This has been the first full year that we have been able to use civil sanctions to help enforce environmental regulations. Civil sanctions provide a new means of applying more appropriate sanctions for certain non-compliances with environmental legislation. Local communities will benefit from direct environmental improvements.

Civil sanctions allow businesses to propose enforcement undertakings. In 2011-2012, businesses entered into 81 enforcement undertakings. The majority of these were for packaging waste offences. In total, businesses agreed to pay over £850,000 to environmental charities or projects as a result of this new approach. The benefits to the environment are already evident:

civil sanctions have been used to develop environmental education in the Norfolk Broads and restore the unique habitat of Upton Heath in Dorset following fire damage.

We have worked closely with DECC to simplify and consolidate thirteen different sets of existing European Union Emissions Trading System (EU ETS) regulations into a single set of regulations. The updated regulations will introduce an opt-out scheme for eligible small emitters and hospitals, to reduce the disproportionate regulatory burden on these installations.

1.5 Work with people and communities to create better places

Managing the risk of flooding

This year, flood and coastal erosion management work improved flood protection to 43,300 households. This includes both the contribution from our own work, and work carried out by local authorities and Internal Drainage Boards, to whom we provide grant funding. Of the households protected, 15,650 were in the highest-risk categories, and 1,195 of these were in areas of significant economic deprivation. In addition we have improved the protection of 550 households against coastal erosion.

With our partners, we manage over 27,000 miles of flood defences, including structures, sea walls and flood banks. Over the last year, almost 99 per cent of our flood defence assets were in the required condition or better, an improvement of one per cent since 2010-2011. In November 2011, we published a maintenance protocol which explains our approach to managing flood and coastal erosion risk management assets in England. It explains how we are taking a risk-based approach to increase efficiency, and describes our process for consulting and taking decisions on the future of those assets which no longer justify expenditure from central government funds.

Supporting national and local flood risk arrangements

In May 2011 we published with Defra a new national strategy for flood and coastal erosion risk management in England. Parliament approved the strategy in July 2011. The strategy recommends a number of approaches that will help communities, the public sector and other organisations to work together to manage flood and coastal erosion risk and improve the environment. It encourages local communities to be involved in decision-making. We supported Welsh Government in developing a national flood and coastal erosion risk management strategy for Wales.

Lead local flood authorities (LLFAs) are responsible for local sources of flood risk. In the last year we have worked with LLFAs to help strengthen their understanding and knowledge of the responsibilities they have to meet under the Flood and Water Management Act. We held a series of training workshops, which 370 delegates attended from 165 LLFAs.

To fulfil the first significant requirement under the Flood Risk Regulations, which transpose the EU Floods Directive, all 174 LLFAs in England and Wales produced Preliminary Flood Risk Assessments (PFRAs) for their areas. We worked with LLFAs and partners to help them determine the best information about local surface water conditions to use for their assessments. We reviewed the PFRAs and ensured that they were published on time.

We started working with eleven LLFAs to consider how we could improve surface water flood mapping. This work will continue during 2012-2013 and will focus on cost-effective changes that will help LLFAs to meet the requirements of the Flood Risk Regulations.

Funding for flood and coastal erosion schemes

We have successfully implemented the first year of Defra's new flood and coastal resilience partnership funding policy. The new approach encourages additional funding for flood defence and coastal erosion schemes from external sources, such as councils and businesses. During the year, there have been some notable examples that have attracted external funding such as Warrington, Morpeth, and Sandwich. Over £72 million of contributions have already been identified to add to the £2.17 billion flood defence grant-in-aid allocated by Defra in the spending period to 2015.

In July 2011 Northumberland County Council committed to contributing £7-12 million towards a £21 million flood alleviation scheme in Morpeth, where more than 1,000 homes and businesses were flooded in 2008. This enabled us to provide £10.6 million of government grant under the new partnership funding approach and agree to the scheme going ahead.

In Sandwich, Kent, we have secured funding from both the public and private sectors of around £10 million to provide better protection against coastal flooding for 488 households and an industrial park.

The National Audit Office (NAO) undertook a detailed evaluation of flood risk management in England. The NAO concluded that we have improved our efficiency since their last report in 2007, we have a better understanding of the condition of existing sea and river defences, and we have targeted investment more effectively.

We gave evidence with Defra to the Public Accounts Committee's (PAC) hearing in November 2011 on the NAO's report. We are making good progress in implementing the recommendations from the report and the PAC hearing.

Improving our flood warning and forecasting

We continue to invest in and extend our flood warning services to ensure that we can warn people at risk of flooding of a potential flood event. In March 2011 there were around 1,846,000 properties in the highest flood risk areas in England and Wales. During 2011-2012 we added more than 79,900 properties to our flood warning system. Now over 1.1 million properties – 60 per cent of those in the highest flood risk areas – can receive our direct flood warnings.

We have extended our service to include groundwater flood alerts and warnings in areas of England that have experienced flooding from groundwater in the past. Groundwater information is now included in the daily Flood Guidance Statement supplied by the Flood Forecasting Centre.

In October 2011, we launched a web-based, targeted flood warning service for Civil Contingencies Act category 1 and 2 responders, such as the police, fire and ambulance services, utilities providers and transport operators. Customers can now provide information about their property, sites and vehicles, so they only view the flood warnings that are relevant to them. The service helps customers improve their flood response plans and better protect staff and crucial assets.

To help people in coastal areas at risk of flooding and erosion, we have published interactive risk maps in agreement with coastal local authorities showing the coastal erosion expected over the next 20 years. The maps, for the lengths of coast where the information is available, are on the *What's in your backyard?* section of our website, along with details of the shoreline management plans and existing coastal defences. The information will help people and communities understand the risk they face and what they can do in response to it. We worked with local authorities, Defra, Welsh Government and the Department for Communities and Local Government (DCLG) to assess coastal erosion and landslide risks in a consistent way across England and Wales.

We have also completed a three-year project to upgrade the national network of tidal level gauges. This improved tidal data allows us to forecast floods more accurately and warn coastal communities at risk of flooding.

We continue to improve our forecasting service and in April 2011, we launched a joint project with the Met Office to upgrade and extend the coverage of our national weather radar network across England. The improved network will give us more accurate and reliable rainfall measurements, and it will extend high quality radar coverage to include East Anglia for the first time. The project will be complete by the end of 2014, and will improve the quality and resilience of data collection services for our flood forecasting and warning services. More reliable radar data will help us forecast the scale and impacts of flood events more accurately, and provide a better warning service.

Improving our response to incident management

We have reviewed the lessons identified from Exercise Watermark, a multi-agency exercise simulating the response to wide-area flooding across England and Wales, held in March 2011. Following discussions with government departments and other incident response organisations, we recommended improvements to incident response in England and Wales to Defra.

In 2011-2012 we refreshed the training programme for our incident response staff to include training in pace, accuracy, use of judgement and strategic thinking. We also refurbished a number of our incident rooms to address space and technology issues identified during the exercise. We have also used lessons learnt from the exercise to reinforce incident response for non-flood incidents.

Providing environmental benefits through our flood and coastal erosion risk management programme

When we build new flood defence schemes we seek at the same time to enhance the local biodiversity and create new habitats. This year, our flood alleviation scheme in Stainforth, Doncaster, won a Gold Green Apple award for environmental best practice and enhancements to the built environment and architectural heritage. We worked with partners to complete the scheme, which has protected 1,900 properties from flooding and created 70 hectares of Biodiversity Action Plan habitat. It is now one of the largest new freshwater habitat sites in the UK, providing a mixture of wetland grazing marsh, reed beds, nesting areas for protected bird species, and fish refuge ponds.

In 2011-2012, we created 24.5 hectares of new intertidal Biodiversity Action Plan habitat through our flood and coastal erosion risk management work. We are on track to achieve the Spending Review 2010 target of 400 hectares by 31 March 2015.

We have worked in partnership with the Universities of Exeter and Plymouth, and an environmental consultant, to produce guidance on enhancing the ecological value of coastal defence structures. By considering the materials we use, we can achieve benefits for biodiversity and conservation and improve our coastal structures. Creating these habitats also makes coastal defences more attractive, helping us meet legislative requirements and gain support for new schemes from local communities.

Reducing environmental impacts of new and existing developments

We advised DCLG on their recently published National Planning Policy Framework (NPPF) ensuring it had clear messages on priority environmental outcomes. Whilst the guidance is now much shorter, environmental considerations will be taken into account and we are still a statutory consultee in the planning process. We will continue to respond on environmental matters where we are best placed to advise local planning authorities, taking a 'yes if' approach wherever possible. We secured government support for essential environmental guidance applicable to the NPPF, for example in relation to flood and coastal erosion risk management, Water Framework Directive, climate change adaptation, groundwater and contaminated land.

We have worked with the Olympic Delivery Agency (ODA), the London Organising Committee of the Olympic and Paralympic Games (LOCOG), British Waterways, the Lee Valley Regional Park Authority and Thames Water to regenerate the Lower Lee Valley. Key to the legacy has been creating a new place in London that people will want to visit and spend time, once the Olympic events have been completed. Our work in the Lower Lee Valley has reduced flood risk for 4,000 homes. Work on the Olympic site dealt with historic pollution of over 280 hectares of brownfield land in East London, and removed tyres, shopping trolleys and vehicles from the River Lee.

Maintaining our navigation assets

In 2011-2012, 82 per cent of our navigation assets were at or above the required condition, achieving our target. We have also recently changed the way we record these condition assessments. We now report on more individual structures, rather than grouping several structures as one asset. Using the new assessment increases the number of our navigation assets at or above the required condition in 2011-2012 to 87 per cent.

This year we introduced more than 80 volunteers to work alongside our staff on the Thames waterway. This was a great success and we will extend our volunteer resource across our waterways in the next few years, contributing to the government's Big Society objectives.

1.6 Work with businesses and other organisations to use resources wisely

Advising on waste policy review

We worked closely with Defra to provide evidence for the government's waste policy review, which was launched in June 2011. The review focused on commercial and household wastes and encouraged us to continue the good work we have done over the last few years, in particular on our approach to waste crime and risk-based regulation. It advocated moving the focus towards businesses that are deliberately non-compliant and reducing regulatory burdens for good performers.

The review also highlighted the importance of integrated regulatory approaches from government, in areas where currently more than one regulation may apply. For example, businesses that deal with packaging waste, waste electrical and electronic equipment or biowaste have to comply with more than one set of regulations in order to recycle, reuse or dispose of these types of waste correctly. We will play a significant role in ensuring these approaches are streamlined and properly managed.

A key development in the waste policy review was the inclusion of voluntary responsibility deals for the waste management industry. The responsibility deals will encourage waste management businesses to help small and medium-sized businesses to reduce their waste, and recycle wherever possible.

Cracking down on illegal waste sites

Illegal waste sites can pose a real threat to people and the environment, contaminating land and rivers with oil and chemicals. We work hard to close these sites down, but as new ones open we have struggled to get the total number below 600. In the first three quarters of this financial year we stopped 535 illegal waste sites, whilst a further 395 were identified.

In December 2011 we created a specialist illegal waste site taskforce to tackle the problem. The new taskforce includes former police detectives, and will work with partners, including local authorities and the police, to gather intelligence and act quickly to close sites and disrupt illegal activity so that it does not return. We will report on the impact of this new approach in the future, but the initial results have been promising.

Focusing on a sector approach

Through the future approach to regulation programme we have developed sector intervention plans for 14 business sectors, including agriculture, food and drink, and chemicals. These plans provide long-term certainty for business by setting out the environmental outcomes we expect the sectors to deliver over the next five years. They also describe the ways in which we will work with businesses to achieve the outcomes.

For five sectors we have introduced sector-focused officers who will concentrate on working with their specific sectors and understanding the businesses. Through this approach we will achieve the optimum outcomes for the environment while minimising costs to business and providing an excellent customer service.

Minimising waste disposal

Since 2007 it has been government policy that low level radioactive waste (LLW) from decommissioning and other nuclear sites can be sent to landfill sites. In April 2011, after five years of work with the nuclear and waste industries, we issued a permit for the disposal of LLW to a landfill in Cumbria, and subsequently, in May 2011, to a landfill in Northamptonshire. The first consignment of LLW from the nuclear industry was landfilled in March 2012.

This helps preserve the limited capacity in the LLW Repository (LLWR) at Drigg, west Cumbria, for higher activity wastes which actually require the level of environmental protection that it provides. During 2011 we also started our review of the Environmental Safety Case for the LLWR.

We have worked with the nuclear industry to improve the rates of recycling and reuse of LLW, and in 2011 78 per cent of the sector’s LLW was recycled or reused.

We are working with the Waste and Resources Action Programme (WRAP) through the EU Life funded European Pathway to Zero Waste (EPOW) programme to demonstrate the economic and environmental benefits of resource efficiency. In the past year EPOW has shown over 100 businesses how to benefit from using quality recycled materials instead of virgin raw materials. We have also used electronic and social media techniques to help a range of small business sectors find information and advice on reducing, reusing and recycling waste. The programme continues until the end of 2013.

1.7 Be the best we can

Delivering a first class customer service

We use a continuous improvement approach across the organisation to help us improve customer service and deliver better value for money. This is in line with government's Continuous Improvement Strategy to reform public services.

We have a strong track record in improving how we work and achieving efficiencies over recent years using this approach. Since 2008-2009 we have achieved:

- a 60 per cent reduction in response time for email enquiries from customers to the National Customer Contact Centre
- an 87 per cent reduction in the time taken to process Standard Rules Permit applications in our National Permitting Service.

Our National Customer Contact Centre is one of our frontline services that make it easier for our customers to do the right thing for the environment. In 2011-2012 the centre received over half a million phone calls and replied to over 48,000 email enquiries. We received 357 commendations from customers who had experienced an exceptional service.

Our website, social media and other digital channels provide vital information to help customers protect the environment. They are also an important route for customer feedback and information. We have undertaken a comprehensive review of our website and are using this information to target improvements in 2012-2013.

We continue to extend the reach of our services and information by increasing use of social media and web tools. In March 2012, we launched our new flood warning widget, computer code that web developers can download and add to their web pages to show a live summary of flood alerts and flood warnings in force. This will help our information to be available where people want it, such as on local authority and water company websites.

This year we trialled a web chat service, which allowed customers using our website to send a message to an expert and get an immediate response. We focused on web pages and online transactions where customers had reported difficulties, including waste carriers exemptions, water quality guidance and hazardous waste registrations. Following overwhelming support from our customers, we are improving and extending the service.

Building a diverse workforce

We continue to make progress in the areas of diversity and inclusion. We have monitored the impact of our organisational change programmes on our employees from diverse backgrounds, by using impact assessments. We have listened to the feedback from our employee survey and are addressing the key themes identified on disability, gender, bullying and harassment.

More than 5,700 employees have completed our improved diversity e-learning programme. We have exceeded our expectation for employee self-disclosure with more than half of our employees telling us if they have any disabilities. We now know much more about our employees, what their needs are and how we can better support them to be their best when at work. Wherever possible we have worked with employees who have become disabled to retain them and help them develop their careers. Embedding diversity into the heart of our business is providing us with sound business benefits and helping us to deliver our environmental outcomes.

Positive developments include the growth of a women's network, the introduction of e-forums for Black, Asian and Minority Ethnic (BAME) employees, employees who are less able and a Christian Fellowship forum. Working with our Lesbian, Gay, Bisexual and Transgender (LGBT) Network we again ranked in the top 20 in the Stonewall benchmarking equality index of public and private organisations in the UK.

Working effectively with partners

We are working with Natural England and the Forestry Commission to improve how we engage with local government. We have embedded our Single Voice approach, giving consistent messages and actively demonstrating joint working.

The approach has made us more efficient, improved our customer service and will ultimately deliver more for the environment. Our Single Voice Steering Group helps us ensure we have enough staff in the right places to meet strategic priorities, and gives a clear steer to operational staff in each organisation.

Examples of Single Voice working include publishing an advice note for community groups on Neighbourhood Plans, working with Defra and the Local Government Association on the Total Environment Initiative, and developing an environmental toolkit for Local Enterprise Partnerships.

This year we have carried out market research to ensure that we work as effectively as possible with local authorities in England and Wales. The research showed that more than three quarters (79 per cent) of senior officers in local authorities are very or fairly satisfied with the quality of service they receive from us. We were perceived as experts in our field, providing accurate data and making evidence-based decisions. The vast majority (98 per cent) of local authorities felt it is fairly or very important that we work in partnership with them, and 84 per cent felt we were already doing this.

The research also highlighted concerns that we are overly bureaucratic and slow to respond. We will work to address these issues in 2012-2013.

We rely on Ordnance Survey (OS) products to support a wide range of our business activities such as *What's in Your Backyard?* and *Easimap*. We are working with OS to trial a data feed service, providing the latest available data, reducing errors, and saving staff time and infrastructure costs.

Sharing our knowledge and expertise

After the Fukushima nuclear accident in Japan in March 2011, we provided advice to government, monitored levels of radioactivity in the environment and provided guidance on the disposal of contaminated items imported from the affected areas in Japan. We also supported the Office for Nuclear Regulation's (ONR) technical advisory panel.

We have worked with the ONR to ensure that we understand the relevant lessons from the Fukushima accident and that these are reflected in the designs of new nuclear power stations in England and Wales.

We have taken a proactive and risk-based approach to regulating the only site in the UK where hydraulic fracturing (also known as fracking) for shale gas has so far taken place. Hydraulic fracturing involves injecting water containing sand and low levels of chemicals into rocks deep beneath the surface to create fractures. Natural gas contained in the rock is then released through these fractures into a lined borehole and collected at the surface. To ensure that we understand the environmental risks of this technology, we have worked closely with companies proposing hydraulic fracturing operations, DECC and environmental protection agencies in other countries. We have also commissioned new research where necessary. In the coming year we will carry out a detailed environmental assessment of shale gas extraction to ensure we have all the information we need to regulate the fracking activity effectively, within our areas of responsibility, should it develop beyond small-scale exploration.

During 2011-2012 we were asked by Defra to represent the UK at a series of technical meetings in Brussels about amending the European Waste List. By 2015 there will be one single worldwide basis for the assessment of hazardous chemicals. The changes are significant and this will affect how we classify hazardous wastes. Defra and the European Commission were impressed with our support and many of the changes we proposed are being taken forward to a new European waste assessment framework. The new classifications are due to be implemented in 2015 and Defra has asked us to continue to support this work.

Ensuring our work is sustainable

Sustainable development lies at the heart of what we do. We aim to carry out our activities as sustainably as possible, minimising the impacts on people and the environment associated with them and taking any opportunities to enhance the natural environment.

In February 2011, the government committed to a series of broad environmental aims through its Greening Government Commitments report. The commitments include:

- reducing greenhouse gas emissions
- reducing waste and water consumption
- ensuring that government buys sustainable and efficient products and services.

We support these commitments. We have worked closely with Her Majesty's Treasury (HM Treasury) and other government departments and agencies to develop public sector environmental reporting guidance. Our guidance is also based on the integrated reporting framework developed by The Prince of Wales' Accounting for Sustainability Project.

We include many key environmental performance measures in our corporate reporting cycle and regularly report our progress on them to our Board and directors. This ensures that they are given the same priority as other performance measures within the organisation.

Reducing our carbon footprint

Our construction activities include construction of coastal and river flood defences, river catchment management schemes, and the creation and restoration of wildlife habitats. These are our activities which pose the greatest risk to the environment, and yet at the same time offer the greatest opportunity for environmental improvements. This year we developed a carbon calculator for construction activities, which highlights where big carbon savings can be made. The calculator is designed for all construction businesses and we use the carbon calculator in our own projects.

In the first CRC Energy Efficiency Scheme performance league table, as an organisation we came 275th out of 2,104 participants. We are making great efforts to reduce energy use further across our estate of over 260 offices, depots and major sites, supported by our internal environmental management and facilities teams. However, our total energy consumption will always be affected by weather conditions, with additional pumping needed in both particularly dry or wet weather.

At the Thames Barrier we installed new energy-efficient heating and ventilation systems, along with a back-up power generator and new lifts which are 30 per cent more efficient than the old equipment. This has reduced the carbon footprint of the Thames Barrier by around 75 per cent, and will save us approximately £25,000 in operating costs per year.

Using sustainable services and promoting social responsibility

Around 70 per cent of our total environmental impact comes from the goods and services we purchase. Over the last year we have worked closely with our suppliers to encourage innovation and reduce the impacts of our procurement activities.

Our sustainable procurement practices support the delivery of our Internal Environmental Management plan, our ISO 14001 certification, and our Eco-Management and Audit Scheme (EMAS) registered environmental management system. We believe that sustainability is essential throughout the procurement cycle, from identifying the need for goods or services through to managing contracts. All our suppliers are made aware of this at an early stage.

We have also provided wider social benefits by thinking carefully about the goods, services, works and utilities that we buy. This year, we joined forces with Blue Sky, a social enterprise organisation which provides opportunities for ex-offenders to re-enter the workforce. Through low-risk improvement work on our environmental assets, such as installing new footpaths and fences, and clearing vegetation, ex-offenders were able to demonstrate their skills and work towards gaining employment in future. Blue Sky estimates that participation in the scheme could reduce the probability of reoffending by up to 50 per cent.

The 12-month scheme had far-reaching effects: it enabled us to engage with hard-to-reach communities, carry out asset improvement works, and provided employment opportunities for ex-offenders.

Our staff continue to support the work of WaterAid, raising nearly £2.5 million since 2006. Last year alone, staff donated £246,000, with the 'give an hour' campaign bringing an additional £3,500 from staff's new or increased donations. This has helped WaterAid to bring health benefits, education and livelihoods to over 14 million people since the charity was established in 1981.

Reporting our sustainability performance

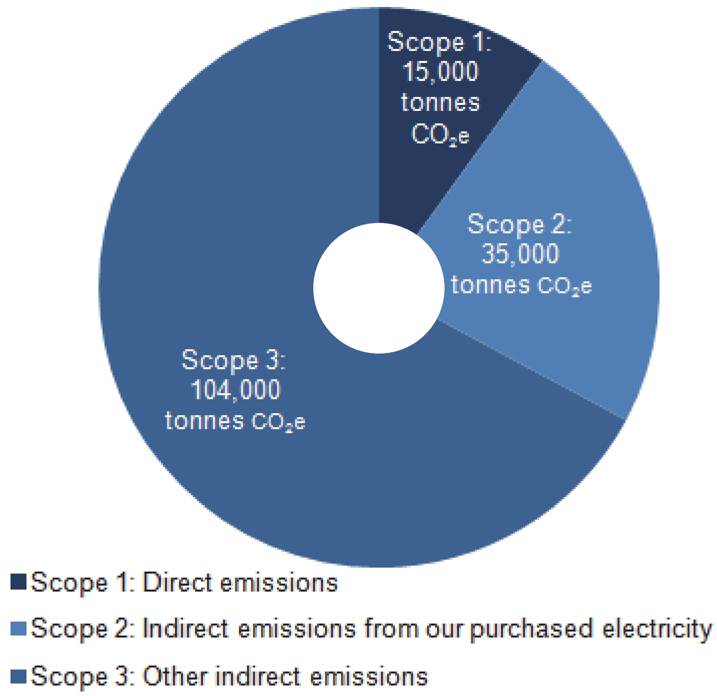
We manage our sustainability performance through several key measures. These key performance indicators (KPIs) cover a range of environmental and social sustainability issues. We report on these targets in our regular performance reviews.

