Department for Environment, Food and Rural Affairs

Resource Accounts 2009–10

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Department for Environment, Food and Rural Affairs

Resource Accounts 2009–10

(For the year ended 31 March 2010)

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Annual Report for the Year Ended 31 March 2010

Management Commentary

Introduction

The Department for Environment, Food and Rural Affairs (Defra) has three priorities; to strengthen British farming, enhance the environment and biodiversity and support a strong and sustainable green economy.

Although this has been a challenging year in financial terms, through financial planning and forecasting Defra has achieved a balanced budget position. Considerable pressure was placed on its budget by financial corrections for the administration of the Single Payment Scheme. A commentary on Significant Variances against Estimate is provided on page 5.

During this successful year, Defra has responded to the economic needs of the country; working quickly and effectively with its partners in industry. Defra has also kept a clear sight on the long–term future, taking actions today that will allow continued use and enjoyment of our natural resources through to the end of this century and beyond.

Basis of Accounts

These accounts have been prepared to comply with the Government Resources and Accounts Act 2000 and the requirements of HM Treasury.

Future Priorities

The Government published the Coalition Agreement on 19 May 2010, setting out the key policy areas, with the overriding priority of strengthening the economy and tackling the budget deficit. Defra will publish its Business Plan in Autumn following the Spending Review, showing the structural reforms and how these will be effectively delivered.

Better Regulation and Simplification

Defra published its fourth full simplification plan 'Simplifying the Business Environment: Driving Burdens Down'([1]), in December 2009. It gives the reader a clear picture of Defra's contribution to the Government's Administrative Burden Reduction Programme. As well as reporting on that process, which began in 2005, it also provides an update on Defra's delivery against the wider better regulation agenda. As at December 2009, Defra reported it was on target to achieve a 20% reduction in administrative burdens by May 2010. Defra has been doing everything possible to close the gap and meet the 25% target by ensuring that in the last months of the current Administrative Burden Reduction Programme it will deliver on measures that provide meaningful benefits to business.

Defra has a large and diverse regulatory landscape. We are responsible for more regulations (over 700) than any other government department impacting across both business and public sectors. We are continually seeking the balance between delivering policy outcomes and associated benefits, whilst reducing burdens and giving business the certainty to operate effectively in the current economic climate.

Over the past year, a range of measures have delivered a total of £42.8m (gross) in savings. Over 30 of these have delivered savings of more than £200k a year. We have identified further initiatives across the delivery network, which are projected to deliver a further £19.9m (gross) of savings by May 2010. Whilst many of these measures are relatively small in the level of savings they are expected to deliver, they will provide improvements for the businesses they affect.

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[1] http://www.defra.gov.uk/corporate/policy/regulat/documents/simplification-plan-091214.pdf

Significant Bodies within the Departmental Boundary

Significant bodies are listed below; additional ones are included in Note 37.

Rural Payments Agency (RPA)

RPA administers a wide range of Common Agricultural Policy (CAP) schemes including Single Payment Scheme (SPS), internal market schemes covering dairy products, crops, fruits and vegetables, external trade measures, milk quotas and the Older Cattle Disposal Scheme (OCDS). RPA is also the paying agency for Rural Development Programme for England (RDPE) and its predecessor, England Rural Development Programme (ERDP).

Animal Health (AH)

A Great Britain wide organisation dealing with animal health, public health, animal welfare and international trade. Animal Health is primarily responsible for ensuring that farmed animals are healthy, disease–free and well looked after.

Veterinary Laboratories Agency (VLA)

Provides Defra, other government and commercial customers with specialist veterinary research, consultancy, surveillance and laboratory services.

On 29 June 2010, the Secretary of State announced her intention to merge Animal Health and the Veterinary Laboratories Agency.

Centre for Environment, Fisheries and Aquaculture Science (Cefas)

Provides multi–disciplinary scientific research, consultancy and high value technical services that support delivery of government objectives for the marine environment.

Food and Environment Research Agency (Fera)

Fera is a UK wide organisation whose over arching purpose is to support and develop a sustainable food chain, a healthy natural environment, and to protect the global community from biological and chemical risks.

Marine and Fisheries Agency (MFA)

Work includes the delivery of services such as inspections and enforcement, marine environmental work, vessel licensing, quota management, grants and statistics.

