Environment Agency

Annual Report and Accounts

2012-2013

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Annual Report and Accounts 2012-2013

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We are the Environment Agency. We protect and improve the environment and make it a better place for people and wildlife.

We operate at the place where environmental change has its greatest impact on people’s lives. We reduce the risks to people and properties from flooding; make sure there is enough water for people and wildlife; protect and improve water, land and air quality and apply the environmental standards within which industry can 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, business, local authorities, other agencies, civil society groups and the communities we serve.

Foreword

2012 proved to be an extraordinary year in which to carry out our work. One in every five days saw flooding but one in every four days were in drought – water company hosepipe bans affected over 20 million people and over 8,000 homes were flooded. We dealt with 11 major flooding incidents and saw rivers such as the Tyne, Ouse and Tone go from their lowest to their highest flows since records began, all in the space of four months.

I am deeply proud of our staff and how they responded to this unprecedented set of events. Every emergency situation depended on them exercising their experience and knowledge, their commitment to the environment and their dedication to local communities.

Science tells us that these types of weather patterns will become more common. There is an urgent need to plan for this changing climate. The 60th anniversary of the 1953 East Coast floods in January this year was a graphic reminder of the consequences of flooding and how devastating it can be if people, communities and businesses are not prepared.

We have welcomed the extra £120 million of funding from government over the next two years for flood risk management schemes. This year alone we have reduced the risk of flooding to a further 55,700 households. The additional funding will protect another 60,000 households and provide up to £1 billion in economic benefits. We have adapted our ways of working to embrace Defra's new flood and coastal resilience partnership funding policy. We can now see a significant and promising rise in contributions from external partners that supplement the funding provided by central government.

The floods of the past year have caused rural communities significant problems in many parts of the country. Considerable concern has been raised by farmers and land managers about channel maintenance. This year we spent around £22 million in maintaining channel flows and a further £21 million on pumping and deploying assets. We are now working with Defra and the National Farmers' Union to look at how we can work in partnership to address the challenges.

However high-profile and important drought and flood are, a significant amount of the vitally important work we do is in other areas. We continue to crack down on illegal waste activities – this year, we closed down over 1,200 illegal waste sites and successfully prosecuted the UK's biggest criminal network attempting to export broken electronic equipment overseas. We are working with our partners to deliver projects across 6,000 water bodies in England, to ensure they are recovering to a good status, as required under the Water Framework Directive. This work has included piloting a catchment-based approach across 10 catchments to improve engagement, agree problems and secure more commitment to action. The pilot has been very successful and although the focus has been on Water Framework objectives, we are beginning to see action being taken that will achieve wider social, economic and environmental benefits.

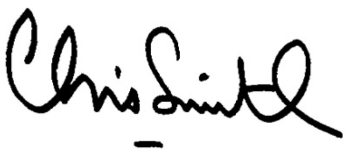
Every day of every year, we monitor pollutants and regulate emissions from industry to ensure that the quality of water, land and air is not compromised. And we continue to play a vital role up and down the country in safeguarding the natural environment, protecting and enhancing habitats and helping to create new areas for wildlife and cleaner rivers for fish.

Our new Unconventional Gas Programme is busy pulling together evidence and expertise to ensure that natural resources can be exploited safely and without any detriment to the environment. We have worked closely with the Office for Nuclear Regulation (ONR) to respond to the growing interest in nuclear power and, after careful consideration and consultation, issued environmental permits for the new nuclear power station at Hinkley Point (C) in Somerset.

Working in close partnership with local government and industry, we are reaching out to more people, ensuring we help businesses and communities adapt to a changing environment. Our ‘single voice’ with Natural England and the Forestry Commission is helping us support sustainable growth. We have been working closely with local authorities and developers to make the permitting process quicker and easier. And we are helping legitimate businesses across all sectors with our sector-based approach, reducing bureaucracy while still providing effective protection for people and the environment.

At the end of March, we said goodbye to our Environment Agency Wales colleagues as National Resources Wales was established. This is the biggest change we have undergone since the formation of the Environment Agency. Over the past year, many Environment Agency Wales staff demonstrated their commitment by taking on the extra work needed to prepare for Natural Resources Wales whilst working with professionalism and dedication to deliver their day jobs. This included responding to seven major floods, completing a new flood scheme in Newport, cleaning up thousands of tyres from illegal tyre sites and reducing fly-tipping in the Valleys Regional Park. We wish them every success for the future and look forward to working with them as new partners.

This annual report outlines our achievements during the past year, with its significant challenges of drought, floods, the Queen’s Jubilee and the London Olympic and Paralympic Games. It demonstrates yet again how our commitment to our work ensures that people and the environment are protected and safeguarded for the future.



RT HON LORD SMITH OF FINSBURY
CHAIRMAN

24 June 2013

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1.1. About us

The Environment Agency is the leading public body for protecting and improving the environment in England and, up to 31 March 2013, in 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 water, land and air 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, business, local authorities, other agencies, civil society groups and the communities we serve.

On 31 March 2013 we had 11,376 permanent employees. Our annual budget in 2012-2013 was £1.2 billion. We are sponsored by the Department for Environment, Food and Rural Affairs (Defra) in England and we were sponsored by the Department for Environment and Sustainable Development of Welsh Government in Wales until 31 March 2013.

From 1 April 2013, our teams are based solely in England, due to the creation of Natural Resources 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 worked closely with other organisations in Wales. Appendix A provides 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 how we will achieve this. It demonstrates our commitment to sustainable development and adapting to climate change. The 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 2012-2013. 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

Reduce carbon emissions and adapt to a changing climate

We have been working with the Department of Energy and Climate Change (DECC) to update and implement legislation in three key areas:

- **The EU Emissions Trading System (EU ETS)** – this was set up to achieve the European Union's contribution to the Kyoto Protocol.

- **The Carbon Reduction Commitment (CRC) Energy Efficiency Scheme** – this is a mandatory scheme aimed at improving energy efficiency and cutting emissions in large public and private sector organisations.

- **Climate Change Agreements (CCAs)** – these are voluntary agreements that organisations can sign up to. They set out targets for energy efficiency or carbon reduction.

Together, these schemes cover over half of the UK's carbon dioxide emissions. We also regulate a number of low carbon and renewable technologies. Our aim is to regulate them effectively and support their deployment whilst protecting the environment. Through environmental permitting we also encourage energy efficiency at regulated sites. These are all important steps in achieving government's goal of increasing energy efficiency and reducing greenhouse gas emissions.

Working with DECC, we have implemented phase three of the EU ETS, including an alternative scheme for businesses that emit small amounts of carbon dioxide. We have also worked with DECC to simplify the CRC and administer the UK scheme for CCAs. Working closely with our customers, we have produced new guidance and focused helpdesk support to inform and prepare them for the changes.

Help businesses become Climate Ready

Defra has asked us to help businesses, the public sector and other organisations adapt to a changing climate. In April 2012, we launched the Climate Ready support service. The service provides online information and a helpdesk to help organisations identify the impact a changing climate will have on their business and how they can adapt. We are using our existing staff structures to help us deliver the service, building on the networks and knowledge we already have.

This year, we have focused on researching how we can best engage with these organisations and businesses. For example, we have established an industry-led forum of infrastructure operators, who together are looking at their interdependencies and sharing their knowledge. Market-leading major companies, such as M&S and PepsiCo, have helped us develop and refine our approach for all organisations.

We have helped the NHS understand the impacts a changing climate will have on their estate by using our flood and coastal data to map risk. We are also ensuring that water companies factor climate change into their water resources management plans.

We are working with the Met Office on providing information on climate projections and with Climate UK and the climate change partnerships so that they can help key sectors in their local area improve their resilience to the risks of a changing climate. We have also seconded a member of staff to the Local Government Association to support our work with local government.

Support low-carbon technology

Nuclear power, past and future

There has been a growing interest in nuclear power over the past decade. Together with the Office for Nuclear Regulation (ONR), which is responsible for safety and security regulation, we have responded to this by taking a new approach to how we assess the environmental acceptability of potential new nuclear power stations' designs. This is known as the generic design assessment (GDA).

The GDA allows us to assess the generic environmental aspects of proposed designs before any site-specific applications are made. As a result, we are involved at the earliest stage, where we can have most influence.

Over the past five years, GDA has enabled us to carry out a rigorous and structured examination of two reactor designs. The assessment included the detailed environmental, safety and security aspects. In December 2012, we issued a Statement of Design Acceptability (SoDA) for one of them, the UK European Pressurised Water Reactor (EPR)™. At the same time, ONR issued their Design Acceptance Confirmation.

The GDA UK EPR™ design formed the basis of NNB Generation Co Ltd's applications for environmental permits for the new nuclear power station it intends to build at Hinkley Point (C) in Somerset. In March, we issued the environmental permits for the station and the Secretary of State for Energy and Climate Change granted planning permission.

The GDA has given us the opportunity to work more closely with the ONR, effectively providing a 'one-stop shop' for new nuclear build through our Joint Programme Office. This joint approach has not only improved efficiency for the regulators and the nuclear industry but is delivering greater protection for both people and the environment.

We have invested £1 million into a significant new partnership with the Natural Environment Research Council (NERC) and the Nuclear Decommissioning Authority. The partnership will deliver a five-year programme of research on radioactivity and the environment (RATE). This work will focus on capacity-building initiatives and forms part of the NERC contribution to the wider Research Council UK Energy Programme.

Hydropower

This year, we have issued permits for 70 new hydropower schemes that incorporate environmental protection into their location, design and operation. We do not provide permits for schemes that are not compliant with environmental or other legislation – for example, by preventing the passage of migratory fish or increasing flood risk. We have continued to develop our guidance for developers and, in November 2012, we published revised advice on providing for fish passage and screening in hydropower schemes.

Between January and April, we consulted on revised water flow and abstraction standards for hydropower. We will consider the feedback to this consultation and intend to publish revised guidance later in the year.

Ground source heating and cooling

Ground source heating and cooling (GSHC) systems use the natural constant temperature of the ground or groundwater to heat or cool a building and can also provide hot water. They are an efficient and partially renewable source of heating and cooling, and can deliver significant greenhouse gas emission reductions compared with conventional heating and cooling. This year, we have published an online screening tool which uses maps to show where open-loop GSHC systems may be suitable in England and Wales.

The tool is the result of a joint project with the British Geological Survey to raise the profile of this technology with industry, planners and developers of large buildings. It does not replace nor affect our regulation, but helps the public to identify whether it could be suitable and how to go about getting the necessary environmental permissions from us. We have streamlined our regulation for open-loop GSHC systems.

Minimise our own carbon footprint

As well as supporting low-carbon technology across England and Wales, we are always looking for innovative ways to reduce the environmental impact of our own work. The Environment Agency's single biggest source of carbon dioxide emissions is from pumping water – it makes up about 38% of our footprint. We pump for a variety of reasons, including reducing flood risk and managing water resources. To find new ways of reducing our carbon footprint, we launched a low-carbon pumping competition at the start of 2012. The competition is running over two years and has received a lot of interest from the media. We received 13 strong entries, which were shortlisted down to four proposals by our panel of in-house experts.

After completing detailed technical feasibility studies, three of these proposals are now ready to move towards prototype construction, installation and assessment. All three are by British small or medium-sized enterprises. We will work with them to assess their prototypes and understand their effectiveness and commercial viability for the future.

1.4. Protect and improve water, land and air

Manage water resources

An extraordinary year

2012 was a year of extremes. One in every five days saw flooding but one in four days saw drought, including water company hosepipe bans affecting over 20 million people.

We worked closely with partners to manage the impacts of the drought. We provided flexibility to farmers, helping them to refill their storage reservoirs. We worked with water companies to safeguard public water supplies, including issuing winter drought permits. We have gained valuable experience we can draw on in future droughts.

We are working with the British Geological Survey, the Centre for Ecology and Hydrology and the Met Office to review the potential impact of further dry weather and what the consequences of a third and fourth consecutive dry winter would have been. We have used modelling to look at potential river flows and groundwater levels over short to medium timescales.

We have also successfully modelled the recovery of both surface and groundwater supplies, following the change from dry to wet conditions during the summer of 2012. The partner organisations are now taking this work forward in a collaborative project to produce hydrological projections on a regular basis.

Create healthier river catchments

We continue to improve our knowledge of the water environment through the largest ever scientific survey of England’s water bodies. There are more than 7,000 water bodies in England, of which 27% (1,886) are currently at good or better status as defined by the Water Framework Directive.

We have completed over 16,000 investigations since 2009 when the first river basin management plans were published. This is a significant achievement, especially given the extreme weather events of the last year. These investigations provide the evidence we need to ensure actions are taken to improve the water environment. We will use this evidence to take action now, as well as to inform our discussions with ministers as they decide on the level of ambition for the second cycle of river basin management plans, which we will publish in 2015.

For the period 2011-2015, we received an additional £26 million from Defra to fund projects aimed at achieving Water Framework Directive objectives. This funding was part of a larger, £92 million package which focuses on preventing the deterioration of water bodies across England and moving them towards good ecological status. The remaining £56 million was made available to other Defra delivery partners and to the third sector through the catchment restoration fund, which we administer. Using this additional funding from Defra and by reprioritising our work, we are running targeted projects to address failures on over 1,200 water bodies. Through these projects, we predict that 46 water bodies will be moved to good or better status by 2015, with an additional 220 by 2025.

During 2012 we piloted projects in specific catchments that looked at how we could improve engagement with partners and communities, share information and co-ordinate actions at a catchment level.

We have produced plans for these catchments in partnership with well over 100 organisations. These plans contain details of over 1,000 actions to improve the environment. The overall approach has been very successful at building relationships across business and communities. Over 95% of our partners felt that we were either supportive or very supportive and all but one participant indicated that they would do it all again. All ten of the pilot schemes we have led have gained commitment from our partners to continue the work.

Results from our research

We carry out research on climate change and on protecting water, land and air. This year we have improved an e-tool that helps permitting staff to risk assess applications to spread waste to land. This is based on the type of waste (such as paper pulp or abattoir waste), likely contaminants, spreading rates and soil properties. We have continued to develop our Directional Passive Air Sampler (DPAS) to sample air-pollution around regulated sites such as steelworks, where there are risks of non-compliance with EU standards. The samplers are helping to identify fugitive sources of dust and other pollutants. We have also produced improved maps of groundwater vulnerability, developed a better approach to assessing the risk metals pose to aquatic life and improved our understanding of the impact of long-term droughts on the environment.

Crack down on waste crime

Illegal waste sites continue to pose a threat to the environment and local communities, contaminating land and rivers with oil and chemicals and undermining legitimate businesses. A number of those acting illegally are professional criminals and likely to be involved in other criminal activity. They don't care where they operate or what legacy they leave behind.

Between April 2012 and December 2013, we will have invested an additional £4.9 million in a waste crime task force. This is in response to concerns from regulated industry that they needed a level playing field, as well as to tackle the impact of illegal operations on local communities and the environment. This specialist taskforce is making real progress. We are continuing to prosecute high-profile waste cases successfully.

We are making sure that waste crime doesn't pay by using Proceeds of Crime Act Confiscation Orders. Offenders are ordered to hand over the profits from their illegal activities to the Treasury. This year has seen confiscation orders totalling in excess of £2 million, including one order against a major waste offender for £917,000.

We have also successfully prosecuted illegal waste exporters under the Transfrontier Shipment of Waste Regulations, such as the export of broken electrical and electronic goods to Nigeria, Ghana and Pakistan. Our National Environmental Crime Team officers work closely with HMRC, the police and overseas authorities.

Tackle the adverse effects of waste on the environment

We are further developing our waste stream approach to reduce the impacts of waste on the environment. We intervene at the most appropriate point in the waste stream to address unwanted environmental impacts.

We are using this approach for certain hazardous wastes in healthcare, waste electrical and electronic equipment (WEEE), tyres, gypsum used in construction, recyclates and problem wastes such as wood and refuse-derived fuel.

Combat metal theft

To help tackle the escalating problem of metal theft, this year we have funded five full-time posts in a multi-agency national task force, led by the British Transport Police (BTP).

Our staff provided operational support to the taskforce through our routine regulatory activities such as site inspections of scrap metal sites, illegal waste sites and waste carrier checks. We also helped implement the Scrap Metal Dealers Act 2013 and shared intelligence with BTP.

The taskforce has reduced metal theft by 43%. It has also improved intelligence on those involved in metal theft and disrupted many of the organised criminal networks involved.

Explore the environmental impacts of unconventional gas

Shale gas and the use of hydraulic fracturing (also known as fracking) continue to have a high profile. Hydraulic fracturing involves injecting water containing sand and low levels of chemicals under high pressure 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. Exploration is at a very early stage in the UK and we have been assessing the potential risks to the environment and how these can be managed. Our Unconventional Gas Programme has brought together all the necessary expertise and evidence. We published guidance in December 2012 to ensure the right permits are in place and to make sure the media and public are well informed about both shale gas and coal methane.

Our environmental risk assessment and regulatory review of shale gas exploration, along with our evidence-based report, *Monitoring and control of fugitive methane from unconventional gas operations,* has underpinned our regulatory approach. We are working closely with other regulators, such as the Health and Safety Executive, with whom we have a new joint working agreement. We are also working closely with the new Office for Unconventional Gas, led by DECC.

Exploration of unconventionally sourced gas is at a very early stage in the UK but our regulatory controls are robust. We are working with industry and key stakeholders, including environmental non-government organisations (NGOs), to develop detailed guidance.

Remove hazardous chemicals from the environment

Our Chemicals Assessment Unit (CAU) provides environmental hazard and risk assessment expertise on industrial and consumer chemicals. This year, we have taken the first steps to phase out a flame retardant from the EU which breaks down into very toxic substances called decabromodiphenyl ether, known as DecaBDE.

After reviewing published evidence, we advised government that the chemical met the criteria for being considered a ‘substance of very high concern’, as defined by the REACH (Registration, Evaluation, Authorisation and restriction of Chemicals) Regulations 2006. We submitted a dossier to the European Chemicals Agency (ECHA) in 2012 on behalf of the UK. This received unanimous support from other member states, so DecaBDE was added to the REACH candidate list in December.

1.5. Work with people and communities to create better places

Manage the risk of flooding

Flooding has been in the news many times this year. There were 11 flood events from April to December 2012, lasting a total of 72 days. The Met Office reported 2012 to be the second wettest year on record for the UK, the wettest on record for England and the third wettest on record for Wales. Just under 8,000 properties were flooded during 2012 and we estimate that over 200,000 properties were protected by flood risk management schemes across England and Wales.

The Prime Minister, David Cameron, and the Secretary of State for the Environment, Owen Paterson, both publicly acknowledged their gratitude to Environment Agency staff and other category one responders for all their hard work to keep the public safe.

This year, our work to build new assets and improve existing ones has reduced the flood risk to 55,700 more households (1,000 of these are in Wales). This includes both the contribution from our own work and work carried out by local authorities and internal drainage boards (IDBs), to which we provide grant funding. Of the households protected, 27,000 were in the highest-risk categories and 4,100 of these were in areas of significant economic deprivation. In addition, we have improved the protection of 4,500 households against coastal erosion.

The Nottingham flood alleviation scheme was completed during the summer of 2012. It protected parts of the city against flooding within weeks of being built and without it more residents would have felt the devastating impacts of flooding. The scheme protects 16,000 homes and businesses. It was completed three months early, with savings of about £6 million on the £51 million budget.

Together with our partners, we manage over 27,000 miles of flood defences, including structures, sea walls and flood banks. Over the last year, almost 98% of our flood defence assets were in the required condition or better.

In August 2012 a new part of the Flood and Water Management Act came into force. It allows us to designate structures or features which affect flood or coastal erosion risk as flood risk management assets, even if we don't own them. This includes walls, buildings, earth embankments, shingle banks and raised areas of land. We are working with the owners of these structures and features to help protect more people and properties from flooding and coastal erosion.

Improve flood warning and forecasting

We continue to work in partnership with the Met Office at our joint Flood Forecasting Centre. This year we have used improved Met Office weather forecasts to increase the accuracy and lead-time of our flood forecasting service. We can now use higher resolution rainfall data from the Met Office to forecast a more detailed picture of where rain is going to fall and how intense it will be. We can also use extended Met Office forecasts to run our river and coastal flood forecasting models for five days ahead. Previously we have only been able to forecast 36 hours ahead.

During 2012-2013 we issued our highest ever number of flood alerts and flood warnings: 4,814 flood alerts, 2,167 flood warnings and 17 severe flood warnings. We have also increased the number of customers who receive flood warnings via telephone, mobile, fax, pager, text or email. We can now warn almost 1.2 million people about flooding through our Floodline Warnings Direct (FWD) and our Extended Direct Warnings (EDW) services.

Additional funding for flood risk management schemes

The government announced in the Autumn Statement that it would provide an extra £120 million of funding for flood and coastal risk management schemes. This money has been allocated to a total of 42 schemes – 33 pre-existing schemes, which will be delivered sooner than originally planned and nine growth schemes. The growth schemes are forecast to protect an additional 9,300 homes and 2,650 businesses, create 33,000 jobs and protect or create 430 hectares of development land.

Report on flood and coastal risk management

In November 2012, we published our first annual flood and coastal erosion risk management report for England (as required by Section 18 of the Flood and Water Management Act). It highlights the successes and challenges of all the risk management authorities who work in partnership to manage the risks to people. The report includes information from Lead Local Flood Authorities (LLFAs), such as progress on local flood risk management strategies, and input from water and sewerage companies.

Manage our flood risk management assets more efficiently

We have introduced a new information system to improve the way we manage flood risk management assets. This replaces the National Flood and Coastal Defence Database (NFCDD). The system will improve the way we gather information about the condition of assets and help us manage them more efficiently. LLFAs, internal drainage boards and other risk management authorities will be able to use the system later in 2013.

Work with the insurance industry on a flood risk report template

We have worked with Defra, the insurance industry and other partners to develop a standard template that customers can use to record the flood risk of a property that has had flood resistance or resilience measures fitted.

The Flood Risk Report is recognised by the insurance industry as a standard approach for presenting the flood risk of a property, as long as it is completed by a professional, suitably qualified, independent surveyor. Insurers may take this information into account when assessing the terms they will offer for new or continued cover.

We developed the template with Defra, the Association of British Insurers, the British Insurance Brokers Association, the Royal Institution of Chartered Surveyors, the National Flood Forum and the Law Society.

We are encouraging lead local flood authorities and Environment Agency teams to complete this report and hand this to residents when they have fitted property-level protection products.

Other achievements

This year, we delivered a number of national projects that further progressed the effective management of flood risk and coastal erosion whilst better preparing people and protecting property. We have:

- moved elements of the National Flood Risk Assessment production to our local teams, allowing us to use local knowledge and reduce reliance on consultants
- introduced a common risk management consenting application form, to be used across England
- introduced more compelling ways to display flood risk data and convey risk – for example, by piloting 3D flood risk visualisations in some areas and introducing live flood warning maps for the public
- provided guidance and support to local authorities (as part of our Strategic Overview role) in their management of coastal erosion by the sea and flooding from surface water, small watercourses and groundwater
- made good progress on implementing legislative changes in relation to managing reservoirs

1.6. Work with businesses and other organisations to use resources wisely

We have a corporate target to deliver £45 million of annualised savings to business by 2015. We are on course to exceed this target.

We have been working closely with government on its reviews of regulations, including the Red Tape Challenge, Penfold Review and Heseltine Review. As part of our risk-based approach to regulation, we are currently carrying out trials of independent auditing for some of the best performing operators across a number of industry sectors. We will use information provided by their own management system audits to assess how compliant they are with their permit conditions, without having to visit sites. These operators also have to submit an annual compliance statement, signed off at company board level. The trial will finish in June 2013. If it is successful and we implement a full scheme, operators should save money by reducing the amount of time they have to spend on compliance assessment and, in some cases, benefit from lower permit charges if we do not have to spend as much time regulating them.