Figure 1 illustrates our greenhouse gas (GHG) emissions for 2011-2012 using the emissions scopes defined by the GHG Protocol and in tonnes of carbon dioxide equivalent (tCO_2e). This defines three different scopes of emissions:

- Scope 1 - direct emissions.
- Scope 2 - indirect emissions from electricity consumption.
- Scope 3 - other indirect emissions, including business travel and supply chain.

In order to provide as complete a picture as possible, we have, for the first time, included emissions from construction activities carried out on our behalf. In future years we hope to be able to include more of our supply chain impacts. The graph highlights an issue that many organisations will face: a large proportion of GHG emissions are embedded within the supply chain.

Figure 1.
Greenhouse gas emissions



See Appendix C for a full breakdown and analysis of our sustainability performance.

Providing a safe and healthy working environment

We continue to keep a clear focus on health, safety and wellbeing matters as we carry out all of our activities. Over the last year we have focused more on incidents and activities that have the potential to cause significant harm and injury, leading to a continuous reduction in the risks in our work.

We actively encourage our staff to take part in activities that help improve their local environments, both for people and wildlife. These environmental outcomes days have been an excellent way to establish new relationships with partners and work directly with local communities on specific environmental projects.

The average number of days lost due to sickness during 2011-2012 was 6.8 days per employee, the same figure as 2010-2011. Musculoskeletal conditions remain the main cause of sickness absence accounting for 19 per cent of sickness absence. There has been no significant change in the proportion of sickness absence due to long and short-term sickness.

Using our resources more efficiently

By reviewing every aspect of how we work, we can ensure that every pound we receive and spend provides the most benefit for people and the environment.

On 1 April 2011, we launched our restructured Environment and Business Directorate, and our new South East region which merged Southern and Thames regions. These change projects have improved the efficiency and management structures within these business units.

Over the last 12 months, we have continued to review how our organisation works to increase efficiency and effectiveness. We have reviewed our corporate services – human resources, finance, estates and legal services – to make them more efficient and customer-focused.

We are also carrying out a review of our Flood and Coastal Erosion Risk Management (FCERM) business in England. We are combining changes to structures with revised ways of working to help us achieve new outcomes relating to the Flood and Water Management Act, work more closely with partners and communities, and adjust to reduced funding levels from government. Alongside this we are running a review of our sustainable places, data management and modelling, and environment planning teams.

In May 2011, we commissioned the Chartered Institute of Public Finance and Accountancy (CIPFA) to produce a benchmarking report of our financial management capability. This is the second benchmark report, following on from a review in June 2009. The report followed a standard methodology that CIPFA has used across many public sector organisations. CIPFA concluded that we showed 'a level of performance that is better than most other organisations that we have worked with.'

The report showed that we already have good control over our finances, and our Finance Directorate is better at supporting performance than many other organisations that CIPFA has seen. The area that is weakest, although still stronger than many organisations, is in ensuring that our financial management supports change, innovation and improvements to business-wide systems. In particular we need to improve how we measure value for money, and how we manage finances in our operational teams.

Finance staff are working with other departments on an action plan to improve further our approach to assessing value for money. We are developing training programmes for finance and business staff to support improvements in the areas that CIPFA highlighted.

In November 2011, Welsh Government announced that it intended to create a Single Environment Body for Wales. The new body will bring together the work of Environment Agency Wales, Countryside Council for Wales and Forestry Commission Wales. We are working with Welsh Government as they prepare their implementation plans for the new body to be in place by 1 April 2013.

Financial highlights

Accounts direction

The accounts have been prepared in a form determined by the Secretary of State for Environment, Food and Rural Affairs issued on 28 March 2012.

Funding

Our total funding for 2011-2012 was £1.2 billion. Of our total funding, £750 million (63 per cent) came in the form of grant-in-aid from Defra and Welsh Government: £700 million came from Defra to fund our work in England and £50 million came from Welsh Government to fund our work in Wales.

Overall results

Our final position of net expenditure for 2011-2012 was £749 million, an increase of £174 million on 2010-2011, as shown in the Statement of Comprehensive Net Expenditure. Net expenditure is total spend less income from fees, charges and non grant-in-aid sources. Grant-in-aid is treated as a contribution from a controlling party and therefore is accounted for as a financing transaction and credited directly to the general reserve. Income raised from our charging schemes and other miscellaneous income received is included within the Statement of Comprehensive Net Expenditure. Our total comprehensive net expenditure was £779 million, an increase of £373 million on 2010-2011 and takes into account:

- loss on sale of assets and interest receivable: £5 million
- financing income on pension scheme assets and liabilities: £12 million
- net gain on revaluation of property, plant, equipment and intangible assets: £88 million
- actuarial loss on pension scheme assets and obligations: £125 million

Expenditure

Our expenditure was £1.2 billion in 2011-2012, an increase of £0.2 billion on the previous year. This was spent across our business as follows:

Expenditure	2011-2012 (£'m)	% of total spend	2010-2011 (£'m)	% of spend
Flood and coastal erosion risk management	640	55	573	58
Protecting and improving air, land and water quality	400	34	309	31
Using water resources wisely	127	11	112	11
Total	**1,167**		**994**	

The spend in 2011-2012 was higher than in 2010-2011 as a result of a one-off pension credit in the prior year. This was due to the government's decision to change the rate at which pensions increase from the Retail Price Index (RPI) to the Consumer Price Index (CPI).

Future developments

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

The UK government's Spending Review 2010 set spending plans for the four-year period from 1 April 2011 to 31 March 2015 in England. A similar spending review was carried out in Wales. This resulted in a significant reduction in funding in both England and Wales for 2011-2012 with further reductions in coming years.

A summary of our funding from Defra until 2014-2015 is shown in the table below:

Funding area	Funding 2011-2012	Funding 2012-2013	Funding 2013-2014	Funding 2014-2015
	£'m	£'m	£'m	£'m
Flood defence				
Revenue	264	269	238	226
Capital	290	259	259	259
Total flood defence funding	**554**	**528**	**497**	**485**
Environment protection				
Revenue	121	133	94	88
Capital	34	-	-	-
Total environment protection funding	**155**	**133**	**94**	**88**
Total	**709**	**661**	**591**	**573**

Defra has not yet determined environmental protection capital funding for 2012-2013 and future years.

Welsh Government now provides their funding via Defra as required by HM Treasury's clear line of sight project. We continue to report to Welsh Government on the use of the funding. Funding from Welsh Government will be reduced until the Single Body for Wales is created.

Flood and coastal erosion risk management partnership funding

During 2011-2012, Defra introduced new partnership funding arrangements, where the amount of grant-in-aid provided for flood risk management and coastal erosion schemes in England is based on a tariff system, depending on factors such as the number of households protected and habitat created. If grant-in-aid alone is not sufficient to fund a scheme, the Environment Agency, local authorities and Internal Drainage Boards have to find partnership funding from other sources. Flood risk management schemes can only go ahead if there is sufficient funding from partners, including funding to maintain the scheme in future.

Non-current assets

Non-current assets in the year have increased by £60 million. The total net book value (total cost less total depreciation to date) is nearly £2.6 billion. This is mainly as a result of revaluation of our assets through indexation, which supplements the quinquennial formal revaluations of our non-operational land and buildings. The last formal revaluation was in 2010-2011. We consider that the value of assets held in our accounts is not significantly different to their market value. Where there is no market value for the asset, for example for the Thames Barrier, we consider that using Depreciated Replacement Cost (DRC) gives the most appropriate value.

Creditor payment policy and statistics

We aim to meet the level of performance on payment of creditors set out in the *British Standard 7890: Method for achieving good payment performance in commercial transactions*, and relevant HM Treasury guidance.

During the year we paid over 97 per cent of invoices from suppliers within 10 days of receipt and registration, an improvement of five per cent on our performance in 2010-2011. Creditor days, calculated on an average basis for the year, were four days for 2011-2012, the same as in 2010-2011. We have restated the 2010-2011 amounts to reflect a change in the calculation, which is now based on average days reported internally on a monthly basis. This is to help ease businesses' cash flow in the current challenging economic environment.

Pensions

The Environment Agency is a statutory member of the Local Government Pension Scheme (LGPS) and is the administering and employing authority for the Environment Agency's Active Fund. The Active Fund provides final salary pension benefits to 21,977 people, who are either current employees, ex-employees or people who transferred into the Environment Agency when it was established in 1996. We are also the statutory administering authority for our Closed Fund which provides final salary pension benefits for employees from predecessor water industry bodies. We are responsible for administering both funds in accordance with the LGPS Regulations.

The Active Fund receives contributions from our staff (between 5.5 per cent and 7.5 per cent of pay) and from the Environment Agency (16.5 per cent of pay). This is supplemented by income from the Active Fund's assets. The assets of the fund have increased in value by 5.8 per cent to £1.8 billion during 2011-2012, after allowing for contribution income and benefits paid out over the period.

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

External funding

In England we provide capital grants to local authorities and internal drainage boards for flood risk management, coastal erosion protection, and cleaning up contaminated land. In 2011-2012 we paid out £42 million.

We work in partnership with community organisations, such as local trusts and associations, to improve local environments. Significant partnership projects using more formal funding sources, such as match funding schemes through the European Union and the Heritage Lottery Fund, are helping to pay for £92.3 million of environmental improvement projects. These projects will be completed between 2008 and 2017.

In 2011-2012, the total project spend on these environmental improvement projects using formal external funding sources was £9.8 million, £2.2 million of which were contributions from the Environment Agency, with the balance coming from other project partners and from external funding schemes.

Financial management

Everything we do is underpinned by continuing to improve our understanding of our costs, and sound financial management throughout the year. Following a significant restructure during 2010-2011, our Finance Directorate has now established more efficient ways of working. This will enable us to meet the HM Treasury benchmark target of finance costs being one per cent of our income in the future.

Finance staff have made considerable progress in developing business partnering skills. We support and challenge operational managers to spend their budgets more effectively and deliver more environmental improvements for every pound. National finance teams support the business partners across the Environment Agency, providing central expertise and managing the overall budget. We have business plans that link costs to our strategic outcomes. This work has progressed over the last five years, using our Oracle finance systems.

Our transactional financial work is carried out in our Finance Service Centre. We continue to work closely with Defra and other government bodies to ensure that Finance Service Centres in England work together as effectively as possible. Unit costs in our Finance Service Centre are amongst the lowest within government.

Managing risk

As noted in the governance statement, we have a structured and dynamic risk management strategy to help us achieve our objectives. Local risk champions, nominated by national or regional directors, actively manage our risks, monitor action plans and act as a risk conscience. Our risk management plans and reviews of performance against the plans help to ensure that risks are mitigated towards the target level.

Personal data

In 2011-2012 we made one notification to the Information Commissioner's Office (ICO), one less than in 2010-2011. The governance statement provides further information on how we are improving controls around personal data.

The Environment Agency is a Public Sector Information Holder, and we have complied with the cost allocation and charging requirements set out in HM Treasury guidance.

Managing our buildings

We occupy 172,903 square metres of office space in our offices and depots: 97,042 square metres are freehold and 75,861 square metres are leasehold. We inherited most of our offices and depots from predecessor organisations.

We continue to deliver against our National Accommodation Delivery Plan. Our review of the plan showed that many of our staff do not spend the majority of their time working from offices. By using office space more flexibly, we are reducing the total amount of space we need and ensuring the number of workstations we have matches demand.

In 2011-2012, in line with the delivery plan, we closed 23 of our offices and depots saving £2.9 million a year. We continue to work with other government organisations, and particularly other Defra network bodies, to find opportunities to share accommodation.

Environmental policy and social community statement

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

Research and development

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

Going concern

The Statement of Financial Position at 31 March 2012 shows positive Taxpayers' Equity of £2.3 billion, the same as in 2010-2011. In common with other government non-departmental public bodies (NDPBs), the future financing of our liabilities is to be met by grant-in-aid from Defra and the application of future income, both to be approved annually by Parliament. We have already received approval for funding for 2012-2013, and we believe that we will receive approval for future funding. Therefore we have considered it appropriate to adopt a going concern basis to prepare these financial statements.

Auditor

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

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

Information requests

For any information requests, please email enquiries@environment-agency.gov.uk. Alternatively write to the Environment Agency, National Customer Contact Centre, PO Box 544, Rotherham, S60 1BY; or telephone the National Customer Contact Centre on 03708 506 506 (Monday to Friday, 8am to 6pm).

Paul Leinster
Accounting Officer
2 July 2012

Remuneration report

The Remuneration Committee

The Remuneration Committee comprises six non-executive Board members and is chaired by the Chairman of the Environment Agency. Its terms of reference were updated in May 2011 and were derived from the Greenbury Code of Best Practice on Directors' Remuneration and adapted to the circumstances of the Environment Agency as an NDPB, and are as follows:

1. The Remuneration Committee is appointed as an Executive Committee of the Environment Agency Board with their delegated authority to consider any matters relating to the pay or remuneration of Environment Agency employees. The Committee must have regard to the Financial Memorandum and other relevant requirements of Defra.

2. The Remuneration Committee will consider and advise the Environment Agency Board generally on matters relating to Human Resources.

3. The Remuneration Committee will:

    - consider and approve the overall remuneration strategy of the Environment Agency from the employees' perspective including the full benefits package
    - consider and approve periodic pay reviews for Environment Agency employees
    - consider and approve any significant policy issues involving terms and conditions other than pay
    - consider and approve any performance related pay to Directors based upon recommendations from the Chief Executive, approve the broad salary bands for Directors and approve the specific remuneration of any Director proposed to be appointed outside of those bands or with any special conditions
    - set and review all aspects of the objectives and remuneration of the Chief Executive
    - review the framework for succession planning for key posts
    - receive an annual statement of expenses incurred by Board members
    - advise the Board on any matters relating to pay, remuneration package and benefits or general Human Resources matters in normal Board business.

The Chair of the Remuneration Committee should make a report on Remuneration Committee business to the Board meeting following each Remuneration Committee meeting. The full minutes and papers of the Remuneration Committee meetings should be made available to any Board member on request.

Business conducted in year

The Remuneration Committee met four times during the year ended 31 March 2012. It agreed the Chief Executive's performance rating for 2010-2011, and objectives for 2011-2012.

During the year, the Committee also:

- endorsed the Environment Agency's approach to the pay award
- reviewed pay in the light of public sector spending constraints.

Remuneration of non-executive Board members

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

Board members' remunerations (audited)

The following table provides details of the appointment and emoluments of Board members who have received emoluments in the last two financial years.

Board member	Date of appointment or re-appointment effective from	Period of appointment (years)	Time commitment (days per month)	Remuneration in 2011-2012 £	Remuneration in 2010-2011 £
The Rt Hon Lord Smith of Finsbury (Chairman) (i) ** ****	14 Jul 2011	3	3 per week	102,139	106,119
Mr James Brathwaite CBE (ii)	1 Jul 2008	3	4.5	4,725	18,902
Dr Andrew Brown (Deputy Chair) * **	10 Oct 2009	3	5	25,200	25,200
Dr Ruth Hall CBE (iii) ****	30 Jun 2011	1.75	6	15,750	25,202
Dr Madeleine Havard * ****	4 Oct 2010	3	5	21,001	10,361
Ms Julie Hill *	1 Jul 2009	3	5	21,002	21,002
Ms Emma Howard Boyd * ** ****	1 Jul 2009	3	1 per week	18,201	18,201
Councillor Robert Light * ** ***	1 Jul 2009	3	4	16,802	16,802
Dr Malcolm Smith (iv)	1 Sept 2008	2	7	-	14,701
Councillor Kay Twitchen OBE (v)	1 Apr 2010	0.5	6	-	12,601
Mr John Varley ***	1 Oct 2009	3	4	16,802	16,802
Mr Jeremy Walker ** ****	22 Jun 2009	3	6	25,203	25,203
Lady Suzanne Warner * *** ****	18 Sep 2009	3	6.5	27,300	27,300
Lord Larry Whitty ** ***	18 Sep 2009	3	4.5	18,902	18,902
Dr Clive Elphick *	1 Aug 2011	3	5	14,001	-
			Total	**327,028**	**357,298**

Non-executive Board members have no entitlement to performance-related pay and only the Chief Executive is eligible for pension contributions or other benefits. The above figures are total emoluments received and are not shown on a full time equivalent or full year basis.

* Member of Audit and Risk Committee at 31 March 2012.

** Member of Remuneration Committee at 31 March 2012.

*** Member of Pensions Committee at 31 March 2012.

**** Member of Flood Defence Finance Committee at 31 March 2012.

Notes:

i. The Rt Hon Lord Smith of Finsbury was re-appointed to the Board until 31 March 2014.

ii. Mr James Brathwaite CBE retired on 30 June 2011.

iii. Dr Ruth Hall was re-appointed to the Board until 31 March 2013.

iv. Dr Malcolm Smith retired on 30 August 2010.

v. Councillor Kay Twitchen retired on 30 September 2010.

Executive Directors' emoluments (audited)

The Environment Agency employs six Executive Directors in addition to the Chief Executive. Detailed below are the Executive Directors and their period of service (including date of appointment).

Position	Executive Director	Period of service
Current Directors		
Chief Executive	Dr Paul Leinster	1 Nov 2008 - present
Director of Environment and Business	Mr Ed Mitchell	1 Apr 2010 - present
Director of Operations	Mr David Jordan	1 Jun 2008 - present
Director of Evidence	Ms Miranda Kavanagh	29 Apr 2009 - present
Director of Resources and Legal Services	Mr Jonathan Robinson	18 Jul 2011 - present
Director of Finance	Dr Mark McLaughlin	22 Jun 2009 - present
Director of Flood and Coastal Erosion Risk Management	Mr David Rooke	1 Nov 2011 - present
Other Directors in the period		
Director of Environment and Business	Ms Patricia Henton	7 Mar 2005 - 31 Oct 2010
Director of Resources	Mr Graham Ledward	3 Jan 2006 - 18 Jul 2011
Director of Legal Services	Mr Jonathan Robinson	5 May 2009 - 17 Jul 2011
Director of Communications	Mr Adrian Long	25 Feb 2008 - 28 Feb 2011
Director of Flood Risk Management	Mr Robert Runcie	1 Apr 2009 - 30 Jun 2011

From 18 July 2011 Mr Graham Ledward was on secondment to Defra. He continued to be paid by the Environment Agency and remained with the active pension fund. The costs were reimbursed by Defra.

The following table provides details of Executive Directors' total emoluments and benefits in kind.

Executive Director	PRP 2011-2012 (£5,000 Range)	Emoluments 2011-2012 (£5,000 Range)	PRP 2010-2011 (£5,000 Range)	Emoluments 2010-2011 (£5,000 Range)	Benefits in kind 2011-2012 (£)	Benefits in kind 2010-2011 (£)
Dr Paul Leinster	–	190 – 195	–	190 – 195	1,400	1,100
Ms Patricia Henton (i)	–	–	–	80 – 85	–	–
Mr David Jordan,	–	160 – 165	–	160 – 165	1,400	2,500
Ms Miranda Kavanagh (ii)	–	135 – 140	–	135 – 140	3,500	3,200
Mr Graham Ledward (iii)	–	150 – 155	–	150 – 155	3,200	3,200
Mr Adrian Long (iv)	–	–	–	170 – 175	–	–
Dr Mark McLaughlin	–	140 – 145	–	140 – 145	1,400	1,400
Mr Ed Mitchell	–	125 – 130	–	120 – 125	–	–
Mr Jonathan Robinson (ii) (v)	–	120 – 125	–	115 – 120	–	–
Mr Robert Runcie (vi)	–	0 – 5	–	105 – 110	–	100
Mr David Rooke (vii)	–	50 – 55	–	–	3,500	–

Total emoluments include gross salaries. On a voluntary basis by Directors, no payments were received for performance related pay for the 2011-2012 financial year. The notice period for Directors is three months.

i. Ms Patricia Henton retired on 31 October 2010. Her whole year equivalent salary would have been £135,000 - £140,000. No severance payment was made.

ii. Ms Miranda Kavanagh's and Mr Jonathan Robinson's emoluments for 2010-11 have been increased due to a backdated contractual pay increase that was approved by Defra during the year.

iii. Mr Graham Ledward went on secondment to Defra from 18 July 2011 until 30 April 2012 as Director General Corporate Services. His salary has been recharged to Defra from this date. He was made redundant on 30 April 2012 as a result of organisational change and was paid between £150,000 and £155,000 in line with our contractual redundancy policy.

iv. Mr Adrian Long's post of Director of Communications was made redundant on 28 February 2011 as a result of organisational change. The figures above include a payment of between £55,000 and £60,000 in line with our contractual redundancy policy.

v. Mr Jonathan Robinson took on additional responsibility as the Director of Resources from 18 July 2011.

vi. Mr Robert Runcie was awarded Local Government Pension Scheme ill health retirement from the role of Director of Flood and Coastal Erosion Risk Management from 30 June 2011.

vii. Mr David Rooke was appointed Director of Flood and Coastal Erosion Risk Management from 1 November 2011. He had undertaken Mr Robert Runcie's duties since 1 May 2010, he was not an executive director during this period. His whole year equivalent pay as at 31 March 2012 was between £120,000 and £125,000.

The Environment Agency currently employs six Executive Directors in addition to the Chief Executive.
The following table provides details of their pensions.

Executive Director	Accrued pension at 31 March 2012 (£5,000 Range)	Increase in accrued pension during the year (£2,500 Range)	Accrued lump sum at 31 March 2012 (£5,000 Range)	Increase in lump sum during the year (£2,500 Range)	Cash equivalent transfer value (CETV) at 31 March 2011 £'000* (restated)	CETV at 31 March 2012 (£'000)	Real increase in CETV (£'000)
Dr Paul Leinster (i)	60 - 65	0.0 - 2.5	125 - 130	(2.5 - 5.0)	1,211	1,354	29
Mr David Jordan	65 - 70	0.0 - 2.5	170 - 175	(2.5 - 5.0)	1,326	1,462	15
Ms Miranda Kavanagh	5 - 10	0.0 - 2.5	-	-	60	97	21
Mr Graham Ledward (ii)	25 - 30	2.5 - 5.0	10 - 15	(0.0 - 2.5)	272	334	28
Dr Mark McLaughlin	80 - 85	0.0 - 2.5	-	-	905	992	2
Mr Ed Mitchell	20 - 25	0.0 - 2.5	35 - 40	(0.0 - 2.5)	201	235	8
Mr Jonathan Robinson	45 - 50	0.0 - 2.5	-	-	458	510	6
Mr Robert Runcie (iii)	50 - 55	2.5 - 5.0	135 - 140	7.5 - 10.0	932	1,016	71
Mr David Rooke (iv)	50 - 55	2.5 - 5.0	125 - 130	2.5 - 5.0	981	1,052	46

*The cash equivalent transfer value (CETV) at 31 March 2011 has been restated for all members to reflect the new methodology and factors issued by the Government Actuary's Department (GAD) during the year.

i. The Chief Executive's total pay includes gross salary only, as no payments were made for performance related pay for the 2011-2012 financial year. The Chief Executive is an ordinary member of the Environment Agency's Active Fund pension scheme, and the Environment Agency paid employer's pension contributions into the Active Fund at the same rate as for other participants. At the end of the year, his accrued pension entitlement from the Environment Agency's pension scheme was between £60,000 and £65,000.

ii. Graham Ledward was awarded additional pension service in accordance with an agreement with him in October 2009 to award up to six months additional membership between April 2009 and March 2014 based on his performance in the previous year.

iii. Robert Runcie was contributing towards added years. These contributions have been added onto the normal employee contributions paid by this member. He retired on ill-health grounds on 30 June 2011. His benefits and CETV reflect the value of his benefits assuming he became a deferred member as at 30 June 2011.

iv. David Rooke was appointed a Director on 1 November 2011.