On 1 April 2010, MFA ceased to exist as an Executive Agency of Defra, and most of its functions and responsibilities transferred to a new Non–Departmental Public Body (NDPB), the Marine Management Organisation (MMO) with the exception of licensing activities in Wales, which transferred to the Welsh Assembly Government.

Veterinary Medicines Directorate (VMD)

Aims to protect public health, animal health, the environment and promote animal welfare by assuring the safety, quality and efficacy of veterinary medicines.

Forestry Commission Great Britain/England (FC)

Forestry Commission is responsible for protecting, expanding and promoting the sustainable management of woodland and increasing their value to society and the environment.

Forestry Commission is a non–ministerial department which produces and lays its own set of accounts before Parliament. See Request for Resources 2 on page 42.

Defra's Delivery Partners

For information on all Defra's delivery partners please see our website([2]) and Note 38. Defra's larger delivery partners during 2009–10 were as follows:

- Environment Agency (EA);
- Natural England (NE); and
- British Waterways.

Bodies outside the Departmental Boundary

The public sector bodies which have not been consolidated in these accounts, but for which the Department had lead responsibility during the year, are listed in Note 38.

[2] Details of Defra's other public bodies can be found at: http://ww2.defra.gov.uk/about/delivery-bodies/

Significant Variances against Estimate

Explanation of the Underspend against the Estimate

The department has spent £918m less than the amount in the Spring Supplementary Estimate (SSE). This can be categorised into three areas of underspend; £541m prior period adjustments due to one-off complex change in accounting policies at RPA and adjustment to RDPE prepayments; £115m due to recurring technical differences in reporting through Estimates and Resource Accounts for British Waterways cost of capital and EA Closed Pension Scheme provision; leaving an underlying movement during the year of £262m largely due to lower volume of SPS claims being processed and payments being made this year and slower uptake of RDPE schemes than previously forecasted which represents a 4.4% underspend against its Resource Estimate.

The overall underspend is split between the Estimate categories of Departmental Expenditure Limit (DEL), Annually Managed Expenditure (AME), and Non Budget as detailed in Note 3 to the resource accounts.

In addition to the above, an underspend of £20m occurred in respect of the Forestry Commission mainly due to the impact of increased volatility in market prices and valuation requirements by IAS 41 Agricultural Asset. Forestry Commission produces and lays their own accounts.

Explanations for the significant variances as shown in Note 3 to the resource accounts are as follows:

Departmental Expenditure Limit

The total underspend is £402m with the significant variances being:

- £180m underspend against EU funded scheme administered by the Rural Payments Agency, due mainly to fewer claims being validated and paid during January to March 2010 than expected and movement in exchange rates;

- £50m underspend on EU funded Rural Development Programme for England (RDPE) schemes because of slow uptake (particularly through RDAs) and a lower impact than expected from exchange rate movement;

  In DEL budget terms both of these are offset by an equivalent reduction in income received from the EU, but this is CFER income in Estimate terms which results in the reduction in expenditure fully impacting on the outturn.

- £16m Waste Efficiency Improvement Programme mainly due to savings on London Waste and Recycling Board Business case and funding not being required;

- £28m due to an accounting anomaly where a British Waterways Board Cost of Capital Charge provision is made in the SSE but not included in the resource expenditure;

- £35m release of onerous lease provisions most significantly the termination of Page Street lease;

- £12m underspend on grants including Waste Infrastructure and contaminated land;

- £17m underspend on Animal welfare including surveillance and testing e.g. TB and Scrapie; and

- £44m prior period underspend on RDPE prepayments understated due to inaccuracies in the co-financing rates.

There are numerous smaller variances totalling £20m underspend.

Annually Managed Expenditure

The total underspend is £69m mainly due to:

- £18m charge for downward revaluation of property assets due to changes in market conditions since the last full revaluation in 2005; and

- an underspend of £87m due to utilisation of the Environmental Agency Closed Pension Scheme provision. Although the provision is recorded in the Department's accounts, the credit to the provision resulting from cash contributions is held outside of the RfR because it is non-voted.