New and improved planning and permitting advice

We have improved our planning and permitting service to local authorities and developers to help enable sustainable growth. Our planning application responses are well within statutory timescales, which avoids delaying new developments – on average we respond to planning applications within 15 days.

As part of the Single Voice programme, we recently developed joint advice with Natural England and the Forestry Commission and consulted developers about how we can incorporate environmental enhancements into new developments. And we are now using environmental account managers for major developments, so that developers have a single point of contact.

We are providing a faster and more efficient permitting service, consistently meeting government's new 13-week target for determining our consents. In response to the Penfold Review, this year we have published guidance to help our staff, local planning authorities, the Planning Inspectorate and developers better understand the relationship between planning and permitting. It also outlines our roles and responsibilities in dealing with planning applications that need an environmental permit. Developers and operators should now be able to identify potential pollution risks at an early stage, improve decision making, reduce costs and avoid wasting time and effort.

As a result of this new approach, customer feedback from directors and councillors in local authorities is very positive. 82% of directors and 87% of council members feel that we work well in partnership. 77% of directors and 63% of members are very or fairly satisfied with the quality of our service.

A new approach to regulation

We have continued to improve how we work with regulated businesses by taking a sector-based approach. Through our Future Approach to Regulation (FAR) programme we have published sector plans. These set out the long-term outcomes we expect sectors to achieve and how we will work with businesses to achieve them. We will use the evidence presented in our Sustainable Business Report to engage with the businesses we regulate on their ongoing performance over the coming months.

We have also reorganised our front-line teams to align with those sectors. These changes will enable us to encourage growth and protect the environment by supporting legitimate businesses, reducing costs and dealing with the deliberately non-compliant more effectively.

1.7. Be the best we can

Natural Resources Wales

In May 2012, Welsh Government announced its decision to create Natural Resources Wales. On 1 April 2013, this new organisation took over the work previously carried out by Environment Agency Wales, Forestry Commission Wales and Countryside Council for Wales.

We have provided information about our services and functions, our assets, information technology systems, staff and contracts to help Natural Resources Wales be as self-sufficient as possible from the start. We have agreed to continue to provide over 30 services and functions for them, many on a transitional basis. These include a fully-managed IT service to support staff transferring from the Environment Agency to Natural Resources Wales, systems that underpin flood forecasting, warning and informing, and rod licence sales.

We have ensured that we will be able to work with Natural Resources Wales under new legislation, particularly on cross-border issues. This included developing joint working protocols for cross-border river catchments. We look forward to working with Natural Resources Wales colleagues as new partners.

Work effectively with partners

We are continuing our work with Natural England and the Forestry Commission to deliver shared outcomes more effectively and improve the service we provide to our customers. Our Single Voice approach has seen us take forward a variety of projects. For example, we have been working with Natural England and Defra on a new website, My Environment (*www.myenvironment.org.uk*), which provides a single point of access to environmental information.

Through joint working with Natural England, the Forestry Commission and the Marine Management Organisation, we have put together a joint offer to Local Enterprise Partnerships (LEP) and City Deals. It explains how we will work with local government and partners to support sustainable growth. We recognise that every LEP and City Deal is different and we will want to tailor our offer to suit local needs. We've published a range of local case studies online to show successful joint working in practice, including new ways to pool expertise, share resources and develop joint solutions.

Research and development

We are working closely with Defra and other partners on the research and development that underpins our flood and coastal erosion risk management work. For example, we have leveraged millions of pounds of funding from research councils to our priority areas by liaising closely with the Living With Environmental Change (LWEC) partnership (22 public sector organisations that fund, carry out and use environmental research and observations). We have used the LWEC flood and coastal erosion risk management research strategy to help establish how we can work better with academic partners, ensuring that cutting edge science makes a real impact.

The Joint Research and Development Programme, which we developed with Defra, continues to provide the applied tools and evidence base for our operational activities, including risk assessment, investment and appraisal decisions, best practice asset management and real-time forecasting and warning. Particular highlights from this year include delivery of a framework for coastal research, work on improving the carbon efficiency of our pumping stations, a look at how we might improve the accessibility of our flood risk maps and a significant contribution to the Long Term Investment Strategy for flood risk management assets.

Share knowledge through fellowships

The cost of our knowledge exchange fellowships has more than halved by working in partnership with Defra, research councils and universities. Fellows are academic researchers who remain employed by their host institution but spend a proportion of their time working from our offices to fully understand our needs and ways of working. We have six fellows on placements this year in our Evidence Directorate. They are helping us deliver our action plans, which prioritise the specific evidence and services we will provide to our customers. They increase our technical resilience in areas of critical business need, which enables us to deliver more compelling evidence. To date, placement fellows have improved our knowledge, resilience and evidence in areas such as hydro-ecology, climate change decision-making and ecosystem services.

Work with the Engineer Research and Development Centre

In March 2013 we signed an agreement with the Engineer Research and Development Centre of the US Army Corps of Engineers, with which we have worked since 2007. We have committed to work together, share knowledge and promote wider networking on issues such as flood and coastal risk management, water resource management, climate change and information technology and informatics.

The Triennial Review

Defra has examined the roles of the Environment Agency and Natural England in a joint Triennial review. The review is to help Defra ensure that its environmental priorities are delivered in the most efficient and effective ways. As part of the review, they have considered how we have responded to the requirements set out in the Arm’s Length Bodies (ALB) Review in 2010. In December 2012, Defra published a discussion document asking stakeholders for their views. We expect Defra to publish a report on our review in summer 2013.

We have undergone a number of substantial reforms since the ALB review, including achieving back-office efficiencies of 33% (£48m) compared to 2010-2011. We have also been delivering on government commitments to localism and the Big Society – for example, with initiatives such as partnership funding for flood risk management and by engaging volunteers in some of our navigation and flood risk management activities.

Our joint working programme with Natural England was put in place after the ALB review called for greater collaboration across the Defra network. By working in partnership we can deliver outcomes more effectively, improve services to our customers and achieve greater efficiency.

Work with partners to promote sustainability

Working alongside the local community, Natural England and the Yorkshire Wildlife Trust we have recently developed 43 new hectares of wetland habitat at the mouth of the Humber Estuary. Consequently, we have recorded a dramatic increase in the number of wading birds using the site. We also secured additional land to create a habitat corridor. A local group is managing the site with our assistance, which gives it local ownership and ensures its future.

A recent survey by the RSPB highlighted the success of the scheme, with over 700 birds roosting on the site. Material from the site was used to create screening banks and a new car park. This reduced costs and minimised disturbance on the site.

Improve the non-planning consenting service to developers

We have launched the Consents Service Unit (CSU). This will implement the government's proposal for a 'one stop shop' for non-planning consents for nationally significant infrastructure projects (NSIPs) in England. The CSU is located within the National Infrastructure Directorate of the Planning Inspectorate. It will make the consenting service more efficient by improving co-ordination and communication between the inspectorate, developers and relevant consenting bodies. We are working closely with the CSU, Natural England and the Marine Management Organisation to ensure an efficient and effective service is provided to developers progressing NSIPs.

Think digital

Digital communications are becoming more and more important and we are adapting the way we engage with the public and our stakeholders to reflect this. Our focus is on using digital communications to inform our work, deliver improved customer service and engage with local communities.

We have significantly raised our profile across a range of social media. In 2012 the total number of people following us on Twitter increased by over 300%, from less than 30,000 to over 100,000. Our Facebook 'fan club' grew from less than 1,500 to more than 6,000 – an increase of over 400%. We also used our YouTube channel to publish over 100 films demonstrating our work.

Deliver a first-class customer service

At the centre of our efforts to be the best we can, this year we published *What you can expect from us – our service commitment.* We designed it by asking the people we serve what they think. We have used customer feedback to redesign our services.

We recognise the increasing diversity and different needs of the people we serve. An increasingly diverse workforce helps us to better understand the needs and requirements of our customers, suppliers and the communities that we serve. We have successfully trialled a pilot project to encourage, evaluate and share ideas from staff across the organisation. 'Ideas Street' generated over 370 ideas in just four months.

We use a number of media avenues to provide information to our staff, including information on the financial and economic factors affecting the Environment Agency. These include monthly email communications to all managers for further dissemination and a regular cascade briefing which is given to all staff.

Improve access to our data

To help customers and partners access our data more easily and in a richer way, we have begun using linked data. Linked data uses the open standards of the web to extend and share information in a way that can be read automatically by computers. This means it can be interlinked with other organisations' data and used more easily in web applications. Good examples of this have been the widget which shared our bathing water data with other organisations such as local authorities, tourist boards, tourist attractions and individuals, and the smart phone app, Beach Selecta. This provides beach-goers with up-to-date information on the quality of bathing water at over 500 beaches in England and Wales.

Lead on incident management

2012 started off dry for three months and then was the second wettest year on record for the UK. We prepared for and responded to drought, floods, the Jubilee and the London 2012 Olympic and Paralympic Games. This year was a real challenge, but one our staff responded to with great commitment and flexibility.

A safe and healthy workplace

Providing a safe and healthy workplace continues to be at the heart of our activities. We now have a focussed board group reviewing this area. We use a variety of sources to understand our health, safety and wellbeing risks. Safety Critical Incidents (SCIs) give us our best intelligence for understanding our key risks. SCIs are incidents where the potential injury or resulting ill health could have been very significant and there is potential learning relevant to other parts of the business.

We review every SCI with a team, including a trade union safety representative. We also examine similar SCIs to look for wider learning. For example, we started the Safer Plant, Safer People project following a number of plant and equipment SCIs.

We are using our formal audit programme as part of our approach to manage improvement. As part of a longer-term commitment to testing and verifying our arrangements, this year we commissioned an external audit of our health and safety management system.

Our goal remains zero injuries and ill health. Therefore a rise in the number of Lost Time Incidents (LTIs) is of concern; 44 compared to 32 in the previous year. Detailed analysis has not revealed any change in long-term patterns. Prolonged periods of incident response and organisational change may be a factor. We have also observed a 22% increase in overall incident reporting levels since we introduced self-reporting.

The Environment Agency closely monitors sickness absence and has policies in place to reduce staff sickness absence. An average of 6.6 days per full time equivalent employee was lost to sickness absence during the reporting year ending 31 March 2013. This has decreased from 7.4 days in the previous year.

Build a diverse workforce

Our ambitions for diversity and inclusion remain high on our agenda. This year we have introduced objectives and targets that take us to 2016, in line with the Public Sector Equality Duty (PSED) legislation. We are rolling out a programme of ‘unconscious bias’ awareness training, which has been attended by Board members and Directors.

In response to our employee survey, we have introduced clearer guidance and new, confidential support mechanisms for those who feel they may have been bullied or harassed. Our employee networks continue to grow, with the introduction of a hearing loss network and an Islamic fellowship. These complement our lesbian, gay, bisexual and transgender (LGBT) and women’s networks and our forums for Christian fellowship and black, Asian and minority ethnic (BAME) employees.

We believe that diversity is as important in the workplace as it is in the natural environment. Diversity in this context means differences visible and invisible, differences of background, socio-economic group, personality and work-style, as much as the more overt differences of the nine protected characteristics listed in the Equality Act 2010. One key element of this is that decisions affecting people’s employment, development and progression are made on the basis of merit, ability and potential.

We are using external benchmarking to understand how we can achieve our aim to be in the top quartile of all the external benchmarking we carry out. We are also learning more about our employees through a confidential self-disclosure programme that enables staff to give us information about their diversity. By responding to employees’ needs, we can ensure that each individual feels confident that they can be themselves at work. This is how they will give their best performance, benefiting customers, the environment and, of course, themselves.

Efficient use of our resources

A new learning framework for managers

Having competent and confident managers is one of the keys to a successful organisation. This year, we introduced a new Management and Leadership Development Framework. The framework describes the skills and knowledge expected of team leaders, managers and executive managers, as well as providing training opportunities.

We are continually improving our processes and ways of working, but this can lead to new demands on managers. In response we have developed a number of new courses, which include partnership and collaborative working, leading business improvement and legal awareness.

Our managers use the framework to identify and meet their learning needs at performance management discussions with their line manager. The framework has been well received, helping managers to better manage their current development requirements and future career development. Many business areas and groups of managers have been involved in creating the framework and in delivering some of the training it offers.

An efficient workforce

This year we have continued to review how we work to make sure we are as efficient and effective as possible. On 1 June 2012, we introduced the next stage of our Flood and Coastal Risk Management change programme. The second phase focuses on delivering excellence by strengthening leadership, finding better ways of working and ensuring we embed continuous improvement in the business.

Demonstrate clear value for money

We are making a significant contribution to the government's continuous improvement strategy, working with the Cabinet Office and Defra on a variety of activities. These include hosting cross-government workshops for the Cabinet Office on leadership and designing a public sector internal consultancy. This will help organisations share resources and expertise without the need for private sector consultancies. The newly established Institute for Continuous Improvement in the Public Sector connects us with other public sector employees and facilitates the sharing of best practice, knowledge and ideas.

Ensure our work is sustainable

During 2012-2013, we invested £295,000 in reducing our carbon emissions by around 49 tonnes. The projects included installing energy efficient equipment, such as external LED lighting at eight sites, photovoltaic cell installations, methanol fuel cells to power field equipment and our low-carbon pumping competition. You can read more about this work in Appendix C.

The challenges we face in reducing our own emissions are significant. Our essential work pumping flood water accounts for a large proportion of our emissions. We work hard to minimise the impacts and maximise the efficiency of these activities. The extremes of both water scarcity and flooding have challenged our goal to reduce our direct carbon emissions, evidenced by our failure to meet our carbon performance target. To focus our efforts we have now split our carbon footprint performance measure into three – pumping, transport and carbon dioxide emissions associated with buildings.

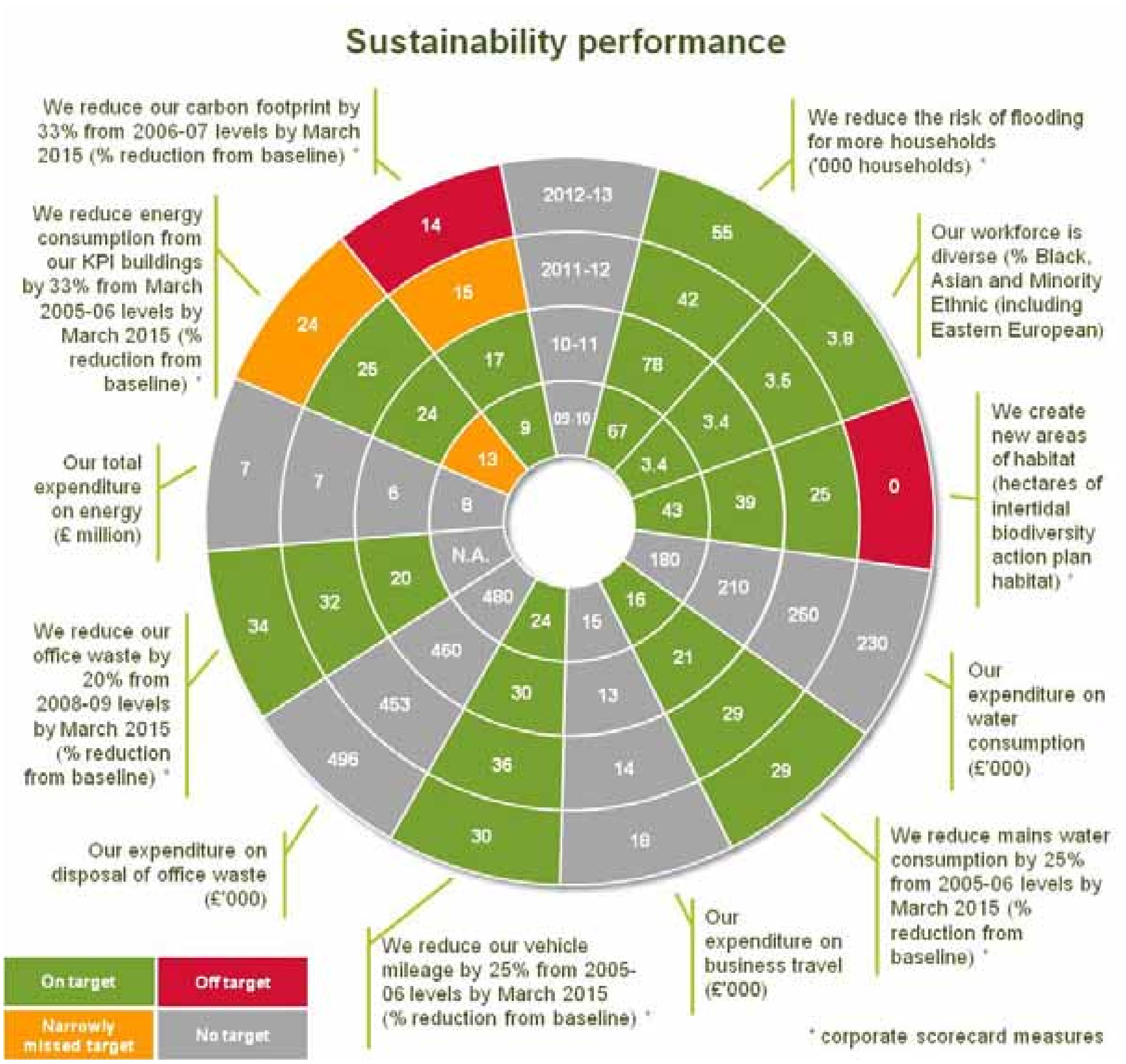
Manage our resources in the most sustainable way

We continue to work with HM Treasury and colleagues in the public sector to continue developing public sector sustainability reporting guidance. This was introduced as a mandatory requirement for a large section of the public sector last year. We have produced a sustainability report as an appendix to this report (Appendix A) and follow the guidance as closely as possible. This sits alongside our corporate performance report (Appendix B). When read together, they demonstrate the priority we place on ensuring that our activities are carried out in a sustainable way.

Many of our key environmental performance measures are included in our corporate reporting cycle and are regularly reported to our Board and Directors. This ensures that they are given the same priority as other performance measures within the organisation and are discussed at our Board meetings.

Sustainability targets

In the diagram below we have drawn out some of our key sustainability targets and related figures for the past four years. These are a combination of internal environmental targets, wider corporate scorecard measures and the financial costs associated with some of these. We use a system of red, amber and green to reflect our level of performance against corporate targets. Those measures for which we currently have no corporate targets, specifically our spending associated with potentially significant environmental impacts, are coded grey in the diagram. However, we do track and review expenditure against these areas as part of our environmental accounting activities and general budget management.



We estimate that over 70% of our environmental impacts come from the goods, services and works we buy from our suppliers. We focus our efforts on our highest risk categories by spend and sustainability risk. This is based on the prioritisation methodology developed by the Sustainable Procurement Task Force and includes the amount of spend and consideration of the environmental, social, commercial and business risks. Good management of these risks allows us to contribute to sustainable development goals including the wise use of natural resources, reduced energy consumption, fair and ethical trade, consideration of the diverse needs of all and supporting economic stability and growth through innovation and working with communities.

We are on track to achieve the highest level of the government's Sustainable Procurement Flexible Framework by March 2015. This will demonstrate that sustainability is fully embedded into our procurement approach and that we take a very thorough approach to addressing the sustainability of our purchasing activities. Through this approach, we have identified construction as our highest risk area in relation to spend and potential sustainability impacts. We work hard to ensure that these risks are managed, working with our suppliers to deliver sustainable outcomes.

This year we have worked closely with our existing small and medium-sized clothing suppliers to develop a new range of corporate clothing. The scheme is called *'Better seen, better recognised'*. It has delivered a range of high-visibility clothing that meets our customer requirements and gives value for money, whilst also delivering a more sustainable product. The clothing is made using recycled materials that are durable and can be washed at low temperatures. This has made us more visible to the communities we serve and able to explain our work clearly to others, as stated in our corporate plan. Further details of our approach to sustainable procurement can be found on our website (*www.environment-agency.gov.uk*).

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 expenditure for 2012-2013 was £1.2 billion. Of our total expenditure, £723 million (60%) came in the form of funding from Defra and Welsh Government, £666 million came from Defra to fund our work in England and £57 million came from Welsh Government to fund our work in Wales.

Overall results

Our final position of net expenditure for 2012-2013 was £773 million, an increase of £23 million on 2011-2012 (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. Therefore, it is accounted for as a financing transaction and credited directly to the general reserve. Income we have raised from our charging schemes, along with other miscellaneous income, is included within the Statement of Comprehensive Net Expenditure. Our total comprehensive net expenditure was £847 million, an increase of £67 million on 2011-2012. It takes into account:

- financing expenditure on pension scheme assets and liabilities: £2 million
- net gain on revaluation of property, plant, equipment and intangible assets: £69 million
- actuarial loss on pension scheme assets and obligations: £141 million

Shown in the table below is a five year summary of the income and expenditure of the Environment Agency:

	2012-2013	2011-2012	2010-2011	2009-2010	2008-2009
	£'m	£'m	£'m	£'m	£'m
Staff costs	395.3	365.4	402.8	419.3	469.2
IAS 19 Pension charge or (credit)	54.2	54.5	(160.6)	38.8	84.4
Capital works expensed in year	219.0	222.8	247.3	282.1	247.8
Depreciation and amortisation	107.3	103.3	101.8	97.8	94.2
Other expenditure	426.4	404.9	383.5	383.7	384.4
Impairment of non-current assets	5.2	15.7	18.7	9.4	-
Gross expenditure	**1,207.4**	**1,166.6**	**993.5**	**1,231.1**	**1,280.0**
Income	**(434.9)**	**(417.2)**	**(416.1)**	**(418.0)**	**(403.6)**
Net expenditure	**772.5**	**749.4**	**577.4**	**813.1**	**876.4**

Expenditure

Our expenditure was £1.2 billion in 2012-2013 and similar to the previous year. This was spent across our business as follows:

Expenditure	2012-2013 (£'m)	% of total spend	2011-2012 (£'m)	% of total spend
Flood and coastal erosion risk management	636	53	640	55
Protecting and improving water, land and air quality	431	35	400	34
Using water resources wisely	140	12	127	11
Total	**1,207**	**100**	**1,167**	**100**

The main cause for the increase in expenditure is as a result of our response to flood incidents during 2012 and increased work relating to our charging schemes, shown in increases in staff costs and other expenditure. This is offset by reductions in expenditure in our support service functions.

Future developments

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

The UK Government's Spending Review 2010 (SR10) 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 significant reductions in funding in both England and Wales over the course of the SR10 period. From 1 April 2013, we will no longer receive funding from the Welsh Government, however we will be providing some support and services to Natural Resources Wales and our costs will be reimbursed.

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

Funding area	Funding 2013-2014	Funding 2014-2015
	£'m	**£'m**
Flood defence		
Revenue	239	226
Capital	294	343
Total flood defence funding	**533**	**569**
Environment protection		
Revenue	102	88
Capital	-	-
Total environment protection funding	**102**	**88**
Total	**635**	**657**

Defra has not yet finalised environment protection capital funding for 2013-2014 and future years, as we have to bid each year for funding required.

Welsh Government provided grant-in-aid funding through Defra, as required by HM Treasury's Clear Line of Sight project. We continued to report to Welsh Government on how we used the funding in 2012-2013. Funding from Welsh Government ceased in April 2013 as a result of the creation of Natural Resources Wales.

Flood and coastal erosion risk management partnership funding

During 2011-2012, Defra introduced new partnership funding arrangements. The amount of grant-in-aid provided for flood risk management and coastal erosion schemes in England is now based on a tariff system, depending on factors such as the number of households protected and how much habitat has been created. If grant-in-aid alone is insufficient to fund a scheme, the Environment Agency, local authorities and internal drainage boards are required 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. This scheme was in place during 2012-2013 and funding is expected to increase in future.