Cash equivalent transfer value

The Real Increase in CETV reflects the increase funded by the employer. It does not include the increase in accrued pension due to inflation or contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement.

Pay multiples

In line with the recent Hutton Review of Fair Pay, the Environment Agency and similar bodies are required to disclose the relationship between the remuneration of the highest paid director in their organisation and the median remuneration of the organisation's workforce. Total remuneration includes salary, non-consolidated performance-related pay, benefits in kind as well as severance payments. It does not include employer pension contributions and the CETV of pensions.

The banded remuneration of the highest paid director in the financial year 2011-2012 was £190,000-195,000 (2010-2011, £190,000-£195,000). This was 6.8 times (2010-2011, 6.8 times) the median remuneration of the workforce, which was £28,276 (2010-2011, £28,364). For the reporting periods 2010-2011 and 2011-2012, the highest paid director was the Accounting Officer.

Paul Leinster
Accounting Officer
2 July 2012

Statement of Accounting Officer's responsibilities

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

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

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

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

Governance statement

Introduction

The Environment Agency governance statement sets out how the Accounting Officer receives assurance on the management of risks in delivering the performance targets set for the organisation. It sets out how the executive management teams and the independent Board and associated committees provide assurance and demonstrate value for money, regularity and propriety in delivering the corporate plan. It also explains how control issues are addressed.

The Accounting Officer is responsible for maintaining a sound system of internal control that supports the achievement of the Environment Agency's aims and objectives, whilst safeguarding public funds and assets, in accordance with the responsibilities assigned in the HM Treasury publication *Managing Public Money*. The Accounting Officer is accountable to the independent Board of the Environment Agency, Parliament and Welsh Government. The Board is accountable to Central Government and Welsh Ministers. Powers are delegated through 'Dear Accounting Officer' letters and the Financial Memorandum and Management Statement that assign delegated powers to the Environment Agency from Defra and Welsh Government. This governance statement sets out how the Accounting Officer complies with the responsibilities.

Managers across the organisation take the lead role in providing assurance, which includes the assurance provided by internal audit and comments made by external audit. Through the publication of the corporate plan and the Annual Report and Accounts, the Environment Agency reports on progress made against objectives and performance targets, and sets out how resources have been allocated. Defra and Welsh Government approve the corporate plan. The Environment Agency's performance is discussed with Defra and Welsh Government at regular meetings of officials, including meetings with Defra's Accounting Officer. The Environment Agency's Chairman and Chief Executive also meet regularly with the Secretary of State for Environment, Food and Rural Affairs and other Defra Ministers. The Chairman also has regular conversations with the Minister for the Environment and Sustainable Development for the Welsh Government.

The existing system of internal control has been developed and improved over many years, including the year ended 31 March 2012, and is in accordance with HM Treasury guidance. Assurance assessments prepared by senior managers are supported by evidence taken from a range of sources such as established business controls, performance information, internal compliance reviews and independent audit, both internal and external. Where appropriate, mitigation actions are agreed to address any identified areas of concern. This process, in parallel with our corporate risk assessment, is designed to manage risks effectively within the organisation.

During 2011-2012, we started work to improve our assurance framework, led by the Head of Internal Audit. This work will continue in 2012-2013, working with lead managers in cross-cutting risk areas including financial and people management, data and information security, and fraud and risk management.

Governance of the Environment Agency

Figure 2a. Simplified diagram of accountability

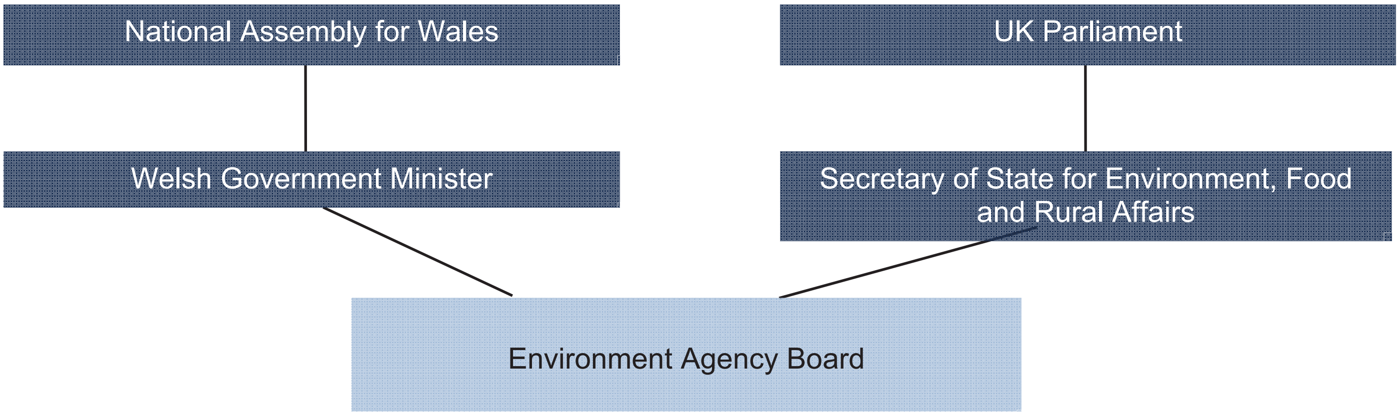
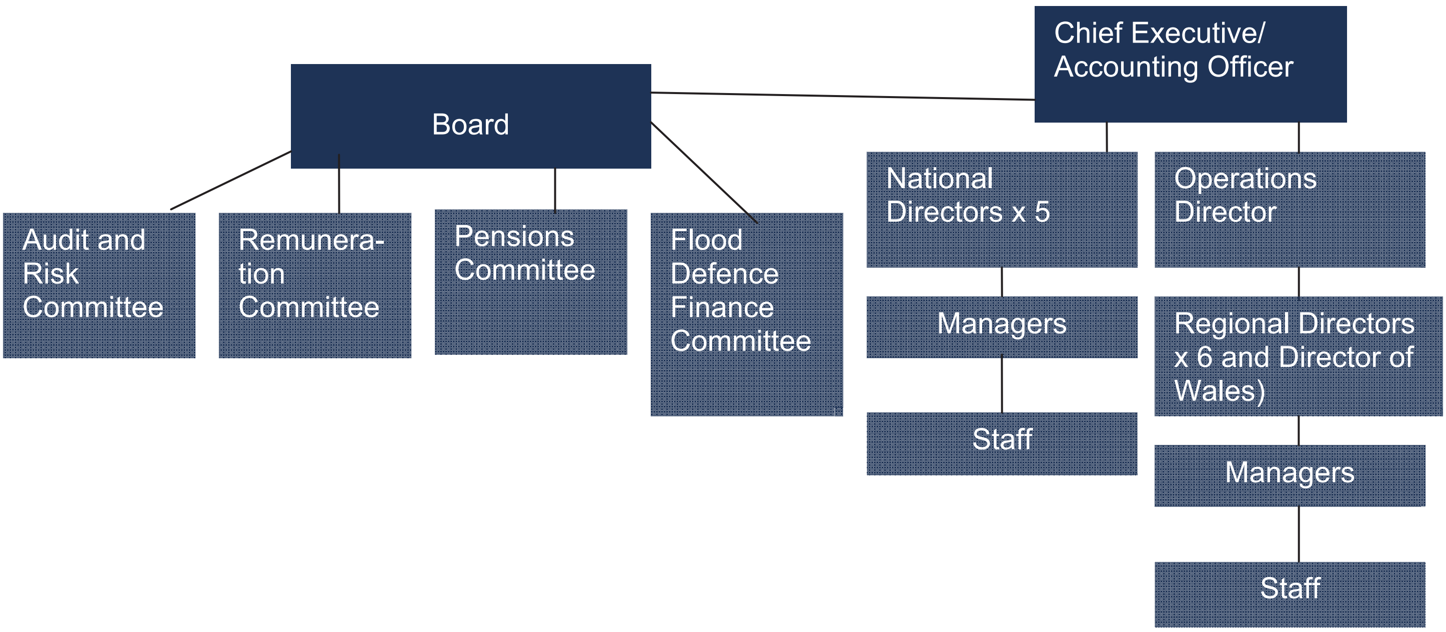


Figure 2b. Delegation of decision-making arrangements within the Environment Agency



The Environment Agency is an NDPB sponsored by Defra, and in Wales by Welsh Government. The work of the Environment Agency is overseen by the Board. The Chief Executive sits on the Board and there are eleven independent Board members including the Chairman.

The Board has established committees for key business areas:

- The Pensions Committee oversees the work of the Environment Agency in administering two pension funds under Local Government rules; an Active Fund for its employees and a closed fund for ex-employees of the former water authorities and associated predecessor bodies. The Pensions Committee has been asked by the Board to oversee all management activities associated with the pension funds and to advise the Board on significant pension-related matters. The government review of public sector pension scheme funding has been a major area of work over the last financial year. Separate audited accounts are produced for both funds.
- The role and work of the Remuneration Committee is summarised within the Remuneration Report that is included earlier within the Annual Report and Accounts.
- The Flood Defence Finance Committee's major responsibility is to allocate Defra and Welsh Government flood risk management grant-in-aid to the Flood and Coastal Committees in England, and the Flood Risk Management Wales (FRMW) Committee, in Wales, for flood risk management capital and revenue activities. The Committee oversees spend and performance related to this funding during the year.
- The Audit and Risk Committee provides oversight on matters of corporate governance, risk and internal control. It reviews the Annual Report and Accounts of the Environment Agency and its pension funds. It advises on the scale and programme of work of Internal Audit and considers recommendations arising from the work of both internal and external auditors. Major issues that have been kept under review this year include the performance of the outsourced providers of information technology services, the controls in place over the use of government procurement cards, and discussion with the Cabinet Office on the future provision of transactional services.

The Chair of each of these committees gives an update at Board meetings, and issues are raised from sub-committees to the Board as necessary. The remuneration report identifies the members of each committee.

The Chief Executive and Directors engage regularly with the Board and are responsible to them for all aspects of performance and risk management. Attendance at the meetings by Board members is high, and proportionate to their roles.

The Chief Executive is the Accounting Officer and has a team of Directors that provide executive leadership and direction to the organisation. The Directors are responsible for establishing an effective system of internal control. Additional assurance is obtained through established programmes of external certification including Investors in People and International Standards Organisation certification in environmental and quality management. The organisation is in full compliance with the good practice requirements of the Corporate Governance Code which apply to Arm's Length Bodies.

Review of the effectiveness of the Board and Directors' team

The Directors' team meets formally three times a month to discuss:

- technical issues associated with the current and future activities of the Environment Agency
- business issues, such as finance, risk and people management
- organisational issues including internal change programmes, value for money and customer standards.

The Directors' team receives papers to aid their discussions at these meetings. Regular performance and financial information is provided in the business issues meeting. Performance and financial information is provided to Defra.

In March 2012, the Directors' team completed a self evaluation exercise, using a standard questionnaire based on best practice for such evaluations. Evidence was also gathered from staff who interact with the Directors' team. This review looked at governance, engagement and their ways of working together. Directors agreed a programme of actions, and have endorsed their current level of involvement in executive decision-making and programme review across the organisation.

In June 2011, the Environment Agency Board also undertook an evaluation exercise and Directors, Regional Directors, Committee Chairs and the Secretariat participated. As a result the Board redrafted their terms of reference, and improved the transparency of roles to make governance easier to understand. As a result a new Board Member Handbook and Induction Pack were developed, approved and adopted.

The Audit and Risk Committee undertake an annual self-assessment. The 2011 review was limited to Board Members and the results were discussed at the September meeting. The outcome of the review was to ensure continued and appropriate scrutiny of the correct issues with the appropriate level of rigour.

Twice a year, performance reviews are held between the Secretary of State, other Ministers and Defra's senior non-executive Director, and the Chairman and Chief Executive of the Environment Agency. Performance is reviewed across all areas of the Environment Agency's activities. This year the topics that have been discussed have included water resource management, partnership funding in flood risk management, the ongoing problem of metal theft, and the catchment-led approach to improving rivers, lakes and groundwater. We also discussed the closer working relationships we have established with Defra colleagues, Welsh Government colleagues and those from other government departments, including work on the Red Tape Challenge, the outputs from the Autumn Statement, the Water White Paper and the move to more open public data. We discussed the success of our approach to joint working with Natural England and the Forestry Commission, and our achievement in managing the substantial reform of the Environment Agency. There have been no additional Ministerial Directions within the accounting period.

Assessment of business risks

We produce an annual statement setting out our strategic approach to risk management that has been agreed by the Board and Directors. The Board and Audit and Risk Committee take an active role in identifying, monitoring and managing key risks. The Directors' team assesses and prioritises the Environment Agency's key corporate risks throughout the year with individual Directors taking on the role of risk champions. Risks are actively managed and discussed at monthly Directors' team meetings. The Audit and Risk Committee receive regular reports on how key corporate risks are being managed and raise new risks for consideration by the Directors.

During the year, the Corporate Risk and Insurance Manager has worked with regional and head office management teams to help them update and manage their own major business risks. Risk registers are in place, including current and target scores and mitigation measures. The Corporate Risk Portfolio contains eight corporate risks which are actively managed by a sponsoring director. Other risks are managed through individual directorate or regional management teams. The corporate list is reviewed monthly and new items are escalated as they arise. Active management of risks is supported by local risk champions, nominated by national or regional directors, to monitor action plans and act as a risk conscience. Risks identified by management teams are escalated for consideration by the Directors' team and can result in an addition to the corporate risk register.

We produce risk registers as part of our normal procedures in managing projects. Post-project appraisal and lessons learnt processes are in place. These are designed to improve knowledge-sharing across the organisation. The corporate plan promotes taking well-managed risks when necessary to meet the needs of stakeholders. By briefings and reference within operational instructions, staff are regularly reminded of the importance of complying with risk management requirements.

Corporate risks are categorised into two broad themes: risks that could affect the integrity or existence of the organisation, and those that could affect its operational effectiveness.

Risks that could impact the integrity of the organisation include:

- External factors that could affect the structure of the Environment Agency, such as the transfer of Environment Agency Wales into a Single Body for the environment with the Countryside Council for Wales and Forestry Commission in Wales.
- Major lapses in operational or procedural systems arising from a failure in health and safety, financial irregularities or security breaches, including lapses in information security. This also extends to our operational activities in partnership with other organisations.
- For the Single Body work, we have two project teams (one in England and one in Wales) and a high-level project board which oversees the overall work programme. The Directors' team are also actively involved in the decision making process on a regular basis. Two Board members (including the Board member for Wales) lead for the Board on this issue.

Risks to capacity to achieve results that could arise from operational activities include:

- Failure to deliver key environmental improvements, such as the Water Framework Directive targets and Habitats Directive requirements.
- Reduction in the Environment Agency's ability to function operationally due to loss of, or service degradation in, core computer systems.
- Difficulties related to staff effectiveness, retention and resilience.
- Problems arising that mean our expected data quality standards are not achieved.

We appoint a lead director to oversee the mitigation work associated with each risk. The risks are then reviewed monthly at Directors' team meetings and progress is noted by exception.

None of these risks are new this year but they have been re-categorised to help ensure they are appropriately mitigated to an acceptable level.

The Internal Control system

The system of Internal Control is designed to manage risk to a reasonable level rather than to eliminate all risks of failure, and maintain regularity and propriety. The Accounting Officer can only provide reasonable and not absolute assurance of effectiveness. The system of Internal Control is based on an ongoing process designed to identify and prioritise the risks to the achievement of our business aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently and effectively.

The Head of Internal Audit submits a formal annual assurance statement to the Accounting Officer on the adequacy and effectiveness of the Environment Agency's risk management, internal control and governance processes in accordance with Government Internal Audit Standards. This opinion is based on a review of all audits included in the annual plan. The annual plan is agreed with the Directors' team and the Audit and Risk Committee, to ensure that a risk based and prioritised approach is used to audit appropriate areas of the business.

The Internal Audit team has performed 37 reviews during the year. Based on the evidence obtained during the period 1 April 2011 to 31 March 2012, they were able to provide an overall reasonable assurance rating on the adequacy and effectiveness of the Environment Agency's arrangements for corporate governance, risk management and internal control. This means that they did not see any significant weakness in controls that threatened the achievement of the Environment Agency's objectives. Management has committed to follow up actions where weaknesses have been identified.

The organisation acts on the recommendations made by:

- external auditors in their interim and final management letters
- accredited bodies reviewing environmental performance and quality standards
- value for money reviews undertaken by the NAO
- other external reviews in the year of the Environment Agency's activities, details of which are included in the management commentary.

The Accounting Officer has been advised on the system of Internal Control by the Audit and Risk Committee, who discuss and agree the content of this governance statement, on the basis of the internal and external reports they have scrutinised during the year. In depth reviews into areas of concern, and progress in addressing weaknesses and delivering continuous improvement of systems, are discussed at the Committee meetings.

Specific areas of focus during 2011-2012 are set out in the paragraphs below. Management actions have been put into place across the business to mitigate these risks and ensure they are managed appropriately.

Key findings and actions

This section presents high level findings, identified weaknesses, and control actions within each of the processes which have been assessed in this, or previous, years. These areas have been identified through a number of control mechanisms, including regular quarterly management and performance reviews, internal and external audit reports, specific investigations, and reviews carried out by the various internal assurance groups whilst reviewing their systems and processes. This includes the corporate security team, finance, procurement and human resources teams, fraud steering group, and risk management and corporate performance reporting staff.

Security issues

There were two areas of non-compliance with the government's Security Policy Framework (SPF) which have now been addressed. The first action relating to data capture and the use of closed-circuit television (CCTV) has been resolved following a full review of all our CCTV installations and by a series of programmed improvements. The second, relating to risks of data losses when working from a private computer or laptop at home, is currently being addressed through the adoption of new connection technology and user education. We continue to make good progress on both information technology (IT) and physical security measures. We are now compliant with all relevant mandatory requirements of the government's SPF.

Data confidence and storage of records

A long term management action plan was prepared and agreed by Directors. Executive, national and local data custodians have been established and trained to undertake their duties. These staff are assisted by a small team of data management experts within the Evidence Directorate. Data quality standards are being increased through the use of data mapping and continuous improvement techniques. This will be the focus of our work over the next year.

Data loss in the Environment Agency (Cardiff office)

In February 2012, a significant amount of business data was corrupted following a major failure of an IT file server operated by our IT suppliers Capgemini. The backup processes also failed. Recovery work commenced immediately and known business-critical data has now either been recovered or reproduced. The issue was resolved and the backup process is now operating normally across the Environment Agency. Costs to manage the incident and recover the data have been estimated and will be borne by Capgemini.

Programme administration and project management

Significant work has been undertaken by the Corporate Portfolio group this year, to improve the way we manage programmes and projects within the Environment Agency. Increased scrutiny of higher value projects has taken place with a focus on risk management, benefits realisation and the embedding of lessons learnt.

The number and type of grants that we administer has increased and further change is expected in future as more work is undertaken outside of central government and its Arms Length Bodies. This requires a greater level of scrutiny of the financial stability of the partner organisations. During the coming year we will be reviewing further how these partnerships operate to minimise financial and delivery risk, whilst also ensuring that processes are streamlined and proportionate to the partners we do business with.

Fraud and whistle-blowing

The Corporate Risk and Insurance Manager has visited all regions during the year to assist with updating risk registers and to remind managers of the fraud and whistle-blowing requirements. A Fraud Steering Group has been established with access to trained investigators so that any potential fraud issues can be reviewed promptly and professionally. A summary of potential fraud cases and all whistle-blowing investigations is reported to the Audit and Risk Committee and senior managers on a regular basis. All staff in higher risk fraud areas undertook an online interactive fraud awareness training session during the year. We have improved our intranet guidance to make it easier for staff that suspect fraud to report it in an appropriate way.

Spending restrictions

Part way through 2010-2011, the Cabinet Office introduced new authorisation controls for certain categories of spend. These procedures require Secretary of State or Cabinet Office approval in many cases. It has been important to ensure that our processes are effective in identifying and obtaining appropriate approval for this expenditure. During 2011-2012, we have updated the guidance on our intranet to make it easier for our staff to understand the procedures that we need to follow. We have tested our compliance with support from procurement and finance staff and are confident that this spend is being appropriately authorised.

Procurement card expenditure

Government procurement card numbers have stabilised at 5,600. All spend on procurement cards is approved by line management and the monthly spend on each card is limited. Audit software is used to identify unusual transactions which are investigated and reported to the Chief Executive. Fraudulent use is very rare, and usually relates to a small number of cases of cloning of cards for which the Environment Agency is fully reimbursed by the bank.

Corporate assets systems records reconciliations

The Estates team has been managing a project established to reconcile the large number of Environment Agency land plots recorded on the Land Registry and the internal Estates system. These records are also being cross-checked against the fixed asset register to update appropriate replacement costs. This project has not progressed as quickly as we would have liked it to, mainly due to the need to resolve disputes around land ownership with other organisations.

Information systems improvements

The transformation of our information and communications technology (ICT) estate to supported software and hardware platforms continued throughout 2011-2012. Process improvements as part of the transformation project have resulted in improvements to ICT asset management, further optimisation of ICT asset utilisation and streamlining of processes between the Environment Agency and its strategic ICT outsource partner, Capgemini. This process will continue throughout the transformation project, which whilst delayed by a few months, is due to complete in 2012-2013.

Security lapses in 2011-2012

One incident was reported to the ICO in the financial year relating to a series of emails sent out to 13,000 rod licence holders, where the email addresses of up to 1,000 members of the public were visible to all the recipients, as the addresses had been put into the Cc and not the Bcc field. Following our self-reporting and the remedial action taken, the ICO took no action against us.

Financial management

The NAO raised several management action points last year recommending improvements to financial management. We have addressed these as follows. We have improved our reconciliations and other control procedures in the Financial Service Centre. We have reorganised the management of these teams and improved the level of resource focused on these reconciliations during the year. We have reviewed the level of capitalisation of salaries within non current assets and capital works expensed in year. We have updated our methodology to ensure that only allowable costs are capitalised

During 2011-2012, we have established a new compliance team in our Finance Directorate. One of its responsibilities is improving financial policies and processes to establish closer links between financial and management accounting. It also carries out compliance reviews against policies across the whole organisation, and provides training and support to finance and business staff where concerns are identified.

The NAO carried out a value for money audit during the year. The financial management and business improvement team has been working closely to implement the actions identified during the review. Areas of improvement include project management costing and release of funds no longer required by projects. All parts of the business undertake quarterly forecasting and a mid-year review to consider the risks to delivery and expenditure. Additional projects are identified, which can be delivered if funds are released from existing projects. We have developed closer links between corporate and project risk management and will build upon this work in future.

Administration of grants to local authorities and Internal Drainage Boards.

The Environment Agency provides grants to local authorities and Internal Drainage Boards for flood and coastal erosion risk management and contaminated land remediation. With effect from April 2012 we will also provide funding to civil society groups and charities for catchment restoration work.

All the grants are made available following an open bidding process where groups put forward proposals to deliver local outcomes. We assess and prioritise the bids and publish a list of grant awards and allocations. Projects receiving grant are assessed using the same processes and standards as Environment Agency projects. Standardised documentation is used and grant memoranda published with which the applicants need to comply. The assessment processes and our management controls provide an incentive to achieve good value for money. Our projects are assessed with an optimism bias, but allocations exclude contingency funding. This enables some flexibility if additional costs are incurred, but only through a controlled mechanism.

Our aim is for light touch oversight, generally one where local officers provide guidance and advice. National expertise can also be called upon to resolve difficulties. All variances are subject to sign off. Post project appraisals are undertaken and lessons learnt are built into subsequent projects.