Non Budget

The total underspend is £447m mostly due to:

- £497m prior year adjustments in response to compliance issues raised in 2008-09 audit around the application of IAS 21 'The Effects of Changes in Foreign Exchange Rates' for impacts of foreign exchange and scheme income and expenditure recognition for the Single Payments Scheme at RPA. Prior to the finalisation of the accounting policy early analysis led to an increase of £181m in the SSE. Subsequently detailed analysis at year end has calculated a prior period credit of £316m resulting in a movement to estimate of £497m;

- £48m excess appropriations in aid offset the above; and

- £2m overspend on other small variances were as a result of non budget grants

Explanation of the variation between the net cash requirement outturn and the Estimate

The total underspend is £807m mainly due to:

- £230m underspend to lower volume of SPS claims being processed and payments being made this year and slower uptake of RDPE schemes than previously forecasted;

- £115m underspend was due to recurring technical differences in reporting through Resource Accounts and Estimates of British Waterways Cost of Capital Charge and Environment Agency Closed Pension Scheme provision;

- £391m underspend as a result of restatement of opening SPS creditors from that expected in the SSE due to the change in accounting for foreign exchange and recognition of income and expenditure; and

- A further £71m underspend made up of smaller variances

The full reconciliation of the net resource outturn to the net cash outturn is shown in Note 5 of these Resource Accounts.

Reconciliation of Resource Expenditure between Estimates, Accounts and Budgets

Consolidated 12 months to 31 March 2010	**2009-10**	2008-09
	£000	£000
Net Resource Outturn (Estimates)	5,464,571	5,068,484
Adjustments to remove:		
Forestry Commission on an Estimate basis	(79,787)	(80,812)
Cost of capital for Public Corporations	(27,700)	(31,200)
Adjustments to additionally include:		
Consolidated Fund Extra Receipts (CFERs) in the Operating Cost Statement	(2,352,368)	(2,101,000)
Environment Agency closed pension fund	(87,100)	(84,400)
Prior period adjustments in the OCS		9,437
Other adjustments	(2,050)	935
Net Operating Costs (Accounts)	2,915,566	2,781,444
Adjustments to remove:		
Capital grants	(188,540)	(159,828)
Gains/losses from the sale of capital assets	(2,894)	(260)
Voted expenditure outside the Budget	(8,249)	1,614
Other Consolidated Fund Extra Receipts - Sugar Levies	11,560	10,233
Adjustments to additionally include:		
Resource consumption of Non-Departmental Public Bodies, net of Grant-in-Aid	(289,284)	(231,276)
Levy Funded Bodies resource costs	57,020	68,592
Cost of capital for Public Corporations	27,700	31,200
Forestry Commission	79,787	84,490
Prior period adjustments in the OCS		(9,437)
Other adjustments	8,574	(935)
Resource Budget Outturn (Budget)*	2,611,240	2,575,837
of which:		
Departmental Expenditure Limit (DEL)	2,664,183	2,605,678
Annually Managed Expenditure (AME)	(52,943)	(29,841)

* Reported to HM Treasury as the provisional outturn for the Public Expenditure Outturn White Paper.
The final Budget Outturn is calculated once all the relevant resource accounts have been laid.

Managing Principal Risks and Uncertainties

Details on managing Defra's principal risks and uncertainties can be found in the Statement on Internal Control.

The use of financial instruments to manage exposure to financial risks is discussed in Note 17.

Investment Strategy

The net book value of the fixed assets controlled by Defra including its Executive Agencies, NDPBs and Public Corporations is approximately £5bn. This includes flood and coastal defences held by EA and a major portfolio of land and buildings including internationally important laboratory and research facilities. Assets that are no longer required for the Department's business are sold in accordance with the principles of Managing Public Money, which requires the Department to ensure best value for the taxpayer. During 2009–10, the Department disposed of land and buildings worth £6.0m.

Defra's Asset Management and Investment Strategy outlines the Department's capital investment plans for the three years 2008–11. Defra will be providing a total of around £600m each year for investment in flood defences; to provide capital grants to local authorities to invest for example in waste recycling facilities; and to maintain and upgrade the Department's asset base which underpins the work of the Department and its sponsored bodies.

Public Interest

Capability Review

Defra organises its work on a clear programme and project basis with systems in place to ensure resources are aligned to our priorities and are able to adapt as circumstances change. In order to promote best practice and to maximise success, Defra has put systems in place to identify priorities and deploy staff and funding flexibly to deliver on them, including a managed portfolio to approve investment decision making.