Non-current assets

Non-current assets in the year have increased in value by £52 million. The total net book value (total cost less total depreciation to date) is over £2.6 billion. This is mainly as a result of continuing capital investment and revaluing our assets through indexation. We are also required to carry out an independent quinquennial revaluation of our non-operational land and buildings. Our 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.

Manage our buildings

Our national accommodation delivery plan continues to ensure that we are using our workspace more efficiently. Evidence has shown that many of our staff spend the majority of their time working away from offices. By using our office space more flexibly, we are fulfilling our estate management strategy of reducing the total amount of space we need and ensuring that the number of workstations we have matches demand.

Most of our estate does not have an alternative use, given the current uses for flood risk management and environmental purposes. Our independent valuers do consider other uses in their quinquennial revaluations. There is no material difference between the values in the financial statements and values existing under alternative uses.

Creditor payment policy and statistics

We aim to meet the level of performance on paying 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 95% of invoices from suppliers within 10 days of receipt and registration (2011-2012 -97%). Creditor days, calculated on an average basis for the year, were four days for 2012-2013, the same as in 2011-2012. This helps to 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). We are the administering and employing authority for the Environment Agency's Active Fund. The Active Fund provides final salary pension benefits to over 20,000 people, who are 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. This 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% and 7.5% of pay) and from the Environment Agency (16.5% of pay). This is supplemented by income from the Active Fund's assets. The assets of the fund have increased in value by £265 million to £2.1 billion during 2012-2013, after allowing for contribution income and benefits paid out over the period, although the overall net liability has increased to £378 million.

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 our pension fund website (*www.eapf.org.uk*).

External funding

In England, we provide capital grants to local authorities and internal drainage boards. This is for flood risk management, coastal erosion protection and cleaning up contaminated land. In 2012-2013 we paid out £37 million. From 1 April 2012, we assumed responsibility for the administration of Catchment Restoration Fund payments, on behalf of Defra, to the various third sector organisations in England. In 2012-2013 we paid out £7.5 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 £73.5 million of environmental improvement projects.

In 2012-2013, the total project expenditure on these environmental improvement projects using formal external funding sources was £14.3 million. We contributed £2.8 million, with the balance coming from other project partners and from external funding schemes.

Financial management

All our work is underpinned by a commitment to continuously improve our understanding of our costs and sound financial management throughout the year. Our Finance Directorate continues to develop more efficient ways of working. This has enabled us to meet the HM Treasury benchmark target of finance costs being less than 1% of our income.

We have made considerable progress in developing business partnering skills for our finance staff. We work with operational budget holders to deliver more for the environment for every pound we spend. Support service costs have reduced over the last three years, enabling a greater proportion of our funding to be spent in delivering environmental outcomes.

Our transactional work is carried out in our Finance and Human Resources Service Centres. We are currently working with the Cabinet Office and other government departments to find ways to reduce the cost of these services by combining our activities. A decision on whether the Environment Agency should join a future combined shared services centre will be subject to a business case considering the costs, benefits and risks of the new service.

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’. We use risk management plans and review our performance against them to ensure that we meet our targets.

Personal data

In 2012-2013 we made one notification to the Information Commissioner's Office, the same as in 2011-2012. The governance statement provides further information on the reported incident and how we are improving controls around personal data.

The Environment Agency is a public sector information holder. We have complied with the cost allocation and charging requirements set out in HM Treasury guidance.

Tax arrangements of public sector appointees

The tables below show details of tax arrangements of senior public appointments for the Environment Agency for the year ending 31 March 2013.

On 31 January 2012, the Chief Secretary to the Treasury announced a review of the tax arrangements of public service appointments. The table below shows the data provided by the Environment Agency as part of that review.

Off-payroll engagements at a cost of over £58,200 per annum that were in place as of 31 January 2012

	Number
In place on 31 January 2012	67
of which	
- have since come onto the organisation's payroll	-
- have since been re-negotiated or re-engaged, to include contractual clauses allowing the Environment Agency to seek assurance as to their tax obligations	64
- have not been successfully re-negotiated and therefore continue without contractual clauses, allowing the Environment Agency to seek assurance as to their tax obligations	-
- have come to an end	3
	64

The recommendations of the review were to be implemented within three months of it being published in May 2012 and new clauses were to be added into new contracts from 23 August 2012.

All new off-payroll engagements between 23 August 2012 and 31 March 2013, for more than £220 per day and more than 6 months

	Number
New engagements	45
of which	
- new engagements which include contractual clauses giving the department the right to request assurance in relation to income tax and National Insurance obligations	43
- assurance has been requested and received	43
- assurance has been requested but not received	2
- have been terminated as a result of assurance not being received	-

There were no new engagements between 23 August 2012 and 31 March 2013 that were terminated as a result of assurances not being received.

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 and is not capitalised.

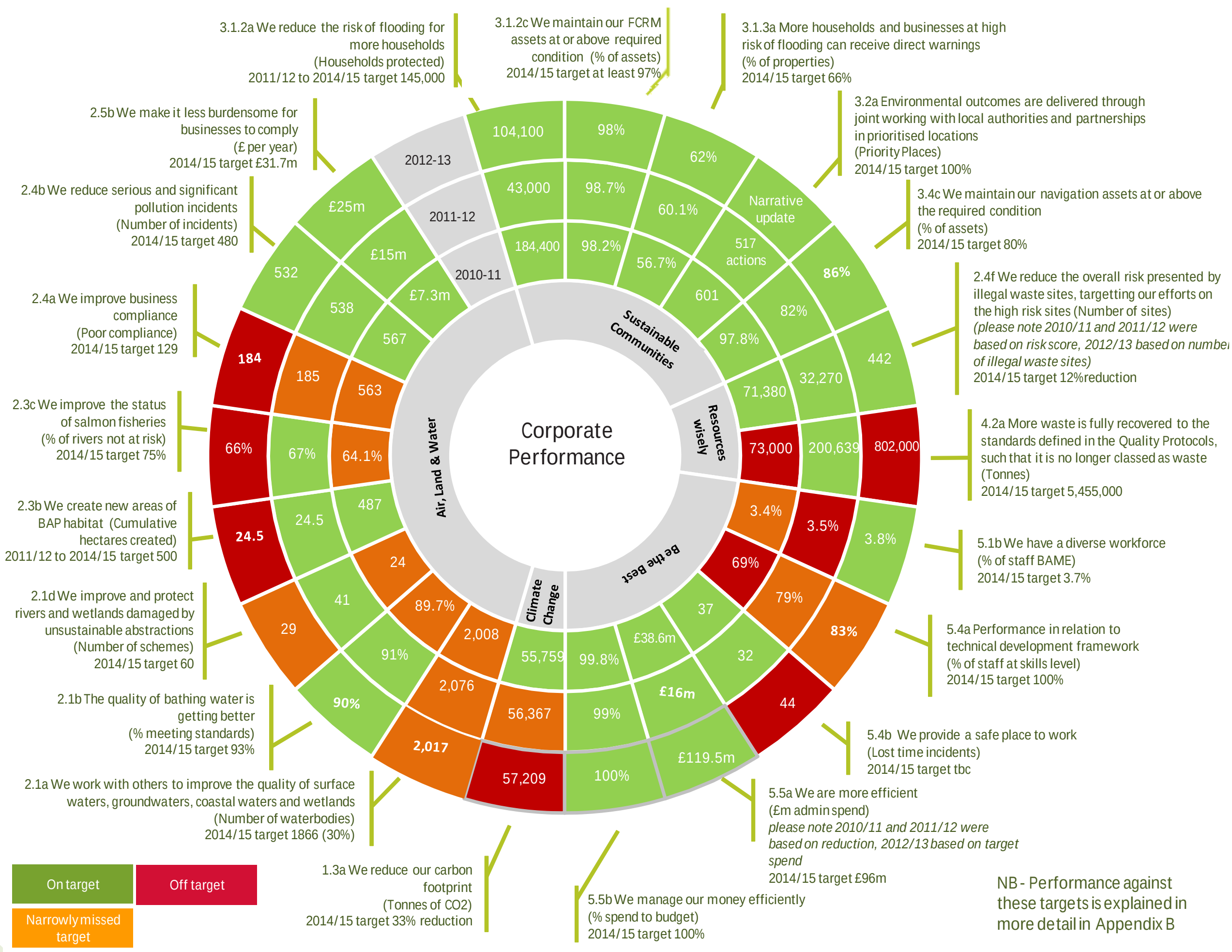
Going concern

The Statement of Financial Position at 31 March 2013 shows positive taxpayers' equity of £2.0 billion (in 2011-2012 this was £2.1 billion). 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 of these are approved annually by Parliament. We have already received approval for funding for 2013-2014. We believe that we will receive approval for future funding. The level of future funding is subject to review, but we do not expect this review to affect the basis of the preparation of these financial statements. Therefore it is appropriate to adopt a going concern basis to prepare these financial statements.

Key performance indicators

Our corporate scorecard measures and reports how we have implemented our corporate strategy. An overview of each target and the performance in 2012-2013 is outlined in Appendix B. Progress against the corporate scorecard is reported to the Environment Agency's Board on at least a quarterly basis. The scorecard is also available to the public on our website each quarter.

A visual summary is presented below of our performance over this financial year against our targets, together with comparative performance from 2010-2011 and 2011-2012.



Auditor

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

As far as the Accounting Officer is aware, there is no relevant audit information which the Environment Agency's auditor is unaware of. 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.

Paul Leinster

Accounting Officer

24 June 2013

Governance statement

1. Introduction

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. This is in accordance with the responsibilities assigned in the HM Treasury publication *Managing Public Money*.

The Environment Agency governance statement sets out how the Accounting Officer receives assurance on managing risks when 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 we address control issues.

2. Governance of the Environment Agency

The Environment Agency is a non-departmental public body (NDPB) sponsored by the Department for Environment, Food and Rural Affairs (Defra) and, until 1 April 2013, in Wales by Welsh Government.

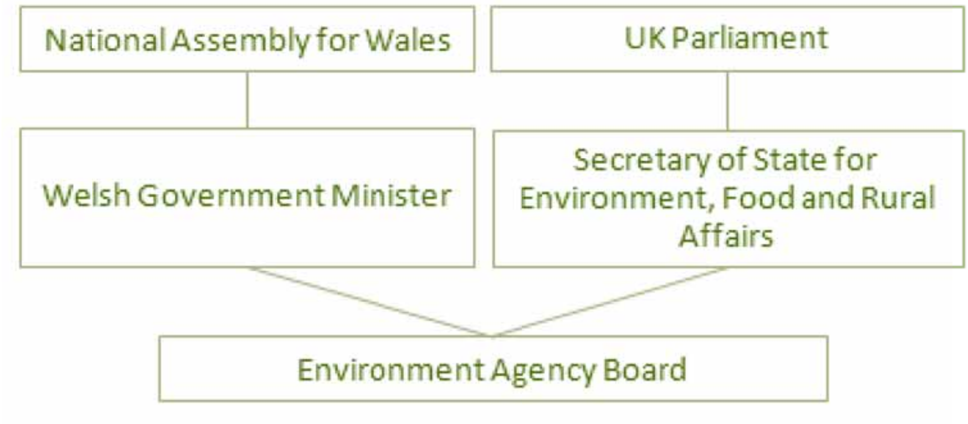
The Environment Agency is led by a non-executive Board appointed by the Secretary of State for the Environment, Food and Rural Affairs and Welsh Ministers. Ministers expect the Board to ensure that the Environment Agency fulfils its statutory duties in the light of the guidance and directions which they provide, and to ensure that the organisation operates with propriety, regularity, economy, efficiency and effectiveness. The Chief Executive sits on the Board and there are currently ten independent Board members including the Chairman.

The Environment Agency's performance is discussed with Defra at regular meetings of officials, including meetings with Defra's Accounting Officer. The Environment Agency's Chairman and Chief Executive meet regularly with the Secretary of State for Environment, Food and Rural Affairs and other Defra Ministers. They also had regular conversations with the Minister for the Environment and Sustainable Development for the Welsh Government, prior to the separation of activities in Wales from the Environment Agency on 1 April 2013. Performance is reviewed across all areas of the Environment Agency's activities, including work on supporting growth, the Triennial Review, the Red Tape Challenge, the move to more open public data and our approach to joint working with Natural England and the Forestry Commission. There have been no ministerial directions within the accounting period. This year the topics that have been discussed during regular ministerial reviews have also included the role and responsibilities of the Environment Agency, water resource management, flood risk management and maintenance, incident response and the ongoing problem of invasive species.

The Chief Executive is accountable to the independent Board of the Environment Agency, Parliament and until 31 March 2013 to Welsh Government. Powers are delegated through 'Dear Accounting Officer' letters, the Financial Memorandum and Management Statement that assign delegated powers to the Environment Agency from Defra and, until 31March 2013, Welsh Government.

Board members disclose on an annual basis their memberships of other organisations' Boards and considerations of any conflicts of interest. They also have to declare before every meeting any conflicts of interest with the proposed agenda. The details of any related party transactions are shown in note 22 to the financial statements. In addition, all managers and staff complete an annual disclosure of potential conflicts of interest.

Figure 2a. Simplified diagram of accountability during 2012-2013.



On 1 April 2013, all activities of the Environment Agency that related to Wales were transferred to Natural Resources Wales. From that date the Environment Agency only has accountability to the UK Parliament.

The Board has established committees for key business areas.

Audit and Risk Committee

The Audit and Risk Committee:

- oversees matters of corporate governance, risk and internal control
- reviews our Annual Report and Accounts
- reviews the Annual Report and Accounts for our pension funds
- advises on the scale and programme of work for our Internal Audit team
- considers recommendations from the work of both internal and external auditors

Major areas of work during the year included:

- issues arising from the separation of activities between England and Wales and the legal transfer of responsibilities to Natural Resources Wales
- the performance of CapGemini in managing the IT service
- value for money reviews and audit work undertaken by the National Audit Office
- pensions issues arising from the work of the Pensions Committee

Pensions Committee

The Pensions Committee oversees how we administer two pension funds under Local Government rules:

- an Active Fund for members who are either current employees, deferred (ex-employees) or pensioners
- a closed fund for members who are either deferred (ex-employees) or pensioners of the former water authorities and associated predecessor bodies

Significant issues for discussion this year included the impact of the establishment of Natural Resources Wales, potential changes to the Local Government Pension Scheme terms and conditions and how the pension fund investments are performing during difficult economic times.

Flood and Coastal Risk Management (FCRM) Finance Committee

The FCRM Finance Committee oversees how we allocate grant-in-aid to the Flood and Coastal Committees in England, for flood risk management capital and revenue activities. It also oversaw the allocations to the Flood Risk Management Wales Committee during 2012-2013. The committee oversees spend and performance related to this funding during the year.

The severity and frequency of floods during the year put significant pressure on revenue budgets and made it challenging to progress work on capital schemes. Extra revenue budget was made available to enable us to cope with this additional pressure.

We were allocated an additional £120 million of capital funding across the next two financial years for flood and coastal risk management. The committee is ensuring that this money is spent efficiently and effectively to protect as many additional households as possible and promote sustainable growth opportunities.

Remuneration Committee

The role and work of the Remuneration Committee is explained in the remuneration report section.

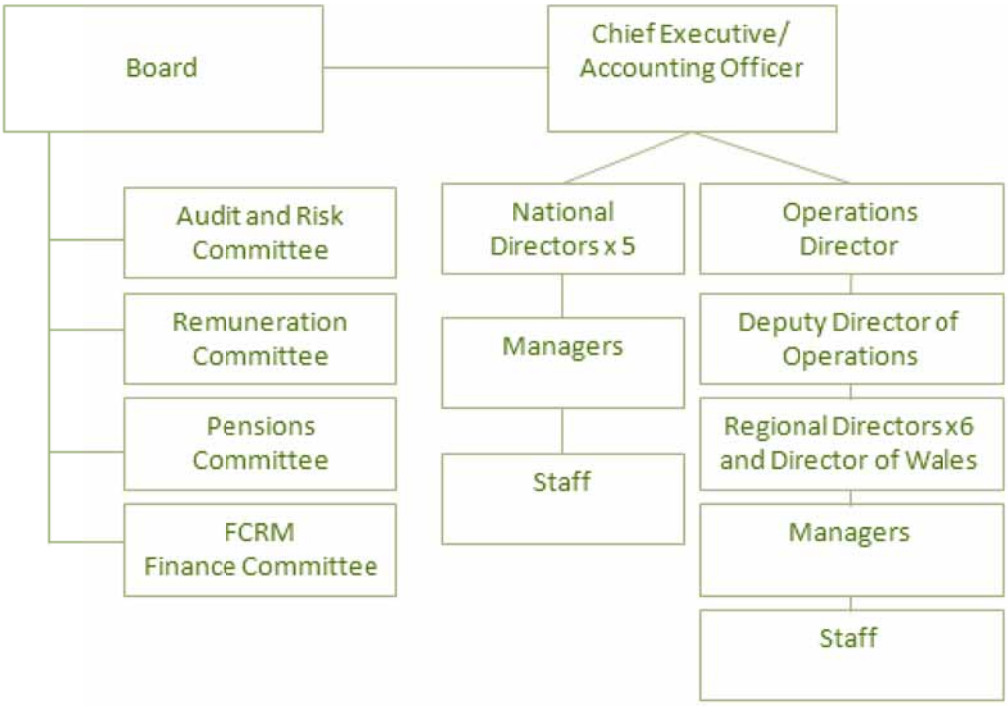
The chair of each of these committees gives an update at Board meetings and issues are raised from sub-committees to the Board as necessary. The remuneration report lists the members of each committee. Attendance at the meetings by Board members is high and proportionate to their roles. This is set out in Appendix E.

The Chief Executive is the Accounting Officer and has a team of national directors that provide executive leadership and direction to the organisation. Each national director covers one of the areas below

- Flood and Coastal Risk Management
- Environment and Business
- Evidence
- Operations
- Resources and Legal
- Finance

The Chief Executive and Directors engage regularly with the Board and are responsible to them for all aspects of performance and risk management. The Directors are responsible for establishing an effective system of internal control within the organisation. Additional assurance is obtained through established programmes of external certification including Investors in People and International Standards Organisation certification in environmental and quality management.

Figure 2b. Delegation of decision-making arrangements within the Environment Agency during 2012-2013.



In addition to the formal committees, there are sub-groups that oversee our work and finances for carrying out our environmental protection responsibilities. Sub-groups oversee the work in areas such as preventing pollution of land and water, regulating businesses, health and safety and administering the UK climate change schemes.

The Deputy Director of Operations has responsibility for national teams that undertake operational activities on behalf of the Environment Agency, including the national capital programme management service (building and maintaining flood defence and other assets), national permitting centre, national customer contact centre and other departments. In total, 2,000 staff work in National Operations teams.

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 approved the corporate plan for 2011-2015. Operational delivery of our corporate plan is through our six regions and Wales and the National Operations department.

Managers across the organisation take the lead role in providing assurance, which is supported by internal and external audit. Good data governance is fundamental to any organisation, but especially to a data-rich organisation like the Environment Agency where our decisions are evidence-based. Data informs everything we do and being able to trust information means we can be confident in our decisions and advice. This makes it easier to engage others in the work we do.

Good data governance means being clear about who is accountable and responsible through data custodianship. Senior managers take a lead role by being aware of what data we hold and what the quality is. This applies for all data, both business (including financial) and environmental. Data integrity is a corporate risk for us and we are working to mitigate this by improving how we manage our data. As an organisation, we have made good progress in understanding how data is used, where the risks lie and, most importantly, on improving the quality of the data. Making a step change in data quality will take time. Our aspiration is to put data integrity at the heart of our culture and understand the confidence we have in all our data products. We use data quality action plans to measure, assess, target improvements and monitor the data quality.

Failure to manage our models effectively could lead to adverse effects on communities, reputational damage and financial loss. We use a large number of models to forecast and simulate what may happen under different conditions and scenarios. Examples of these models include the National Flood Risk Assessment as well as tools to assess the ecological condition of rivers. Our Framework for Model Management meets HM Treasury requirements for assuring the quality and fitness for purpose of our models. Senior managers are accountable and responsible for our models and the framework has been developed to allow us to make confident decisions. The three key steps in the assurance process are ensuring the model can stand up to scrutiny, ensuring key decision makers know how to interpret the outputs and understand their limitations and ensuring the modelling is repeatable and resilient to change.

The Environment Agency also sits on a number of cross government department groups set up to share best practice. Each group meets on at least a quarterly basis. The groups are:

- Defra network of Heads of Internal Audit
- HM Treasury sponsored Risk Improvement Group
- HM Treasury Financial Reporting Advisory Board
- Continuous Improvement Strategy and Planning Group

3. Review of the effectiveness of the Directors' team and the Board

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 service 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 on a monthly basis is also provided to Defra.

In April 2013, 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 and Board members. 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 2012, the Environment Agency Board also undertook an evaluation exercise and Directors, Regional Directors, Committee Chairs and the Secretariat participated. As a result the Board reviewed the areas where it can best add value to the Environment Agency and committed to having more engagement with the Executive Directors.

The Audit and Risk Committee undertake an annual self-assessment. The 2012 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. The Chair and members of the committee had recently changed and the committee agreed to take this opportunity to consider what future business is considered and how information is shared, both internally and externally, over the coming year.

The existing system of internal control has been developed and improved over many years, including the year ended 31 March 2013 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 for improvement. This process, in parallel with our corporate risk assessment, is designed to manage risks effectively within the organisation.

During 2012-2013, we continued with work to improve our assurance framework, led by the Head of Internal Audit. We have developed an organisation-wide stewardship reporting approach in conjunction with lead managers in cross-cutting risk areas including governance, strategy, business planning, security, delivery, procurement and performance monitoring.

The organisation complies with the good practice requirements of the Corporate Governance Code which applies to Arms Length Bodies.

4. 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 responsibility for each of the risks. 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. Risks are elevated to Defra through a quarterly supervisory report, which sets out the top corporate risks.

During the year, the Corporate Risk and Insurance Manager has worked with regional and head office management teams to help them embed the single approach to risk management in relation to their major business risks. Risk registers are in place, including current and target scores reflecting risk appetite and informing mitigation measures. The Corporate Risk Portfolio contains ten corporate risks which are informed by an annual review of risk across the organisation. Each corporate risk is actively managed by a sponsoring director. Other risks are managed through individual directorate or regional management teams. The corporate list is reviewed quarterly and new items are escalated as they arise. Active management of risks is supported by local risk leads, 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 if appropriate result in an addition to the corporate risk register. The Directors' team formally reassess the corporate risk register quarterly.

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 Environment Agency 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 with the Countryside Council for Wales and Forestry Commission in Wales to form Natural Resources Wales. We had two project teams (one in England and one in Wales) and a high-level project board which oversaw the overall programme.
- 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.

Risks to achievement of performance targets arising 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 quarterly at Directors' team meetings and progress is noted by exception. The annual analysis of risk registers forms the basis of an organisation-wide risk opinion which is used by the Directors' team to review the corporate risks.

An internal audit review of risk maturity in 2012-2013 showed that risk management is well embedded in business practises and the Environment Agency's culture supports effective risk management. We will build on this in the coming year to meet our Directors' increased ambitions across the maturity categories.

5. 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, 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 performed 35 reviews between 1 April 2012 and 31 March 2013. Based on the evidence from these reviews, the team provided an overall reasonable assurance rating on the adequacy and effectiveness of the Environment Agency's arrangements for corporate governance, risk management and internal control. There were no significant weaknesses in controls that threatened the achievement of the Environment Agency's objectives. Where the team identified areas for improvement, managers have committed to follow-up actions.