Paul Leinster
Accounting Officer
2 July 2012

The Certificate and Report of the Comptroller and Auditor General to the Houses of Parliament

I certify that I have audited the financial statements of the Environment Agency for the year ended 31 March 2012 under the Environment Act 1995. The financial statements comprise: the Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Accounting Officer and Auditor

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

Scope of the audit of the financial statements

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

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

Opinion on regularity

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

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the Environment Agency's affairs as at 31 March 2012 and of the net expenditure for the year then ended; and
- the financial statements have been properly prepared in accordance with the Environment Act 1995 and Secretary of State directions issued thereunder.

Opinion on other matters

In my opinion:

- the part of the remuneration report to be audited has been properly prepared in accordance with Secretary of State and Welsh Ministers' directions made under the Environment Act 1995; and
- the information given in the foreword, management commentary and sustainability accounting and reporting appendix for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

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

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the part of the remuneration report to be audited are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the governance statement does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

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

10 July 2012

Statement of Comprehensive Net Expenditure

For the period ended 31 March 2012

		2011-2012	2010-2011 (restated)
	Note	**£'m**	**£'m**
Expenditure			
Staff costs	3	365.4	402.8
IAS 19 pension charge / (credit)	21.6	54.5	(160.6)
Capital works expensed in year	4	222.8	247.3
Depreciation and amortisation	7,8	103.3	101.8
Other expenditure	5	404.9	383.5
Impairment of non-current assets	7.6	15.7	18.7
		1,166.6	**993.5**
Income			
Income from activities	6	(402.3)	(403.3)
Other income	6	(14.9)	(14.9)
		(417.2)	**(418.2)**
Net expenditure	2	**749.4**	**575.3**
Loss / (gain) on sale of assets		5.2	(0.4)
Interest receivable		(0.2)	(0.2)
Financing (income) on pension scheme assets and liabilities	21.6	(12.2)	(5.7)
Net expenditure after interest		**742.2**	**569.0**
Other comprehensive expenditure			
Net (gain) on revaluation of property, plant and equipment	7	(85.5)	(35.1)
Net (gain) on revaluation of intangible assets	8	(2.0)	(8.0)
Actuarial loss / (gain) on pension scheme assets and obligations	21.6	124.7	(119.5)
Total Comprehensive Net Expenditure for the period		**779.4**	**406.4**

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

The notes on pages 52 to 94 form part of these accounts.

Statement of Financial Position

As at 31 March 2012

	Note	31 March 2012		31 March 2011 (restated)		1 April 2010 (restated)	
		£'m	£'m	£'m	£'m	£'m	£'m
Non-current assets:							
Property, plant and equipment	7	2,430.0		2,408.8		2,340.6	
Intangible assets	8	137.3		98.5		105.1	
Total non-current assets			**2,567.3**		**2,507.3**		**2,445.7**
Current assets:							
Assets classified as held for resale	9	0.9		4.8		4.3	
Trade and other receivables	10	99.1		98.6		92.4	
Cash and cash equivalents	11	158.7		101.0		85.3	
Total current assets			**258.7**		**204.4**		**182.0**
Total assets			**2,826.0**		**2,711.7**		**2,627.7**
Current liabilities:							
Trade and other payables	12	(302.8)		(259.0)		(185.4)	
Total current liabilities			**(302.8)**		**(259.0)**		**(185.4)**
Total assets less current liabilities			**2,523.2**		**2,452.7**		**2,442.3**
Non-current liabilities							
Deferred grants and contributions	14	(0.6)		(2.3)		(4.2)	
Provisions	13	(12.9)		(15.0)		(18.6)	
Pension liabilities	21.3	(225.0)		(120.7)		(488.2)	
Trade and other payables	12	(3.7)		(3.6)		(5.1)	
Total non-current liabilities			**(242.2)**		**(141.6)**		**(516.1)**
Assets less liabilities			**2,281.0**		**2,311.1**		**1,926.2**
Taxpayers' Equity							
Revaluation reserve	SCTE	1,579.2		1,546.1		1,564.2	
Capital reserve	SCTE	-		895.5		815.6	
Pensions reserve	SCTE	(225.0)		(120.7)		(488.2)	
General reserve	SCTE	926.8		(9.8)		34.6	
			2,281.0		**2,311.1**		**1,926.2**

The notes on pages 52 to 94 form part of these accounts.

The financial statements on pages 48 to 52 were approved by the Board on 26 June 2012 and were signed on its behalf by:

Paul Leinster
Accounting Officer
2 July 2012

Statement of Cash Flows

For the period ended 31 March 2012

	Note	2011-2012		2010-2011 (restated)	
		£'m	£'m	£'m	£'m
Cash flows from operating activities					
Net expenditure after interest	SCNE	(742.2)		(569.0)	
Depreciation and amortisation	7,8	103.3		101.8	
Impairment of non-current assets	7	15.7		18.7	
Amortisation of grants received	14	(2.7)		(4.2)	
Loss/(profit) on disposal of assets	SCNE	5.2		(0.4)	
(Increase) in trade and other receivables	10	(0.5)		(6.2)	
Increase in trade and other payables	12	31.2		39.7	
(Decrease) in provisions	13	(2.1)		(3.6)	
Transfer (to) pensions reserve	15	(20.4)		(248.0)	
Net cash (outflow) from operating activities			**(612.5)**		**(671.2)**
Cash flows from investing activities					
Purchase of property, plant and equipment	7	(70.8)		(127.7)	
Purchase of intangible assets	8	(24.5)		(21.1)	
Proceeds of disposal of property, plant and equipment		2.3		1.7	
Capital grants and contributions for the purchase of property, plant and equipment	14	1.0		2.1	
Net cash (outflow) from investing activities			**(92.0)**		**(145.0)**
Cash flows from financing activities					
Grant from sponsoring bodies	SCTE	749.5		799.6	
Net cash inflow from financing activities			**749.5**		**799.6**
Net increase/(decrease) in cash and cash equivalents in the period			**45.0**		**(16.6)**
Cash and cash equivalents at the beginning of the period			**54.2**		**70.8**
Cash and cash equivalents at the end of the period	**11**		**99.2**		**54.2**

The notes on pages 52 to 94 form part of these accounts.

Statement of Changes in Taxpayers' Equity

For the period ended 31 March 2012

	Note	Revaluation Reserve	Capital Reserve	General Reserve (restated)	Pension Reserve	Total Reserves (restated)
		£'m	£'m	£'m	£'m	£'m
Changes in taxpayers' equity						
Balance at 1 April 2010		**1,564.2**	**815.6**	**34.6**	**(488.2)**	**1,926.2**
Net gain on revaluation of property, plant and equipment	7	31.9	3.2			**35.1**
Net gain on revaluation of intangibles	8	8.0	-	-	-	**8.0**
Actuarial gain on pension scheme assets and obligations	21.5	-	-	-	119.5	**119.5**
Release of reserves		-	(8.3)	-	-	**(8.3)**
Transfers between reserves	15.2	(58.0)	85.0	(275.0)	248.0	**-**
Retained deficit		-	-	(569.0)	-	**(569.0)**
Total recognised income and expense		**1,546.1**	**895.5**	**(809.4)**	**(120.7)**	**1,511.5**
Grant from sponsoring bodies		-		799.6	-	**799.6**
Balance at 1 April 2011		**1,546.1**	**895.5**	**(9.8)**	**(120.7)**	**2,311.1**
Net gain on revaluation of property, plant and equipment	7	85.5	-	-	-	**85.5**
Net gain on revaluation of intangibles	8	2.0	-	-	-	**2.0**
Actuarial loss on pension scheme assets and obligations	21.5	-	-	-	(124.7)	**(124.7)**
Release of reserves		(0.2)	-		-	**(0.2)**
Transfers between reserves	15.1	(54.2)	(895.5)	929.3	20.4	**-**
Retained deficit		-	-	(742.2)		**(742.2)**
Total recognised income and expense		**1579.2**	**-**	**177.3**	**(225.0)**	**1531.5**
Grant from sponsoring bodies		-	-	749.5	-	**749.5**
Balance at 31 March 2012		**1579.2**	**-**	**926.8**	**(225.0)**	**2,281.0**

The notes on pages 52 to 94 form part of these accounts.

Purpose of the reserves

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

Capital reserve – reflected the net book value of the historical cost of non-current assets inherited at the formation of the Agency. It is no longer considered necessary to use a designated capital reserve and all balances have been transferred into the general reserve.

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

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

Statement abbreviations

- SCNE – Statement of Comprehensive Net Expenditure
- SFP – Statement of Financial Position
- SCF – Statement of Cash Flows
- SCTE – Statement of Changes in Taxpayers Equity

Notes to the financial statements

For the period ended 31 March 2012

1.0 Statement of accounting policies

The financial statements have been prepared in accordance with the 2011-2012 Government Financial Reporting Manual (FReM) issued by HM Treasury and are in accordance with directions issued by the Secretary of State for Environment, Food and Rural Affairs, Welsh Ministers and HM Treasury under Section 45 of the Environment Act 1995.

The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context and comply with the guidelines issued by the International Financial Reporting Interpretations Committee (IFRIC).

Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of the Environment Agency for the purpose of giving a true and fair view has been selected. The policies adopted by the Environment Agency are described below. They have been applied consistently in dealing with items that are considered material in relation to the accounts.

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities and the reported amount of income and expenditure. All estimates are based on knowledge of current facts and circumstances, assumptions concerning past events, and forecasts of future events and actions. For example, estimates for provisions are informed by the outcome of previous and relevant legal cases and the extrapolation of average costs required to settle the resulting liabilities. Pension provision liabilities are assessed by actuaries, and are based on factors such as life expectancy, age of scheme members, prevailing interest and inflation rates and projected returns on invested funds. Specific areas of judgement include depreciation and amortisation periods, provisions, impairments and classification of capital expenditure as capital works expensed in year. Actual results may differ from these estimates. Where appropriate, the relevant notes to the Accounts provide further detail on estimation techniques.

1.1 Accounting convention

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

1.2 Costs and grants

1.2.1 Income and expenditure

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

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

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

1.2.2 Grants and contributions

Grants from sponsoring bodies, whether revenue or capital in nature, are treated as financing and are a credit to the general reserve.

Other grants that relate to specific capital expenditure that have conditions on the asset, are treated as deferred grants and contributions; which are credited to the Statement of Comprehensive Net Expenditure over the period where the condition over the asset remains effective, but would be no longer than the assets useful economic life. The specific conditions are as follows:

- if grant is provided on condition of construction of an asset, the grant is only repayable if the asset is not constructed; therefore the income is recognised over the period of construction of the asset.
- if grant is provided on condition of construction of the asset and also imposes a condition on the condition of the asset over its useful life, the income is recognised over the useful economic life of the asset. The method of apportioning the amortisation each year depends on the contract terms associated with each grant receipt.

Where there are no grant conditions imposed on the asset, the grant is recognised as income within the Statement of Comprehensive Net Expenditure from the date of receipt.

1.2.3 Grant-in-aid

Grant-in-aid receipts for activities in England and Wales are treated as financing received from a controlling party, giving rise to a residual financial interest. The receipts are treated as a financing transaction and credited directly to the general reserve.

The Environment Agency has responsibility for administering and issuing grants to local authorities and Internal Drainage Boards for flood and coastal erosion risk management capital schemes. The Environment Agency also has responsibility for administering and issuing grants to local authorities for contaminated land schemes. The grant is received from Defra, included as grant in aid, and distributed for appropriate projects undertaken during the year. The grants are recognised when payment is made.

1.3 Capital works expensed in year

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

1.4 Property, plant and equipment

Administrative freehold land and buildings are fair valued on the basis of open market value for existing use and are subject to independent professional revaluation in accordance with the Royal Institute of Chartered Surveyors (RICS) valuation standards every five years.

Freehold land is not depreciated, unless it forms an essential element of an operational asset and it significantly changes its nature. There are only a small number of land assets that fall into this category and they mainly relate to our habitat work. These assets are being depreciated to net realisable value over the life of the operational asset including the land that is being used, as the land is not able to be separated from the rest of the asset.

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

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

Assets under construction are not revalued until the asset is fully operational in the business.

1.4.1 Depreciation

Depreciation is calculated so as to write off the value of a tangible non-current asset on a straight line basis over the expected useful economic life of the asset concerned. Depreciation is not charged in the month of disposal or in the month of purchase. Depreciation is not charged on assets under construction.

The principal economic lives used for depreciation purposes are:

Asset type	Threshold
Freehold buildings	10-60 years
Plant and machinery	3-20 years
Operational assets	15-100 years
Vehicles	3-20 years
Furniture and fittings	3-15 years
IT equipment	3-15 years

The Environment Agency's capitalisation thresholds are:

Asset type	Threshold
Land	£0
Property, plant and equipment	£5,000

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

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

1.5 Intangible non-current assets

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

The principal economic lives used for amortisation purposes are:

Asset type	Principal economic life
Internally generated IT	3-10 years
Software licences	5-25 years

1.6 Non-current assets classified as held for sale

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

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

1.7 Impairment

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

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

In line with an adaptation in the FReM, any loss of economic benefit is recognised in full against expenditure. However, in order to align the balance in the Revaluation Reserve with that which would have resulted through strict application of IAS 36, an amount up to the value of the impairment is transferred to the general reserve for the individual assets concerned.

1.8 Accrued and deferred income

Accumulated surpluses and deficits relating to water resources charges, flood risk management local levies, and environmental protection charges are treated as deferred income or accrued income.

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

1.9 Leases

Where substantially all risks and rewards of ownership of a leased asset are borne by the Agency, the asset is recorded as property, plant and equipment and a debt is recorded to the lessor of the minimum lease payments discounted by the rate implicit in the lease. The interest element of the finance lease payment is charged to the Statement of Comprehensive Net Expenditure over the period of the lease at a constant rate in relation to the balance outstanding.

Other leases are regarded as operating leases and the rentals are charged to the Statement of Comprehensive Net Expenditure on a straight-line basis over the term of the lease

1.10 Foreign exchange

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

1.11 Short-term deposits

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

1.12 Provisions

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

1.13 Contingent liabilities

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

1.14 Public Private Partnership contracts

The Environment Agency has two Public Private Partnership (PPP) contracts (see note 20) for the provision of services and capital works expensed in the year. There are no tangible non-current assets recognised in the Statement of Financial Position in relation to these contracts. Expenditure incurred during the year on both contracts is charged to the Statement of Comprehensive Net Expenditure.

1.15 Financial instruments

1.15.1 Financial assets and liabilities

The Environment Agency classifies its financial assets and liabilities in the following categories: Financial assets are loans, receivables and assets available for sale. Financial liabilities are any contractual obligations to deliver cash or financial assets to a third party. Management determines the classification of financial assets and liabilities at the time that they are initially identified.

1.15.2 Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and which are not classified as available for sale. Loans and receivables are initially recognised at fair value and subsequently held at amortised cost using the effective interest method. Fair value is usually the original invoiced amount.

1.15.3 Available for sale financial assets

Available for sale financial assets are non-derivative financial assets that are designated as available for sale. They are initially recognised at fair value and subsequently re-measured to fair value at each Statement of Financial Position date. Any increase due to changes in fair value is recognised in reserves.

1.15.4 Financial liabilities

The Environment Agency determines its financial liabilities as contractual obligations to deliver cash or other financial assets to another entity. Financial liabilities are recognised initially at fair value and are subsequently held at amortised cost using the effective interest method. Financial liabilities are derecognised when the right to receive cash flows has expired.

1.15.5 Embedded derivatives

Some hybrid contracts contain both a derivative and a non-derivative component. In such cases, the derivative component is termed an embedded derivative. Where the economic characteristics and risks of the embedded derivatives are not closely related to those of the host contract, and the host contract itself is not carried at fair value through profit or loss, the embedded derivative is separated and reported at fair value with gains and losses being recognised in the Statement of Comprehensive Net Expenditure. The Environment Agency has carried out a review of its contracts and has determined that, as at 31 March 2012, it had no arrangements meeting the criteria to require separation.

1.15.6 Impairment of financial assets

The Environment Agency assesses at each Statement of Financial Position date whether there is objective evidence that financial assets are impaired as a result of one or more loss events that occurred after the initial recognition of the asset and prior to the Statement of Financial Position date. It also considers whether the loss event or events has had an impact on the estimated future cash flows of the financial asset or the portfolio that can be reliably estimated.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar risk characteristics, taking into account asset type, industry, geographical location, collateral type, overdue status and other relevant factors. These characteristics are relevant to the estimation of future cash flows for groups of such assets, by being indicative of the counterparty's ability to pay all amounts due according to the contractual terms of the assets being evaluated.

1.16 Value added tax

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

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

1.17 Trust statements for consolidated fund

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

1.18 Cash and cash equivalents

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

1.19 Prior year adjustments

1.19.1 Change in the accounting policy for accounting for government grants

Adjustments have been made to the prior year accounts, to better reflect the accounting requirements of IAS 20: Accounting for Government Grants as interpreted in the 2011-2012 FReM (see 1.2.2) This has resulted in a change in the accounting policy for capital grants and contributions. This has resulted in the adjustment detailed in note 14 to deferred capital grants and the impact on the SCNE and SFP is shown below:

Adjustment	Published amount for 2010-2011	Amounts now released in line with IAS 20	Restated amount for 2010-2011
	£'m	£'m	£'m
SCNE:			
Other income: deferred grants released	(2.1)	(2.1)	(4.2)
Net income		**(2.1)**	
SFP:			
Deferred capital grants	(70.6)	68.3	(2.3)
Adjustment to net assets		**68.3**	
General reserve	(78.1)	68.3	(9.8)
Adjustment to Taxpayers Equity		**68.3**	

1.19.2 Non-current asset disclosure

There have been adjustments made to the disclosure of the analysis of non-current assets within notes 7 and 8. This was undertaken to correct the analysis of the revaluation of land and buildings in 2010-2011 which was posted only to the cost section. These changes do not impact the figures within the SFP.

Further analysis is provided within notes 7 and 8 by splitting out revaluation, reclassification and impairment values.

1.20 Employee benefits

1.20.1 Pensions

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

1.20.2 Other employee benefits

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

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

1.21 Internal Drainage Boards under common control

The South East Region of the Environment Agency administers eight Internal Drainage Districts (IDDs). These Districts are separate legal entities which have their own budgets and reporting arrangements. Their administration is discharged through Internal Drainage Boards (IDB).

The Regional Flood Defence Committee members used to act as the Board of the IDBs and approve the accounts. The Flood and Water Management Act 2010 created the Regional Flood and Coastal Committees (RFCC) which do not have power to act as the Board of the IDB. The Environment Agency Board are now the entity which approves the accounts of the IDBs.

The eight IDBs are:

- River Arun Internal Drainage Board
- River Adur Internal Drainage Board
- South west Sussex Internal Drainage Board
- Peversey Levels Internal Drainage Board
- River Cuckmere Internal Drainage Board
- River Ouse Internal Drainage Board
- West of Gravesend Commissioner of Sewers
- East of Gravesend Commissioner of Sewers

All the IDBs are subsidiaries of the Environment Agency for accounting purposes as they come under the common control of the Environment Agency's Board. However, their annual income and expenditure are not material to the Environment Agency's accounts and their results have not been consolidated into the results for the Environment Agency itself. A summary of results of the IDBs are shown below:

Name of IDB	Income	Expenditure	Surplus/(Deficit)	Net Assets/ (Liabilities)
	£'m	£'m	£'m	£'m
River Adur	0.1	(0.1)	-	0.1
River Arun	0.1	(0.1)	-	0.1
South west Sussex	0.1	(0.1)	-	-
Peversey Levels	0.3	(0.4)	(0.1)	-
River Cuckmere	-	-	-	-
River Ouse	0.2	(0.2)	-	-
West of Gravesend	0.1	(0.1)	-	-
East of Gravesend	0.1	(0.1)	-	-
Total	**1.0**	**(1.1)**	**(0.1)**	**0.2**

The Board and directors of the Environment Agency have taken the decision to divest the Environment Agency from its responsibilities regarding the running of the Environment Agency administered IDBs in west Sussex, east Sussex and Kent as swiftly as possible.

1.22 Adoption of new and revised IFRS

IAS 8 requires disclosures in respect of new IFRSs, amendments and interpretations that are, or will be applicable after the reporting period. There are a number of IFRSs, amendments and interpretations that have been issued by the International Accounting Standards Board that are effective for future reporting periods. The following have not been adopted early by the Environment Agency:

IFRS not yet effective and adoption date	Environment Agency Impact
IAS 1 – Presentation of financial statements (minor alterations to other comprehensive income disclosures). Not yet adopted by the EU and subject to FReM consultation.	The application of the IAS 1 amendment is subject to further review by HM Treasury before consultation. The FReM interprets IAS 1 disclosure already and the Environment Agency will follow the FReM's interpretation.
IAS 12 – Income taxes (amendment to presumption that recovery of the carrying amount of an asset). Not yet adopted by the EU and subject to FReM consultation.	As the Environment Agency is exempt from corporation tax, there is no impact of this change in standard.
IAS 19 – Post-employment benefits (amendment to pensions recognition, disclosure and presentation). Not yet adopted by the EU and subject to FReM consultation.	The application of the IAS 19 amendment is subject to further review by HM Treasury before due process consultation. There may, however, be impacts on our pension disclosures, the Environment Agency will consider these as part of the FReM consultation when direct impact will be known.
IFRS 7 – Financial instruments: disclosures (annual improvements to financial instrument disclosure). EU adopted 1 July 2011 and applicable to FReM 2012-2013.	The FReM applies IFRS 7 in full, and the expectation is that it will continue to do so. This will incorporate these increased disclosures. The Environment Agency does not have significantly complex financial instruments therefore impact is considered insignificant.
IFRS 9 – Financial instruments (amendment addresses issues within financial instrument disclosure). Not yet adopted by the EU and subject to FReM consultation.	The Environment Agency does not have significantly complex financial instruments therefore impact is considered insignificant.
IFRS 13 – Fair value measurement (amendment provides consistent guidance on fair value measurement). Not yet adopted by the EU and subject to FReM consultation.	The application of the IFRS 3 amendment is subject to further review by HM Treasury before due process consultation. The FReM interprets IFRS 3 disclosure already and the Environment Agency will follow the FReM's interpretation.

The following new or amended standards and interpretations are not likely to be applicable or are not anticipated to have impact on the financial statements of the Environment Agency:

- IFRS 10 - Consolidated financial statements, IFRS 11 - Joint arrangements, IFRS 12 - Disclosure of interests in other entities, IAS 27 - Separate financial statements, IAS 28 - Investments in associates and joint ventures.
- IFRIC 20 - Stripping costs in the production phase of a surface mine.
- IPSAS 32 - Service concession arrangement.

2.0 Analysis of net expenditure by segment

In accordance with IFRS 8: Operating segments, the Environment Agency is required to report financial and descriptive information about its operating segments. These are components about which separate financial information is available. Financial information is required to be reported on the same basis as is used internally by the Chief Operating Decision Makers (CODMs). For the Environment Agency, the CODMs are the Board and Directors' team and they evaluate performance regularly using operating segments as set out below.