In the latest Capability Re–Review in March 2010, the findings were:

Overall Strengths
- The resource management processes of the Department will enable it to meet the financial challenges of the future.
- Comprehensive response to previous review recommendations.
- Energy and pace throughout the organisation.

To Develop
- There is a need to accelerate the development of the relationship with delivery bodies to deliver successful outcomes and to correct the problems associated with the RPA.

Employee Policy and Achievements

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

Highlights 2009–10

Recruitment Practice in Defra has been maintained and strengthened through:

- building on our multi assessment approach to our recruitment and promotion activity;
- prioritising our most immediate resourcing requirements and moving available staff in a much more flexible way than has ever previously been possible;
- running promotion boards for people at Grade 7, SEO, HEO and EO grades in order to identify and develop talent into significant roles throughout the organisation; and
- workforce planning with career homes to enable them to identify our people needs (i.e. the numbers, skills and experience required) in the future so that plans can be put in place to meet them.

Diversity and Employment of Disabled Persons

To ensure that Defra effectively meets the general and specific duties of the equalities legislation it has replaced the Joint Equality Scheme with three separate schemes. These separate schemes provide more focused and targeted activity in respect of disability, race and gender. Defra has also introduced Scrutiny and Advisory Groups of external and internal experts as a mechanism to enhance the execution of the new equality schemes and to ensure a wider perspective is taken into account in carrying out the action plans.

The strengthening of relationships with the staff networks and Trade Unions has enhanced partnership working on diversity initiatives, increasing their impact, effectiveness and reach. There has also been ongoing activity to support the Cabinet Office Diversity Strategy, "Promoting Equality, Valuing Diversity". The Cabinet Office have assessed Government Departments' progress on the Diversity Strategy. The assessment found that Defra is well-placed in the area of leadership on diversity with evidence of rigorous accountability structures. However recognise that more work needs to be done to promote opportunities for Black and Minority Ethnic and disabled employees and increasing our diversity declaration rates for both ethnicity and disability.

To further support the mainstreaming of diversity into the core business of Defra, the Diversity Equality Impact Assessment process has been embedded into the Department's policy and project planning processes. There has also been a significant investment in the training of decision makers and policy makers in the use of the revised Defra Equality Impact Assessment tool. This tool enables the potential impact that a policy, process or function may have on different groups to be assessed and addressed, both retrospectively and predictively.

Defra operates the principles of the 'Two Ticks' disability symbol in recruitment and in employment. A central budget is available to meet the cost of reasonable adjustments for disabled employees in the Core–Department and Veterinary Laboratories Agency whilst the other Agencies make use of the Access to Work Scheme. Disability leave is also available, which provides for paid time off work for the purposes of assessment, treatment and rehabilitation for disabled employees.

Corporate Social Responsibility and Wellbeing

A corporate strategy for Wellbeing and Corporate Social Responsibility at work was implemented by the Management Board in December 2007. It takes a holistic view of people issues by incorporating them into a framework that supports the key employment aspects of staff recruitment and retention. In this way, it aims to provide a clear rationale for the development and promotion of an ongoing activities programme within Defra that supports the achievement of the organisation's strategic goals. A report on the progress of the strategy during 2008 was produced for Director Generals' information. Work has continued on implementing a full Wellbeing programme during 2009. Our commitment to the Corporate Social Responsibility agenda has also continued through a programme that supports staff in identifying and undertaking volunteering activities in the wider community. A further annual report for 2009 will be completed during 2010 and sent to Director Generals for information.

Performance on Sustainability

Information on the Department's programmes, targets and performance relating to sustainability can be found at Annex 1.

Personal Data Related Incidents

Incidents, the disclosure of which would in itself create an unacceptable risk of harm, may be excluded in accordance with the exemptions contained in the Freedom of Information Act 2000 or may be subject to the limitations of other UK information legislation.