In addition to those made by Internal Audit, 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 by the National Audit Office

The Accounting Officer has been advised on the system of Internal Control by the Audit and Risk Committee, on the basis of the internal and external reports it has scrutinised during the year. In-depth reviews into areas of concern, and progress in addressing areas for improvement and delivering continuous improvement of systems, are discussed at the committee meetings.

Specific areas of focus during 2012-2013 are set out in section 6. Management actions have been put into place across the business to mitigate these risks and ensure they are managed appropriately.

6. Key risks and actions

The key areas below 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 assessing their systems and processes. This includes reviews by the corporate security team, finance, procurement and human resources teams, fraud steering group, and risk management and corporate performance reporting staff.

The areas for improvement are set out under the categories we use in our stewardship reports: governance, strategy and policy, business planning, security, delivery and performance monitoring.

6.1 Governance

Fraud and whistle-blowing

A summary of potential fraud cases and all whistle-blowing investigations is reported to senior managers and the Audit and Risk Committee on a regular basis. We have commissioned an independent external review of our vulnerability to fraud by KPMG. Findings from this report have been used to produce a prioritised work plan for the coming year. We have reviewed and improved our whistle-blowing procedure to make it more accessible to staff and external parties.

6.2 Strategy and policy

Natural Resources Wales

The separation of Environment Agency activities between England and Wales and the legal transfer of responsibilities to Natural Resources Wales have been managed by a central team. This ensured a consistent and comprehensive understanding in the management of the risks. The existing governance structure has remained in place post-vesting on 1 April 2013, to ensure that risks are being properly managed. After this transition period a Partnership Board with membership from both the Environment Agency and Natural Resources Wales will provide ongoing governance.

We will continue to work closely with Natural Resources Wales, particularly in relation to managing the catchments that straddle the border and providing agreed interim and ongoing services from the Environment Agency. The guiding principle for joint working is to 'plan together, deliver in country'. A Memorandum of Understanding has been jointly developed and signed by the respective Chief Executives. Arrangements for service provision are set out in a Shared Services Agreement signed by the Secretary of State.

Shared services

Our current finance and human resources computing system will need to be upgraded by 31 March 2015, when it will cease to be supported by Oracle. The Cabinet Office is progressing work on a single Oracle system for finance, procurement and human resources that can be shared across government. Environment Agency staff are working with the Cabinet Office to understand whether this possible solution is the right one for the Environment Agency.

We are working closely with the Cabinet Office to consider whether we could benefit from a move to a shared service centre for finance, procurement and human resource transaction processing activities. Other government departments including Defra are also considering the possibility of working together to increase value for money through economies of scale. We will not compromise on the quality of service that we receive from our current in-house services. This will be a significant programme of work for us during the 2013-2014 financial year.

6.3 Business planning

Information systems improvements

The transformation of our information and communications technology (ICT) estate to supported software and hardware platforms continued throughout 2012-2013 and is now substantially complete. 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.

6.4 Security

Security issues

We are compliant with each of the requirements in the government's Security Policy Framework. During the year, we completed the work on closed-circuit television data capture and we have a fully funded plan to complete the work on risks of data losses when working from a private computer or laptop at home. This is currently being addressed through the adoption of new connection technology and user education. We continue to make good progress on both information technology and physical security measures. The highest risks we continue to carry are:

- managing sensitive information which still needs to be transferred into a secure place on our network
- avoiding Data Protection Act non-compliances associated with the formation of Natural Resources Wales
- auditing against inappropriate access to folders

We are addressing all these major concerns.

One incident was reported to the Information Commissioner's Office (ICO) in the financial year relating to a bundle of un-redacted legal documents that were sent to the defendant and his solicitors in a civil case we were bringing for waste offences. The documents were recovered, affected parties apologised to and a review was undertaken by our legal team on best practices. Following our self-reporting and the remedial action taken, the ICO took no action against us.

6.5 Delivery

Health, safety and wellbeing (HSW)

In line with the commitments of our policy statement, we have a zero risk appetite on health, safety and wellbeing issues. We understand our HSW risks through a wide variety of sources. The introduction of the concept of Safety Critical Incidents (SCIs) is giving us new intelligence on the kind of incidents that could have resulted in serious injury or ill health. In addition to taking an open approach to reviewing each SCI, we are consciously looking across similar incidents and near misses to identify any recurring themes. We are using our formal audit programme to monitor the management of key risks and to follow up previously identified areas for improvement. As part of a longer-term commitment to testing and verifying our arrangements we have commissioned an external audit of our health and safety management system. We also have regular Board group meetings.

Programme administration and project management

Significant work has been undertaken by the Corporate Portfolio group 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 value for money, the identification of appropriate benefits and managing state aid requirements. Some large value projects were rejected during the year, due to concerns about these issues.

We have employed external consultants to undertake a maturity review of our portfolio, programme and project management procedures and controls. We will use the issues identified by this review to help us to improve our controls for the future.

In line with government policy we are using external bodies more to deliver aspects of our work and have therefore had to increase our understanding and controls to ensure we are not giving state aid.

Procurement and contract management

We identified a need for training in procurement awareness and financial approval procedures during our recent work on developing the stewardship reporting process. To address this, we will train key clients and new project managers in contract management. We will also identify the reasons for retrospective orders and identify how best to address them to prevent further occurrences.

6.6 Performance monitoring

Financial management

There was some concern that our accounting for charge income might not be in line with the Financial Reporting Manual. It was recommended that we agree the accounting policy with HM Treasury. HM Treasury reviewed our policy and agreed a slight amendment that has been built into a revised accounting policy that is now used to account for charges income.

We have set up a working group to review our accounting for fixed assets from acquisition through to disposal. This group has identified a number of areas where improvements can be made and projects are progressing to build in the necessary controls. In particular, we have reconciled a number of business asset registers to the fixed asset register and other such reconciliations will be performed during the next financial year.

The estates team has been managing a project established to reconcile the large number of Environment Agency land and property assets recorded with the Land Registry and our property management system. The final year of the project will see all records reconciled, apart from those where our interest is in dispute. Disputed interests can be time-consuming and costly to resolve and will be resolved in a priority-based way. To date around 80% of records have been successfully reconciled and resolved.

The finance compliance team has carried out reviews against policies across the whole organisation, particularly examining journals, accruals and other accounting judgements. It has provided training and support to finance and business staff where concerns have been identified to improve the quality of explanations for these adjustments.

Floods and maintenance of assets

As noted in the management commentary, currently 98% of our flood defence assets are at or above target condition in high consequence systems, which is an increase of 2% since 2009. We have been consistently above the corporate target of 97% for each of the last three years. This achievement has been all the greater due to the number of flood incidents nationwide throughout 2012-2013 which disrupted planned maintenance activities and work programmes.

We have recently undertaken a review of our maintenance activities to ensure our revenue spend is focused on the areas of greatest potential flood risk benefits. This is particularly important in light of planned reductions to overall revenue funding in the remaining years of the current spending review period.

We have a number of initiatives in progress to improve the processes and information technology tools available for asset management, which include the new Asset Information Management System (AIMS). AIMS brings improved asset data, better Ordnance Survey mapping and a much improved user experience. This work informs the wider fleet programme to ensure efficient procurement and use of Environment Agency-owned plant and equipment. These initiatives will improve the efficiency of flood risk activities.

7. 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. Since April 2012 we have also provided funding to civil society groups and charities for catchment restoration work. The Environment Agency has powers to provide grants for flood and coastal erosion purposes. Other grants are administered on behalf of the Secretary of State with Section 31 of the Local Government Act 2003 agreements in place.

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 grants 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

24 June 2013

Remuneration report

The Remuneration Committee

The Remuneration Committee comprises four non-executive Board members and is chaired by the Chairman of the Environment Agency. Its terms of reference were updated in May 2012 and were derived from the Greenbury Code of Best Practice on Directors' Remuneration. These were 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 Department of the Environment, Food and Rural Affairs.
2. The Remuneration Committee will consider and advise the Environment Agency Board generally on matters relating to Human Resources.
3. The Remuneration Committee will:
    a. consider and approve the overall remuneration strategy of the Environment Agency from the employees' perspective including the full benefits package
    b. consider and approve periodic pay reviews for Environment Agency employees
    c. consider and approve any significant policy issues involving terms and conditions other than pay
    d. 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
    e. set and review all aspects of the objectives and remuneration of the Chief Executive
    f. review the framework for succession planning for key posts
    g. receive an annual statement of expenses incurred by Board members
    h. 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 three times during the year ended 31 March 2013. It agreed the Chief Executive's performance rating for 2011-2012 and objectives for 2012-2013.

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. Up to March 2013, one Board member was 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.

Remuneration of Executive Directors

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
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

The notice period for Directors is three months.

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	Subcommittee member	Date of appointment or re-appointment	Period of appointment (yrs)	Time commitment (days per month)	Remuneration in 2012-2013 (£)	Remuneration in 2011-2012 (£)
The Rt Hon Lord Smith of Finsbury (Chairman)	RC, FDFC	14 Jul 2011	3	3 per week	97,365	102,139
Councillor Robert Light (Deputy Chair) (i)	RC, PC	01 Jul 2012	3	5	21,002	16,802
Dr Andrew Brown (ii)		10 Oct 2009	3	5	13,222	25,200
Mr Peter Ainsworth	FDFC	01 Sep 2012	3	4	9,801	–
Mr James Brathwaite CBE		01 Jul 2008	3	4.5	–	4,725
Ms Karen Burrows	ARC	01 Sep 2012	3	5	12,251	–
Dr Clive Elphick	ARC, PC	01 Aug 2011	3	6	22,402	14,001
Dr Ruth Hall CBE (iii)		30 Jun 2011	1.75	3	6,611	15,750
Dr Madeleine Havard (iv)	ARC, FDFC	4 Oct 2010	3	5	21,001	21,001
Ms Julie Hill (v)		01 Jul 2009	3	5	5,601	21,002
Ms Emma Howard Boyd (vi)	ARC, PC, FDFC	01 Jul 2012	3	1 per week	18,202	18,201
Mr Richard Leafe	ARC	01 Sep 2012	3	4	9,801	–
Mr John Varley (vii)	PC, RC	01 Oct 2012	3	5	19,951	16,802
Mr Jeremy Walker (viii)	RC, FDFC	22 Jun 2012	3	6	25,203	25,203
Lady Suzanne Warner (ix)		18 Sep 2009	3	6.5	12,647	27,300
Lord Larry Whitty (x)		18 Sep 2009	3	4.5	8,756	18,902
Total					**303,816**	**327,028**

ARC – Member of Audit and Risk Committee at 31 March 2013
RC – Member of Remuneration Committee at 31 March 2013
PC – Member of Pensions Committee at 31 March 2013
FDFC – Member of Flood Defence Finance Committee at 31 March 2013

Details of the attendance of Board members are provided in Appendix E.

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.

Notes:

i. Councillor Robert Light was re-appointed to the Board until 30 June 2015. He became Deputy Chair on 10 October 2012.

ii. Dr Andrew Brown (Deputy Chair) retired on 9 October 2012. His full year equivalent pay was £25,201

iii. Dr Ruth Hall resigned on 9 October 2012. Her full year equivalent pay was £12,600

iv. Dr Madeleine Havard resigned on 31 March 2013.

v. Ms Julie Hill retired on 30 June 2012. Her full year equivalent pay was £21,002

vi. Ms Emma Howard Boyd was re-appointed to the Board until 30 June 2015.

vii. Mr John Varley was re-appointed to the Board until 30 September 2015.

viii. Mr Jeremy Walker was re-appointed to the Board until 21 June 2015.

ix. Lady Suzanne Warner retired on 17 September 2012. Her full year equivalent pay was £27,301

x. Lord Larry Whitty retired on 17 September 2012. His full year equivalent pay was £18,902

Executive Directors’ emoluments (audited)

The following table provides details of total emoluments and benefits in kind of those who have served as Executive Directors in the financial year or prior year:

Executive Director	Emoluments	Benefits in kind	Emoluments	Benefits in kind
	2012-2013	2012-2013	2011-2012	2011-2012
	(£5,000 range)	(£)	(£5,000 range)	(£)
Dr Paul Leinster	190 – 195	2,300	190 – 195	1,400
Mr David Jordan	160 – 165	2,200	160 – 165	1,400
Ms Miranda Kavanagh	135 – 140	3,800	135 – 140	3,500
Mr Graham Ledward (i)	20 – 25	240	150 – 155	3,200
Dr Mark McLaughlin	140 – 145	1,800	140 – 145	1,400
Mr Ed Mitchell	130 – 135	–	125 – 130	–
Mr Jonathan Robinson	130 – 135	–	120 – 125	–
Mr Robert Runcie (ii)	–	–	0 – 5	–
Mr David Rooke	130 – 135	3,700	50 – 55	3,500

NB – Total emoluments include gross salaries. On a voluntary basis by Directors, no payments were received for performance related pay for the 2011-2012 and 2012-2013 financial years.

Notes:

i. Mr Graham Ledward 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. His full year equivalent salary would have been between £150,000 and £155,000

ii. 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

The following table provides details of the pensions of those who served as Executive Directors during this or the previous financial year:

Executive Director	Accrued pension at 31 March 2013	Increase / (decrease) in accrued pension during year	Accrued lump sum at 31 March 2013	Increase / (decrease) in lump sum during year	CETV at 31 March 2012	CETV at 31 March 2013	Real increase / (decrease) in CETV
	(£5,000 range)	(£2,500 range)	(£5,000 range)	(£2,500 range)	(£'000)	(£'000)	(£'000)
Dr Paul Leinster (i)	65-70	2.5-5.0	125-130	(0.0-2.5)	1,354	1,466	34
Mr David Jordan (ii)	–	–	–	–	1,462	–	–
Ms Miranda Kavanagh	5-10	0.0-2.5	–	–	97	125	13
Mr Graham Ledward (iii)	–	–	–	–	334	–	–
Dr Mark McLaughlin	75-80	(5.0-7.5)	–	–	992	962	(90)
Mr Ed Mitchell	20-25	2.5-5.0	35-40	(0.0-2.5)	235	276	19
Mr Jonathan Robinson	45-50	0.0-2.5	–	–	510	537	(8)
Mr Robert Runcie	–	–	–	–	1,016	–	–
Mr David Rooke	55-60	5.0-7.5	140-145	10.0-12.5	1,052	1,245	129

CETV – cash equivalent transfer value

Notes:

i. 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

ii. David Jordan opted out of the pension scheme on 31 March 2012

iii. Graham Ledward opted out of the pension scheme on 31 March 2012

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 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 and benefits in kind. It does not include severance payments, employer pension contributions and the CETV of pensions.

The banded remuneration of the highest paid employee in the financial year 2012-2013 was £190,000-£195,000 (2011-2012, £190,000-£195,000). This was 6.5 times (2011-2012, 6.8 times) the median remuneration of the workforce, which was £29,547 (2011-2012, £28,276). For the reporting periods 2011-2012 and 2012-2013, the highest paid employee was the Chief Executive and Accounting Officer.

Paul Leinster

Accounting Officer

24 June 2013

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
- 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.

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 2013 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 2013 and of the net expenditure for the year then ended
- 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 directions made under the Environment Act 1995
- the information given in the foreword, management commentary and sustainability 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
- the financial statements and the part of the remuneration report to be audited are not in agreement with the accounting records and returns
- I have not received all of the information and explanations I require for my audit
- 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

27 June 2013

Statement of Comprehensive Net Expenditure

For the year ended March 2013		2012-2013	2011-2012
	Note	£'m	£'m
Expenditure			
Staff costs	3	395.3	365.4
IAS 19 Pension charge	20.4	54.2	54.5
Capital works expensed in year	4	219.0	222.8
Depreciation and amortisation	7,8	107.3	103.3
Other expenditure	5	426.4	404.9
Impairment of non-current assets	9	5.2	15.7
		1,207.4	**1,166.6**
Income			
Income from activities	6	(422.1)	(402.3)
Capital grants and contributions	6	(12.8)	(14.9)
		(434.9)	**(417.2)**
Net expenditure	2	**772.5**	**749.4**
Loss on disposal of assets		0.2	5.2
Interest receivable		–	(0.2)
Financing expenditure or (income) on pension scheme assets and liabilities	20.4	1.8	(12.2)
Net expenditure after financing expenditure or (income)		**774.5**	**742.2**
Other comprehensive expenditure			
Actuarial loss on pension scheme assets and obligations	20.6	141.4	124.7
Net gain on revaluation of property, plant and equipment	7	(65.1)	(85.5)
Net gain on revaluation of intangible assets	8	(4.1)	(2.0)
Total comprehensive net expenditure for the year		**846.7**	**779.4**

All of the Environment Agency's income and expenditure for the year was derived from continuing activities, apart from the activities relating to the Environment Agency in Wales disclosed in note 25.2.

The notes on pages 56 to 101 form part of these accounts.

Statement of Financial Position

At March 2013		31 March 2013		31 March 2012 (restated)		1 April 2011 (restated)	
	Note	£'m	£'m	£'m	£'m	£'m	£'m
Non-current assets:							
Tangible assets	7	2,472.9		2,430.0		2,408.8	
Intangible assets	8	145.9		137.3		98.5	
Total non-current assets			**2,618.8**		**2,567.3**		**2,507.3**
Current assets:							
Assets held for sale	10	7.7		0.9		4.8	
Trade & other receivables	11	101.2		99.1		98.6	
Cash & cash equivalents	12	95.8		158.7		101.0	
Total current assets			**204.7**		**258.7**		**204.4**
Total assets			**2,823.5**		**2,826.0**		**2,711.7**
Current liabilities:							
Trade & other payables	13	(271.3)		(302.8)		(259.0)	
Total current liabilities			**(271.3)**		**(302.8)**		**(259.0)**
Total assets less current liabilities			**2,552.2**		**2,523.2**		**2,452.7**
Non-current liabilities:							
Trade & other payables	13	(3.0)		(3.7)		(3.6)	
Provisions	14	(13.5)		(12.9)		(15.0)	
Deferred capital grants	15	(0.5)		(0.6)		(2.3)	
Financial liabilities	21	(181.5)		(181.5)		(181.5)	
Pension liabilities	20.3	(377.9)		(225.0)		(120.7)	
Total non-current liabilities			**(576.4)**		**(423.7)**		**(323.1)**
Assets less liabilities			**1,975.8**		**2,099.5**		**2,129.6**
Taxpayers' equity							
Revaluation reserve	SCTE	1,593.4		1,579.2		1,546.1	
Capital reserve	SCTE	–		–		895.5	
Pensions reserve	SCTE	(377.9)		(225.0)		(120.7)	
General reserve	SCTE	760.3		745.3		(191.3)	
			1,975.8		**2,099.5**		**2,129.6**

The notes on pages 56 to 101 form part of these accounts. The financial statements on pages 51 to 55 were approved by the Board on 24 June 2013 and signed on its behalf by:

Paul Leinster
Accounting Officer
24 June 2013

Statement of Cash Flows

For the year ended March 2013		2012-2013		2011-2012	
	Note	£'m	£'m	£'m	£'m
Cash flows from operating activities					
Net expenditure after financing expenditure / (income)	SCNE	(774.5)		(742.2)	
Depreciation and amortisation	7,8	107.3		103.3	
Impairment of non-current assets	9	5.2		15.7	
Amortisation of grants received	15	(0.6)		(2.7)	
Loss on disposal of assets	SCNE	0.2		5.2	
(Increase) in trade and other receivables	11	(2.1)		(0.5)	
Increase in trade and other payables	13	27.3		31.2	
Increase or (decrease) in provisions	14	0.6		(2.1)	
Transfer from or (to) pensions reserve	16	11.5		(20.4)	
Net cash (outflow) from operating activities			**(625.1)**		**(612.5)**
Cash flows from investing activities					
Purchase of property, plant and equipment	7	(77.4)		(70.8)	
Purchase of intangible assets	8	(27.7)		(24.5)	
Proceeds of disposal of property, plant and equipment		3.3		2.3	
Capital grants and contributions for the purchase of property, plant and equipment	15	0.5		1.0	
Net cash (outflow) from investing activities			**(101.3)**		**(92.0)**
Cash flows from financing activities					
Grant from sponsoring body	SCTE	723.0		749.5	
Net cash inflow from financing activities			**723.0**		**749.5**
Net (decrease) or increase in cash and cash equivalents in the period			**(3.4)**		**45.0**
Cash and cash equivalents at the beginning of the period	12		**99.2**		**54.2**
Cash and cash equivalents at the end of the period	**12**		**95.8**		**99.2**

The notes on pages 56 to 101 form part of these accounts.

Statement of Changes in Taxpayers' Equity

For the year ended March 2013	Note	Revaluation reserve	General reserve (restated)	Pension reserve	Capital reserve	Total
		£'m	£'m	£'m	£'m	£'m
Balance at 1 April 2011		**1,546.1**	**(191.3)**	**(120.7)**	**895.5**	**2,129.6**
Net gain on revaluation of property, plant and equipment	7.2	85.5	–	–	–	**85.5**
Net gain on revaluation of intangible assets	8.2	2.0	–	–	–	**2.0**
Actuarial loss on pension scheme assets and obligations	20.6	–	–	(124.7)	–	**(124.7)**
Release of reserves		(0.2)		–	–	**(0.2)**
Transfers between reserves	16.2	(54.2)	929.3	20.4	(895.5)	**–**
Net expenditure	SCNE	–	(742.2)		–	**(742.2)**
Total recognised income and expense		**1,579.2**	**(4.2)**	**(225.0)**	**–**	**1,350.0**
Grant from sponsoring bodies	22.1.1	–	749.5	–	–	**749.5**
Balance at 1 April 2012		**1,579.2**	**745.3**	**(225.0)**	**–**	**2,099.5**
Net gain on revaluation of property, plant and equipment	7.1	65.1	–	–	–	**65.1**
Net gain on revaluation of intangible assets	8.1	4.1	–		–	**4.1**
Actuarial loss on pension scheme assets and obligations	20.6	–	–	(141.4)	–	**(141.4)**
Transfers between reserves	16.1	(55.0)	66.5	(11.5)	–	**–**
Net expenditure	SCNE	–	(774.5)	–	–	**(774.5)**
Total recognised income and expense		**1,593.4**	**37.3**	**(377.9)**	–	**1,252.8**
Grant from sponsoring bodies	22.1.1	–	723.0	–	–	**723.0**
Balance at 31 March 2013		**1,593.4**	**760.3**	**(377.9)**	**–**	**1,975.8**

The notes on pages 56 to 101 form part of these accounts.

Purpose of the reserves

Revaluation reserve – reflects the cumulative balance of unrealised revaluation and indexation of non-current assets.

General reserve – reflects the cumulative position of net expenditure and funding from sponsor bodies of the Environment Agency, together with the historical cost of the non-current assets transferred on the creation of the Environment Agency.

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

Capital reserve – This is no longer in use and was transferred to the general reserve in 2011-2012.

Abbreviations

SCNE – Statement of Comprehensive Net Expenditure

SFP – Statement of Financial Position

SCF – Statement of Cash Flows

SCTE – Statement of changes in Taxpayers' Equity

1. Notes to the financial statements

1.1. Statement of accounting policies

The financial statements have been prepared in accordance with the 2012-2013 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.

Details of significant judgments that management have made in the process of applying the Environment Agency's accounting policies are provided below. Where appropriate, the relevant notes to the accounts provide further detail on estimation techniques. Actual results may differ from these estimates.

- Estimates for provisions (notes 1.13 and 14) are informed by the outcome of previous and relevant events such as legal cases and the extrapolation of average costs required to settle resulting liabilities.
- Pension provision liabilities (notes 1.20.1 and 20) are one of the most significant areas of judgement and therefore the specific factors behind the judgements are assessed by independent and qualified 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.
- Accrued and deferred incomes (notes 1.9 and 6.1) have been included for fees and charges balances where there is a surplus or deficit. These have been included due to the fact that charging schemes are required to break even over a reasonable period of time.
- Other specific areas of judgement include the determination of useful economic lives of assets that form the basis of periods over which property, plant and equipment is depreciated (notes 1.5.1 and 7) and intangible assets are amortised (notes 1.6 and 8). In addition judgment is used in the determination of the impairment of property, plant and equipment and intangible assets (note 1.8) and the categorisation of assets as tangible or capital works expensed in year (notes 1.4 and 4).