	FCERM	WR	E&B	Total 2011-2012	Total 2010-2011 (restated)
	£'m	£'m	£'m	£'m	£'m
Expenditure					
Staff costs	140.8	43.9	180.7	**365.4**	402.8
IAS 19 pension charge/(credit)	20.6	7.1	26.8	**54.5**	(160.6)
Depreciation and amortisation	63.9	12.5	26.9	**103.3**	101.8
CWEIY	211.9	0.5	10.4	**222.8**	247.3
Impairment of non-current assets	11.8	1.3	2.6	**15.7**	18.7
Other expenditure	190.4	61.6	152.9	**404.9**	383.5
Gross expenditure	**639.4**	**126.9**	**400.3**	**1,166.6**	**993.5**
Income	**(55.3)**	**(137.3)**	**(224.6)**	**(417.2)**	**(418.2)**
Net expenditure	**584.1**	**(10.4)**	**175.7**	**749.4**	**575.3**

Abbreviations:

FCERM – Flood and Coastal Erosion Risk Management

WR – Water Resources

E&B – Environment and Business Directorate which incorporates Environment Protection, Fisheries, Conservation and Navigation.

3.0 Staff numbers and related costs

	2011-2012	2010-2011
	£'m	**£'m**
Wages and salaries	326.7	351.5
Social security costs	27.2	28.6
Normal contributions to active pension fund (defined benefit scheme)	40.8	55.5
	394.7	**435.6**
Other staff related costs:		
Agency staff wages and salaries	12.5	14.2
Other staff related costs	21.1	24.0
Exit package costs	2.4	28.9
Special contributions towards past service deficit	20.9	14.0
Less amounts included with the IAS 19 pension figure included in the SCNE	(63.4)	(79.8)
	388.2	**436.9**
Less amounts charged to capital projects	(23.1)	(34.5)
	365.1	**402.4**
Amounts payable to Board members	0.3	0.4
Total	**365.4**	**402.8**

Details of the Environment Agency's pension arrangements can be found in note 21.

Details regarding the remuneration of Board members and executive directors can be found in the remuneration report.

3.1 Staff numbers

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

	2011-2012			2010-2011		
	Permanent staff	**Other**	**Total**	**Permanent staff**	**Other**	**Total**
	Number	**Number**	**Number**	**Number**	**Number**	**Number**
Directly employed	10,701	153	10,854	11,426	212	11,638
Contractors	-	509	509	-	416	416
Totals	**10,701**	**662**	**11,363**	**11,426**	**628**	**12,054**

The number of staff employed on capital projects and capitalised was 1,156 (2010-2011 - 1,113)

3.2 Reporting of compensation schemes

Exit packages in period ended 31 March 2012

Exit package cost band	Compulsory redundancies	Other departures agreed	Total exit packages by cost band
	Number	Number	Number
Under £10,000	9	4	13
£10,000 - £25,000	10	8	18
£25,001 - £50,000	3	5	8
£50,001 - £100,000	4	9	13
£100,001- £150,000	1	4	5
Over £150,000	1	1	2
Total number of exit packages by type	**28**	**31**	**59**
Total resource cost £m	**0.8**	**1.6**	**2.4**

Exit packages in period ended 31 March 2011

Exit package cost band	Compulsory redundancies	Other departures agreed	Total exit packages by cost band
	Number	Number	Number
Under £10,000	22	62	84
£10,000 - £25,000	20	112	132
£25,001 - £50,000	32	176	208
£50,001 - £100,000	15	185	200
£100,001- £150,000	8	26	34
Over £150,000	1	3	4
Total number of exit packages by type	**98**	**564**	**662**
Total resource cost £m	**3.8**	**25.1**	**28.9**

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

4.0 Capital works expensed in year

	2011-2012		2010-2011	
	£'m	£'m	£'m	£'m
	Actual	Committed	Actual	Committed
Beach recharge	11.3	8.6	11.6	14.4
Culverts and channel improvements	21.6	7.9	28.1	11.0
Embankments	73.2	24.2	72.4	38.0
Flood risk management strategies	2.7	0.8	16.7	14.4
Flood mapping	18.2	12.2	5.1	1.8
Piling	11.7	8.1	4.3	4.4
Restore and refurbishment	42.9	20.4	56.7	27.7
Rock groynes and sea walls	13.7	15.4	22.8	30.6
Other	27.5	6.5	29.6	12.1
Total	**222.8**	**104.1**	**247.3**	**154.4**

The committed expenditure as at 31 March 2012 excludes capital commitments on the two Public Private Partnership (PPP) contracts detailed in note 20.

CWEIY cost categories and descriptions:

Beach recharge

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

Culverts and channel improvements

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

Embankments

A significant proportion of projects involve the creation, improvement or heightening of embankments along watercourses to reduce the risk of the water escaping from the river channel.

Flood risk management strategies

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

Flood mapping

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

Piling

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

Restore and refurbishment

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

Rock groynes and sea walls

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

Other

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

5.0 Other expenditure

		2011-2012	2010-2011
Other operating costs is arrived at after charging the following categories of costs:	**Note**	**£'m**	**£'m**
Hired and contracted services		105.6	89.9
Grants awarded to local authorities and IDBs		37.9	60.5
Contaminated land grants		3.6	9.9
Reservoir operating agreements		25.3	24.3
Information technology		13.9	16.4
Building		23.9	15.9
Fees and commissions		38.4	29.4
Transport and plant		26.1	22.0
Utilities		17.9	20.4
Operating lease rentals - plant and machinery		15.0	16.8
Operating lease rentals - other		11.8	11.7
Training		5.7	4.4
Travel and subsistence		8.9	7.8
Public Private Partnership costs	20	15.3	15.2
Administration		3.2	4.3
Research and development costs incurred in year		4.7	4.3
External Auditor's remuneration:		0.2	0.2
Bad debt write-offs		1.8	3.6
Other		38.8	27.4
		398.0	**384.4**
Non-cash items			
Movement in provision for bad and doubtful debts		6.9	(0.9)
Total		**404.9**	**383.5**

External Auditor's remuneration is the audit fee for the statutory audit of £210,000 (2010-2011 fees: £215,000 for statutory audit). No payment was made to the External Auditor for non-audit work.

Bad debt are written off in line with our bad debt policy only when they are irrecoverable. Outstanding trade and capital receivables are reviewed and high risk debts are identified and provided for.

Hired and contracted services costs included the outsourced Information and Computer Technology contract. Note 23 provides additional information about this contract.

5.1 Losses and special payments

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

	2011-2012		2010-2011	
Category / type	**Number**	**£'m**	**Number**	**£'m**
Write-off of sundry debts	832	1.9	1,323	4.1
Loss of assets	199	0.2	248	0.3
Other (cash losses, fruitless payments, unenforceable claims, special payments and gifts)	44	0.4	50	0.4
Total	**1,075**	**2.5**	**1,621**	**4.8**

6.0 Income

	FCERM	WR	E&B	Total 2011-2012	Total 2010-2011 (restated)
	£'m	**£'m**	**£'m**	**£'m**	**£'m**
Abstraction charges	-	(134.5)	-	**(134.5)**	(131.6)
Environmental Improvement Unit Charge Income	-	(1.6)	-	**(1.6)**	(3.5)
Navigation licence income	-	-	(6.0)	**(6.0)**	(6.5)
Fishing licence duties	-	-	(26.8)	**(26.8)**	(24.2)
EPR Water Quality	-	-	(62.2)	**(62.2)**	(62.7)
EPR Installations	-	-	(32.9)	**(32.9)**	(31.3)
EPR Waste	-	-	(28.7)	**(28.7)**	(26.2)
Hazardous waste	-	-	(16.2)	**(16.2)**	(17.3)
Emissions Trading and Carbon Reduction Commitment	-	-	(3.3)	**(3.3)**	(7.4)
Nuclear regulation	-	-	(12.9)	**(12.9)**	(12.4)
Other EP Charges	-	-	(12.6)	**(12.6)**	(19.4)
Income from fees and charges	**-**	**(136.1)**	**(201.6)**	**(337.7)**	**(342.5)**
Flood risk levies	(30.3)	-	-	**(30.3)**	(28.3)
IDB precepts	(8.4)	-	-	**(8.4)**	(8.5)
EU grants	-	-	(0.7)	**(0.7)**	(0.8)
Other grants	(0.9)	(0.2)	(4.2)	**(5.3)**	(3.9)
Other income	(4.0)	(1.0)	(14.9)	**(19.9)**	(19.3)
Income from activities	**(43.6)**	**(137.3)**	**(221.4)**	**(402.3)**	**(403.3)**
Capital grants and contributions					
Capital works expensed in year	(10.8)	-	(1.4)	**(12.2)**	(10.7)
Deferred grants released	(0.9)	-	(1.8)	**(2.7)**	(4.2)
Other income	**(11.7)**	**-**	**(3.2)**	**(14.9)**	**(14.9)**
Total income	**(55.3)**	**(137.3)**	**(224.6)**	**(417.2)**	**(418.2)**

The following income streams were shown amalgamated within EP charges in the 2010-2011 published accounts:

- Environmental Permitting Regulations (EPR) Water Quality
- EPR Installations
- EPR Waste
- Hazardous waste
- Emissions Trading and Carbon Reduction Commitment
- Nuclear Regulation
- Other Environment Protection (EP) Charges

We have also split out Flood risk levies and IDB precepts.

We have separated both the 2010-2011 and 2011-2012 figures to allow a greater understanding of the income streams within the business.

6.1 Analysis of fees and charges

	WR	WQ	IR	RSR	WM	Fish	Nav	Total 2011-2012	Total 2010-2011
	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m
Expenditure relating to fees and charges	135.8	63.8	36.6	12.9	55.4	42.0	18.4	364.9	365.8
Income collected from fees and charges	(137.1)	(64.1)	(36.2)	(14.2)	(58.4)	(26.8)	(6.0)	(342.8)	(343.6)
(Surplus) / deficit	**(1.3)**	**(0.3)**	**0.4**	**(1.3)**	**(3.0)**	**15.2**	**12.4**	**22.1**	**22.2**

The above table is for fees and charges purposes and is shown in line with our accounting policy for deferred and accrued income within note 1.8. Costs funded by grant-in-aid have been excluded from the table above, except for Fisheries and Navigation where it is not possible to separate these costs and the excess is funded by grant-in-aid. Income from Flood and Coastal Erosion Risk Management, and Conservation functions is excluded from the table and therefore it is not intended to fully meet the requirements of IFRS 8: Operating segments. The above table does not include the effect of IAS 19 pension adjustments as these costs/benefits are not passed on to charge payers. The financial objectives for the above Environment and Business and Water Resources charging schemes is full cost recovery taking one year with another, based on all costs including current cost depreciation and a rate of return on relevant assets and other notional costs where appropriate. The above table has been simplified since the 2010-2011 published statements.

Abbreviations used in the table are as follows:

Function	Key	Fees and Charges Schemes within each (sub) function
Water Resources	WR	Abstraction charges for businesses using water abstraction from rivers and the ground
Environment and Business:		
Water Quality	WQ	Charging for Discharges (CFD) from businesses into the environment
Industry Regulation	IR	Regulation of businesses under such schemes as: Control of Major Accident Hazards (COMAH) EU Emissions Trading System (ETS) Environmental Permitting Regulations (EPR)
Radioactive Substances Regulation	RSR	Regulation of Nuclear Sites RAS 1 and 2 Regulation of Non-Nuclear Sites RAS 3 and 4 Nuclear New Build Sites
Waste Regulation	WM	Licensing for Registration of Carriers and Brokers (ROCAS) Transfrontier Shipments (TFS) Hazardous Waste Producer Responsibility Producer Responsibility – Waste Electronic and Electrical Equipment (PR WEEE) Producer Responsibility – End of Life Vehicles (PR ELV) Polychlorinated Biphenyls (PCBs) Waste Management Licensing and exemptions
Fisheries	Fish	Fishing Licences
Navigation	Nav	Boat Licences

7.0 Property, plant and equipment

7.1 Analysis by type – current period	<------------Held at valuation						------------>	Held at cost
At 31 March 2012	**Total**	**Operational assets**	**Freehold land**	**Freehold buildings**	**Plant and machinery**	**Vehicles**	**Furniture and fittings**	**IT equipment**	**Assets under construction**
	£'m	**£'m**	**£'m**	**£'m**	**£'m**	**£'m**	**£'m**	**£'m**	**£'m**
Cost or valuation									
At 1 April 2011	**4,243.5**	**3,393.0**	**26.1**	**58.8**	**437.3**	**38.3**	**53.6**	**57.7**	**178.7**
Capital expenditure	**70.8**	-	-	-	-	-	-	-	70.8
Assets commissioned in year	**-**	52.3	-	0.4	9.9	1.6	7.9	3.4	(75.5)
Disposals	**(31.6)**	(6.7)	(0.7)	(0.2)	(10.1)	(6.0)	(7.2)	(0.7)	-
Reclassification to held for sale	**3.9**	0.4	2.6	0.9	-	-	-	-	-
Revaluation and indexation	**113.2**	109.6	1.5	3.8	(0.7)	(1.2)	(0.5)	0.7	-
Impairment	**(14.1)**	0.9	0.6	0.3	0.1	-	-	0.2	(16.2)
Reclassification	**(36.4)**	(4.6)	4.7	(0.1)	-	-	-	(12.3)	(24.1)
At 31 March 2012	**4,349.3**	**3,544.9**	**34.8**	**63.9**	**436.5**	**32.7**	**53.8**	**49.0**	**133.7**
Depreciation									
At 1 April 2011	**1,834.7**	**1,410.5**	**-**	**0.6**	**347.8**	**22.4**	**30.2**	**23.2**	**-**
Provided during the period	**84.9**	50.1	-	2.1	12.1	5.0	5.1	10.5	-
Disposals	**(24.1)**	(3.4)	-	-	(7.2)	(5.5)	(7.3)	(0.7)	-
Revaluation and indexation	**27.7**	38.0	-	(0.2)	(7.0)	(2.1)	(1.4)	0.4	-
Impairment	**-**	-	-	-	-	-	-	-	-
Reclassification	**(3.9)**	-	-	-	-	-	-	(3.9)	-
At 31 March 2012	**1,919.3**	**1,495.2**	**-**	**2.5**	**345.7**	**19.8**	**26.6**	**29.5**	**-**
Net Book Value at 31 March 2012	**2,430.0**	**2,049.7**	**34.8**	**61.4**	**90.8**	**12.9**	**27.2**	**19.5**	**133.7**

7.2 Analysis by type – prior year comparative information	<--Held at valuation						-->	Held at cost
At 31 March 2011	**Total**	**Operational assets**	**Freehold land**	**Freehold buildings**	**Plant and machinery**	**Vehicles**	**Furniture and fittings**	**IT equipment**	**Assets under construction**
	£'m	**£'m**	**£'m**	**£'m**	**£'m**	**£'m**	**£'m**	**£'m**	**£'m**
Cost or valuation									
At 1 April 2010	**4,162.5**	**3,373.8**	**32.5**	**54.4**	**432.0**	**42.1**	**56.6**	**46.1**	**125.0**
Capital expenditure	**127.7**	-	-	-	-	-	-	-	127.7
Assets commissioned in year	**-**	46.3	-	0.2	11.7	3.7	2.7	14.4	(79.0)
Disposals	**(20.2)**	(5.9)	(0.1)	(0.1)	(3.2)	(5.6)	(2.8)	(2.5)	-
Reclassification to held for sale	**(0.4)**	(0.2)	(0.1)	(0.1)	-	-	-	-	-
Revaluation and indexation	**7.3**	(9.5)	9.8	20.8	(3.1)	(1.9)	(0.3)	(8.5)	-
Impairment	**(52.6)**	-	(14.7)	(27.7)	(0.1)	-	(0.5)	-	(9.6)
Reclassification	**19.2**	(11.5)	(1.3)	11.3	-	-	(2.1)	8.2	14.6
At 31 March 2011	**4,243.5**	**3.393.0**	**26.1**	**58.8**	**437.3**	**38.3**	**53.6**	**57.7**	**178.7**
Depreciation									
At 1 April 2010	**1,821.9**	**1,394.1**	**-**	**7.5**	**343.5**	**25.2**	**30.2**	**21.4**	**-**
Provided during the period	**92.7**	47.4	-	1.8	11.8	5.2	5.2	21.3	-
Disposals	**(19.0)**	(5.5)	-	-	(2.9)	(5.3)	(2.8)	(2.5)	-
Revaluation and indexation	**(38.7)**	(20.7)	-	0.7	(4.4)	(2.7)	(0.6)	(11.0)	-
Impairment	**(14.8)**	-	-	(14.0)	(0.2)	-	(0.6)	-	-
Reclassification	**(7.4)**	(4.8)	-	4.6	-	-	(1.2)	(6.0)	-
At 31 March 2011	**1,834.7**	**1,410.5**	**-**	**0.6**	**347.8**	**22.4**	**30.2**	**23.2**	**-**
Net Book Value at 31 March 2011	**2408.8**	**1982.5**	**26.1**	**58.2**	**89.5**	**15.9**	**23.4**	**34.5**	**178.7**

7.3 Details of valuation

All of the Environment Agency's administrative land and buildings except assets under construction were re-valued at 1 April 2011 by external Chartered Surveyors, King Sturge, on the basis of open market value for existing use. Plant and machinery, furniture and fittings and operational assets were revalued internally at 31 March 2012 using suitable indices. The impacts are shown in the revaluation and indexation, impairment and reclassification lines above.

7.4 Dwellings

Dwellings, which are buildings, are included at a net book value of £12.4 million (2010-2011 - £7.6 million).

7.5 Operational assets

Operational assets include £16.3 million (2010-2011: £22.1 million) for land that forms an essential element of an operational asset and has significantly changed its nature as a result. The land is being written down to net realisable value over the life of the operational asset in which it is being used.

Operational assets include the Thames Barrier which is valued at £1,018.4 million (2010-2011: £1,024.5 million) reflecting its depreciated replacement cost.

7.6 Impairment

In line with an adaptation in the FReM, any loss of economic benefit is recognised in full against expenditure. However, any temporary reduction in value is recognised in the revaluation reserve with any excess in expenditure.

This is analysed in the table below:

	31 March 2012	31 March 2011
	£'m	**£'m**
Property, plant and equipment	-	19.1
Intangibles	-	-
Total charged to the revaluation reserve	**-**	**19.1**
Property, plant and equipment	14.1	18.7
Intangibles	1.6	-
Total impairment charge to the SCNE	**15.7**	**18.7**
Total impairment as per SFP	**15.7**	**37.8**

The above impairments are as a result of assets in the course of construction which are no longer expected to have any long term economic benefit. There were also £2.1 million of reversal of prior year impairments due to revaluation through indexation, included in the analysis above.

8.0 Intangible assets

8.1 Analysis by type - current period	Total	Software licences	Websites	Other IT	Assets under construction
Cost or valuation	**£'m**	**£'m**	**£'m**	**£'m**	**£'m**
At 1 April 2011	**126.5**	**4.6**	**51.1**	**26.3**	**44.5**
Capital expenditure	**24.5**	-	-	-	24.5
Assets commissioned in year	**-**	7.7	-	21.6	(29.3)
Disposals	**(1.7)**	(1.0)	(0.5)	(0.2)	-
Revaluation and indexation	**0.5**	0.1	0.5	(0.1)	-
Impairment	**(1.6)**	-	-	-	(1.6)
Reclassification	**36.4**	-	-	12.4	24.0
At 31 March 2012	**184.6**	**11.4**	**51.1**	**60.0**	**62.1**
Amortisation					
At 1 April 2011	**28.0**	**1.7**	**20.1**	**6.2**	**-**
Provided during the year	**18.4**	0.4	11.9	6.1	-
Disposals	**(1.5)**	(0.9)	(0.5)	(0.1)	-
Revaluation and indexation	**(1.5)**	-	(0.4)	(1.1)	-
Impairment	**-**	-	-	-	-
Reclassification	**3.9**	-	-	3.9	-
At 31 March 2012	**47.3**	**1.2**	**31.1**	**15.0**	**-**
Net Book Value at 31 March 2012	**137.3**	**10.2**	**20.0**	**45.0**	**62.1**

8.2 Analysis by type - prior year comparative information	Total	Software licences	Websites	Other IT	Assets under construction
Cost/Valuation	**£'m**	**£'m**	**£'m**	**£'m**	**£'m**
At 1 April 2010	**137.3**	**3.9**	**62.7**	**16.8**	**53.9**
Capital expenditure	**21.1**	-	-	-	21.1
Assets commissioned in year	**-**	0.5	-	16.9	(17.4)
Disposals	**(0.3)**	-	-	(0.3)	-
Revaluation and indexation	**(12.4)**		(11.8)	(0.6)	-
Impairment	**-**	-	-	-	-
Reclassification	**(19.2)**	0.2	0.2	(6.5)	(13.1)
At 31 March 2011	**126.5**	**4.6**	**51.1**	**26.3**	**44.5**
Amortisation					
At 1 April 2010	**32.2**	**1.0**	**25.6**	**5.6**	**-**
Provided during the year	**9.1**	0.3	7.7	1.1	-
Disposals	**(0.3)**	-	-	(0.3)	-
Revaluation and indexation	**(20.4)**	-	(19.9)	(0.5)	-
Impairment	**-**	-	-	-	-
Reclassification	**7.4**	0.4	6.7	0.3	-
At 31 March 2011	**28.0**	**1.7**	**20.1**	**6.2**	**-**
Net Book Value at 31 March 2011	**98.5**	**2.9**	**31.0**	**20.1**	**44.5**

9.0 Assets classified as held for resale

	Total	Operational assets	Freehold land	Freehold buildings
	£'m	£'m	£'m	£'m
Cost or valuation at 31 March 2012	**0.9**	-	0.2	0.7
Cost or valuation at 31 March 2011	**4.8**	0.4	2.8	1.6
Cost or valuation at 1 April 2010	**4.3**	0.2	2.6	1.5

It is anticipated that all transactions will be completed within one year and there has been no change in valuation in the year. These relate to surplus property and land held by the Environment Agency, in line with the accounting policy shown in note 1.6.

10.0 Trade receivables and other current assets

	31 March 2012	31 March 2011	1 April 2010
	£'m	£'m	£'m
Within one year:			
Trade receivables	31.2	35.6	27.8
Bad debt provision	(15.1)	(8.2)	(9.1)
	16.1	**27.4**	**18.7**
Other receivables:			
Grants	-	0.4	-
VAT	36.1	32.6	26.2
Employee loans	0.1	0.1	0.1
Other	4.3	3.0	9.2
Prepayments	23.1	20.8	23.3
Accrued income:			
- Water resources	0.9	1.4	3.4
- Environment protection	9.2	9.9	6.4
- Other	7.9	2.3	2.4
Pension assets	1.2	0.5	2.5
	98.9	**98.4**	**92.2**
More than one year			
Employee loans	0.2	0.2	0.2
Total	**99.1**	**98.6**	**92.4**

At 31 March 2012 there were 452 (2010-2011: 472, 2009-2010: 563) employee loans which are for the given items such as public transport season tickets and bicycle payments.

Details of related party receivables are shown in note 22.2.