SUMMARY OF PROTECTED PERSONAL DATA RELATED INCIDENTS FORMALLY REPORTED TO THE INFORMATION COMMISSIONER'S OFFICE IN 2009-10				
Statement on information risk	Defra and its network continue to make steady progress in working together proportionately to identify and address information risks. We have checked and treated risks to key IT systems, rolled out encrypted laptops to protect information used by staff working remotely and spread best practice to a wider range of delivery partners. We have also responded actively to a declining number of significant incidents. We have, for example, improved the handling of back–up media following a problem at RPA when a number of back-up tapes for the RITA system could not be accounted for. The physical protection of unencrypted PCs has also been increased following the theft of a desktop containing sensitive information. These and other actions are reflected in a significantly improved formal assessment against the information assurance maturity model. The improvements to the handling of back-up media have also been the subject of an audit by the Information Commissioner's Office which found high assurance on the documentation of transfer processes, on the labelling and cataloguing of back-up media, and on physical security arrangements. Our approach will continue to take account of the fact that we do not handle as much sensitive information as some other Departments and that our information is not held in a single system but in a number of different systems across the delivery Network. While Defra remains unaccredited under the ISO 27001 standard, there is a strategy to achieve compliance with the Cabinet Office's mandatory standards and assurance on this has been obtained from Internal Audit.			
Date of incident (month)	**Nature of incident**	**Nature of data involved**	**Number of people potentially affected**	**Notification steps**
October 2009	Loss of an inadequately protected desktop PC from secured Government premises	Sensitive casework database with some personal information	Approximately 600	Individuals not notified. The database with case information was password protected and though some case notes included sensitive information, for the most part the link to specific individuals could not be established easily or without additional information not present on the PC .
Further action on information risk	The Department will continue to monitor and assess its information risks, in light of the events noted above, in order to identify and address any weaknesses and ensure continuous improvement of its systems.			

There were no incidents recorded centrally within the Department that were deemed by the Data Controller not to fall within the criteria for report to the Information Commissioner's Office. Small, localised incidents are not recorded centrally.

Sickness Absence

Defra and its Agencies closely monitor sickness absence, including benchmarking sick absence rates against Cabinet Office quarterly figures covering the previous 12 months for the Civil Service. Policies and good working practices are in place to reduce sick absence. These include conducting return–to–work interviews, occupational health professionals advising on the medical and Disability Discrimination Act aspects of cases, provision of counselling, information, training and advisory services through a contracted Employee Assistance Programme, or through internal staff welfare services where these are in place. A total of 78,403 days (on average 7.4 days per employee) were lost to sickness in 2009–10, an improvement in comparison to last year's total of 80,088 days (on average 8 days per employee).

Public Sector Information Holders

Defra has complied with the cost allocation and charging requirements set out in HM Treasury and Office of Public Sector Information guidance.

Estimates

Estimates are the means of obtaining from Parliament the legal authority to consume the resources and spend the cash the Government needs to finance the Department's agreed spending programmes for the financial year (April to March).

Parliament gives statutory authority for both the consumption of resources and for cash to be drawn from the Consolidated Fund (the Government's general bank account at the Bank of England) by Acts of Parliament known as Consolidated Fund Acts and by an annual Appropriation Act. This process is known as the 'Supply Procedure'. The Main Estimates start the Supply Procedure and are presented by HM Treasury around the start of the financial year to which they relate. HM Treasury presents, alongside the Main Estimates, a set of supplementary budgetary information tables reconciling the Estimates to Departmental Report tables.

The Main Estimate is published at the beginning of the financial year. There are two Supplementary Estimates: Winter and Spring, which are produced in November and January respectively. Details of all Estimates can be found on HM Treasury's website([3]).

Remote Contingent Liabilities

Defra has entered into a number of remote contingent liabilities that are disclosed in Note 31 under parliamentary reporting requirements. These are outside the meaning of IAS 37 since the possibility of a transfer of economic benefit in settlement is too remote. Details on Defra's significant remote contingent liabilities are as follows:

- Defra has an indemnity to maintain an offshore works, built in the 1970s to assess the feasibility of offshore reservoirs, and ensure that no danger, nuisance or annoyance is caused. To reduce the risk of a liability crystallising Defra pays for the works to be marked with a beacon and a navigation buoy and for a lifebuoy station to be maintained (unquantifiable);

- Defra indemnifies the UK Chemicals Stakeholders Forum against legal action by companies affected by Forum decisions or announcements on chemicals. To minimise the risk of the liability crystallising Defra seeks advice on the wording of Forum announcements (unquantifiable);

- Defra has agreed to provide a letter of comfort to close a funding gap that would otherwise prevent the completion of the redevelopment of the New Covent Garden Market site at Nine Elms. The Department has agreed to underwrite the redevelopment of the Covent Garden Market Authority in the event that costs exceed the budget allowed to them by HMT, up to a maximum of £10m;

[3] http://www.hm-treasury.gov.uk/psr_estimates_index.htm

- Defra received an EU Article 226 letter dated 20 December 2009 relating to the Drinking Water Directive (98/83/EC) (EU case reference: 06/2005). Should the case reach the Article 228 European Court of Justice (ECJ) stage, the Court would determine the extent of any fines. Fines may be back–dated and substantial, but cannot be quantified at this stage.