1.2. Accounting convention

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

1.3. Costs and grants

1.3.1. Income and expenditure

Income disclosed in the accounts represents revenue, 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 impact on the environment, whether air, water or land, is derived from a combination of fees and charges for applications and ongoing subsistence. 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 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.

1.3.2. Grant-in-aid

Grant-in-aid receipts, whether revenue or capital in nature, 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.

1.3.3. Grants and contributions

Other grants that relate to specific capital expenditure that have conditions attached to the asset are treated as deferred grants and contributions. They are credited to the Statement of Comprehensive Net Expenditure over the period where the condition relating to the asset remains effective and this period will not exceed the asset's useful economic life. The specific conditions are as follows:

i. If the 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.
ii. If the 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 as at the date of receipt.

1.3.4. Other grants

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 a liability becomes certain.

1.4. 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 related risks and rewards 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, as well as assets where it is not possible to check for impairment so it is more prudent to write the asset off in year, for example beach replenishment.

1.5. 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.

Operational assets are used in the Environment Agency’s service delivery and are specific in 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, pumping stations and flood risk management landholdings, and water resource assets such as telemetry stations and boreholes.

Other tangible non-current assets are valued at fair value and revised annually through the use of suitable indices.

Assets under construction are recorded at cost and not revalued.

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

The Environment Agency's capitalisation thresholds are:

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

1.5.1. 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.

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 habitats 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

The principal economic lives used for depreciation purposes are:

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

The range in the economic lives reflects the wide range in categories of assets within the asset types.

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.

Depreciation is not charged on assets under construction.

1.6. Intangible 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.

The principal economic lives used for amortisation purposes are:

Asset type	Principal economic life
Software licences	5-25 years
Websites and other internally generated IT	3-10 years

1.6.1. Research and development costs

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. Internally generated assets are recognised as assets under construction at cost and not revalued until the completed asset is brought into service.

1.7. 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.

1.8. 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.

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.

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

1.9. 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 depending on whether the charging scheme is in surplus or deficit. These balances are only treated as deferred or accrued income where there is an expectation that the balances are recoverable over a reasonable period of time. The balances are considered when setting future years' fees and charges, to enable a break even position to be achieved over a reasonable time period, which is currently considered to be three years.

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. This change in licence conditions required approval from the Secretary of State and the charges 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.

1.10. Leases

A finance lease is one which transfers substantially all the risks and rewards of ownership to the lessee. An operating lease is a lease other than a finance lease.

The determination of whether an arrangement is or contains a lease is based on the substance of that arrangement. This assessment is based on whether the arrangement is dependent on the use of a specific asset and conveys the right to use the asset. Where substantially all risks and rewards of ownership of a leased asset are borne by the Environment Agency, the arrangement is treated as a finance lease. The Environment Agency currently has no leases classified as finance leases.

Operating leases and the rentals thereon are charged to the Statement of Comprehensive Net Expenditure on a straight-line basis over the term of the lease.

1.11. Foreign exchange

Assets and liabilities held in foreign currencies are translated into sterling at the exchange rate at the reporting date. Income and expenditure is translated into sterling at an average exchange rate for the period. Exchange gains and losses are recognised in the Statement of Comprehensive Net Expenditure.

1.12. Cash and cash equivalents

Cash and cash equivalents include 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. Bank overdraft amounts are included within trade and other payables in the Statement of Financial Position.

1.13. Provisions

The Environment Agency provides for obligations arising from past events where there is a present obligation at the date of the Statement of Financial Position, it is probable that we 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. There are no provisions which currently require discounting, but where material, the future costs would be discounted using the rates directed by HM Treasury.

1.14. Contingent liabilities

The Environment Agency discloses possible obligations arising from past events where the outcome is based on uncertain future events. Similarly disclosure is made where it has a present obligation that is not probable or cannot be measured reliably.

1.15. Public Private Partnership contracts

The Environment Agency has two Public Private Partnership (PPP) contracts (note 23) 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.

1.16. Financial instruments

1.16.1. Financial assets and liabilities

The Environment Agency classifies loans, receivables and assets available for sale as financial assets. 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.

1.16.2. 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.

1.16.3. 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.

1.16.4. Financial liabilities

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 obligation has expired.

The Agency holds certain financial instrument liabilities as a result of operating agreements with a number of water companies entered into at their privatisation. These liabilities are treated as perpetuities and recorded in the balance sheet at amortised cost. The annual payments arising from these liabilities increase annually in line with RPI

The Agency is exposed to the risk of changes in the rate of inflation. The RPI rate has fluctuated significantly over the life of these financial liabilities. The average rate over the 26 years since 1989 is 3.3%, however the range in this period is between 10% and -1%. This is a macro-economic risk that the Agency cannot itself manage in any way. However the Environment Agency is able recover the full cost of reservoir operating agreements through its charges on water abstraction.

1.16.5. 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 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 2013, it had no arrangements meeting the criteria to require separation.

1.16.6. 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 any loss event has had an impact on the estimated future cash flows of the financial asset or the portfolio that can be reliably estimated.

1.17. 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.

1.18. Trust statements for consolidated fund

There is a requirement for any entity that collects revenue which is material 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 not collect a material level of civil penalties on behalf of HM Treasury and so does not prepare trust statements. The amounts collected and paid over in 2012-2013 are below £50,000 and therefore not material to these accounts.

1.19. Carbon Reduction Commitment (CRC)

The Environment Agency is required to participate in the CRC Energy Efficiency Scheme.

This scheme is currently in its introductory phase, which will last until April 2014 and the Environment Agency is required to purchase and surrender allowances, currently retrospectively, on the basis of carbon dioxide emissions produced as energy is used. As carbon dioxide is emitted, a liability and an expense are recognised. The liability will be discharged by surrendering allowances. The liability is measured at the best estimate of the expenditure required to meet the obligation, normally at the current market price of the number of allowances required to meet the liability at the reporting date.

1.20. 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 annum of pensionable pay (with the past service deficit element, equal to 3.5% of pay, expressed in absolute monetary amounts) for the 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 Statement of Financial Position date, provided these amounts are material in the context of overall staff costs.

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 (IDBs).

The Regional Flood Defence Committee members used to act as the Board of the IDBs and approve their 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 IDBs. 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
- Pevensey 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	–	0.1
Pevensey Levels	(0.4)	0.3	(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 2012-2013	**(1.1)**	**1.0**	**(0.1)**	**0.3**
Total 2011-2012	**(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 as swiftly as possible.

1.22. Prior year adjustment

A prior year adjustment has been made to reflect a change in the required treatment of a number of reservoir operating agreements that the Environment Agency is a party to. The Environment Agency is bound by agreements entered into by its predecessor bodies regarding return on investment payments, which were agreed at the time of water company privatisation. Upon review of these agreements in 2012-2013 against the current accounting standards it was identified that financial liabilities exist under IAS 39 Financial Instruments: Recognition and Measurement. The adjustment had the following impact on the financial statements:

Adjustment	Published amount for 2011-2012	Prior Year Adjustment	Restated amount for 2011-2012
	£'m	£'m	£'m
Financial Liabilities	–	(181.5)	(181.5)
Net Assets	2,281.0	(181.5)	2,099.5
General Reserve	926.8	(181.5)	745.3
Total Reserves	2,281.0	(181.5)	2,099.5

1.23. Adoption of new and revised IFRS or FReM interpretations

1.23.1. 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. All of the following have not been adopted early by the Environment Agency:

IFRS not yet effective	Environment Agency Impact
IAS 19 Employment benefits (pensions) EU endorsed from 1 Jan 2013, adopted in the FReM from 1 April 2013	The amended IAS 19 introduces a number of changes including: Recognition – the elimination of the option to defer the recognition of gains and losses resulting from defined benefit plans (the 'corridor approach'); Presentation – the elimination of options for the presentation of gains and losses relating to those plans; and Disclosures – the improvement of disclosure requirements that will better show the characteristics of defined benefit plans and the risks arising from those plans. The Environment Agency has been discussing these changes with the pension scheme and these changes will be implemented in full.
IAS 16 Property, Plant and Equipment EU endorsed from 1 Jan 2013, adopted in the FReM from 1 April 2013	Classification of servicing equipment – items such as spare parts, stand-by equipment and servicing equipment are recognised under IAS 16 when they meet the definition of property, plant or equipment. They are otherwise classified as inventory under IAS 2. The Environment Agency expects the implementation of these changes to have a very minimal impact
IFRS 13 – Fair Value Measurement Not yet EU adopted and subject to further consultation	The application of IFRS 13 is subject to further review by HM Treasury and the other Relevant Authorities following proposals put to the FRAB in December 2012. Further due process consultation will take place in early 2013. The Environment Agency will review any consultations on these changes to assess the relevant impact and when known how they will apply to the FReM.
IFRS 9 – Financial Instruments Not yet EU adopted and subject to further consultation	The project has three phases and is not expected to apply until after 1 January 2015. The Environment Agency will review any correspondence and consultations from HM Treasury on these changes to assess the relevant impact and when known how they will apply to the FReM.
IAS 17 Leases (replacement) Not yet issued, out for consultation	The proposals will be re-exposed, but are expected to include the abolition of the current operating-finance lease categorisation. Instead, assets and liabilities will be recognised on a 'right of use' basis. HM Treasury and the Relevant Authorities will review the implications and follow due process. The Environment Agency will review any correspondence and consultations from HM Treasury on these changes to assess the relevant impact when known and how they will apply to the FReM.

IFRS not yet effective	Environment Agency Impact
IAS 18 Revenue Recognition and Liabilities Recognition (replacement) Not yet issued, out for consultation	The Exposure Draft sought to develop a single conceptual model, and general principles, for determining when revenue should be recognised in the financial statements – replacing IAS 18 and IAS 11. HM Treasury and the Relevant Authorities will review the implications and follow due process. The Environment Agency will review any correspondence and consultations from HM Treasury on these changes to assess the relevant impact when known and how they will apply to the FReM.

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

- IAS 12 Income Taxes (amendment)
- IAS 32 Financial Instruments: Presentation
- IAS 34 Interim Financial Reporting
- IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine
- IFRS 10 (Consolidated Financial Statements), 11 (Joint Arrangements), 12 (Disclosure of Interests in Other Entities), IAS 27 (Separate Financial Statements), IAS 28 (Investments in Associates and Joint Ventures)
- Presentation of Financial Statements annual improvements – these are covered by changes to the financial reporting manual (FReM).

1.23.2. FReM

Every year HM Treasury issues a new financial reporting manual (FReM), which interprets IFRS for the public sector. The following table outlines the impact of these changes (ones not related to IFRS changes above) on the Environment Agency.

Change of addition to the FReM	Environment Agency Impact
Improving clarity of central government reporting Effective from 1 April 2013	No impact on the Environment Agency

2. Segmental reporting

2.1. 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 2012-2013	Total 2011-2012
	£'m	**£'m**	**£'m**	**£'m**	**£'m**
Expenditure					
Staff costs	151.6	45.8	197.9	**395.3**	365.4
IAS 19 pension charge or (credit)	22.6	6.7	24.9	**54.2**	54.5
Capital works expensed in year	211.1	0.5	7.4	**219.0**	222.8
Depreciation and amortisation	67.2	12.9	27.2	**107.3**	103.3
Other expenditure	183.9	74.1	168.4	**426.4**	404.9
Impairment of non-current assets	–	–	5.2	**5.2**	15.7
Gross expenditure	**636.4**	**140.0**	**431.0**	**1,207.4**	**1,166.6**
Income	**(57.5)**	**(147.3)**	**(230.1)**	**(434.9)**	**(417.2)**
Net expenditure	**578.9**	**(7.3)**	**200.9**	**772.5**	**749.4**

2.2. Definition of segments and other segmental information

The Environment Agency summarises its activities into three main segments which are reported to the CODM. These are:

- FCERM (Flood and Coastal Erosion Risk Management) – The main activity for FCERM is to help to minimise, predict and manage the risk of flooding in England and Wales
- WR (Water Resources) – The activities for Water Resources are defined under note 6.1
- E&B (Environment and Business) – This incorporates Environment Protection, Fisheries and Navigation. The activities for E&B are defined under note 6.1

There are no significant transactions between the segments and where costs relate to more than one segment they are apportioned appropriately with reference to the underlying substance of the transaction.

The Environment Agency does not have reliance on any individual customers required to be disclosed by IFRS 8.

3. Staff numbers and related costs

	2012-2013	2011-2012
	£'m	£'m
Wages and salaries	349.7	326.7
Social security costs	30.4	27.2
Normal contributions to active pension fund (defined benefit scheme)	43.7	40.8
	423.8	**394.7**
Other staff related costs:		
Agency staff wages and salaries	12.0	12.5
Other staff related costs	26.0	21.1
Exit package costs	2.6	2.4
Special contributions towards past service deficit	–	20.9
Less amounts already included within the IAS 19 pension charge on the face of the SCNE	(43.7)	(63.4)
	420.7	**388.2**
Less amounts charged to capital projects	(25.7)	(23.1)
	395.0	**365.1**
Amounts payable to Board members	0.3	0.3
Total	**395.3**	**365.4**

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

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 full time equivalent staff employed during the year was as follows:

	2012-2013			2011-2012		
	Permanent	Temporary	Total	Permanent	Temporary	Total
	Number	Number	Number	Number	Number	Number
Directly employed	11,177	536	**11,713**	10,701	153	**10,854**
Contractors	-	539	**539**	0	509	**509**
Totals	**11,177**	**1,075**	**12,252**	**10,701**	**662**	**11,363**

The number of staff employed on capital projects and capitalised was 1,313 (2011-2012 – 1,156).

3.2. Reporting of compensation schemes

3.2.1. Exit packages in period ended 31 March 2013

Exit package cost band	Compulsory redundancies	Other departures agreed	Total exit packages by cost band
	Number	Number	Number
Under £10,000	2	1	3
£10,000 - £25,000	5	3	8
£25,001 - £50,000	5	5	10
£50,001 - £100,000	6	9	15
£100,001 - £150,000	2	3	5
Over £150,000	1	1	2
Total number of exit packages by type	**21**	**22**	**43**
	£m	**£m**	**£m**
Total resource cost	**1.2**	**1.4**	**2.6**

3.2.2. 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**
	£m	**£m**	**£m**
Total resource cost	**0.8**	**1.6**	**2.4**

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 also shown in the remuneration report.

4. Capital works expensed in year

	2012-2013	2011-2012
	£'m	£'m
Beach recharges	16.3	11.3
Culverts and channel improvements	20.3	21.6
Embankments	69.6	73.2
Flood risk management strategies	1.9	2.7
Flood mapping	23.2	18.2
Piling	7.5	11.7
Restoration and refurbishment	38.5	42.9
Rock groynes and sea walls	13.2	13.7
Other	28.5	27.5
Total	**219.0**	**222.8**

The above analysis includes £10.9m (2011-2012 – £15.3m) of costs in relation to the Public Private Partnerships (PPP) projects reported in note 23

Commitments on capital works expensed in year at 31 March 2013 were £96.3m (31 March 2012 – £104.1m). These exclude commitments on PPP projects.

Beach recharges

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 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. 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 river banks to strengthen them and secure the adjacent land and prevent landslips into the river causing obstructions. These works are largely below ground.

Restoration and refurbishment

This entails carrying out works to ensure that 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

Various other capital works not included in the above categories.

5. Other expenditure

Other expenditure comprises the following categories of costs:

	2012-2013	2011-2012
	£'m	£'m
Hired and contracted services	105.6	105.6
Grants awarded to local authorities and IDBs	30.9	37.9
Contaminated land grants	3.5	3.6
Reservoir operating agreements	26.5	25.3
Information technology	15.6	13.9
Building costs	20.5	23.9
Fees and commissions	40.1	38.4
Transport and plant	22.4	21.1
Utilities	20.1	16.7
Operating leases – plant and machinery	16.9	15.2
Operating leases – other	13.4	13.0
Training	8.7	5.7
Travel and subsistence	17.9	13.7
Consumables and Materials	11.4	9.2
Grants and Contributions	18.0	11.8
EIUC Compensation Payments	12.0	-
Maintenance	7.7	7.6
Administration	3.4	3.2
Research and development	2.3	4.7
External auditor's remuneration	0.2	0.2
Bad debts written off	1.0	1.8
Other	28.7	25.5
	426.8	**398.0**
Non-cash items		
Movement in provision for bad and doubtful debts	(0.4)	6.9
Total	**426.4**	**404.9**

This note has been restated to report more categories of spend to enhance disclosure and the total other expenditure remains unchanged from that reported in 2011-2012.

Hired and contracted services costs include the outsourced Information and Computer Technology contract. Note 24 provides additional information about this contract.

Bad debts 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.

Environmental improvement unit charges (EIUC) compensation payments are made to mitigate excessive water abstraction.

5.1. Auditor's remuneration

External Auditor's remuneration is the audit fee for the statutory audit of £197,500 (2011-2012 fees: £210,000). No payment was made to the External Auditor for non-audit work.

5.2. Reservoir operating agreements

Expenditure under reservoir operating agreements includes two components. The first and smallest component is reimbursement to water companies of their net costs of operating certain reservoirs, after deducting any income generated from hydro-electric power. The second element represents annual payments fixed at the time of the related agreements (generally in 1989 upon privatisation of water companies) as compensation for a return on reservoir assets and indexed annually by RPI. The annual asset related payments totalled £23.1m in 2012-2013 (£22.4m in 2011-2012).

5.3. Losses and special payments

HM Treasury's *Managing Public Money* rules require 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 years.

5.3.1. Total by category

	2012-2013		2011-2012	
Category / type	**Number**	**£'m**	**Number**	**£'m**
Write-off of sundry debts	748	1.4	832	1.9
Loss of assets	215	0.7	199	0.2
Other (cash losses, fruitless payments, unenforceable claims, special payments or gifts)	81	0.9	44	0.4
Total	**1,044**	**3.0**	**1,075**	**2.5**

5.3.2. Losses individually over £250,000

In 2012-2013, there have been two (2011-2012 – Nil) losses and special payments in excess of £250,000:

Phoenix House: £724,000 – This relates to a payment made to exit leasehold accommodation at Phoenix House, Leeds at the time of and in accordance with the contractual break clause. This was part of the Environment Agency accommodation strategy and has been exercised to achieve longer term benefits from future rent savings

Pumping Station within the Shropshire Groundwater scheme: £297,600 – This was a loss of an asset within the scheme due to contamination of the groundwater extraction from nearby land. This made the borehole inoperable. Only part of the costs was lost, as other boreholes connected to the same pumping station are fully operational.

6. Income

	FCERM	WR	E&B	Total 2012-2013	Total 2011-2012
	£'m	£'m	£'m	£'m	£'m
Abstraction charges	–	(140.6)	–	**(140.6)**	(134.5)
Navigation licences	–	–	(7.0)	**(7.0)**	(6.0)
Fishing licences	–	–	(23.6)	**(23.6)**	(26.8)
EPR Water Quality	–	–	(66.6)	**(66.6)**	(62.2)
EPR Installations	–	–	(33.0)	**(33.0)**	(32.9)
EPR Waste	–	–	(32.2)	**(32.2)**	(28.7)
Hazardous waste	–	–	(20.5)	**(20.5)**	(16.2)
Emissions Trading and Carbon Reduction Commitment	–	–	(7.0)	**(7.0)**	(3.3)
Nuclear regulation	–	–	(13.8)	**(13.8)**	(12.9)
Other Environmental Protection charges	–	–	(13.9)	**(13.9)**	(12.6)
Income from fees and charges	**–**	**(140.6)**	**(217.6)**	**(358.2)**	**(336.1)**
Flood risk levies	(24.0)	–	–	**(24.0)**	(30.3)
IDB precepts	(8.3)	–	–	**(8.3)**	(8.4)
Environmental Improvement Unit Charges (EIUC)	–	(5.6)	–	**(5.6)**	(1.6)
EU grants	(0.2)	–	(1.8)	**(2.0)**	(0.7)
Other grants	(0.5)	(0.2)	(4.8)	**(5.5)**	(5.3)
Other income	(12.7)	(0.8)	(5.0)	**(18.5)**	(19.9)
Income from activities	**(45.7)**	**(147.2)**	**(229.2)**	**(422.1)**	**(402.3)**
Grants for capital works expensed in year	(11.2)	(0.1)	(0.9)	**(12.2)**	(12.2)
Deferred grants released	(0.6)	–	–	**(0.6)**	(2.7)
Capital grants and contributions	**(11.8)**	**(0.1)**	**(0.9)**	**(12.8)**	**(14.9)**
Total income	**(57.5)**	**(147.3)**	**(230.1)**	**(434.9)**	**(417.2)**

EPR – Environmental Permitting Regulations

6.1. Analysis of fees and charges (restated)

	Expenditure	Income billed	Deficit
	£'m	£'m	£'m
Abstraction charges	141.7	(138.1)	3.6
Navigation licences	8.4	(7.0)	1.4
Fishing licences	25.9	(23.6)	2.3
EPR Water Quality	66.3	(64.2)	2.1
EPR Installations	33.3	(30.8)	2.5
EPR Waste	32.3	(30.7)	1.6
Hazardous waste	20.5	(18.0)	2.5
Emissions Trading and Carbon Reduction Commitment	6.7	(6.7)	–
Nuclear regulation	13.8	(13.1)	0.7
Other Environmental Protection charges	15.5	(15.5)	–
Total 2012-2013	**364.4**	**(347.7)**	**16.7**
Total 2011-2012	**364.9**	**(342.8)**	**22.1**

The above table relates to fees and charges income for the Water Resources and Environment and Business operating units and is shown in line with our accounting policy for deferred and accrued income within note 1.9. The note has been restated since the prior year to align more closely with the categories disclosed in note 6. Income collected differs from income reported in note 6 due to the accounting policy on accrued and deferred income disclosed in note 1.9. The cumulative surpluses and deficits are shown in notes 11 and 13.

Costs funded by grant-in-aid have been excluded from the table above, except for Fisheries and Navigation where the net cost after charges is funded by grant-in-aid. 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 objective 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. Accrued and deferred income balances are recognised on the basis of surpluses and deficits where they are recoverable over a reasonable period of time.

The key activities of each area are listed below:

Water Resources

- Abstraction charges – charging for businesses using water abstraction from rivers or groundwater, the income above includes other elements of water resources income.

Environment and Business

- Fisheries – charging individuals for licences to fish
- Navigation – charging individuals for Boat Licences

- EPR Water Quality – Charging for Discharges (CFD) from businesses into the environment
- EPR Waste – Waste Management Licensing and exemptions
- Hazardous Waste – licensing for producing, transporting, or receiving hazardous waste
- Emissions Trading and Carbon Reduction Commitment – Regulation of businesses under such schemes as EU Emissions Trading System (ETS) and Carbon Reduction Commitment (CRC)
- Nuclear Regulation – Regulation of Nuclear Sites RAS 1 & 2, Non-Nuclear Sites RAS 3 & 4 and Nuclear New Build Sites
- Other Environmental Protection – Licensing for Registration of Carriers and Brokers, Transfrontier Shipments, Producer Responsibility Licensing for Waste Electronic and Electrical Equipment (WEEE), End of Life Vehicles, Polychlorinated Biphenyls and regulation of businesses under such schemes as Control of Major Accident Hazards (COMAH)

Flood Risk Management

Income from Flood and Coastal Erosion Risk Management is excluded from the table which exists to meet the requirements of the FReM and not to fully meet the requirements of IFRS 8: Operating segments.