11.0 Cash and cash equivalents

	31 March 2012	31 March 2011	1 April 2010
	£'m	£'m	£'m
At 1 April	101.0	85.3	78.0
Net change in cash and cash equivalent balances	57.7	15.7	7.3
At 31 March	**158.7**	**101.0**	**85.3**
The balances were held as:			
Commercial banks and cash in hand	8.0	4.4	6.2
Short term investments	150.7	96.6	79.1
Total	**158.7**	**101.0**	**85.3**
Reconciliation to the Statement of Cash Flow			
Cash and cash equivalents	158.7	101.0	85.3
Bank overdraft	(59.5)	(46.8)	(14.5)
Cash and cash equivalents as per SoCF	**99.2**	**54.2**	**70.8**

12.0 Trade payables and other current liabilities

	31 March 2012	31 March 2011	1 April 2010
	£'m	£'m	£'m
Within one year:			
Bank overdraft	59.5	46.8	14.5
Other taxation and social security	7.9	8.6	8.9
Trade payables	18.0	12.8	12.3
Trade payables accrual	72.0	71.8	61.7
Holiday pay accrual	9.9	10.5	11.1
Other payables	0.1	0.5	2.0
Capital payables	3.4	3.1	2.5
Capital payables accrual	16.0	24.3	17.2
Deferred income:			
- Flood risk management	23.9	20.4	15.1
- Water resources - abstraction	6.1	5.3	3.5
- Water resources - EIUC	41.8	21.9	12.0
- Environment protection	13.5	10.0	5.1
Customer deposits and receipts in advance	30.7	23.0	19.5
	302.8	**259.0**	**185.4**
More than one year:			
Capital payables and accruals	0.8	0.6	1.3
Trade and other payables and accruals	2.9	3.0	3.8
	3.7	**3.6**	**5.1**
Total	**306.5**	**262.6**	**190.5**

Details of related party payables are shown in note 22.2.

13.0 Provisions for liabilities and charges

	31 March 2012	31 March 2011
	£'m	£'m
At 1 April	**15.0**	**18.6**
Increase charged to the net expenditure account	1.0	11.4
Provisions not required written back	(1.0)	(8.7)
Utilised during the year	(2.1)	(6.3)
At 31 March	**12.9**	**15.0**
Estimated timing of cash flows		
Due within one year	3.8	4.0
Due between one and five years	9.1	11.0
Due after more than five years	-	-
Total	**12.9**	**15.0**

Provisions relate to insurance claims, dilapidations and operational provisions. These are calculated based on actual data and there is no significant uncertainty in the timing of cashflows.

14.0 Deferred grants and contributions

	31 March 2012	31 March 2011 (restated)
	£'m	£'m
At 1 April	**2.3**	**4.2**
Amounts receivable in the year	1.0	2.1
Released to SCNE in year	(2.7)	(4.2)
Reclassification	-	0.2
At 31 March	**0.6**	**2.3**

In addition to the deferred grants and contributions received in respect of non-current assets, there were grants and contributions receivable of £12.2 million relating to capital works expensed in the year.

14.1 Deferred grants prior year adjustment

Adjustments have been made to the prior year accounts, to better reflect the accounting requirements of IAS 20: Accounting for Government Grants as interpreted in the 2011-2012 FReM. This has resulted in a change in the accounting policy for capital grants and contributions and a restatement of the balance as at 1 April 2010 shown below:

	1 April 2010
	£'m
At 1 April 2010	**70.4**
Grants released to general reserve as grant conditions now met	(62.8)
Released to general reserve on construction in progress grants	(3.4)
At 1 April 2010 (restated)	**4.2**

15.0 Transfers between reserves

15.1 For the period ended 31 March 2012

	Revaluation reserve	Capital reserve	General reserve	Pension reserve	Total
	£'m	£'m	£'m	£'m	£'m
Realised revalued depreciation and disposals	(54.2)	-	54.2	-	-
Net pension charge	-	-	(20.4)	20.4	-
Capital reserve balance	-	(895.5)	895.5	-	-
Total	**(54.2)**	**(895.5)**	**929.3**	**20.4**	**-**

15.2 For the period ended 31 March 2011

	Revaluation reserve	Capital reserve	General reserve	Pension reserve	Total
	£'m	£'m	£'m	£'m	£'m
Realised revalued depreciation and disposals	(58.0)	58.0	-	-	-
Net capital expenditure movement	-	27.0	(27.0)	-	-
Net pension charge	-	-	(248.0)	248.0	-
Total	**(58.0)**	**85.0**	**(275.0)**	**248.0**	**-**

16.0 Contingent liabilities

	31 March 2012	31 March 2011	1 April 2010
	£'m	£'m	£'m
The Environment Agency has the following contingent liabilities:			
(a) Contaminated assets	4.1	4.1	6.0
(b) Contractors' claims	0.1	0.5	0.5
(c) Insurance claims	1.9	3.3	4.1
(d) Other	0.4	5.2	2.2
	6.5	**13.1**	**12.8**

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

17.0 Capital commitments

	31 March 2012	31 March 2011	1 April 2010
	£'m	£'m	£'m
Contracted for but not provided in the financial statements	**27.8**	**40.4**	**65.0**

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

18.0 Commitments under leases

Total future minimum lease payments under operating leases are given in the table below, for each of the following periods:

	31 March 2012		31 March 2011		1 April 2010	
	£'m	£'m	£'m	£'m	£'m	£'m
	Land and buildings	Other	Land and buildings	Other	Land and buildings	Other
Not later than one year	11.0	11.9	11.5	13.5	12.4	15.7
Later than one year and not later than five years	34.7	11.1	37.8	15.3	43.5	22.7
Later than five years	47.7	-	55.8	-	64.7	-
	93.4	**23.0**	**105.1**	**28.8**	**120.6**	**38.4**

The operating lease commitment note above includes costs that relate to the proportion of the occupation the Environment Agency has of Defra leasehold properties. These arrangements between the Environment Agency and Defra reflect a future commitment to reimburse Defra for the relevant portion of the underlying rentals paid to landlords for the provision of leasehold accommodation. Other leases mainly comprise leases for Environment Agency vehicles.

19.0 Financial instruments

IFRS 7 requires minimum disclosures about the nature and extent of credit risk, liquidity risk and market risk that the Environment Agency faces in undertaking its activities. Due to the largely non-trading nature of its activities and the way in which government bodies are financed, the Environment Agency is not exposed to the degree of financial risk faced by many business entities. Moreover, financial instruments play a much more limited role in creating or changing risk than would be typical of the listed companies to which IFRS 7 mainly applies. The Environment Agency has very limited powers to borrow or invest surplus funds. Financial assets and liabilities are generated by day-to-day operational activities and are not held to manage the risks facing the Environment Agency in undertaking its activities.

19.1 Liquidity risk

This is the risk that the Environment Agency is unable to meet its obligations when they fall due and to replace funds when they are withdrawn. The Environment Agency's net revenue resource requirements are mainly financed by resources voted annually by Parliament to Defra. The Environment Agency is therefore not exposed to significant liquidity risks.

19.2 Credit risk

Credit risk is the risk of suffering financial loss, should any of the Environment Agency's customers or counterparties fail to fulfil their contractual obligations to the Environment Agency. Some of the Environment Agency's customers and counterparties are other public sector organisations. There is no credit risk from these organisations. For those customers and counterparties that are not public sector organisations, the Environment Agency has policies and procedures in place to ensure credit risk is kept to a minimum.

19.3 Interest rate risk

This is the risk that the Environment Agency will suffer financial loss due to interest rate fluctuation. The Environment Agency's financial assets and its financial liabilities carry nil or fixed rates of interest, therefore the Environment Agency is not exposed to significant interest rate risk.

19.4 Exchange rate risk

This is the risk that the Environment Agency will suffer financial loss due to changes in exchange rates. The Environment Agency undertakes a small number of foreign currency transactions and is not exposed to significant exchange risk.

19.5 Fair values

For PPP obligations not carried at fair value, there is no active market for them, and it is not possible to make a reliable estimate of fair value. The Environment Agency has no intention of disposing of these obligations. Accordingly, it has not disclosed a fair value for these obligations. For other financial assets and liabilities, the carrying value is a reasonable approximation of fair value.

20.0 Commitments under Public Private Partnership contracts

The Environment Agency has entered into the following PPP contracts:

20.1 Broadland flood alleviation project

The Broadland PPP contract commenced in February 2001 following a detailed negotiated tendering process. It is a contract costing in excess of £120 million over a 20 year period, with the aim to restore flood defences to at least the levels measured in a 1995 topographical survey of the area. The improvement works are to expected be completed by 2015 with a seven year remaining life on the works before they erode below the 1995 condition.

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

The contract features target price incentives within the bounds of an overall fixed budget. The project to date has seen the completion of a large number of maintenance projects, valued at £10.7 million. New defences at five locations in the project area and 32 major improvement works schemes costing £76.8 million have been completed. Site works are underway at a further four locations.

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

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

Charge to the Statement of Comprehensive Net Expenditure	**2011-2012**	**2010-2011**
	£'m	**£'m**
Maintenance work, emergency response, strategy development	1.5	1.9
Planning approvals	0.1	0.9
Improvement works	12.2	10.2
Total	**13.8**	**13.0**
Payments committed for the future:		
Within one year	11.1	14.3
After one year but within five years	18.2	28.6
After five years but within ten years	9.3	11.0
After ten years but within fifteen years	-	0.5
Total	**38.6**	**54.4**

The contract end date is May 2021.

Financial derivative disclosure:

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

At 31 March 2012, the amount owing for completed improvement works (including accrued interest) amounted to £10.2 million. Interest incurred during the year amounted to £0.3 million and was paid at rates between 2.574 per cent and 7.120 per cent. Fixed rates apply to borrowings of £1.7 million. The rate used is 1.5 per cent plus the 'ask' fixed interest swap rate for Sterling as at the date that the Improved Service Level Certificate is signed and for the period that is the remaining length of the contract.

The variable rate is updated on a six monthly basis on 31 January and 31 July each year, it is the offer price of the six month Sterling London Interbank Offered Rate (LIBOR) plus 1.5 per cent. As at 31 March the variable rate of 2.893 per cent applied to borrowings of £8.5 million.

20.2 Pevensey Bay sea defences

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

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

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

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

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

Charge to the Statement of Comprehensive Net Expenditure	2011-2012	2010-2011
	£’m	£’m
Maintenance work - shingle recharge, recycling, reprofiling and emergency response	**1.5**	**2.2**
Payments committed in the future		
Within one year	1.4	1.5
After one year but within five years	5.5	5.5
After five years but within ten years	6.8	6.8
After ten years but within fifteen years	4.3	5.7
Total	**18.0**	**19.5**

The contract end date is 31 May 2025.

21.0 Pension obligations

The Environment Agency operates a defined benefit pension scheme for employees and transferees from the former Defra, National Rivers Authority (NRA), HMIP, London Waste Regulation Authority (LWRA) and other local waste regulation authorities. It is a statutory scheme, administered in accordance with the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007, the Local Government Pension Scheme (Administration) Regulations 2008 and the Local Government Pension Scheme (Transitional Provisions) Regulations 2008. It is contracted out of the State Second Pension. Further details on the pension fund including their annual report and accounts, are on the Environment Agency Pension Fund website, www.eapf.org.uk.

In 2011-2012, the total pension charge for the Environment Agency was £54.5 million (2010-2011 was a credit of £160.6 million). The pension charge relating to the scheme was assessed in accordance with the advice of an independent qualified actuary using the projected unit method of valuation to calculate the service costs.

On 22 June 2010, the Chancellor of the Exchequer announced that, with effect from 1 April 2011, the government would use the CPI rather than the RPI for the price indexation of benefits and tax credits; and that this would also apply to public service pensions through the statutory link to the indexation of the Second State Pension. This was treated as a benefit for accounting purposes and led to a one-off gain in the Statement of Comprehensive Net Expenditure of £216.5 million in 2010-2011. See note 21.6 for full details.

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

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

The estimated contribution payable by the Environment Agency, excluding any discretionary lump sum payments, for the year to 31 March 2013 will be approximately £40 million.

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

All calculations have been made by a qualified independent actuary and were based on the most recent full actuarial valuation of the fund at 31 March 2010 updated to 31 March 2011 and 31 March 2012 respectively.

21.1 Financial and longevity assumptions

The main financial assumptions used at 31 March 2012 for this purpose are as follows:

	31 March 2012	31 March 2011
	% per annum	% per annum
Inflation / Pension increase rate	2.2	2.5
Salary increase rate*	4.3	4.6
Expected return on assets	5.3	6.6
Discount rate	4.8	5.5

* Salary increases at 31 March 2011 are assumed to be 1% per annum until 31 March 2015, reverting to 4.6% per annum thereafter. As a result of the current restrictions on pay rises in the public sector, salary increases at 31 March 2012 are assumed to be 1% per annum until 31 March 2015, reverting to 4.3% per annum thereafter.

	31 March 2012		31 March 2011	
	Male (years)	Female (years)	Male (years)	Female (years)
Average future life expectancies at age 65 as follows				
Current pensioners	21.3	23.3	21.3	23.3
Future pensioners (20 years)	23.3	25.2	23.3	25.2

21.2 Breakdown of the expected return on assets by category

Asset class	31 March 2012	31 March 2011
	% per annum	% per annum
Equities	6.2	7.5
Bonds	3.9	4.9
Property	4.4	5.5
Cash	3.5	4.6

21.3 Assets and liabilities of the fund at 31 March 2012

Fair value of employer assets	31 March 2012	31 March 2011
	£'m	£'m
Equities	1,165.4	1,171.0
Bonds	511.2	454.4
Property	59.2	52.4
Cash	113.3	69.9
Total	**1,849.1**	**1,747.7**

The above asset values as at 31 March 2012 and 31 March 2011 are at the bid value as required under IAS 19. The bid value of the assets for the Fund as a whole as at 31 March 2012 were provided by the fund's administering authority.

Statement of Financial Position	31 March 2012	31 March 2011
	£'m	**£'m**
Fair value of plan assets	1,849.1	1,747.7
Present value of funded obligations*	(2,074.1)	(1,846.2)
Net (under)/ overfunding in funded plans	**(225.0)**	**(98.5)**
Present value of unfunded obligations	-	(22.2)
Net Liability	**(225.0)**	**(120.7)**
Amounts in the Statement of Financial Position:		
Liabilities	225.0	120.7
Assets	-	-
Net liability	**(225.0)**	**(120.7)**

*This liability comprises of approximately £1,232.3 million, £208.7 million and £633.1 million in respect of employee members, deferred pensioners and pensioners respectively as at 31 March 2012. The approximation involved in the roll forward model means that the split of scheme liabilities between the three classes of members may not be reliable for certain types of employer. The actuary is satisfied that the approach used leads to reasonable estimates for the aggregate liability figure.

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

There are three types of member (active employees who are still earning benefits, ex-employees with deferred benefits who have yet to reach retirement and pensioners who are currently drawing pension). Each of these members is entitled to receive pension payments in future. A single value can be placed on the amount of money that is needed to meet these pension payments by discounting each payment to the accounting date using certain assumptions (see table 21.1 above) about the future. This single value is known as a present value. There are two present values shown in the table – one for funded obligations that are paid from the scheme to the members and the other for unfunded obligations that are paid directly by the Environment Agency to the members. Changes to the LGPS Regulations allowed the Environment Agency the opportunity to convert all remaining unfunded obligations to funded obligations on 1 April 2011.

The net liability represents the gap between the money held by the scheme and the total present value of the funded and unfunded obligations. It is worth noting that the assumptions underlying the calculation of the net liability are only used for accounting purposes as prescribed under IAS 19. In particular, IAS 19 has no impact at all on the level of cash contributions paid by the Environment Agency and there is no requirement for net liability to be met as lump sum or otherwise. Cash contributions will continue to be set by reference to assumptions agreed at each triennial actuarial valuation of the scheme.

21.4 Notes to the Statement of Comprehensive Net Expenditure

Year ended:	31 March 2012		31 March 2011	
	£'m	% of pay	£'m	% of pay
Current service cost *	47.3	15.1%	55.5	16.3%
Interest on obligation	103.3	33.0%	107.8	31.6%
Expected return on employer assets	(115.5)	(36.9%)	(113.5)	(33.3%)
Past service cost /(gain)	6.1	1.9%	(216.5)	(63.4%)
Losses on curtailments and settlements	1.1	0.3%	0.4	0.1%
Total included in member costs	**42.3**	**13.4%**	**(166.3)**	**(48.7%)**
Actual return on plan assets	**93.6**		**131.4**	

* The service cost figures include an allowance for administration expenses of 0.4 per cent of payroll costs.

The figures shown reflect the expected annual charge to the Environment Agency, based on IAS 19 assumptions at the start of the accounting year, of providing pension benefits to its staff. Allowance is made for expected charges only; unexpected items that arose during the year - for example caused by changes to the values of investments held by the pension scheme - are covered under table 21.5.

The items that make up this charge are:

- Current service cost: this is the Environment Agency's share of the cost of the benefits earned by its current employees during the accounting year. Employees also pay towards the cost of these benefits via contributions although this element is excluded from the calculation.
- Interest on obligation: the present values (of funded and unfunded obligations) from table 21.3 above are expected to increase over time as the members age and get closer to retirement. The amount of this increase is referred to as interest.
- Expected return on employer assets: this represents the additional cash that the money held by the pension scheme is expected to generate over the year in line with the assumptions at table 21.2 above. The result is shown as a negative and acts as a credit against other charges in table 21.4. Note that the actual amount of extra money generated is shown at the foot of table 21.4.
- Past service cost and losses on curtailments and settlements: these represent the cost of paying pensions to members who retire early on enhanced terms, for example due to early release arrangements. In addition, a large one-off negative past service cost (that is, a credit) arose during 2010-2011 as a result of the government's decision to base future pension increases on CPI rather than RPI. CPI is assumed to be lower than RPI over the long term. This reduces the value of the Environment Agency's net liability with the reduction treated as a change to members' benefits and accounted for via a past service credit.

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

Year ended:	31 March 2012	31 March 2011
	£'m	£'m
Actuarial (losses) on plan assets	(41.5)	(38.7)
Actuarial (losses)/gains on obligation	(83.2)	158.2
Actuarial (loss)/gain recognised in the SCTE	**(124.7)**	**119.5**
Cumulative actuarial loss recognised in the SCTE	**(448.4)**	**(323.7)**

Note: The cumulative actuarial gains and losses are based on the full available history of actuarial gains and losses for the employer.

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

The actuarial (loss)/gain on plan assets is the difference between the actual extra money generated by the pension scheme over the year and the expected return on employer assets from table 21.4 above. If the money held by the pension scheme has increased during the year by more than expected, an actuarial gain arises. Conversely, an actuarial loss occurs if the money held by the scheme increases by less than expected, or indeed if it reduces.

The actuarial (loss)/gain on obligation is the difference between the actual present values (of funded and unfunded obligations) from table 21.3 above at the year end and what these present values were expected to be based on the assumptions at the start of the year. There are two reasons why a difference can arise:

1. If the assumptions used to calculate the present values change during the year. In particular, financial assumptions are linked to movements in stock markets. The present values are very sensitive to such movements and can change significantly over a relatively short period of time, as demonstrated by table 21.1 above.

2. If the membership data on which the present values are based changes unexpectedly during the year. The data on which the present value of funded obligations is based is refreshed every three years following each formal actuarial valuation of the pension scheme. The data on which the present value of unfunded obligations is based is refreshed on an annual basis.

The sum of the actuarial gains/(losses) on plan assets and actuarial (losses)/gains on obligation gives the total actuarial gain or loss that is recognised in the Statement of Changes in Taxpayers' Equity. IAS 19 also requires the running total of these annual actuarial losses or gains to be disclosed and this is shown as the cumulative actuarial gain/(loss) in the table.

21.6 Amounts charged to the Statement of Comprehensive Net Expenditure

Based on notes (21.4) and (21.5) above, the amount charged to the Statement of Comprehensive Net Expenditure over the accounting period is shown in the following table:

Year ended:	31 March 2012		31 March 2011	
	£'m	£'m	£'m	£'m
Interest on obligation	103.3		107.8	
Expected return on employer assets	(115.5)		(113.5)	
Financing (income) on pension scheme assets and liabilities		**(12.2)**		**(5.7)**
Current service cost	47.3		55.5	
Past service (gain)/cost	6.1		(216.5)	
Losses on curtailments and settlements	1.1		0.4	
IAS 19 pension (credit) / charge		**54.5**		**(160.6)**
Actuarial (gain)/loss recognised in the SCTE		**124.7**		**(119.5)**
(Credit) / charge to Statement of Comprehensive Net Expenditure		**167.0**		**(285.8)**

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

21.7 Reconciliation of defined benefit obligation

Year ended:	31 March 2012	31 March 2011
	£'m	£'m
Opening defined benefit obligation	1,868.4	2,123.7
Current service cost	47.3	55.5
Interest on obligation	103.3	107.8
Contributions by members	21.6	23.5
Actuarial (gains)/losses	83.2	(158.2)
Past service (gain)/cost	6.1	(216.5)
Losses on curtailments	1.1	0.4
Estimated unfunded benefits paid	-	(1.5)
Estimated benefits paid	(56.9)	(66.3)
Closing defined benefit obligation	**2,074.1**	**1,868.4**

This table explains the change to the present values of funded and unfunded obligations that appear in table 21.3 (and referred to as the defined benefit obligation in this table) from one year to the next. The majority of the items are covered in tables 21.4 and 21.5 above. The additional items are:

Contributions by members: as mentioned under table 21.4, the current service cost only covers the Environment Agency's share of the cost of the benefits earned by its current employees during the accounting year. The remainder of the cost of meeting these benefits is met by the employees themselves.

Estimated benefits paid: both funded and unfunded benefits are shown. These are benefits paid out to members and as such act to reduce the defined benefit obligation.

21.8 Reconciliation of fair value of employer assets

Year ended:	31 March 2012	31 March 2011
	£'m	£'m
Opening fair value of employer assets	1,747.7	1,635.5
Expected return on assets	115.5	113.5
Contributions by members	21.6	23.5
Contributions by employer	62.7	80.2
Contributions in respect of unfunded benefits	-	1.5
Actuarial gains/(losses)	(41.5)	(38.7)
Unfunded benefits paid	-	(1.5)
Benefits paid	(56.9)	(66.3)
Closing fair value of employer assets	**1,849.1**	**1,747.7**

This explains how the money held by the pension scheme, as appears in table 21.3, changes from one year to the next. Some of the items are covered in tables 21.4 and 21.5 above. The other items relate to cash flows that affect the value of this money:

Contributions by members: employees pay contributions to the scheme to cover part of the cost of the benefits earned by them during the accounting year.

Contributions by employer: the Environment Agency pays contributions to meet the balance of the cost of meeting benefits earned by its employees.

Contributions in respect of unfunded benefits and unfunded benefits paid: these items cancel each other out. This is because the scheme holds no money up front to pay for unfunded benefits. The benefits are instead met directly by the Environment Agency as and when they fall due for payment. The Environment Agency converted all remaining unfunded benefits to funded benefits on 1 April 2011.

Benefits paid: These are benefits paid out to members and as such act to reduce the money held by the scheme.

21.9 History of experience of gains and losses

Amounts for the current and previous accounting periods:

Year ended 31 March:	2012	2011	2010	2009	2008
	£'m	£'m	£'m	£'m	£'m
Fair value of employer assets	1,849.1	1,747.7	1,635.5	1,123.6	1,490.6
Present value of defined benefit obligation	(2,074.1)	(1,868.4)	(2,123.7)	(1,441.0)	(1,686.4)
(Deficit)/surplus	**(225.0)**	**(120.7)**	**(488.2)**	**(317.4)**	**(195.8)**
Experience gains/(losses) on assets	(41.5)	(38.7)	402.0	(511.2)	(161.1)
Experience gains/(losses) on liabilities	(21.6)	8.9	(0.3)	-	(8.0)
Actuarial gains/(losses) on employer assets	(41.5)	(38.7)	402.0	(511.2)	(161.1)
Actuarial gains/(losses) on obligation	(83.2)	158.2	(566.3)	402.1	200.8
Actuarial gains/(losses) recognised in SCTE	**(124.7)**	**119.5**	**(164.3)**	**(109.1)**	**39.7**

The figures in the top section are a summary of those in the Statement of Financial Position under table 21.3.