Research and Development

In 2009–10 Core–Defra invested around £95m on research and development (in the natural and physical sciences as well as economics, social research and operational research) to support evidence–based policy development and service delivery. This represents approximately 4% of total Core–Defra programme expenditure. In addition, Core–Defra spends approximately £100m each year on other non–research evidence activities, including monitoring and surveillance, field trials and capital expenditure and a further £13m on Core–Defra staff working on evidence. These figures exclude the analysis work carried out by Defra's delivery bodies, such as the Environment Agency and Natural England.

Payment of Creditors

The standard terms of payment for all contracts is 30 days from receipt and agreement of a valid invoice. This is embedded in all contracts with suppliers, with any exceptions agreed as part of contractual negotiations. Exceptions have to be fully justified by a business case and agreed by the appropriate senior management. Payment practice is in line with that of all other government departments following the Prime Minister's statement in the House of Commons in October 2008 that the Government committed to pay all valid invoices for Small and Medium Enterprises within 10 days. Defra, along with other Departments and their agencies, have brought forward payments to all businesses in their supply chains.

Agreement on terms of settlement is reached at the time of contract agreement and is based on the standard terms of payment for all contracts of 30 days from receipt and agreement of a valid invoice. This policy will continue in the following financial year.

Payment of creditors is reported on a creditor days basis. This is calculated as a proportion of the amount owed to trade creditors at the year end compared with the aggregate amount invoiced by suppliers during year, expressed as a number of days in the same proportion to the total number of days in the financial year. Under this measure, Defra paid suppliers within an average of 13 creditor days in 2009–10.

£4,661.24 was payable under the Late Payment of Commercial Debts (Interest) Act 1998 (2008–09 £1,546.43).

Going Concern

The Statement of Financial Position at 31 March 2010 shows negative Taxpayers Equity of £783,856,000 (Restated 2008–09 £734,201,000). This reflects the inclusion of liabilities falling due in future years, which are to be financed mainly by drawings from the UK Consolidated Fund. Such drawings will be from grants of Supply, approved annually by Parliament, to meet Defra's net cash requirement. Under the Government Resources and Accounts Act 2000, no money may be drawn from the Fund other than that required for the service of the specified year or retained in excess of that need. All unspent monies, including those derived from the Department's income, must be surrendered to the Fund.

In common with other government departments, the future financing of Defra's liabilities is accordingly to be met by future grants of Supply and the application of future income, both to be approved annually by Parliament. Such approval for amounts required for 2010–11 has already been given and there is no reason to believe that future approvals will not be forthcoming. It has accordingly been considered appropriate to adopt a going concern basis for the preparation of these financial statements.

Events After the Reporting Period

Details of the events after the reporting period are included within Note 34.

Pension Liabilities

Details of the treatment of pension liabilities can be found in Note 1.14 and pension entitlements of Ministers and senior officials are detailed in the Remuneration Report.

Auditor

The Comptroller and Auditor General is the auditor for the Department's Accounts. All external audit remuneration is for audit work undertaken on the Accounts. The notional cost for the audit of the Core and Consolidated Accounts was £400,000.

As far as the Accounting Officer is aware, there is no relevant audit information of which Defra's auditors are unaware. The Accounting Officer has taken all the steps that she ought to have taken to make herself aware of any relevant audit information and to establish that Defra's auditors are aware of that information.

The Comptroller and Auditor General also undertakes value for money examinations under Section 6 of the National Audit Office Act 1983.