7. Tangible assets

7.1. At March 2013

	Ops assets	Freehold land	Dwellings	Freehold buildings	Plant and machinery	Vehicles	Furniture & fittings	IT	AUC	Total
Cost or valuation	**£'m**	**£'m**	**£'m**	**£'m**	**£'m**	**£'m**	**£'m**	**£'m**	**£'m**	**£'m**
At 1 April 2012	**3,544.9**	**34.8**	**–**	**63.9**	**436.5**	**32.7**	**53.8**	**49.0**	**133.7**	**4,349.3**
Capital expenditure	–	–	–	1.4	22.5	8.3	6.5	8.1	30.6	**77.4**
Assets commissioned in year	47.7	–	–	–	–	–	–	–	(47.7)	**–**
Disposals	(4.2)	(0.3)	(1.6)	(0.3)	(1.3)	(1.6)	(4.4)	(0.5)	–	**(14.2)**
Reclassified as held for sale	(0.3)	(2.2)	–	(4.3)	–	–	–	–	–	**(6.8)**
Revaluation and indexation	94.4	1.2	0.9	2.1	5.4	(2.8)	2.8	1.0	–	**105.0**
Impairment	(24.4)	0.3	–	0.2	–	–	–	0.1	–	**(23.8)**
Reclassification	(1.1)	-	21.3	(20.2)	–	–	–	(0.3)	(6.3)	**(6.6)**
At 31 March 2013	**3,657.0**	**33.8**	**20.6**	**42.8**	**463.1**	**36.6**	**58.7**	**57.4**	**110.3**	**4,480.3**
Depreciation										
At 1 April 2012	**1,495.2**	**–**	**–**	**2.5**	**345.7**	**19.8**	**26.6**	**29.5**	**–**	**1,919.3**
Provided during the year	51.5	–	0.7	1.5	12.4	5.0	5.1	9.4	–	**85.6**
Disposals	(3.0)	–	(0.1)	(0.1)	(1.2)	(1.5)	(4.3)	(0.5)	–	**(10.7)**
Revaluation and indexation	25.2	–	–	0.2	(4.2)	(4.0)	(0.8)	(0.9)	–	**15.5**
Reclassification	–	–	0.8	(0.7)	–	–	–	(2.4)	–	**(2.3)**
At 31 March 2013	**1,568.9**	**–**	**1.4**	**3.4**	**352.7**	**19.3**	**26.6**	**35.1**	**–**	**2,007.4**
Net Book Value at 31 March 2013	**2,088.1**	**33.8**	**19.2**	**39.4**	**110.4**	**17.3**	**32.1**	**22.3**	**110.3**	**2,472.9**

Ops Assets – Operational Assets
AUC – Assets under construction

7.2. At March 2012 (restated)

	Ops assets	Freehold land	Freehold buildings	Plant and machinery	Vehicles	Furniture & fittings	IT	AUC	Total
Cost or valuation	**£'m**	**£'m**	**£'m**	**£'m**	**£'m**	**£'m**	**£'m**	**£'m**	**£'m**
At 1 April 2011	**3,393.0**	**26.1**	**58.8**	**437.3**	**38.3**	**53.6**	**57.7**	**178.7**	**4,243.5**
Capital expenditure	-	-	0.4	9.9	1.6	7.9	3.4	47.6	**70.8**
Assets commissioned in year	52.3	-	-	-	-	-	-	(52.3)	**-**
Disposals	(6.7)	(0.7)	(0.2)	(10.1)	(6.0)	(7.2)	(0.7)	-	**(31.6)**
Reclassified as held for sale	0.4	2.6	0.9	-	-	-	-	-	**3.9**
Revaluation and indexation	109.6	1.5	3.8	(0.7)	(1.2)	(0.5)	0.7	-	**113.2**
Impairment	0.9	0.6	0.3	0.1	-	-	0.2	(16.2)	**(14.1)**
Reclassification	(4.6)	4.7	(0.1)	-	-	-	(12.3)	(24.1)	**(36.4)**
At 31 March 2012	**3,544.9**	**34.8**	**63.9**	**436.5**	**32.7**	**53.8**	**49.0**	**133.7**	**4,349.3**
Depreciation									
At 1 April 2011	**1,410.5**	**-**	**0.6**	**347.8**	**22.4**	**30.2**	**23.2**	**-**	**1,834.7**
Provided during the year	50.1	-	2.1	12.1	5.0	5.1	10.5	-	**84.9**
Disposals	(3.4)	-	-	(7.2)	(5.5)	(7.3)	(0.7)	-	**(24.1)**
Revaluation and indexation	38.0	-	(0.2)	(7.0)	(2.1)	(1.4)	0.4	-	**27.7**
Reclassification	-	-	-	-	-	-	(3.9)	-	**(3.9)**
At 31 March 2012	**1,495.2**	**-**	**2.5**	**345.7**	**19.8**	**26.6**	**29.5**	**-**	**1,919.3**
Net Book Value at 31 March 2012	**2,049.7**	**34.8**	**61.4**	**90.8**	**12.9**	**27.2**	**19.5**	**133.7**	**2,430.0**

Ops Assets – Operational Assets
AUC – Assets under construction
The above analysis has been restated to separately report directly purchased assets from assets actually constructed by the Environment Agency. In addition dwellings have been separately analysed in note 7.1 through a transfer from the categories in which they were previously held, operational assets and freehold buildings. The total net book value of dwellings at March 2012 was £12.4 million.

7.3. Details of valuation

All of the Environment Agency’s assets are owned and none are held under leases. All of the Environment Agency's administrative land and buildings, including dwellings, except assets under construction were re-valued at 1 April 2011 by external independent chartered surveyors, King Sturge, on the basis of open market value for existing use. Intangible assets, plant and machinery, furniture and fittings and operational assets were revalued internally at 31 March 2013 using suitable indices. The impact of both revaluations is shown as revaluation and indexation in notes 7.1 and 7.2, and 8.1 and 8.2 respectively for tangible and intangible assets.

7.4. Operational assets

Operational assets include £19.1 million (2011-2012: £16.3 million) for land that forms an essential element of an operational asset and has significantly changed its nature as a result. The land is being written down to net realisable value over the life of the operational asset in which it is being used. Operational assets include the Thames Barrier which is valued at £1,038.3 million (2011-2012: £1,018.4 million) reflecting its depreciated replacement cost.

8. Intangible assets

8.1. At March 2013

	Software licences	Websites	Other IT	AUC	Total
Cost or valuation	**£’m**	**£’m**	**£’m**	**£’m**	**£’m**
At 1 April 2012	**11.4**	**51.1**	**60.0**	**62.1**	**184.6**
Capital expenditure	3.6	–	–	24.1	**27.7**
Assets commissioned in year	–	–	6.8	(6.8)	**–**
Disposals	–	(0.4)	–	–	**(0.4)**
Revaluation and indexation	0.3	(0.5)	3.2	–	**3.0**
Impairment	–	–	–	(5.8)	**(5.8)**
Reclassification	–	–	0.2	6.4	**6.6**
At 31 March 2013	**15.3**	**50.2**	**70.2**	**80.0**	**215.7**
Amortisation					
At 1 April 2012	**1.2**	**31.1**	**15.0**	**–**	**47.3**
Provided during the year	0.8	10.7	10.2	–	**21.7**
Disposals	–	(0.5)	–	–	**(0.5)**
Revaluation and indexation	–	(1.3)	0.2	–	**(1.1)**
Reclassification	–	–	2.4	–	**2.4**
At 31 March 2013	**2.0**	**40.0**	**27.8**	**–**	**69.8**
Net Book Value at 31 March 2013	**13.3**	**10.2**	**42.4**	**80.0**	**145.9**

AUC – Assets under construction

8.2. At March 2012 (restated)

	Software licences	Websites	Other IT	AUC	Total
Cost or valuation	**£'m**	**£'m**	**£'m**	**£'m**	**£'m**
At 1 April 2011	**4.6**	**51.1**	**26.3**	**44.5**	**126.5**
Capital expenditure	7.7	–	–	16.8	**24.5**
Assets commissioned in year	–	–	21.6	(21.6)	**–**
Disposals	(1.0)	(0.5)	(0.2)	–	**(1.7)**
Revaluation and indexation	0.1	0.5	(0.1)	–	**0.5**
Impairment	–	–	–	(1.6)	**(1.6)**
Reclassification	–	–	12.4	24.0	**36.4**
At 31 March 2012	**11.4**	**51.1**	**60.0**	**62.1**	**184.6**
Amortisation					
At 1 April 2011	**1.7**	**20.1**	**6.2**	**–**	**28.0**
Provided during the year	0.4	11.9	6.1	–	**18.4**
Disposals	(0.9)	(0.5)	(0.1)	–	**(1.5)**
Revaluation and indexation	–	(0.4)	(1.1)	–	**(1.5)**
Impairment	–	–	–	–	**–**
Reclassification	–	–	3.9	–	**3.9**
At 31 March 2012	**1.2**	**31.1**	**15.0**	**–**	**47.3**
Net Book Value at 31 March 2012	**10.2**	**20.0**	**45.0**	**62.1**	**137.3**

AUC – Assets under construction

The above analysis has been restated to separately report directly purchased assets from assets actually constructed by the Environment Agency.

9. 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:

	2012-2013	2011-2012
	£'m	**£'m**
Property, plant and equipment	24.4	-
Intangibles	-	-
Total charged to the revaluation reserve	**24.4**	**-**
Property, plant and equipment	(0.6)	14.1
Intangibles	5.8	1.6
Total impairment charge to the SCNE	**5.2**	**15.7**
Total impairment as per SOFP	**29.6**	**15.7**

In both years, impairments charged to the SCNE were as a result of assets in the course of construction which were no longer expected to have any long term economic benefit. There was also £0.6m (2011-2012 – £2.1m) of reversal of prior year impairments due to revaluation through indexation.

10. Assets held for resale

	March 2013	March 2012	April 2011
	£'m	£'m	£'m
Operational assets	0.3	-	0.4
Freehold land	2.4	0.2	2.8
Freehold buildings	5.0	0.7	1.6
Total	**7.7**	**0.9**	**4.8**

It is anticipated that all transactions will be completed within one year and there has been no change in valuation in the year. These assets relate to surplus property and land held by the Environment Agency, in line with the accounting policy in note 1.7.

11. Trade and other receivables

	March 2013	March 2012	April 2011
Within one year:	£'m	£'m	£'m
Trade receivables	36.9	31.2	35.6
Less: provision for bad and doubtful debts	(14.7)	(15.1)	(8.2)
Net trade receivables	**22.2**	**16.1**	**27.4**
Grants	1.6	–	0.4
VAT	31.4	36.1	32.6
Employee loans	0.1	0.1	0.1
Other receivables	3.5	4.3	3.0
Prepayments	21.5	23.1	20.8
Abstraction licences accrued income	3.1	0.9	1.4
Environment protection accrued income	14.0	9.2	9.9
Other accrued income	3.4	7.9	2.3
Pension assets	0.3	1.2	0.5
	101.1	**98.9**	**98.4**
More than one year:			
Employee loans	0.1	0.2	0.2
Total	**101.2**	**99.1**	**98.6**

At 31 March 2013 there were 476 (31 March 2012: 452, 1 April 2011: 472) employee loans given for items such as public transport season tickets and bicycle payments.

11.1. Analysis of trade and other receivables by organisational type

	March 2013	March 2012	April 2011
	£'m	£'m	£'m
Government departments	21.7	37.0	33.5
Local authorities	2.2	0.8	0.7
Public corporations	0.1	0.3	–
National Health Service bodies	0.1	–	0.1
Non–government entities and individuals	77.1	61.0	64.3
Total	**101.2**	**99.1**	**98.6**

12. Cash and cash equivalents

	March 2013	March 2012	April 2011
	£'m	£'m	£'m
At 1 April	**158.7**	**101.0**	**85.3**
Net change in cash and cash equivalent balances	(62.9)	57.7	15.7
At 31 March	**95.8**	**158.7**	**101.0**

12.1. Analysis of balances

The balances were held as:

	March 2013	March 2012	April 2011
	£'m	£'m	£'m
Commercial banks and cash in hand	–	8.0	4.4
Government Banking Service	95.8	–	–
Short term investments	–	150.7	96.6
Total	**95.8**	**158.7**	**101.0**

12.2. Reconciliation to the Statement of Cash Flow

	March 2013	March 2012	April 2011
	£'m	£'m	£'m
Cash and cash equivalents	95.8	158.7	101.0
Bank overdraft	–	(59.5)	(46.8)
Cash and cash equivalents as per SoCF	**95.8**	**99.2**	**54.2**

13. Trade and other payables

	March 2013	March 2012	April 2011
Within one year:	**£'m**	**£'m**	**£'m**
Bank overdraft	–	59.5	46.8
Other taxation and social security	9.5	7.9	8.6
Trade payables	15.7	18.0	12.8
Trade payables accrual	65.4	72.0	71.8
Holiday pay accrual	9.9	9.9	10.5
Other payables	4.9	0.1	0.5
Capital payables	3.8	3.4	3.1
Capital payables accrual	22.8	16.0	24.3
Flood risk management deferred income	34.7	23.9	20.4
Abstraction licences deferred income	4.7	6.1	5.3
EIUC deferred income	51.4	41.8	21.9
Environment protection deferred income	10.6	13.5	10.0
Customer deposits and receipts in advance	37.9	30.7	23.0
	271.3	**302.8**	**259.0**
More than one year:			
Capital payables and accruals	0.2	0.8	0.6
Trade and other payables and accruals	2.8	2.9	3.0
	3.0	**3.7**	**3.6**
Total	**274.3**	**306.5**	**262.6**

13.1. Analysis of trade and other payables by organisational type

	March 2013	March 2012	April 2011
	£'m	**£'m**	**£'m**
Government departments	8.6	8.0	10.2
Local authorities	0.3	0.7	5.2
Public corporations	0.2	0.1	–
Non-government entities and individuals	265.2	297.7	247.2
Total	**274.3**	**306.5**	**262.6**

14. Provisions for liabilities and charges

	March 2013	March 2012	April 2011
	£'m	£'m	£'m
At 1 April	**12.9**	**15.0**	**18.6**
Increase charged to the net expenditure account	4.1	1.0	11.4
Provisions not required written back	(2.8)	(1.0)	(8.7)
Utilised during the year	(0.7)	(2.1)	(6.3)
At 31 March	**13.5**	**12.9**	**15.0**

Provisions relate to insurance claims, dilapidations and operational provisions.

14.1. Estimated timing of cash flows

	March 2013	March 2012	April 2011
	£'m	£'m	£'m
Due within one year	5.9	3.8	4.0
Due between one and five years	7.6	9.1	11.0
Total	**13.5**	**12.9**	**15.0**

These are calculated based on actual data and there is no significant uncertainty in the timing of cash flows.

15. Deferred capital grants

	March 2013	March 2012	April 2011
	£'m	£'m	£'m
At 1 April	**0.6**	**2.3**	**4.2**
Amounts receivable in the year	0.5	1.0	2.1
Amortised through the SCNE in year	(0.6)	(2.7)	(4.2)
Release of reserves	–	–	0.2
At 31 March	**0.5**	**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.

16. Transfers between reserves

16.1. For the year ended 31 March 2013

	Revaluation reserve	Capital reserve	General reserve	Pension reserve	Total
	£'m	£'m	£'m	£'m	£'m
Realised revalued depreciation and disposals	(55.0)	–	55.0	–	–
Net pension charge	–	–	11.5	(11.5)	–
Total	**(55.0)**	**–**	**66.5**	**(11.5)**	**–**

16.2. For the year 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**	**–**

17. Contingent liabilities

The Environment Agency has the following contingent liabilities:

	March 2013	March 2012	April 2011
	£'m	£'m	£'m
(a) Contaminated assets	4.1	4.1	4.1
(b) Contractors' claims	–	0.1	0.5
(c) Insurance claims	3.9	1.9	3.3
(d) Other	0.2	0.4	5.2
Total	**8.2**	**6.5**	**13.1**

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.

18. Capital commitments

	March 2013	March 2012	April 2011
	£'m	£'m	£'m
Contracted for but not provided in the financial statements	**43.7**	**27.8**	**40.4**

Commitments in respect of capital works expensed in year are disclosed in note 4 except those relating to PPP which are disclosed in note 23. The amounts above relate to tangible and intangible fixed assets.

19. Commitments under leases

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

	March 2013		March 2012		April 2011	
	Land and buildings	Other	Land and buildings	Other	Land and buildings	Other
	£'m	£'m	£'m	£'m	£'m	£'m
Not later than one year	9.4	10.0	11.0	11.9	11.5	13.5
Later than one year and not later than five years	30.7	11.9	34.7	11.1	37.8	15.3
Later than five years	36.6	–	47.7	–	55.8	–
Total	**76.7**	**21.9**	**93.4**	**23.0**	**105.1**	**28.8**

The operating lease commitment note above includes costs that relate to the Environment Agency's proportion of occupation 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.

20. 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 its annual report and accounts, are on the Environment Agency Pension Fund website, *www.eapf.org.uk.*

In 2012-2013, the total pension charge for the Environment Agency was £54.2 million (2011-2012 a charge of £54.5 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.

The latest available 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 annum, that salary increases will average 4.8% per annum (restricted to 1.0% per annum in the first two years) and that present and future pensions will increase at the rate of 3.0% per annum.

At the date of the last actuarial triennial 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% 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 2014 will be approximately £44.8 million.

The notes below set 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 1 April 2011, 31 March 2012 and 31 March 2013 respectively.

20.1. Financial and longevity assumptions

The main financial assumptions for this purpose are as follows:

	March 2013	March 2012	April 2011
	% per annum	**% per annum**	**% per annum**
Inflation / Pension increase rate	2.5	2.2	2.5
Salary increase rate*	4.6	4.3	4.6
Expected return on assets	4.5	5.3	6.6
Discount rate	4.5	4.8	5.5

* Salary increases are assumed to be 1% per annum until 31 March 2015, reverting to the long term assumption per annum thereafter.

Average future life expectancy at age 65 as follows:

	March 2013		March 2012		April 2011	
	Male (years)	**Female (years)**	**Male (years)**	**Female (years)**	**Male (years)**	**Female (years)**
Current pensioners	21.3	23.3	21.3	23.3	21.3	23.3
Future pensioners (people aged 65 in 20 years)	23.3	25.2	23.3	25.2	23.3	25.2

20.2. Breakdown of the expected return on assets by category

	March 2013	March 2012	April 2011
Asset class	**% per annum**	**% per annum**	**% per annum**
Equities	4.5	6.2	7.5
Bonds	4.5	3.9	4.9
Property	4.5	4.4	5.5
Cash	4.5	3.5	4.6

The expected rates of return as at March 2013 are set equal to the discount rate in line with the forthcoming revised version of IAS19. The March 2012 figures do not reflect this.

20.3. Assets and liabilities of the fund

	March 2013	March 2012	April 2011
Fair value of employer assets	**£'m**	**£'m**	**£'m**
Equities	1,435.2	1,165.4	1,171.0
Bonds	605.9	511.2	454.4
Property	56.3	59.2	52.4
Cash	16.8	113.3	69.9
Total	**2,114.2**	**1,849.1**	**1,747.7**

The above asset values as at 31 March 2013 and 31 March 2012 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 2013 were provided by the fund's administering authority.

	March 2013	March 2012	April 2011
Statement of Financial Position	**£'m**	**£'m**	**£'m**
Fair value of plan assets	2,114.2	1,849.1	1,747.7
Present value of funded obligations*	(2,492.1)	(2,074.1)	(1,846.2)
Present value of unfunded obligations	–	–	(22.2)
Net Liability	**(377.9)**	**(225.0)**	**(120.7)**

* This liability comprises of approximately £1,573.1 million, £254.4 million and £664.6 million in respect of employee members, deferred pensioners and pensioners respectively as at 31 March 2013. The approximation involved in the roll forward model means that the split of scheme liabilities between the three standard 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. There are no current unfunded obligations.

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
- pensioners who are currently drawing a 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 note 20.1 above) about the future. This single value is known as a present value. The table now only includes funded obligations following changes to the LGPS Regulations that allowed the Environment Agency 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 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 the net liability to be met as a lump sum or otherwise. Cash contributions will continue to be set by reference to assumptions agreed at each triennial actuarial valuation of the scheme.

20.4. Amounts charged to the Statement of Comprehensive Net Expenditure

The amount charged to the Statement of Comprehensive Net Expenditure over the accounting period is shown in the following table:

	2012-2013		2011-2012	
	£'m	£'m	£'m	£'m
Interest on obligation	99.9		103.3	
Expected return on employer assets	(98.1)		(115.5)	
Financing expenditure/ (income) on pension scheme assets and liabilities		**1.8**		**(12.2)**
Current service cost	53.6		47.3	
Past service cost	0.6		6.1	
Losses on curtailments and settlements	–		1.1	
IAS 19 pension charge		**54.2**		**54.5**
Actuarial loss recognised in the SCTE		**141.4**		**124.7**
Charge to Statement of Comprehensive Net Expenditure		**197.4**		**167.0**

20.5. Notes to the Statement of Comprehensive Net Expenditure

	2012-2013		2011-2012	
	£'m	% of pay	£'m	% of pay
Current service cost *	53.6	15.9%	47.3	15.1%
Interest on obligation	99.9	29.7%	103.3	33.0%
Expected return on employer assets	(98.1)	(29.1%)	(115.5)	(36.9%)
Past service cost	0.6	0.2%	6.1	1.9%
Losses on curtailments and settlements	–	–	1.1	0.3%
Total included in member costs	**56.0**	**16.7%**	**42.3**	**13.4%**

The actual return on plan assets in 2012-2013 was £261.1m (2011-2012 – £93.6m)

* The service cost figures include an allowance for administration expenses of 0.4% 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 note 20.6.

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 from note 20.3 above is 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 in note 20.2. The result is shown as a negative and acts as a credit against other charges in note 20.4. The actual amount of extra money generated is shown at the foot of note 20.5.
- 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.

20.6. Notes to the Statement of changes in Taxpayers' Equity

Year ended:	March 2013	March 2012	April 2011
	£'m	£'m	£'m
Actuarial gains / (losses) on plan assets	161.4	(41.5)	(38.7)
Actuarial (losses) on obligation	(302.8)	(83.2)	158.2
Actuarial (loss) recognised in the SCTE	**(141.4)**	**(124.7)**	**119.5**
Cumulative actuarial (loss) recognised in SCTE	**(589.8)**	**(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 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 note 20.4. 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 on obligation is the difference between the actual present values of funded obligations from note 20.3 above at the year end and what this present value was expected to be based on the assumptions at the start of the year. There are two reasons why a difference can arise:

i. If the assumptions used to calculate the present value change during the year. In particular, financial assumptions are linked to movements in stock markets. The present value is very sensitive to such movements and can change significantly over a relatively short period of time.

ii. If the membership data on which the present value is 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 sum of the actuarial gains or losses on plan assets and actuarial gains or losses 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 or loss in the table above.

20.7. Reconciliation of defined benefit obligation

Year ended:	March 2013	March 2012	April 2011
	£'m	£'m	£'m
Opening defined benefit obligation	**2,074.1**	**1,868.4**	**2,123.7**
Current service cost	53.6	47.3	55.5
Interest on obligation	99.9	103.3	107.8
Contributions by members	22.8	21.6	23.5
Actuarial losses	302.8	83.2	(158.2)
Past service cost	0.6	6.1	(216.5)
Losses on curtailments	–	1.1	0.4
Estimated unfunded benefits paid	–	–	(1.5)
Estimated benefits paid	(61.7)	(56.9)	(66.3)
Closing defined benefit obligation	**2,492.1**	**2,074.1**	**1,868.4**

This table explains the change to the present values of funded obligations that appear in note 20.3 (and referred to as the defined benefit obligation in this table) from one year to the next. The majority of the items are explained in notes 20.5 and 20.6 above. The additional items are:

i. Contributions by members: as mentioned under note 20.5, 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.

ii. Estimated benefits paid: These are benefits paid out to members and as such act to reduce the defined benefit obligation.