The figures in the middle section show how much of the change in the money held by the scheme (the assets) and the value placed on benefits that are due to be paid out in future (the liabilities) is due to experience only. On the asset side, the experience gain/(loss) represents the difference between the actual extra money generated by the pension scheme over the year and the amount of money that, at the start of the year, was expected to be generated. This is identical to the actuarial gain/(loss) on plan assets that appears in table 21.5. On the liability side, an experience (loss)/gain can arise if the membership data on which the liabilities are based changes unexpectedly during the year. This tends to be a relatively small item.

As mentioned under table 21.5 above, the more significant item that affects the liabilities is where the assumptions change. The figures in the bottom section reflect those in the Statement of Changes in Taxpayers' Equity under table 21.5.

21.10 Sensitivity analysis

IAS 1 requires the disclosure of the sensitivity of the results to the methods and assumptions used. The sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out below:

Change in assumption	Approximate % increase in employer liability	Approximate monetary amount (£'m)
0.5% decrease in real discount rate	11	230.2
One year increase in member life expectancy	3	62.2
0.5% increase in salary increase rate	4	81.3
0.5% increase in pension increase rate	7	146.6

22.0 Related party disclosures and whole of government accounting

22.1 Related party disclosures

IAS 24 Related party disclosures requires the Environment Agency to provide information on its transactions with related parties, and further guidance has also been given by HM Treasury.

22.1.1 Controlling parties

The Environment Agency is an NDBP of Defra. Defra and other bodies within the Defra group are regarded as a related party. During the year, the Environment Agency has had a significant number of material transactions with Defra:

	2011-2012	2010-2011
	£'m	£'m
Defra environment protection grant-in-aid	(167.0)	(155.4)
Defra flood defence grant-in-aid	(544.6)	(583.7)
Defra IDB or local authority grant-in-aid	(37.9)	(60.5)

The Environment Agency received £49.2 million of grant-in-aid in 2011-2012 (2010-2011 - £55.9m) from Welsh Government for activities in Wales. Due to the HM Treasury-led Clear Line of Sight initiative, this funding has been routed through Defra, and is recorded as such in the table above.

22.1.2 Other related parties

	2011-2012	2010-2011
	£'m	£'m
Levies on local authorities	(30.0)	(29.9)
Charges to the British Waterways Board	(2.7)	(2.4)

The Environment Agency had no other material related party transactions with organisations in which other Board members, Executive Directors or senior managers have declared an interest. The Environment Agency did have transactions totalling £0.8 million with Royal Society for the Protection of Birds (RSPB) to which a Board member (A. Brown) has declared an interest. Further information on Board members and executive directors can be found in the remuneration report.

The Environment Agency has eight IDBs which are under common control, details of which are shown in note 1.21.

22.2 Whole of government accounting

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

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

	Note	31 March 2012	31 March 2011 (restated)	1 April 2010 (restated)
		£'m	£'m	£'m
Receivable balances				
Other government departments		37.0	33.5	28.5
Local authorities		0.8	0.7	1.6
Public corporations		0.3	-	-
National Health Service bodies		-	0.1	-
Bodies external to government		61.0	64.3	62.3
Total	**10**	**99.1**	**98.6**	**92.4**
Payable balances				
Other government departments		(8.0)	(10.2)	(9.7)
Local authorities		(0.7)	(5.2)	(5.3)
Public corporations		(0.1)	-	-
Bodies external to government		(297.7)	(247.2)	(175.5)
Total	**12**	**(306.5)**	**(262.6)**	**(190.5)**

All amounts owed and payable are under normal terms and conditions and no guarantees have been issued or received from these parties.

23.0 Outsourced information and computer technology contract with Capgemini

This contract commenced in November 2009, with the aim of providing a modern robust, secure and sustainable ICT service for the Environment Agency. The contract costs £354 million over seven years, with the option to extend for up to a further three years. ICT costs will reduce by 20 per cent over the term.

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

The main component of the contract, with a cost of £288 million is the Operational Service Charge (OSC) commencing from 1 July 2010. This revenue charge covers day-to-day ICT services such as service desk, server hosting, application support and managed print services and is expensed in year.

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

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

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

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

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

Charge to the Statement of Comprehensive Net Expenditure	2011-2012	2010-2011
	£'m	£'m
Operational service charge	47.1	39.0
Committed projects	13.1	24.4
Authority hardware/software	9.5	8.2
Total	**69.7**	**71.6**
Payments committed for the future:		
Within one year	52.8	63.9
Within two to five years	170.0	182.2
Within six to ten years	-	36.1
Total	**222.8**	**282.2**

24.0 Events after the reporting date

The Environment Agency's financial statements are laid before the Houses of Parliament by the Secretary of State for Defra. IAS 10 requires the Environment Agency to disclose the date on which the financial statements are authorised for issue. The authorised for issue date is 10 July 2012.

Appendix A - History of the Environment Agency

The Environment Agency was established on 8 August 1995 following Royal Assent for the Environment Act 1995. We took up our statutory powers and duties on 1 April 1996, when the functions of the National Rivers Authority (NRA), Her Majesty's Inspectorate of Pollution (HMIP), the Waste Regulation Authorities (WRA) and several smaller units of the Department of the Environment were transferred to us.

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

During 2011-2012, our principal government sponsor remained Defra. However the Environment Agency also works closely with other principal government departments such as the Department for Energy and Climate Change (DECC), the Department for Business, Innovation and Skills (BIS) and Department for Communities and Local Government (DCLG). Defra oversees the environmental policy framework within which the Environment Agency operates in England. In Wales, we are a Welsh Government Sponsored Body. Welsh Government is responsible for the policy and oversight of all of the Environment Agency's functions in Wales. We operate under a financial memorandum issued by Defra and Welsh Government. From 1 April 2011, Defra received grant-in-aid funding from Welsh Government, for onward payment to the Environment Agency. We continue to provide information to Welsh Government to explain how we use this funding.

In November 2011, Welsh Government announced that it intended to create a Single Body for Wales bringing together the Environment Agency, the Countryside Council for Wales and the Forestry Commission Wales.

Appendix B - Our performance

How we performed against our key targets in our corporate plan.

These targets are the main measures we use to track our progress in delivery of our corporate plan. We divide our work into five environmental themes as reflected below.

Act to reduce climate change and its consequences

Outcome measure and progress	2011-2012 target	Status
1.3a We reduce our carbon footprint	**22% reduction**	**Amber**

Target partially achieved

We have exceeded our profiled national carbon dioxide target ceiling by seven per cent this year. This is mainly due to a significant increase in our operational emissions because of pumping water due to the water resource conditions.

We continue to reduce emissions from our buildings (18 per cent) and transport (6 per cent) compared to this time last year. The national accommodation programme, a mild winter, and work through the Focus on the Frontline programme (FFP) have helped deliver these reductions.

Overall, despite the increase in operational emissions, our footprint has reduced by 15 per cent from the baseline year 2006-2007.

Protect and improve water, land and air

Outcome measure and progress	2011-2012 target	Status
2.1a We work with others to improve the quality of surface waters, groundwaters, coastal waters and wetlands	**2,150 water bodies**	**Amber**

Target partially achieved

In 2011, the number of water bodies at 'good' or 'better' ecological status increased from 2,008 to 2,076. We remain amber against our target of 2,150.

We are making good progress in delivering the actions in the River Basin Management Plans and in our catchment based approach.

Investigations delivery is slightly under target with 8,223 delivered against a target of 8506. A recent review highlighted key issues and actions to bring us back on track. We are already:

- working more closely with partners to complete hydromorphology investigations
- ensuring clarity on completing transitional and coastal water investigations

We continue to learn lessons from the catchment pilots, particularly on engagement and evidence sharing. This approach will help to deliver long term, collaborative changes that will contribute to multiple benefits for people and wildlife.

2.1b The quality of bathing water is getting better	**88%**	**Green**

Target achieved

This measure tracks the percentage of bathing waters that are predicted to be classified as at least 'sufficient' under the revised Bathing Water Directive (rBWD).

For 2011, 91 per cent of the 491 bathing waters that have predicted rBWD results achieved at least the 'sufficient' classification against our target of 88 per cent. We are making good progress towards our corporate plan objective of 95 per cent by 2015-2016.

We have action plans in place to improve bathing waters that are at risk of failing the rBWD.

Outcome measure and progress	2011-2012 target	Status
2.1d We improve and protect rivers and wetlands damaged by unsustainable abstractions	**34 schemes**	**Green**

Target achieved

In 2011-2012 we completed 27 investigations, gaining a greater understanding of environmental problems from specific unsustainable abstractions. Following an investigation, if an abstraction is causing problems, it may undergo an 'options appraisal'. The options appraisal stage looks at how the licence holder can improve environmental conditions taking account of economic and social factors. We undertook 14 options appraisals to address damaging abstractions during 2011-2012. In Quarter 4 of 2011-2012, two licences were changed voluntarily.

We continue to monitor our programme and maintain close working relationships with water companies, consultants, Natural England and the Countryside Council for Wales to resolve issues as they occur.

2.3b We create new areas of habitat	**24.5 hectares**	**Green**

Target achieved

We have met our end-of-year forecast of creating 24.5 hectares (ha) of new intertidal habitat.

We remain on schedule to meet the Spending Review 2010 (SR10) target of 400ha by 2014-2015, with a few large habitat schemes planned for 2013-2014 and 2014-2015.

2.3c We improve the status of salmon fisheries	**70% of rivers**	**Amber**

Target partially achieved

A river is defined as in the 'at risk' category when the number of salmon returning to spawn is not sufficient to maintain a healthy population.

The number of principal salmon rivers in England and Wales considered to have enough salmon returning to spawn to maintain a healthy population continues to rise. However we are two rivers short of the 2011-2012 target of 45 rivers out of the 'at risk' category (67 per cent). Our modelling predicts that this number will rise to 54 rivers (75 per cent) by 2015 under current management measures.

Water Framework Directive measures, particularly measures working to restore connectivity in rivers coupled with appropriate catch controls, are helping us to achieve healthy salmon populations in more rivers. However, the effects of climate change, specifically on migration routes and availability of food for all stocks of Atlantic salmon, mean that meeting our target will remain challenging.

Outcome measure and progress	2011-2012 target	Status
2.4a We improve business compliance	**172 sites**	**Amber**

Target partially achieved

107 out of 187 sites that were rated in operational risk assessment (Opra) bands D, E and F in 2010 (on a scale where A is good and F is poor) have improved and are now in bands A to C.

However, in 2011-2012, 105 further sites had now been in bands D, E and F for two years. This makes a total of 185 sites in this category. Our target this year was to reduce the overall number to 172 sites, so performance is rated amber.

The overall number of sites in bands D, E and F has reduced again this year, from 563 in 2010 to 471. This is three per cent of the 13,933 sites regulated under this regime. We are working closely with all poor performing sites to address the often complex issues and are confident we will continue to improve overall operator performance.

2.4b We reduce serious and significant pollution incidents	**540 incidents**	**Green**

Target achieved

There have been 538 category 1 and 2 pollution incidents in the last year, which is a five per cent reduction since this time last year.

Of the 538 incidents 25 per cent were from waste management sites, 22 per cent from water industry sites and 12 per cent from agriculture sites. Regulated sites account for 33 per cent of the incidents. Of these, 54 per cent were from waste management sites, 30 per cent from the water industry, 5 per cent from manufacturing and 5 per cent from agriculture.

South West and South East saw the highest number of pollution incidents through the year. The dry weather has increased the impact of some incidents.
The data is being reviewed to identify any trends or patterns that may require some intervention.

There will be a range of initiatives through 2012-2013 which we expect will have an impact on this outcome (see below).

Outcome measure and progress	2011-2012 target	Status
2.5b We reduce the administration burden we place on business	**£15m**	**Green**

Target achieved

We have saved businesses annual savings of £7.7m in 2011-2012. This represents an increase of £0.4m on the savings we achieved for 2010-2011, and means we have achieved our cumulative target of £15 million for 2011-2012.

The savings arise from:

- the Processed Fuel Oil quality protocol (£5.3m)
- rationalising monitoring at Sellafield (£1.6m)
- the pig and poultry sector assurance scheme (£0.5m)
- Waste electrical and electronic equipment scheme re-approvals (£0.3m)
- an initiative in the south west to reduce waste disposal and transport costs for firefighting effluent for a Ministry of Defence contractor (£<0.1m).

Work with people and communities to create better places

Outcome measure and progress	2011-2012 target	Status
3.1.2a We reduce the risk from flooding for more households	**24,350 households**	**Green**

Target achieved

In 2011-2012, 43,000 households were better protected from flooding. The Environment Agency improved protection for 37,200 households in England and 900 households in Wales. Local authorities improved protection from flooding for 3,600 households and Internal Drainage Boards improved protection for 1,300 households. These schemes were funded by Flood Defence grant-in-aid (FDGiA).

The focus remains on achieving the SR10 target of protecting 147,750 (2,250 in Wales) more households by 2014-2015.

Outcome measure and progress	2011-2012 target	Status
3.1.2c We maintain our flood and coastal erosion risk management assets at or above the required condition	**At least 97% of assets**	**Green**

Target achieved

We have achieved our target for 2011-2012. Almost 99 per cent of our flood and coastal erosion risk management assets in high consequence systems are at or above the required condition, against a target of 97 per cent.

3.1.3a More households and businesses at high risk of flooding can receive direct warnings	**58% (1.1 million)**	**Green**

Target achieved

At the end of 2011-2012, 60.1 per cent of properties in the highest flood risk areas in England and Wales received our direct flood warnings, against a target for 2011-2012 of 58 per cent.

There are 1,845,980 properties in the highest risk areas (England and Wales, measured March 2011). A total of 1,108,894 properties across these areas are able to receive our direct warnings. 401,100 of these have been fully registered on Floodline Warnings Direct, and a further 645,337 have been recruited onto the flood warning system via Extended Direct Warnings (opt-out method using telephone company data). 62,457 customers declined or have cancelled the service offered.

3.2a Environmental outcomes are delivered through joint working with local authorities and partnerships in prioritised locations	**100%**	**Green**

Target achieved

This measure relates to the work we are undertaking in partnership with local authorities to achieve environmental improvements. By the end of 2011-2012, we planned to achieve 518 partnership actions. These actions are activities that are agreed with, and delivered in partnership with, the local authority. We have completed 517 partnership actions. This includes work on flood risk management and improving rivers via work associated with the Water Framework Directive.

Outcome measure and progress	2011-2012 target	Status
3.4c We maintain our navigation assets at or above the required condition	**82% of assets**	**Green**

Target achieved

By the end of 2011-2012 we met our target of 82 per cent of our navigation assets being at or above the required condition (816 assets at or above the required condition against a total of 993 navigation assets). Over the year we have improved eight navigation assets at or above the required condition.

Work with businesses and other organisations to use resources wisely

Outcome measure and progress	2011-2012 target	Status
2.4f We reduce the overall risk presented by illegal waste sites, targeting our efforts on the highest risk sites	**10% reduction**	**Green**

Target achieved

We have reduced the risk scores of high risk illegal waste sites by 10 per cent.

At the end of Quarter 4 in 2010-2011 (baseline figures) we were aware of 232 high risk sites with a risk score of 35,800. At the end of Q4 2011-2012 we were aware of 211 high risk sites with a risk score of 32,270. We have reduced the number of sites by 21 and the risk score has been reduced by 3,530.

Outcome measure and progress	2011-2012 target	Status
4.2a More waste is fully recovered to the standards defined in the Quality Protocols, such that it is no longer classed as waste	**940,000**	**Red**

Target not achieved

Delays in development and review of quality protocols means we can only use waste diversion figures for Compost and Poultry Litter Ash, as these are the only protocols completed in 2011-2012. The delays have been due to a number of issues including:

- the determination of hazardous substances under the Groundwater Daughter Directive
- ongoing research into the impacts on animal health
- changes to the processing and make-up of waste

We are working through these issues and continue to focus on delivering the protocols or investigating and implementing alternative approaches to reducing the amount of waste going to landfill. This measure is being reviewed for 2012-2013 to include a greater focus on facilitating waste reuse and recovery.

Be the best we can

Outcome measure and progress	2011-2012 target	Status
5.1b We have a diverse workforce	**3.4%**	**Green**

Target achieved

This measure reports on the number of employees who are recorded as BAME (Black, Asian and Minority Ethnic) and the percentage this is of the total employee population.

In Quarter 4 of 2011-2012,there were 397 BAME employees. This is 3.5 per cent of the total population which is above the target of 3.4 per cent.

During the past year we have focused on retaining the diversity of our workforce whilst meeting the need to reduce our headcount. We are:

- Ensuring our recruitment processes attract applicants that reflect all the communities we serve. We are using specific websites to attract potential BAME applicants to our own job site.
- Completing Equality Impact Analysis for all our Change Programmes, and for all new or revised policies and procedures that may impact our staff.
- Working with and providing support for the BAME employee network and running a new BAME Action Plan under the executive leadership of Directors.

Outcome measure and progress	2011-2012 target	Status
5.4a We have the right knowledge, expertise and experience	**100%**	**Red**

Target not achieved

This measure uses the Environment Agency developed Technical Development Framework (TDF) data to inform the business about its technical resilience.

79 per cent of our staff have reached or exceeded the expected level of capability against a target of 100 per cent. Each workgroup has an action plan to identify skills gaps and risks to delivery and a clear strategy with which to address them.

5.4b We provide a safe place to work	**No more than 27**	**Amber**

Target partially achieved

This measure reports on the number of Lost Time Incidents (LTIs) occurring. There were 32 LTIs this year against a ceiling of 27. However, this was a reduction from the previous year when there were 37 LTIs. This reflects our continued ambition to ensure that our staff are not harmed by the work they do.

The majority of LTIs over the year related to slips, trips and falls, and manual handling incidents. The longer-term trend remains downward.

We have increased our focus on 'Safety Critical' incidents. Safety Critical incidents are those where the actual or potential harm was significant and there is learning for other parts of the business. Although there have been over 70 incidents categorised as Safety Critical, only two have also been LTIs.

Outcome measure and progress	2011-2012 target	Status
5.5a We are more efficient	**£16m**	**Green**

Target achieved

We focused cost reductions on support services, so that we can protect operational frontline delivery services.

During 2010-2011 and 2011-2012, we completed organisational change programmes in several of our support service directorates, and managed a time-limited Voluntary Early Release Scheme (VERS) to reduce our overall staff numbers by over 600 full time employees. As a result we have achieved our target of reducing administrative spend by £16 million in 2011-2012.

Due to the early savings made in support services and other costs, we are on track to achieve the £48 million administrative savings required by 2014-2015 under SR10.

5.5b We manage our money to the highest standards	**100%**	**Green**

Target achieved

We have achieved significant environmental benefits during 2011-2012.

We have reduced support service costs to protect frontline services, and managed a time-limited Voluntary Early Release Scheme (VERS) to reduce our overall staff numbers.

This has enabled us to invest in priority environmental outcome work, increasing frontline staff numbers during Quarter 3 and Quarter 4 to work on these projects.

We spent £1.15 billion, making full use of the grant-in-aid funding for the year. Funding from charge income is spent during the year on regulatory activity, or small balances may be carried forward for use in future years.

Appendix C - Sustainability accounting and reporting

In this section we highlight our sustainability performance. We have presented this data in a format consistent with the requirements of HM Treasury's Sustainability Reporting guidance. We have taken an active role in working with HM Treasury and the Financial Reporting Advisory Board to develop public sector sustainability reporting standards and guidance.

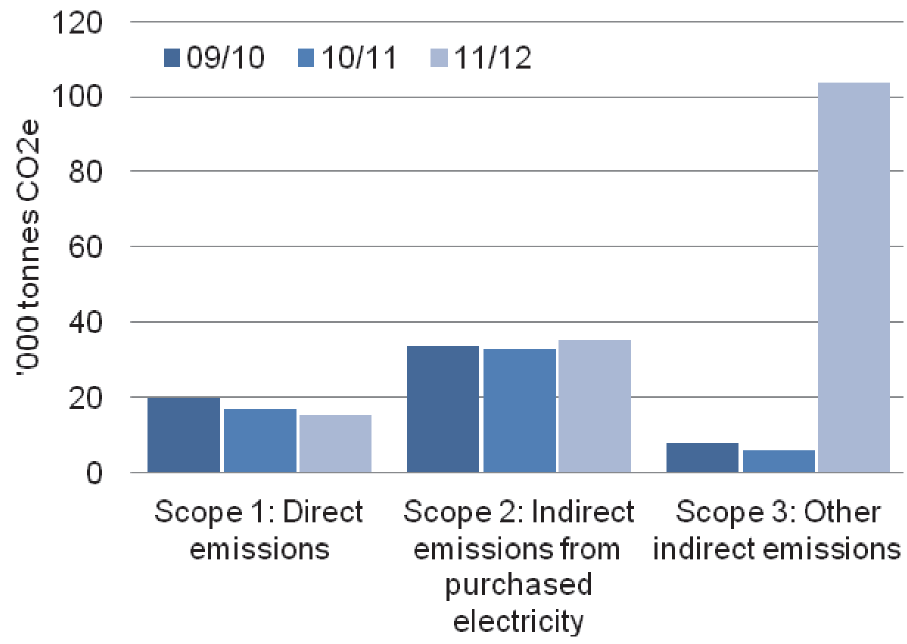
We aim to provide as clear and accurate a picture as possible of our environmental impacts. This appendix presents the detailed information that underpins the reporting of our performance against a number of specific sustainability related targets.

Our sustainability performance

Sustainability KPI	2011-2012 actual	Target performance	Financial indicator
Carbon dioxide (CO_2) emissions	56,000 tonnes CO_2	Off target	-
Office waste	552 tonnes	On target	£730,000
Office waste sent to landfill	50 tonnes	On target	£120,000
Mains water consumption	48,000 m^3	On target	£250,000
Buildings energy consumption	32.6 million kWh	On target	-
Total energy expenditure	-	-	£6.5 million
Official business travel (no trains)	36.9 million miles	On target	-
Official business travel (including train)	55 million miles	-	-
Total business travel	-	-	£13.9 million

Greenhouse gas emissions

Figure 3.
Greenhouse gas emissions



Over the last four years we have made good progress in reducing our greenhouse gas emissions (GHG) across all areas. We have an internal target to reduce our GHG emissions by 33 per cent from 2006-2007 levels by March 2015.

This is the first year that we have been able to include fugitive and nitrous emissions within scope 1 and emissions from our construction activities in scope 3. We have included emissions as they have become available to us, so year on year comparisons may appear distorted. We will continue to include emissions from our supply chain as they become available.

Around 60 per cent of our indirect emissions from purchased electricity (scope 2) are from electricity consumed by our flood defence and water management activities.

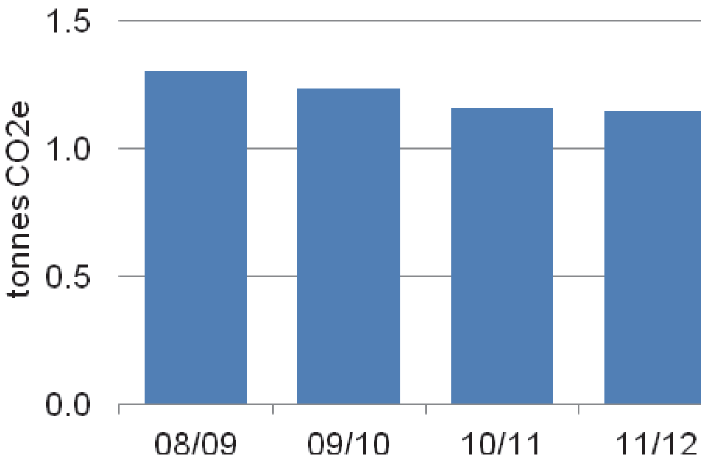
We have carried out a wide range of projects focusing on both energy efficiency and renewable energy generation. An example is our Facilities Environmental Programme, which consisted of a number of projects focusing on renewable energy, energy efficient lighting, improved insulation via roof cladding, and window replacements across our estate. In total the programme will deliver an annual reduction of 174 tonnes of CO_2 equivalent (tCO_2e), £75,000 in utility costs and 128,000 kWh of electricity generation.