Management

Ministers

The Ministers who had responsibility for the Department during the year were:

Secretary of State	Rt Hon Hilary Benn MP
Minister of State	Lord Hunt of Kings Heath (until 8 June 2009)
Parliamentary Under–Secretary	Lord Davies of Oldham (from 12 June 2009)
Minister for the Natural and Marine Environment	Huw Irranca–Davies MP
Minister of State for Food, Farming and the Environment	Rt Hon Jane Kennedy MP (until 8 June 2009) Jim Fitzpatrick (from 8 June 2009)
Minister for Rural Affairs and Environment	Dan Norris (from 8 June 2009)

Management Board Members

The Management Board comprised the following members of staff during 2009–10:

Permanent Secretary	Helen Ghosh
Director General: Strategy and Evidence	Bill Stow (until 31 May 2009) Mike Anderson (from 1 June 2009)
Director General: Chair of the Central Approvals Panel	Bill Stow (from 1 June 2009)
Director General: Food and Farming	Katrina Williams
Director General: Environment and Rural	Peter Unwin
Solicitor and Director General: Law and HR	Gill Aitken (until 28 February 2010)
Chief Scientific Advisor	Professor Robert Watson

Non–Executive Members of the Management Board

Bill Griffiths
Poul Christensen (until 31 December 2009)
Alexis Cleveland

Management Board directorships and other significant interests

Any potential conflict of interest is handled in line with the Civil Service Code. Details of Management Board directorships and other significant interests, including Non–Executives, are given in Note 33.

Helen Ghosh 21 July 2010
Accounting Officer for the Department for Environment, Food and Rural Affairs

Corporate Governance

Requirements of the Code

The Department is required to give a clear account of how far it has complied with key aspects of the 'Code of Good Practice' on corporate governance in Central Government Departments for the year ended 31 March 2010 in accordance with DAO (GEN) 09/05 — Corporate Governance in Central Government Departments([4]). The Accounting Officer confirms that Defra complies with the Code.

Operation and Decision Making Practice

The Secretary of State for Environment, Food and Rural Affairs is responsible and answerable to Parliament for all the policies, decisions and actions of the Department including its Executive Agencies. Under the Secretary of State, the Permanent Secretary as Defra's Accounting Officer is also personally responsible and accountable to Parliament for the management and organisation of the Department, including the use of public money and the stewardship of its assets.

The Permanent Secretary chairs Management Board meetings([5]). She ensures that the Board makes effective decisions which are communicated to the Department and provides direction to the implementation of decisions. Where appropriate, Ministers may provide guidance to assist the Board in their discussion and decision making, in particular through discussion at the weekly Business Meeting which is held jointly between them and Executive Board members. Aside from the general principles set out in HM Treasury's code of good practice in corporate governance, the Board's objectives in 2009–10 were to:

- Promote confidence in and beyond Defra through a compelling strategic narrative which shows that an environmentally sustainable world is good for the economy and is essential for food, water, and energy security.
- Focus on the needs of our customers, in partnership with the expertise of our delivery partners, in order to guide the Department to operational success through the uncertain times ahead.
- Use our existing business processes to identify the talent and skills needed in the Department, enabling us to shape the opportunities for staff development and assignments best matched to business needs.

The Board meets monthly (excluding August) and occasionally for ad–hoc meetings to discuss specific issues. It receives monthly written reports from all sub–groups when they have met. A monthly Finance Report is presented to the Board on the allocation and use of the Department's financial resources.

A key role of the Board is to monitor the Department's performance. The Department's Performance Programme has tools to measure and monitor progress on departmental outcomes and objectives. The Board reviews Board Programmes and the Corporate Dashboard on a quarterly basis. Performance update reports are discussed monthly, and Senior Responsible Owners (SROs) are regularly challenged, through both formal and informal mechanisms, on their performance in delivering on the Department's objectives and their other responsibilities as outlined in their Delegated Authority Documents.

Defra has an internal audit service which operates in accordance with Government Internal Audit Standards.

[4] DAO (Dear Accounting Officer) (GEN) 09/05 is online at: http:/www.hm-treasury.gov.uk

[5] Members of the Board attend Board meetings in a corporate capacity, not to represent their areas of work. Substitutes are not normally allowed to attend, although may do so at the discretion of the chair.

Management Board sub–groups

The Management Board sub–groups in 2009–10 were the:

- Central Approval Panel;
- Audit and Risk Committee;
- Senior Appointments Board;
- Strategy Group; and
- Defra Network Delivery Group.