20.8. Reconciliation of fair value of employer assets

Year ended:	March 2013	March 2012	April 2011
	£'m	£'m	£'m
Opening fair value of employer assets	**1849.1**	**1,747.7**	**1,635.5**
Expected return on assets	98.1	115.5	113.5
Contributions by members	22.8	21.6	23.5
Contributions by employer	44.5	62.7	80.2
Contributions in respect of unfunded benefits	-	-	1.5
Actuarial gains/(losses)	161.4	(41.5)	(38.7)
Unfunded benefits paid	-	-	(1.5)
Benefits paid	(61.7)	(56.9)	(66.3)
Closing fair value of employer assets	**2,114.2**	**1,849.1**	**1,747.7**

This explains how the money held by the pension scheme, as appears in note 20.3, changes from one year to the next. Some of the items are explained in notes 20.5 and 20.6. The other items relate to cash flows that affect the value of this money:

i. 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.
ii. Contributions by employer: the Environment Agency pays contributions to meet the balance of the cost of meeting benefits earned by its employees.
iii. Benefits paid: These are benefits paid out to members and as such act to reduce the money held by the scheme.

20.9. History of experience of gains and losses

Amounts for the current and previous accounting periods:

Year ended 31 March:	2013	2012	2011	2010	2009
	£'m	£'m	£'m	£'m	£'m
Fair value of employer assets	2,114.2	1,849.1	1,747.7	1,635.5	1,123.6
Present value of defined benefit obligation	(2,492.1)	(2,074.1)	(1,868.4)	(2,123.7)	(1,441.0)
(Deficit)	**(377.9)**	**(225.0)**	**(120.7)**	**(488.2)**	**(317.4)**

These figures are a summary of those in the Statement of Financial Position and note 20.3.

Year ended 31 March:	2013	2012	2011	2010	2009
	£'m	£'m	£'m	£'m	£'m
Experience gains/(losses) on assets	161.4	(41.5)	(38.7)	402.0	(511.2)
Experience gains/(losses) on liabilities	–	(21.6)	8.9	(0.3)	–

These figures 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 note 20.6. 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.

Year ended 31 March:	2013	2012	2011	2010	2009
	£'m	£'m	£'m	£'m	£'m
Actuarial gains/(losses) on employer assets	161.4	(41.5)	(38.7)	402.0	(511.2)
Actuarial (losses)/gains on obligation	(302.8)	(83.2)	158.2	(566.3)	402.1
Actuarial (losses)/gains recognised in SCTE	**(141.4)**	**(124.7)**	**119.5**	**(164.3)**	**(109.1)**

As mentioned in note 20.6, the more significant item that affects the liabilities is where the assumptions change. These figures reflect those in the Statement of changes in Taxpayers' Equity in note 20.6.

20.10. 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%	283.4
One year increase in member life expectancy	3%	74.8
0.5% increase in salary increase rate	4%	102.9
0.5% increase in pension increase rate	7%	175.8

21. Financial instruments

21.1. Financial liability - reservoir operating agreements

In 1989 a predecessor body to the Environment Agency, the National Rivers Authority, entered into a number of reservoir operating agreements with water companies, under s126 of the Water Act 1989, re-enacted by s20 of the Water Resources Act 1991.

These agreements contained two financial components. The first was for payment to the water companies of their operating costs for the reservoirs, net of income generated thereon by the companies, such as on hydro-electric power. The second was for fixed payments, indexed upwards annually based on RPI, which are payable in perpetuity. The terms of these agreements were negotiated between HM Government and the water companies and were made to enable privatisation to occur.

The fixed component payable to the water companies is accounted for as a financial liability. The financial liability represents the contractual liability the Agency has to the other party. The full cost of reservoir operating agreements, including the elements that give rise to these financial liabilities, is recoverable under legislation through water resources abstraction licences. Water companies who receive payments for operating reservoirs also pay the majority of the charges for water abstraction.

The largest payments are payable to Northumbrian Water (in relation to Kielder reservoir), Severn Trent Water (in relation to Lake Clywedog and Lake Vyrnwy reservoirs) and Dŵr Cymru (in relation to various Welsh reservoirs including the River Dee reservoir scheme).

The financial liability reported on the Statement of Financial Position, which remains consistent at £181.5m at each period end, is made up as follows:

Counterparty	Amount paid in 2012-2013	Liability
	£'m	£'m
Northumbrian Water	16.6	129.2
Severn Trent Water	1.6	12.4
Dŵr Cymru	4.9	39.9
Total	**23.1**	**181.5**

The prior year accounts have been restated to reflect the incorporation of these financial liabilities. The liabilities are measured as perpetuities at the real terms value according to the underlying reservoir operating agreements. The discounting applied reflects the opportunity cost to the taxpayer of entering into the agreement and liability compared to other opportunities for investment.

Because the liabilities have been calculated on an amortised cost basis and as perpetuities, they will not change from year to year except in the unlikely event of an agreement ceasing. The agreements, and obligations to pay, will only cease if the counter-parties cease to be the 'undertakers' of the operating agreements, which means if the given monopoly water companies cease to be the entities controlling the reservoirs

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.

21.2. 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.

21.3. 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.

21.4. 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. The interest rate risks relating to PPP contracts are set out in note 23.

21.5. 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 rate risk.

22. Related party disclosures

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 a NDBP of Defra. Defra and other bodies within the Defra group are regarded as a related party and the results of the Environment Agency are consolidated into the Defra annual report and accounts. During the year, the Environment Agency has had a significant number of material transactions with Defra:

	2012-2013	2011-2012
	£'m	**£'m**
Defra environment protection grant-in-aid	(158.9)	(167.0)
Defra flood defence grant-in-aid	(524.5)	(544.6)
Defra IDB or local authority grant-in-aid	(30.9)	(37.9)
Defra catchment restoration fund (CRF)	(8.7)	-
	(723.0)	**(749.5)**

The Environment Agency received £57.2 million of grant-in-aid in 2012-2013 (2011-2012 – £49.2m) 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

	2012-2013	2011-2012
	£'m	**£'m**
Levies on local authorities	(24.0)	(30.0)
Charges to the British Waterways Board (now Canals and Rivers Trust)	–	(2.7)
Local Government Association	(0.1)	–

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. 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.

23. Commitments under Public Private Partnership contracts

The Environment Agency has entered into the following PPP contracts:

23.1. Broadland flood alleviation project

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

The contract 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 setting-back or strengthening of banks 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 rises.

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 £11.8 million. New defences at five locations in the project area and 37 major improvement work schemes costing £83.1 million have been completed. Site works are underway at one location and work is due to start on a further three compartments in summer 2013.

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

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

23.1.1. Charge to the Statement of Comprehensive Net Expenditure

	2012-2013	2011-2012
	£'m	£'m
Maintenance work, emergency response, strategy development	2.7	1.5
Planning approvals	0.2	0.1
Improvement works	6.6	12.2
Total	**9.5**	**13.8**

23.1.2. Payments committed for future years:

	March 2013	March 2012
	£'m	£'m
Within one year	7.1	11.1
After one year but within five years	13.3	18.2
After five years but within ten years	6.1	9.3
Total	**26.5**	**38.6**

The contract end date is May 2021.

23.1.3. Financial derivative disclosure:

Once improvement work schemes have been accepted by the Environment Agency through the issuing of the Improved Service Level Certificate, payment for the work becomes due. The Environment Agency is required to pay at least 70% 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, the amount owing for completed improvement works (including accrued interest) amounted to £11 million. Interest incurred during the year amounted to £0.3 million and was paid at rates between 2.1% and 7.1%. Fixed rates apply to borrowings of £1.6 million. The rate used is 1.5% 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 the offer price of the six month Sterling London Interbank Offered Rate (LIBOR) plus 1.5% and is updated on a six monthly basis on 31 January and 31 July each year. As at 31 March 2013 the variable rate of 2.1% applied to borrowings of £9.4 million.

23.2. Pevensey Bay sea defences

In May 2000 the Environment Agency and Pevensey Coastal Defence Ltd (PCDL) signed a £27.4 million Public Private Partnership (PPP) contract for the Pevensey Bay Sea Defences. This followed 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 RPIX. In May 2003, the contract was varied to include the Sovereign Harbour frontage.

The current contract value, with a January 2013 price base, is £39 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 principle 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, 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, as well as for liaising and consulting with all relevant authorities and stakeholders, obtaining all necessary consents and producing an acceptable environmental statement.

In addition, the contractor is required to comply with specified environmental service requirements, 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 Agency is entitled to make deductions.

To date, the contractor has maintained the beach satisfactorily to the required levels of service.

Expenditure incurred during the year is charged to the income and expenditure account on an accruals basis in accordance with the payments schedule.

23.2.1. Charge to the Statement of Comprehensive Net Expenditure

	2012-2013	2011-2012
	£'m	£'m
Maintenance work – shingle recharge, recycling, reprofiling and emergency response	**1.4**	**1.5**

23.2.2. Payments committed for future years:

	March 2013	March 2012
	£'m	£'m
Within one year	1.4	1.4
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	3.2	4.3
Total	**16.9**	**18.0**

The contract end date is 31 May 2025.

24. Outsourced information and computer technology contract with Capgemini

This contract commenced in November 2009, with the aim of providing a modern robust, secure and sustainable Information and Computer Technology (ICT) service for the Environment Agency. The contract costs £460 million over seven years, with the option to extend for up to a further three years. ICT costs will reduce by 20% over the term.

The Environment Agency is able to terminate the contract for convenience giving one year's notice. Termination for convenience now 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 £304 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% and again if the variation is more than by 25%. Baseline volumes are reviewed annually.

In addition to OSC charges, there are committed project charges of £52 million and hardware and software purchases of £7 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 are 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.

24.1. Charge to the Statement of Comprehensive Net Expenditure

	2012-2013	2011-2012
	£'m	£'m
Operational service charge	45.4	47.1
Committed projects	16.7	13.1
Authority hardware/software	4.8	9.5
Total	**66.9**	**69.7**

24.2. Payment committed to the future

	March 2013	March 2012	April 2011
Payments committed for future years:	£'m	£'m	£'m
Within one year	59.7	52.8	63.9
Within two to five years	174.6	170.0	182.2
Within six to ten years	-	-	36.1
Total	**234.3**	**222.8**	**282.2**

25. Events after the reporting date

25.1. Date of authorisation for issue

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 27 June 2013.

25.2. Natural Resources Body for Wales

On the 1st April 2013, the activities of the Environment Agency in Wales (EAW) were transferred to a new single body for the environment in Wales, called Natural Resources Wales, pursuant to the Natural Resources Body for Wales Transfer Scheme 2013 under the Public Bodies Act 2011. The welsh activities of the Forestry Commission and the Countryside Council for Wales have also been transferred to Natural Resources Wales on that date.

All remaining rights and obligations of EAW transferred to Natural Resources Wales on 1 April 2013 by virtue of a transfer scheme under the authority of the Public Bodies Act 2011. The net assets to be transferred are included in the Statement of Financial Position as at 31 March 2013. All assets, liabilities and reserves relating to EAW have been transferred to Natural Resources Wales on 1 April 2013 and have been accounted for under the appropriate accounting treatment outlined in the FReM.

As the rights and obligations of EAW were transferred to Natural Resources Wales by virtue of a transfer scheme under Parliamentary legislation, with no compensation arising, the assets and liabilities are not deemed as being held for resale. They have therefore been included in non-current assets, current assets and current and long term liabilities as in prior years. Similarly they have not been included as discontinued operations in the statement of consolidated net expenditure. The employees of Natural Resources Wales that were employees of the Environment Agency remain members of the Environment Agency Pension Fund.

Although the transfer has not been disclosed as a discontinued operation, disclosure has been made in Note 22 of the related party details relating to the Welsh Government including Natural Resources Wales. From 1 April 2013 the Environment Agency's activities will cover England only.

A number of the reservoir operating agreements that the Environment Agency has been a party to (note 21.1) relate to reservoirs in Wales. These agreements have been novated to Natural Resources Wales at 1 April 2013. As a result the obligations arising under these agreements to pay annual amounts that are increased in line with inflation have also been transferred on 1st April 2013.

The liabilities were included in the non current liability on the Statement of Financial Position. The individual payment obligations and liabilities under each agreement that has now been transferred to Natural Resources Wales are disclosed below.

Agreement	Base agreed annual payment at date of agreement	Amount paid in 2012-2013	Liability at March 2013
	£'m	**£'m**	**£'m**
River Dee	1.4	2.8	22.6
River Wye	0.2	0.4	3.4
River Tywi	0.8	1.6	12.6
River Dwyfor	–	–	0.6
River Aled	–	0.1	0.6
	2.4	**4.9**	**39.8**

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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. Its registered office is Horizon House, Deanery Road, Bristol, BS1 5AH.

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 2012-2013, 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 have been a Welsh Government Sponsored Body. Welsh Government has been 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.

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. As set out in note 26.2, on 1 April 2013, the Environment Agency transferred the assets, liabilities and activities that relate to the work undertaken in Wales at book value.

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).

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	2012-2013 target	Status
1.3a We reduce our carbon footprint	**22% reduction**	**RED**

Target not achieved

We are at 115% of our profiled national carbon dioxide ceiling for the year

Drought conditions in April then heavy rainfall most of the year saw significant demand for pumping (increased fuel and electricity consumption) as well as an increase in mileage whilst responding to the flood incidents. Electrical pumping accounted for 39% of our overall emissions. As outlined in the management commentary we have responded to this pressure through investing in carbon reduction projects including for example our low carbon pumping competition

Our total building carbon emissions reduced by 7% compared to last year.

Protect and improve water, land and air quality

Outcome measure and progress	2012-2013 target	Status
2.1a We work with others to improve the quality of surface waters, groundwaters, coastal waters and wetlands	**2,220 water bodies**	**AMBER**

Target not achieved

2,017 water bodies are at good or better ecological status

Our goal by quarter four 2012-2013 was for 2,220 water bodies to be at good or better ecological status. The actual number is 2,017. This number has changed little since 2010-2011, due to:

- natural variation in ecological monitoring results
- the time taken for biodiversity to improve following an improvement in conditions, which can take many years

We are working to improve the way we measure water quality and have action plans in place to make improvements.

Outcome measure and progress	2012-2013 target	Status
2.1b The quality of bathing waters is getting better	**88%**	**GREEN**

Target achieved

90% of bathing waters are at a sufficient standard

Despite the record rainfall in 2012, we have met the target for the revised Bathing Water Directive (rBWD).

We are still on track to meet our target of 93% of bathing waters being at sufficient class by 2015 and are working with partners on solutions to improve performance and maintain quality.

Outcome measure and progress	2012-2013 target	Status
2.1d We improve and protect rivers and wetlands damaged by unsustainable abstractions	**38 schemes**	**AMBER**

Target partially achieved

29 scheme decisions completed

We are continuing our work with licence holders to identify and negotiate a range of actions that will help deliver the best environmental protection and improvements.

Outcome measure and progress	2012-2013 target	Status
2.3b We create new areas of habitat	**37.5 hectares created since 2010**	**RED**

Target not achieved

24.5 hectares of habitat created since 2010

We did not meet the annual 2012-2013 target of 13 hectares. Project delays were caused by land purchases, wet weather and local objections. There were no viable options for compensating for this reduction in year.

Our forecast delivery for the current spending review is 405 hectares against a target of 400 hectares of intertidal BAP habitat. There are now four major schemes contributing to the delivery.

Outcome measure and progress	2012-2013 target	Status
2.3c We improve the status of salmon fisheries	**72%**	**RED**

Target not achieved

66% of rivers are outside the 'at risk' category.

2012-2013 was generally a poor year for salmon stocks in England and Wales. Our assessment suggests that the grilse (salmon that have spent one winter at sea) component has fared particularly badly. This may be weather related.

We are four rivers short of our England and Wales target and the number of failing rivers is one more than last year.

For England only, our modelling predicts that there will be 38 rivers outside the 'at risk' category in England by 2017 under current management measures out of a total of 42 rivers. We are in the process of assisting Defra with agreeing the England elements of a five year Salmon Implementation Plan for England and Wales. This will detail the actions we will take to regulate and manage salmon fisheries and habitats to 2018.

Outcome measure and progress	2012-2013 target	Status
2.4a We improve business compliance	**156 sites**	**RED**

Target not achieved

184 sites in bands D, E or F for two years or more

There has been a reduction from 185 to 184 in the number of sites which have poor compliance for two or more years. Only 49 sites have exhibited continued poor compliance by remaining in bands D, E or F for four years in a row. The number of sites we have issued permits to has increased again in 2012 to almost 14,700.This is approximately 1,700 more than in 2009.

The number of sites with poor compliance ratings in 2012 has remained the same level as last year at 3%. There is evidence that sites move in and out of bands D, E and F over a period of years. Sites can improve during enforcement action, only to return to bands D, E and F once less intensive regulatory scrutiny resumes.

We have recruited new waste staff to support teams in challenging persistent poor performance.

Outcome measure and progress	2012-2013 target	Status
2.4b We reduce serious and significant pollution incidents	**'No more than' 532**	**GREEN**

Target achieved

532 pollution incidents

In quarter four of 2012-2013, serious and significant pollution incidents increased. We ended the financial year exactly on the 'no more than' limit. We have a programme targeted at understanding the causes of incidents and working with partners and businesses to prevent them.

Outcome measure and progress	2012-2013 target	Status
2.5b We make it less burdensome for businesses to comply	**£20m**	GREEN

Target achieved

£25m savings for businesses we regulate

We have delivered cost savings to business of £10.2m equivalent annual value in 2012-2013. This represents an increase of £2.5m on the savings we achieved for 2011-2012. We have achieved both our annual target of £5m and our cumulative target for 2012-2013 of £20m.

The savings arise from standard permits for waste operations, the land filling of low level radioactive waste, the Poultry Litter Ash quality protocol and from our regulatory position on filling irrigation reservoirs.

Outcome measure and progress	2012-2013 target	Status
3.1.2a We improve protection from flooding for more households	**Progress towards 145,000**	GREEN

Target achieved

104,100 households are better protected from flood and coastal erosion

Since the start of the Spending Review in 2010, we have reduced the risk of flooding to 104,100 houses. We are on track to reduce flood risk to 145,000 houses by 2014-2015.

During quarter four, Anglian region completed repairs to the Canvey Island Barriers, reducing flood risk to 6,500 houses. North West region completed refurbishments to Crossens pumping station, a critical flood risk management asset in the Crossen catchment which protects over 3,000 houses.

This year's performance is particularly noteworthy as we and our risk management authority partners have overcome the challenges of multiple flood events and poor weather to complete schemes on time.

Due to the additional £120m made available to deliver growth and acceleration schemes, we have been able to strengthen our programme and are aiming to reduce flood risk to 165,000 houses in the SR10 period.

Outcome measure and progress	2012-2013 target	Status
3.1.2c We maintain flood and coastal risk management assets are at or above the required condition	**97%**	GREEN

Target achieved

97.9% of assets in high consequence systems are at or above target condition

Our high level of performance this year has resulted in 97.9% of Environment Agency maintained assets in ‘higher risk’ systems being at or above target condition, despite the impact of multiple flood incidents which diverted our staff away from maintenance activities during the course of the year. The impact of the flooding on asset condition will be monitored closely during 2013-2014.

Outcome measure and progress	2012-2013 target	Status
3.1.3a More households and businesses at high risk of flooding can receive direct warnings	**62%**	**GREEN**

Target achieved

62% of properties in the highest flood risk areas receive our direct warnings

At the end of 2012-2013, 62% of properties in the highest risk flood risk areas in England and Wales now receive our direct warnings, against a target of 62% for 2012-2013.

There are 1,838,176 properties at highest flood risk. A total of 1,132,026 properties can receive our direct warnings. 406,461 of these have been fully registered on Floodline Warnings Direct (FWD) and a further 655,400 have been recruited onto the flood warning system. This makes a total of 1,061,861 customers on the flood warning system. 70,165 customers declined or have cancelled our flood warning service.

Outcome measure and progress	2012-2013 target	Status
3.2a Environmental outcomes are delivered through joint working with local authorities and partnerships in prioritised locations	**Narrative update**	**GREEN**

Target achieved

We have identified 56 Priority Places in England and five in Wales.

Our Priority Places work is both long term and strategic. Our engagement with Local Nature Partnerships (LNPs) and Local Enterprise Partnerships (LEPs) is helping us deliver significant outcomes. We are developing existing and new relationships, especially within the business community, which is helping us contribute to sustainable growth.

Overall, the progress we are making against environmental outcomes within Priority Places is good. Reporting shows us that steady progress has been made after flooding in quarters two and three diverted resources to incident response and associated post-flood recovery work.

The work we are doing to contribute to sustainable growth has grown significantly.

Outcome measure and progress	2012-2013 target	Status
3.4c We maintain our navigation assets at or above the required condition	**82%**	**GREEN**

Target achieved

86% of our navigation assets are at or above target condition

During quarter four, 19 of our assets fell below the target condition. Flooding caused sudden damage to a small number of assets.

We expect to meet our 2014-2015 target.

Work with businesses and organisations to use resources wisely

Outcome measure and progress	2012-2013 target	Status
4.2a More waste is fully recovered to the standards defined in the Quality Protocols, such that it is no longer classified as waste	**2,200,000 tonnes**	**RED**

Target not achieved

802,000 tonnes of waste diverted from landfill

In quarter four, we achieved 18 out of 27 milestones. During this same period, we have submitted revised Quality Protocols (QPs) for aggregates and gypsum to Defra for notification via the Technical Standards Directive (TSD) process. We have begun the tyre-derived rubber material QP review.

Missed milestones

Steel slag: the development of this protocol has been delayed as we have had to re-characterise the material to determine risks from Chromium Oxide (VI). We have carried out this work to reflect changes resulting from implementing the groundwater daughter directive.

Anaerobic digestate: we have now completed this review and, following internal approval, it will be submitted to Defra for TSD notification. This will take place in the first quarter of 2013-2014.

Outcome measure and progress	2012-2013 target	Status
2.4f We reduce the overall risk presented by illegal waste sites, targeting our efforts at the highest risk sites	**444 sites**	**GREEN**

Target achieved

442 illegal waste sites

We have exceeded our target to reduce the number of high risk illegal waste sites by 3% with an actual reduction of 8%. During 2012-2013 we stopped 513 more sites than last year and 252 more high risk sites.

Staff are actively targeting the high risk sites and closing them down more quickly. Our new ways of working will help ensure that the problem is stopped and not just displaced to a new site.

Be the best we can

Outcome measure and progress	2012-2013 target	Status
5.1b We have a diverse workforce	**3.4%**	**GREEN**

Target achieved

3.8% BAME employees

Black, Asian and minority ethnic (BAME) staff numbers have increased by 15 since quarter 3 2012-2013, resulting in a year end BAME percentage of 3.8%. This percentage is 0.4% ahead of the end of year target and would also meet the 2014-2015 target of 3.7%.

BAME turnover has also decreased. It is now less than the total Environment Agency turnover of 3.9%

Outcome measure and progress	2012-2013 target	Status
5.4a Performance in relation to the technical development framework	**100%**	**AMBER**

Target partially achieved

83% of staff have achieved the target level within the technical development framework

In Quarter 4 2012-2013 we changed the way we measure the technical capability of our organisation. We now report the percentage of officers who are able to work unsupervised and assist in the development of others, to build technical resilience and ensure knowledge transfer and retention.

The amber status is mainly due to teams having significant numbers of new staff in the last few years. Structured programmes as well as coaching and mentoring are being used to support these staff members whilst they build up their knowledge and experience.