We are always looking for better ways of working to minimise our impact on the environment. We consider the financial and environmental cost of all our construction projects throughout the life of the project. At Weybridge Moorings in Surrey we reviewed the design of a new footpath. We halved the project's carbon footprint by using cheaper, lower carbon materials. We also constructed 1.7 kilometres of flood defences between Saldon and Ringmore in Devon. Through a project redesign we were able to reduce the total cost of the project by £1.2 million and the carbon footprint by 47 per cent.

Greenhouse gas emissions	Unit	2008-2009	2009-2010	2010-2011	2011-2012
Scope 1: Direct emissions	‘000 tCO_2e	-	20	17	15
Scope 2: Indirect emissions from electricity consumption	‘000 tCO_2e	31	34	33	35
Scope 3: Other indirect emissions	‘000 tCO_2e	8	8	6	104
Total gross emissions	**‘000 tCO2e**	**39**	**62**	**56**	**154**
Carbon intensity (per £million Environment Agency expenditure)	‘000 tCO_2e	-	51	48	140

Energy consumption	Unit	2008-2009	2009-2010	2010-2011	2011-2012
Purchased gas and renewable electricity	million kWh	70	70	70	71
	£’000	6,600	8,000	5,600	6,500
Self-generated renewable energy	million kWh	-	-	-	0.3

Figure 4.
Travel carbon intensity per FTE



This year our staff travelled 55 million business miles, 33 per cent of which was taken by train. By encouraging our staff to use public transport over private vehicles we have reduced our emissions by six per cent on the previous year, despite travelling two per cent further. We use a travel decision hierarchy to encourage our staff to use the most appropriate travel option, and where possible avoid travelling and use telephone or web conferencing.

Business travel	Unit	2008-2009	2009-2010	2010-2011	2011-2012
Total business travel	'000 tCO_2e	17	17	14	13
	£'000	15,000	15,100	13,100	13,900
Car and motorbike	'000 tCO_2e	15	14	13	11
Rail	'000 tCO_2e	2	2	1	2
Air	'000 tCO_2e	-	<1	<1	<1
Travel carbon intensity per full-time employee (FTE)	tCO_2e	1.3	1.2	1.2	1.1

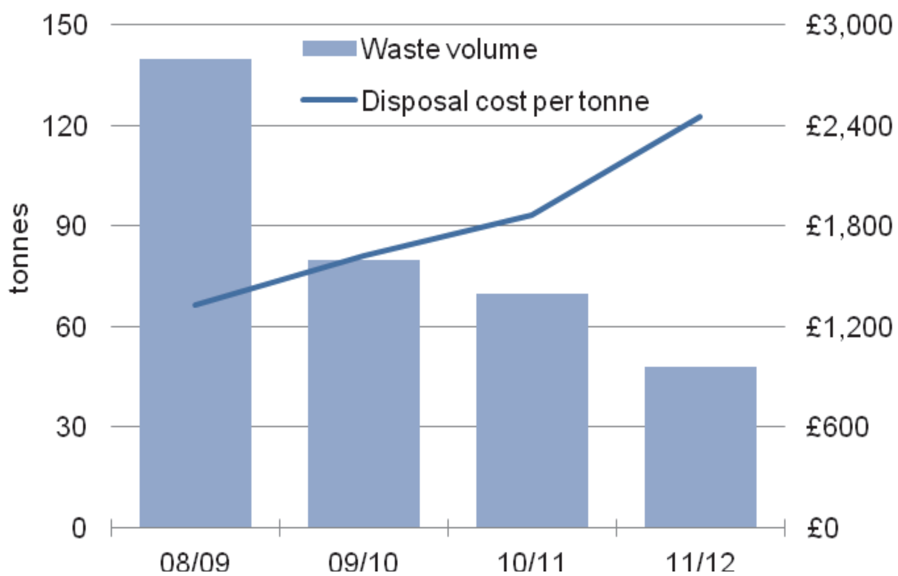
We manage our pension fund investments in a financially robust and environmentally-responsible way. The pension fund is an active member of the United Nations Principles for Responsible Investment, which develops tools and approaches that can be used by all pension funds to manage risks associated with environmental, social and governance issues. Our target for the pension fund is for 25 per cent of the asset value to be invested in clean and green technology by 2015.

To find out more about our pension fund and its commitment to responsible investment, please visit our pension fund website, www.environment-agency.gov.uk/pensions.

Pension fund investment	Unit	2008-2009	2009-2010	2010-2011	2011-2012
Value of pension fund assets	£million	1,128	1,588	1,753	1,855
Investments in clean technology	%	-	13	15	13
Carbon footprint	tCO_2e per £million	524	436	425	370

Waste

Figure 5.
Office landfill waste



We produce large amounts of waste every year carrying out our work and running our offices and depots. We work to ensure we manage the associated environmental impacts and costs effectively. We continue to reduce the amount of waste we generate and recycle and reuse materials wherever possible.

We have a target to eliminate office waste going to landfill by 2015. This year we disposed of 50 tonnes of office waste in landfills, down from 140 tonnes in 2008-2009.

Our non-office waste forms around 98 per cent of our overall waste volume. It is largely produced from coastal and river management activities such as construction and dredging. We are working hard with our suppliers and contractors to reduce the volumes of waste generated on construction projects and to reuse materials where possible.

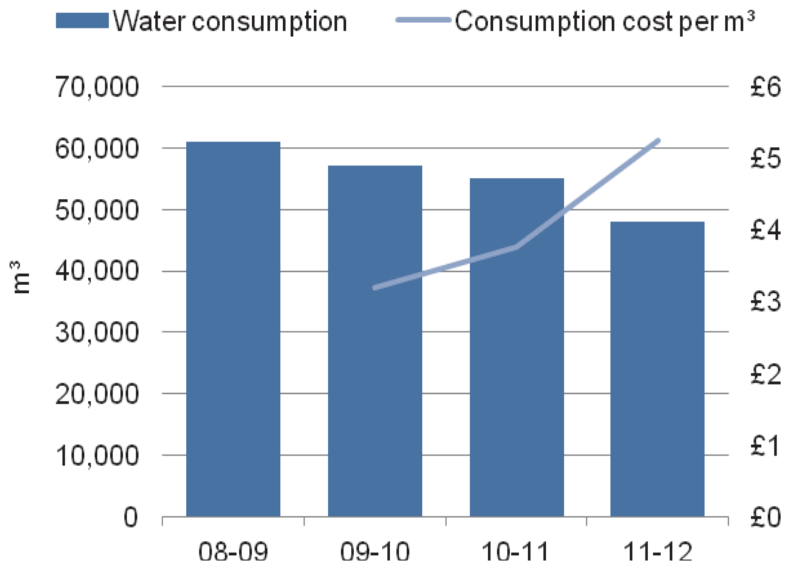
The non-office waste volumes reported below currently only include waste derived from our construction projects. However, the costs reflect the full disposal costs of both our construction projects and our operational activities.

Office waste	**Unit**	**2008-2009**	**2009-2010**	**2010-2011**	**2011-2012**
Landfill	tonnes	140	80	70	50
	£'000	190	130	130	120
Reused or recycled	tonnes	710	450	590	410
	£'000	-	350	330	310
Incinerated to produce energy	tonnes	50	60	70	90
	£'000	-	-	-	-
Hazardous waste	tonnes	14	3	5	3
	£'000	-	-	-	20
Total waste	**tonnes**	**914**	**593**	**735**	**553**
	£'000	**190**	**480**	**460**	**450**
Waste intensity per FTE	kg	70	44	61	49

Non-office waste	**Unit**	**2008-2009**	**2009-2010**	**2010-2011**	**2011-2012**
Landfill	'000 tonnes	-	40	50	10
	£'000	-	1,160	700	770
Recycled	'000 tonnes	-	30	130	110
	£'000	-	240	310	340
Total waste	**'000 tonnes**	**-**	**70**	**180**	**120**
	£'000	**-**	**1,400**	**1,010**	**1,110**

Finite resource consumption

Figure 6.
Water consumption and financial cost

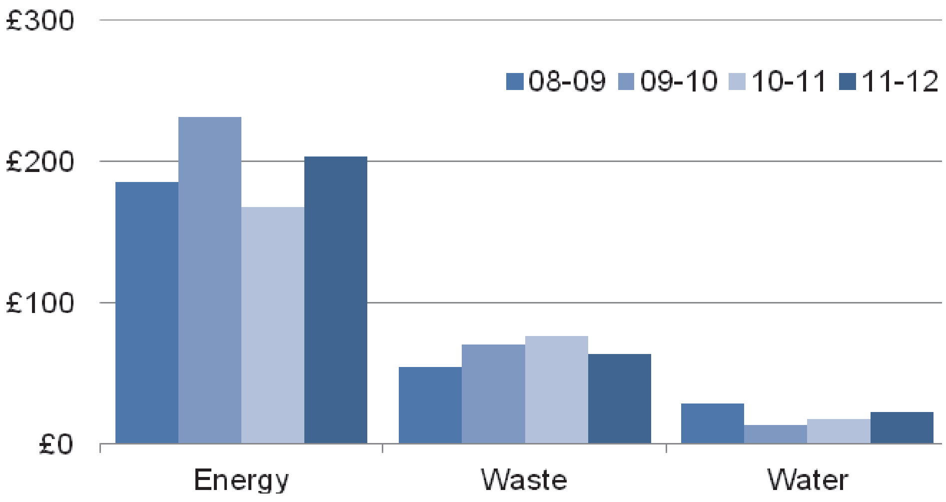


Since 2008, we have reduced our annual water consumption by 21 per cent and our water consumption intensity per FTE. We hope to achieve 'best practice' in the Greening Government Commitment benchmarks in the coming year.

This year we have reported the volume of water we abstract as part of our river management operations. Water abstraction is essential to maintain surface water levels and protect river ecosystems and wildlife. The volume that we abstract depends on weather conditions, as events such as drought are likely to lead to higher extraction rates, increased electricity consumption and therefore increased scope 2 GHG emissions.

Water consumption	Unit	2008-2009	2009-2010	2010-2011	2011-2012
Water supplied	m^3	61,000	57,000	55,000	48,000
	£'000	-	180	210	250
Water abstracted	'000 m^3	-	-	-	78,100
Water intensity per FTE	m^3	4.7	4.2	4.6	4.2

Figure 7.
Annual office utility expenditure per FTE



We work hard to reduce our use of natural resources. By monitoring our spend, we are able to demonstrate that good environmental governance is consistent with robust financial management. Figure 7 illustrates our utility spending per employee over the past four years.

This year we achieved a 20 per cent reduction in paper consumption from the previous year through regular data collection and regional engagement with staff. This resulted in cost savings of around £16,000 and enabled us to exceed our greening government commitment.

All of the timber we use is from sustainable sources. We try wherever possible to use secondary source aggregates and currently 72 per cent of the aggregates we use are from a recycled source.

The figures in the table below only cover the timber and aggregates that we use in our flood and coastal erosion risk management construction projects, not materials used by our contractors. We hope to be able to report these in future years.

Resource procurement	Unit	2008-2009	2009-2010	2010-2011	2011-2012
Paper from renewable or recycled source	‘000 reams	-	-	67	53
	£’000	-	-	90	60
Timber from a sustainable source	tonnes	-	-	540	720
	£'000	-	-	840	700
Stones and aggregates from a primary source	‘000 tonnes	-	-	-	100
	£'000	-	-	-	930
Stones and aggregates from a secondary source	‘000 tonnes	-	-	-	250
	£'000	-	-	-	260

Our procurement team has developed a comprehensive sustainability strategy that focuses on our top ten high-risk categories to reduce their impacts. We spend nearly £700 million a year on goods and services, so this represents a significant opportunity for reducing environmental and wider impacts.

We spend a significant amount of money on construction projects, reducing flood risks and managing water resources. Whilst the majority of this is undertaken by third parties working on our behalf, we work closely with them to ensure that they manage any impacts on the environment during the construction phase, and plan the projects so that they enhance the natural environment and where appropriate provide better facilities for local people. We have developed the capital programme sustainability scorecard, shown on the following page, to monitor and report on the key impacts of our construction projects. It includes measures on managing waste, enhancing local communities and reducing greenhouse gas emissions.

2011-2012 FINANCIAL YEAR

NATIONAL CAPITAL PROGRAMME SUSTAINABILITY SCORECARD

1: BUILDING SCHEMES SAFELY

Number of accidents per 100,000 hours worked on our schemes.

2: ACHIEVING GOOD STAKEHOLDER RELATIONS

The ratio of commendations relative to complaints received by contractors building our schemes.

3: REDUCING FLOOD RISK

Percentage of houses protected from flooding by our schemes relative to the target number agreed with HM Treasury.

4: USING DIVERSE TEAMS

The percentage of staff within organisations delivering our schemes who come from black and minority ethnic (BME) groups.

5: ENHANCING LOCAL COMMUNITIES

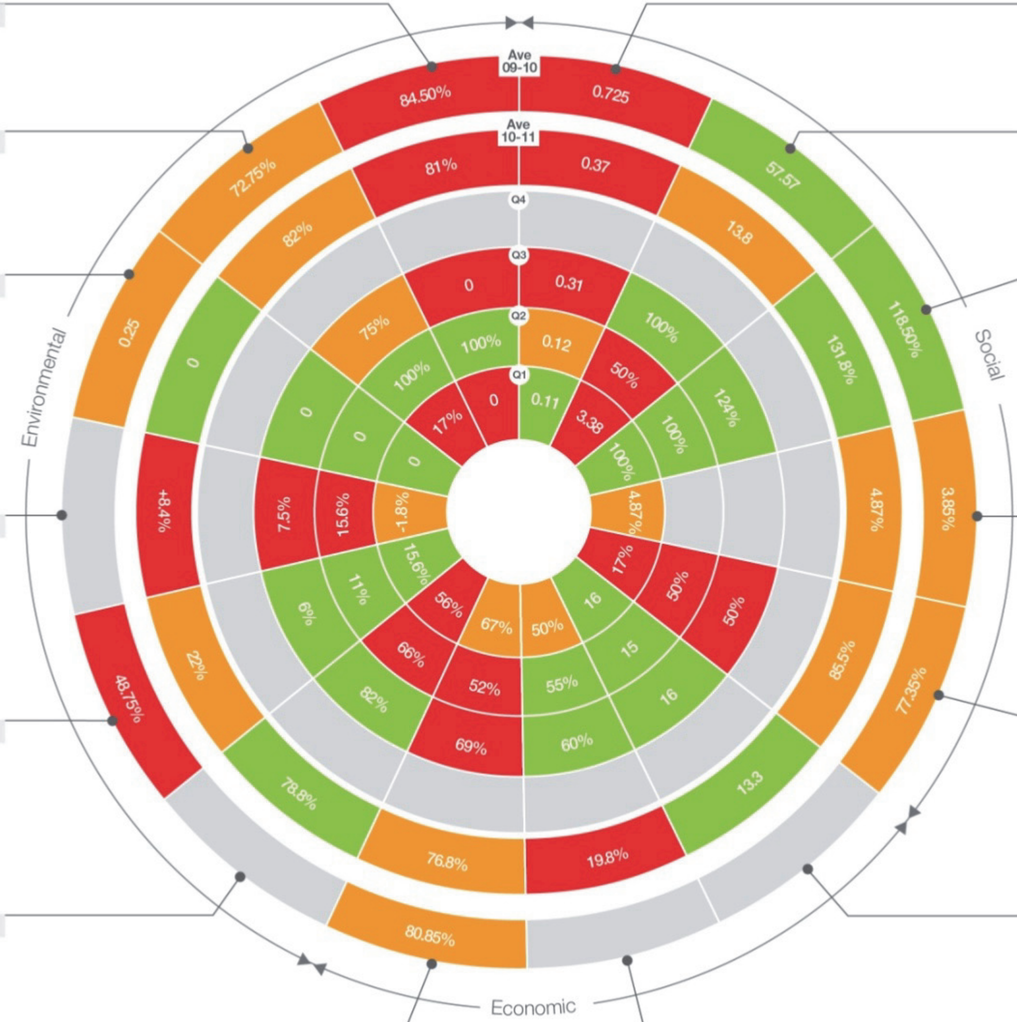
The percentage of our schemes which include social enhancements such as new amenities.

6: CONSIDERING ECONOMIC COSTS AND BENEFITS

The average ratio of the whole-life economic benefits afforded by our schemes relative to their whole-life costs.

7: LINKING WITH WIDER FUNDING PARTNERS

Percentage of capital costs funded by contributions from other organisations.



8: CREATING NEW HABITATS

The percentage of the national Biodiversity Action Plan (BAP) habitat created by our schemes relative to the Agency's target.

9: PROTECTING ENDANGERED SPECIES

The percentage of schemes which will benefit Agency BAP species.

10: MINIMISING ENVIRONMENTAL INCIDENTS

The number of schemes completed where environmental incidents have occurred.

11: REDUCING OUR CARBON FOOTPRINT

The extent to which the carbon footprint of our schemes is reduced through appraisal and design development.

12: MANAGING WASTE WISELY

The percentage of waste from our schemes that is disposed of to landfill sites.

13: USING NATURAL RESOURCES EFFICIENTLY

Percentage of materials on projects sourced from secondary or recycled sources.

14: CONTRIBUTING TO THE LOCAL ECONOMY

Percentage of schemes constructed by contractors with staff based at offices/depots less than 50 miles from the site.

Biodiversity and resilience to climate change

We work to minimise the effects that the activities we regulate, and our own construction work, have on the environment.

We are one of several government bodies responsible for implementing the Habitats Directive in England and Wales. We are required to ensure that none of our activities, or the activities that we regulate, pose an unacceptable risk to specially designated areas. We look for opportunities to work in partnership with other organisations to improve and enhance biodiversity. We have recently had planning permission granted for a joint project with the Wildfowl and Wetland Trust in Somerset to create over 400 hectares of wildlife-rich habitat on the Steart Peninsula, whilst at the same time delivering improved flood protection to local residents and the surrounding infrastructure.

This year we have included the costs and benefits associated with our flood and coastal erosion risk management work. The figures in the table below refer only to our operations in England. For accuracy we have reported the figures for the year in which the projects were completed. This results in a degree of fluctuation due to the scale of the projects.

Biodiversity and flood protection	Unit	2008-2009	2009-2010	2010-2011	2011-2012
Intertidal Biodiversity Action Plan habitats created	hectares	8	43	39	25
Households with improved protection from flooding and coastal erosion	Households	37,150	67,290	77,762	41,575
	Households from 20% most deprived areas	4,208	248	5,913	1,114
	Cost £million	115	278	888	824
	Benefits £million	2,443	2,575	12,247	13,205

Preventing environmental incidents

We continue to promote a positive reporting culture for environmental incidents and near misses. We ensure that we know about instances where the environment could have been harmed as a result of our work. We review incidents at a national and local level and promote the lessons identified throughout the organisation to minimise the likelihood of similar incidents happening again.

This year we did not cause any category 1 incidents as a result of our work. These are classified as incidents that cause major, serious or persistent effects and/or have an extensive impact or effect on the environment, people and/or property.

Environmental incidents	Unit	2008-2009	2009-2010	2010-2011	2011-2012
Category 1	No.	1	0	2	0
Category 2	No.	3	6	2	7
Category 3	No.	50	57	45	63
Near miss	No.	25	47	60	57
Total	**No.**	**79**	**110**	**109**	**127**

Incident definitions:
Category 2: significant impact or effect on the environment, people and/or property;
Category 3: minor or minimal impact or effect on the environment, people and/or property

Workforce diversity

We carry out staff surveys annually to identify and address any perceived barriers within our workforce to people developing and achieving their full potential. We will continue to create an inclusive and diverse workforce and ensure that every employee can contribute to our business and environmental outcomes. The figures below are from our employee self-disclosure surveys.

Workforce diversity	Unit	2008	2009	2010	2011
Race - Black, Asian and minority ethnic groups	%	3.2	3.4	3.4	3.5
Gender - Female	%	40.2	40.9	40.3	40.2

Appendix D - Water Resources Income

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

	31 March 2012				31 March 2011
	£'m	£'m	£'m	£'m	£'m
	SUC balance	EIUC balance water companies	EIUC balance non water companies	Total	Total
Anglian	(0.6)	(7.3)	(2.6)	(10.5)	(4.8)
Midlands	(0.9)	(5.5)	(2.8)	(9.2)	(4.4)
Yorkshire	0.8	-	(0.3)	0.5	0.7
Northumbria	0.1	-	-	0.1	(0.5)
North West	(1.5)	(1.5)	(0.4)	(3.4)	(2.0)
Southern	(0.5)	(5.6)	(1.0)	(7.1)	(3.6)
South West	(0.4)	(2.5)	(0.7)	(3.6)	(3.8)
Thames	(0.7)	(10.8)	(0.2)	(11.7)	(6.1)
Wales	(1.5)		(0.6)	(2.1)	(1.3)
Total	**(5.2)**	**(33.2)**	**(8.6)**	**(47.0)**	**(25.8)**

From 2008-2009, abstractors were charged an Environmental Improvement Unit Charge (EIUC) in addition to the Standard Unit Charge (SUC). This enables us to pay compensation when we vary or revoke abstraction licences to reduce the risk of environmental damage due to taking too much water from certain water bodies. As at 31 March 2012 we have varied or revoked abstraction licences under the terms of two compensation schemes following Secretary of State for the Environment, Food and Rural Affairs' approval of each of the compensation schemes. We have also received authority to vary or revoke abstraction licences from the Secretary of State for the Environment, Food and Rural Affairs under a further three compensation schemes.

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

Would you like to find out more about us, or about your environment?

Then call us on

03708 506 506 (Mon-Fri 8-6)

Calls to 03 numbers cost the same as calls to standard geographic numbers (i.e. numbers beginning with 01 or 02).

email

enquiries@environment-agency.gov.uk

or visit our website

www.environment-agency.gov.uk

incident hotline 0800 80 70 60 (24hrs)
floodline 0845 988 1188

Environment first: Are you viewing this on screen? Please consider the environment and only print if absolutely necessary. If you are reading a paper copy, please don't forget to reuse and recycle if possible.

GEHO0612BWPA-E-P

TSO
information & publishing solutions

Published by TSO (The Stationery Office) and available from:

Online
www.tsoshop.co.uk

Mail, telephone, fax and email
TSO
PO Box 29, Norwich NR3 1GN
Telephone orders/general enquiries: 0870 600 5522
Order through the Parliamentary Hotline Lo-Call 0845 7 023474
Fax orders: 0870 600 5533
Email: customer.services@tso.co.uk
Textphone: 0870 240 3701

The Parliamentary Bookshop
12 Bridge Street, Parliament Square,
London SW1A 2JX
Telephone orders/general enquiries: 020 7219 3890
Fax orders: 020 7219 3866
Email: bookshop@parliament.uk
Internet: http://www.bookshop.parliament.uk

TSO@Blackwell and other accredited agents

ISBN 978-0-10-297830-8

9 780102 978308