Outcome measure and progress	2012-2013 target	Status
5.4b We provide a safe place to work	**24**	**RED**

Target not achieved

44 lost time incidents (LTIs)

There were 44 LTIs this year, exceeding the ceiling of 24. Functions carrying out field work, including environmental monitoring, continue to have the majority of lost time incidents at around 60%. The majority of LTIs this year have been caused by slips, trips and falls and manual handling incidents (63%).

Outcome measure and progress	2012-2013 target	Status
5.5a We are more efficient	**£120m**	**GREEN**

Target achieved

Admin spend less than target at £119.5m

The Environment Agency has made cost reductions on support service spend over the course of the Spending Review 2010, to protect front line delivery. Organisational change programmes were started in several of our support service directorates in 2010-2011 and 2011-2012, which continue to result in significant savings. In 2012-2013 savings continue to be made through efficiencies.

Outcome measure and progress	2012-2013 target	Status
5.5b We manage our money efficiently	**100%**	**GREEN**

Target achieved

100% of 2012-2013 budget invested

The Environment Agency has invested £1.2bn on the environment in 2012-2013, making full use of the grant-in-aid funding made available by Defra and the Welsh Government. Funding from charges income, including prior year carried forward balances, have been spent in-year on regulatory activity.

Performance has been strong in a challenging year that started with drought followed by 12 major flood events. Additional costs of responding to these floods put a pressure on Environment Agency budgets, although Defra were able to provide additional funding to support incident response.

Appendix C – sustainability reporting

This appendix details our sustainability performance, with the aim of providing a clear and accurate picture of our environmental impacts. This appendix presents the detailed information that underpins the reporting of our performance against our corporate plan.

We present the data in a format consistent with the requirements of HM Treasury's sustainability reporting guidance. We have worked with HM Treasury and the Financial Reporting Advisory Board to develop public sector sustainability reporting standards and guidance.

Act to reduce climate change and its consequences

Carbon footprint

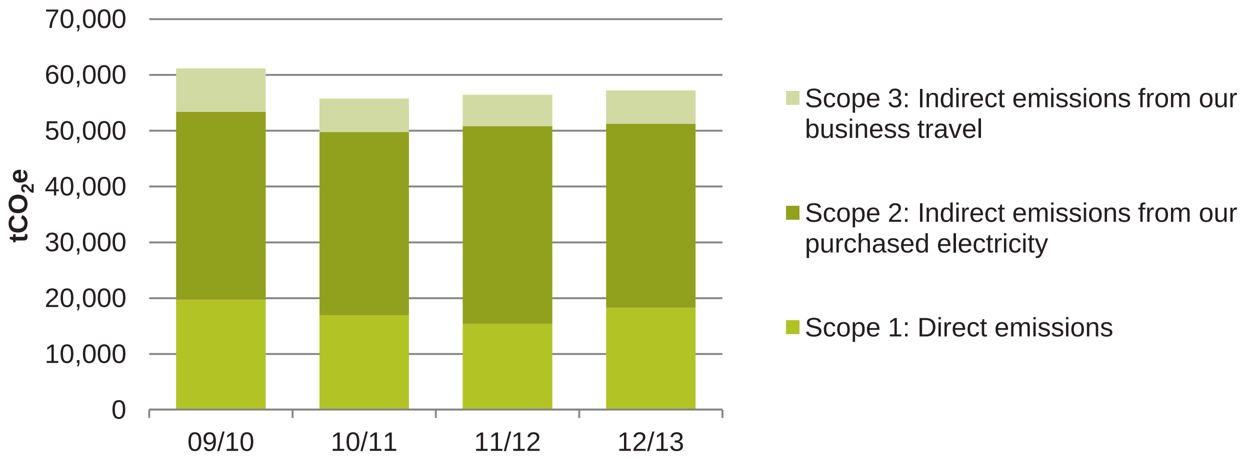
Greenhouse gas emissions	Unit	2009-2010	2010-2011	2011-2012	2012-2013
Direct emissions (Scope 1)	'000 tCO_2e	20	17	15	18
Emissions from electricity use (Scope 2)	'000 tCO_2e	34	33	35	33
Indirect emissions produced by our suppliers (Scope 3)	'000 tCO2e	8	6	104	44
Total gross emissions	'000 tCO2e	**39**	**62**	**56**	**95**
Carbon intensity (per £million expenditure)	tCO2e	51	48	141	83

We report and categorise our greenhouse gas emissions using the widely accepted approach of emission scopes. Further details can be found in the Defra guidance (*www.gov.uk/government/publications/guidance-on-how-to-measure-and-report-your-greenhouse-gas-emissions*).

Our single biggest source of carbon dioxide emissions is from pumping water – about 38%. We pump for a variety of reasons which include reducing flood risk and managing water resources. We used the Government's Technology Strategy Board to launch a competition to design a low / zero carbon water pump that is capable of pumping 40 litres per second over 5 vertical metres. We launched the competition in early 2012 and are now working with 4 participants on feasibility and concept designs to move through to prototyping. All four are British based small enterprises, employing less than 10 staff. The competition process was designed to support organisations like this and is unique in that it will allow them to retain the Intellectual Property of their designs. We hoped this would encourage as many people as possible to enter the competition.

We are continually looking to improve our transparency as data becomes available to us. This is why year-on-year greenhouse gas emissions may appear distorted – particularly in scope three where we include emissions from the activities our suppliers undertake on our behalf. We included these for the first time in 2011-2012. This year, we were also able to included emissions resulting from our material consumption (aggregates, timber, steel and paper) and disposal of our office waste in our scope three reporting. For comparative reasons, we have only include indirect business travel emissions in scope three in the graph below, as this has been consistently available.

Carbon dioxide emissions



Whilst we focus our efforts on reducing the impacts of our large office buildings and pumping activities, we do not ignore smaller sites. For example, we have installed photovoltaic arrays at our hydrometry and telemetry gauging station in Temple Sowerby, Cumbria. This will reduce running costs and greenhouse gas emissions. The project has been a success, generating a small excess of £400 from a feed-in tariff which more than covers the £250 per year running costs. This scheme will save 800kg of CO_2 emissions per year and the arrays are guaranteed for 25 years. Learning from this experience, we are looking to roll out similar solutions where suitable sites exist.

You can read more about our work to reduce our carbon dioxide emissions on our website (*www.environment-agency.gov.uk/aboutus/123000.aspx*).

Energy consumption	Unit	2009-2010	2010-2011	2011-2012	2012-2013
Purchased gas and renewable electricity	million KwH	70	70	71	73
	£ million	8.0	5.6	6.5	6.7
Self-generated renewable energy	million KwH	–	–	0.3	0.4

The figures in the table above include the energy we use to maintain river flows during drought conditions and to pump flood water. The extremes of both water scarcity and flooding have challenged our goal to reduce our direct carbon emissions. In the past year around 60% of the energy that we used was for these activities. We do not purchase any carbon offsets, choosing instead to run an internal carbon reduction fund, to enable us to undertake innovative projects that reduce our total greenhouse gas emissions.

Business travel	Unit	2009-2010	2010-2011	2011-2012	2012-2013
Car and motorbike	tCO_2e	14,440	12,490	11,450	12,160
Rail	tCO_2e	1,880	1,400	1,640	1,710
Air	tCO_2e	410	130	90	70
Total business travel	tCO_2e	16,730	14,020	13,180	13,940
	£ million	15.1	13.1	13.9	17.7
Travel carbon intensity per full-time employee	tCO_2e	1.2	1.2	1.1	1.2

Due to the location of many of our sites we have to travel to them by car. We are aware that driving is one of the most significant impacts we have on the environment and are working hard to minimise this. The figures above include the cost and emissions associated with all of our business travel – including our fleet vehicles.

This year we travelled 59 million miles, six percent further than we did last year. The majority of our business miles were taken by car, with only 32% of miles travelled by train. Our expenditure on business travel has increased from the previous year, as have the total carbon dioxide emissions associated with them. These increases in costs and emissions are linked to a number of factors including rising rail fares and additional travel requirements following the flooding incidents during the year. This year we have based our intensity ratios on average FTEs during the year as we feel that this number most accurately reflects the impacts associated with staff numbers throughout the year.

We are on track to reduce our business miles we travel by car by 25% from 2005-2006 levels by March 2015 and we encourage staff to use public transport and to walk where appropriate. You can read more about our work in this area on our website (*www.environment-agency.gov.uk/aboutus/122998.aspx*).

Natural resources

We work hard to reduce our use of natural resources and, where possible, use recycled or secondary materials. We monitor the amount we spend on these resources closely to ensure that we are able to demonstrate that good environmental governance is consistent with robust financial management.

For the first time, the volumes in the table below include construction materials from across our organisation. These are from contractors working on our flood and coastal erosion risk management projects and those used by our staff in maintenance. The quantities of materials used will vary significantly, largely dependent on the nature of the flood and coastal erosion projects completed in the year. We will continue to work with the companies who undertake construction work on our behalf to increase the use of recycled materials, including stone and aggregates, described as being from a secondary source. At the moment we are unable to capture the costs of the aggregates used by contractors working on our behalf.

Resource procurement	Unit	2009-2010	2010-2011	2011-2012	2012-2013
Paper from renewable or recycled sources	‘000 reams	–	67	53	51
	£’000	–	90	60	60
Timber from a legal and sustainable source	Tonnes	–	540	720	410
	£’000	–	840	700	370
Stones and aggregates from a primary source	‘000 tonnes	–	–	100	190
Stones and aggregates from a secondary source (recycled)	‘000 tonnes	–	–	250	940
Steel sheet piles	tonnes	–	–	–	5,350
	£’000	–	–	–	4,470

Where information is unavailable for previous years we have left the values blank to illustrate this.

All of the timber we use is from legal and sustainable sources. We have a timber procurement policy for all timber purchased either directly or by contractors working on our behalf. Where possible, we try to use secondary source aggregates (reused or recycled) rather than primary source aggregates. 95% of the steel sheet piles that we use in our construction projects are from recycled sources. You can read more about our work on this on our website (*www.environment-agency.gov.uk/aboutus/procurement/120991.aspx*).

Protect and improve water, land and air quality

Biodiversity, flooding and coastal erosion

In addition to reporting the number of households protected by our flooding and coastal erosion programmes, we have also reported the costs and benefits associated with this work. We report the figures for the year in which the projects were completed, which will result in a degree of fluctuation due to the scale of the projects each year.

Due to poor weather and the timing of projects, whilst we didn’t produce any intertidal BAP habitat during 2012-2013, we still expect to meet our corporate target of delivering 400ha between 2011-2012 and 2014-15. Several large projects, including the Steart Peninsula Project (*www.environment-agency.gov.uk/homeandleisure/floods/80793.aspx*) and the Medmerry managed realignment scheme (*www.environment-agency.gov.uk/homeandleisure/floods/109062.aspx*) are due for completion this year and will create significant new habitats for wildlife.

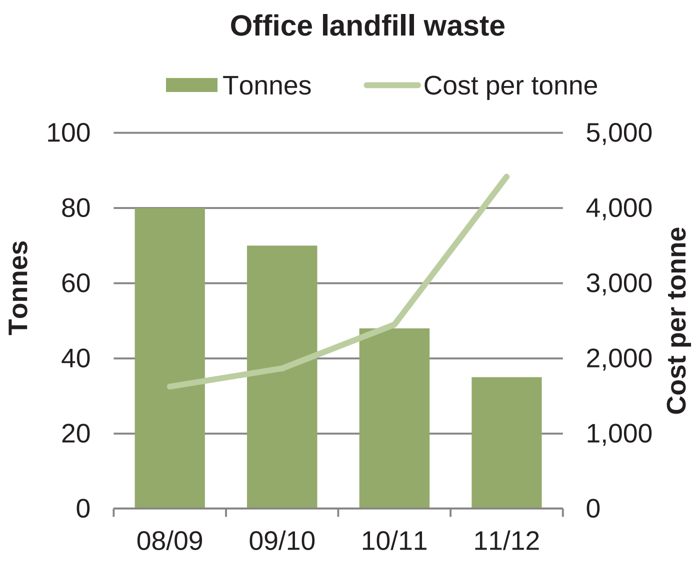
Biodiversity and flood protection	Unit	2009-2010	2010-2011	2011-2012	2012-2013
Intertidal biodiversity action plan habitats created	Hectares	43	39	25	0
Additional households with improved protection from flooding and coastal erosion (not cumulative)	Total number of households	67,290	77,726	41,575	54,705
	Number of households from 20% most deprived areas	248	5,913	1,114	4,101
	Cost (£ million)	278	888	824	479
	Benefits (£ million)	2,575	12,247	13,205	6,194

Our cost and benefit figures for 2012-2013 exclude 1,000 households that were protected by projects in Wales. In the future we will no longer be including these households in any of the figures.

Waste

We produce large volumes of waste each year. Our office waste forms just a small percentage of our total waste volume; the majority is produced by our coastal and river management activities. We work hard with our suppliers and contractors to minimise the volumes of waste generated on construction projects and, where possible, to reuse materials on site.

This year we reused or recycled 92% of all waste from our offices. We recycle 99.4% of our waste electrical and electronic equipment (WEEE), exceeding the current recycling target within the WEEE directive. You can read more about how we manage our waste on our website (*www.environment-agency.gov.uk/aboutus/122996.aspx*).



Office waste	Unit	2009-2010	2010-2011	2011-2012	2012-2013
Landfill	Tonnes	80	70	50	30
	£'000	130	130	120	150
Reused or recycled	Tonnes	450	590	410	400
Incinerated to produce energy	Tonnes	60	70	90	100
Re-used, recycled or incinerated	£'000	350	330	310	320
Hazardous Waste	Tonnes	3	5	3	4
	£'000	–	–	23	12
Reused or recycled electronic or electrical equipment	Tonnes	–	–	–	100
Cost savings from refurbishing and re-use of equipment	£'000	–	–	–	220
Total waste	Tonnes	593	735	553	634
	£'000	480	460	453	496
Waste intensity per FTE	kg	44	61	49	56

Where information is unavailable for previous years we have left the values blank to illustrate this. We are currently unable to obtain separate figures for the costs of incinerated waste used to produce energy, so have grouped this with the cost figures for our recycled or re-used waste.

This year, for the first time, we have been able to include the volume of WEEE we create. As such, total office waste volumes appear higher than last year.

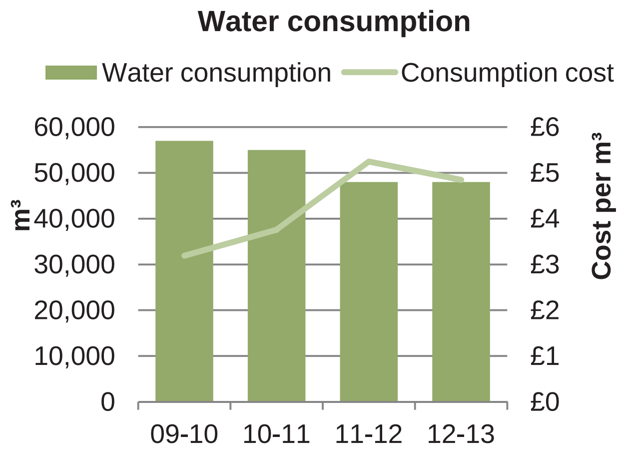
Non-office waste	Unit	2009-2010	2010-2011	2011-2012	2012-2013
Landfill	'000 tonnes	40	50	10	20
	£'000	1,160	700	770	850
Re-used or recycled	'000 tonnes	30	130	110	430
	£'000	240	310	340	340
Total waste	'000 tonnes	70	180	120	450
	£'000	1,400	1,010	1,110	1,190

Water

Water	Unit	2009-2010	2010-2011	2011-2012	2012-2013
Water supplied	m^3	57,000	55,000	48,000	48,000
	£'000	180	210	250	230
Water abstracted	'000 m^3	–	–	78,100	16,000
Water intensity per FTE	m^3	4.7	4.8	4.2	4.3

We aim to reduce our mains water consumption by 25% from 2005-2006 levels by March 2015. This year we achieved our 2014-2015 target and have reduced our water consumption by 29%.

We abstract water to maintain surface water levels and protect river ecosystems. Low river flows can be particularly damaging for the biodiversity of a waterway and any fisheries on it. The volumes used are highly dependent on weather conditions in any given year.



Despite the rising cost of water, by reducing our consumption we have managed to deliver financial savings on our direct water costs. This demonstrates that good environmental performance can result in reduced costs.

Work with people and communities to create better places

The team behind the Keswick Flood Risk Management Scheme were highly commended in the 'Community' category at the North West Civil Engineering awards this year for maintaining the Lake District market town's connection with the river. The flood defence scheme incorporates a length of over a hundred metres of glass panels to ensure views of the river and surrounding fells are maintained. The judges praised the 'concern shown by the project team for landscape design, environment and sustainability, which sit at the heart of this project.'

Many of our construction projects involve a range of small and medium sized companies working as sub contractors to a principal contractor. We are keen to ensure that payments are made as quickly as possible to these smaller enterprises from major infrastructure projects. To achieve this we have started to create project based bank accounts, where sub contractors are able to access their payments without waiting for the money to pass through suppliers invoicing systems. Clearly this is not always an option, but when working with a trusted supplier it is an excellent way of ensuring the quickest possible flow of payments for work carried out. We are currently using such an approach for the construction of coastal defences in the Sandwich Bay area (*www.environment-agency.gov.uk/homeandleisure/floods/135503.aspx*).

Pension fund investments

We manage our pension fund investments in a financially robust and environmentally responsible way. The pension fund is a signatory of the United Nations Principles of Responsible Investment. This investor led initiative has developed tools and approaches that can be used by all pension funds to manage risks associated with environmental, social and governance issues. In addition to this, we carry out annual reviews of the carbon footprint of our active equity investments. We use the results to engage with our fund managers. Our target for the pension fund is for 25% of the asset value to be invested in clean and green technology by 2015.

You can read more about our pension fund and our commitment to responsible investment in the pension fund annual report that can be found on the website (*www.environment-agency.gov.uk/aboutus/organisation/35603.aspx*).

Pension fund investment	Unit	2009-2010	2010-2011	2011-2012	2012-2013
Pension fund assets	£ million	1,636	1,747	1,849	2,114
Investments in clean technology	%	13	15	13	12
Carbon footprint	tCO_2e per £million	436	425	370	386

Whilst we present the full asset figures for the Active Pension Fund the carbon footprint is calculated using only the actively managed equities, in 2012-2013 this represented £771m of the total fund value.

Be the best we can

Diversity

We are committed to creating an inclusive and diverse workforce and ensuring that every employee can contribute to our business and environmental outcomes. We carry out annual staff surveys to identify and address any perceived barriers within our workforce to people developing and achieving their full potential. 76% of our staff completed the voluntary self disclosure questionnaire this year and we have included data on staff reporting disabilities below. Race and gender data below is from our HR Employee Database.

Workforce diversity	Unit	2009-2010	2010-2011	2011-2012	2012-2013
Race (black, Asian and minority ethnic groups, including Eastern European)	% (number)	3.4	3.4	3.5	3.8 (465)
Women in our workforce	% (number)	40.9	40.3	40.5	41.6 (5,111)
Women in executive manager roles	% (number)	–	–	–	29 (44)
Staff with disabilities	% of those that self-disclosed (number)	–	–	–	9.9 (1,213)

Appendix D – water resources income

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

	March 2013				March 2012
	SUC balance	EIUC balance water companies	EIUC balance non water companies	Total	Total
	£'m	£'m	£'m	£'m	£'m
Anglian	(0.2)	(7.3)	(4.7)	(12.2)	(10.5)
Midlands	(1.3)	(5.5)	(2.7)	(9.5)	(9.2)
Yorkshire	1.4	–	(0.4)	1.0	0.5
Northumbria	1.4	–	–	1.4	0.1
North West	(0.6)	(5.6)	(0.7)	(6.9)	(3.4)
Southern	(0.2)	–	(1.5)	(1.7)	(7.1)
South West	0.3	(2.5)	(1.1)	(3.3)	(3.6)
Thames	(0.6)	(18.1)	(0.3)	(19.0)	(11.7)
Wales	(2.0)	–	(0.9)	(2.9)	(2.1)
Total	**(1.8)**	**(39.0)**	**(12.3)**	**(53.1)**	**(47.0)**

From 2008-2009, abstractors were charged an Environmental Improvement Unit Charge (EIUC) in addition to the Standard Unit Charge (SUC). This enables the Environment Agency 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. In the year to 31 March 2013 the Agency varied or revoked abstraction licences under the terms of one compensation scheme following approval from the Secretary of State for the Environment, Food and Rural Affairs. In the year to March 2013 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 seven compensation schemes.

The Environment Agency uses 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.

Appendix E – board member attendance

Board members during the year

Lord Smith (LS), Andy Brown (AB), Ruth Hall (RH), Julie Hill (JH), Emma Howard Boyd (EHB), Robert Light (RL), Madeleine Havard (MH), Jeremy Walker (JW), Suzanne Warner (SW) , Larry Whitty (LS), Clive Elphick (CE) John Varley (JV), Peter Ainsworth (PA), Karen Burrows (KB), Richard Leafe (RL)

Board meetings

Date	19 April 2012	24 May 2012	12 July 2012	20 September 2012	19 October 2012	8 November 2012	13 December 2012	6 February 2013	7 March 2013
Attendance	LS, AB, RH, JH, EHB, RL, MH, JW, SW, LW, CE	LS, AB, RH, JH, EHB, RL, MH, JW, SW, JV, CE	LS, AB, RH, JH, EHB, RL, MH, JW, SW, LW, CE	LS, AB, RH, EHB, RL, MH, JW, JV, CE, PA, KB, RL	LS, RL, MH, JW, JV, CE, KB, RL	LS, EHB, RL, MH, JW, JV, CE, PA, KB, RL	LS, EHB, RL, MH, JW, JV, CE, KB, RL	LS, EHB, RL, MH, JW, JV, CE, KB, RL	LS, EHB, RL, MH, JW, JV, CE, KB, RL, PA
Apologies	JV	LW	JV	None	EHB, PA	None	PA	PA	None
	11 out of 12	**11 out of 12**	**11 out of 12**	**12 out of 12**	**8 out of 10**	**10 out of 10**	**9 out of 10**	**9 out of 10**	**10 out of 10**

Audit and Risk Committee

Date	26 June 2012	13 September 2012	6 December 2012	5 March 2013
Attendance	AB, EHB, SW, JH, CE	AB, MH, EHB, RL, CE	EHB, CE, KB, RL	EHB, CE, KB
Apologies	MH, RL	SW, KB, RL	MH	MH and RL
	5 out of 7	**5 out of 8**	**4 out of 5**	**3 out of 5**

FCRM Finance Committee

Date	23 July 2012	2 October 2012	18 December 2013	15 January 2013
Attendance	LS, MH, JW, SW	LS, PA, MH, EHB, JW	LS, PA, MH, EHB, JW	LS, PA, MH, EHB, JW
Apologies	EHB	None	None	None
	4 out of 5	**5 out of 5**	**5 out of 5**	**5 out of 5**

Remuneration Committee

Date	29 May 2012	13 September 2012	15 January 2013
Attendance	LS, AB, EHB, RL, JW, LW	LS, AB, EHB, RL, JW, LW	LS, RL, JW, KB, JV
Apologies	None	None	None
	6 out of 6	**6 out of 6**	**5 out of 5**

Pensions Committee

Date	25 June 2012	4 October 2012	12 December 2012	18 March 2013
Attendance	LW, RL, SW, JV, CE	RL, JV, CE, EHB	RL, JV, CE	RL, JV, CE, EHB
Apologies	None	None	EHB	
	5 out of 5	**4 out of 4**	**3 out of 4**	**4 out of 4**

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