Central Approval Panel

From 1 April 2008 the Central Approval Panel has been the decision–making body within Defra responsible for resource re–allocation. Its role is to review and challenge business cases in the following circumstances:

- for proposed new activities within Programmes, Ongoing Functions or Projects which have been escalated by local panels;
- at specific points in the project lifecycle of Programmes, Ongoing Functions and Projects and at additional stages as the Panel deems necessary;
- considering requests for additional resources which are in excess of delegated ceilings for Programmes, Ongoing Functions and Projects or which cannot be met within Groups' existing resources.

The Central Approval Panel either approves the allocation of resources to the initiative or rejects the business case resulting in funding not being allocated. The Panel is also responsible for stopping or reshaping activities should their business case no longer justify expenditure, or should priorities change. The Corporate Portfolio & Performance Management Team (CPPT) provides the Central Approval Panel with analytical support and administers the process on their behalf.

Similar arrangements are in place to manage the portfolio of activities at Group level through Local Approval Panels.

Audit and Risk Committee (ARC)

The Audit and Risk Committee considers and advises the Accounting Officer and the Management Board on the following:

- internal audit matters that include the appointment of the Head of Internal Audit, terms of reference for internal audit, work prioritisation and planning, resource requirements, and audit reports;
- Defra's Annual Resource Accounts, the accounting policies and the external audit Management Letter;
- the strategic processes for risk management, control and governance and the Statement on Internal Control;
- oversight of the management process for risk;
- consideration of the National Audit Office (NAO) plans for Financial and VfM audits, the results of their work, their reports and follow up action;
- arrangements for combating fraud;

- awareness of external impacts on Defra's control environment to include auditing and accounting standards, Government and Parliament, the EU and other stakeholders; and

- engagement with Defra's Executive Agencies, NDPBs and Public Corporations to provide assurance and advice to the Accounting Officer on control, risk and governance issues as they impact on Defra as a whole.

The Committee comprises four non–executives, one of whom acts as Chair and is also a non–executive member of the Management Board. The Permanent Secretary appoints members of the ARC.

Senior Appointments Board

The Senior Appointments Board oversees the appointment to Senior Civil Service (SCS) posts within Core Defra and its Executive Agencies. It is also responsible for succession planning and talent management of the SCS cadre and its feeder grades, and doubles up as the SCS Pay Committee.

Strategy Group

The Strategy Group is a sub Committee of the Management Board, but it does not have an executive role. The Strategy Group advises the Board and Ministers on Defra's strategy – to assure the Board and Ministers of the overall coherence and relevance of Defra's strategy. It also acts as the 'Programme Board' for Strategy Unit projects.

The role of the group is to take a medium to long term perspective on a range of issues, including:

- oversight of Defra strategies to ensure coherence;
- identifying current and future strategic issues;
- understanding Defra's agenda and how it relates to other government departments – where and how our agenda interacts with theirs and vice versa;
- oversight of cross–cutting issues;
- spotting the gaps in the light of the above; and
- 'Programme Board' style oversight of Strategy Unit projects.

Defra Network Delivery Group

The purpose of the Defra Network Delivery Group (DNDG) is to maintain a strategic focus on how Defra and the network bodies can best deliver services to customers, and to look for opportunities for partnership work to realise this aim. DNDG brings together Chief Executives (or their nominated and empowered representatives) from the major ALBs across Defra's delivery network to agree shared decisions.

This forum was used for engagement at the highest level on the Operational Efficiency Programme (OEP), the Public Value Programme (PVP), especially the Arm's Length Bodies review, and Smarter Government initiative and their future implementation. The Permanent Secretary decided that she would chair DNDGs for three meetings starting with the December 2009 meeting and to temporarily expand the membership to comprise:

Animal Health	Forestry Commission	Veterinary Medicines Directorate
British Waterways	Kew Gardens	Veterinary Laboratories Agency
Cefas	Marine and Fisheries Agency	WRAP
Environment Agency	Natural England	
Fera	Rural Payments Agency	

Both the Permanent Secretary's involvement and expanding the membership helped to ensure that all Defra's main delivery partners had the opportunity to be fully engaged in and contribute to the outcomes of the OEP and PVP programmes.

Non–Executive members of the Management Board

The Non–Executive Directors (NEDs) of the Management Board provide an independent view on departmental performance; on financial controls and risk management; bring in external expertise; and have a role in challenging the policy formulation process. Up to 31 December 2009 the Management Board had three NEDs. Since 1 January 2010 there have been two. The NEDs are appointed by the Permanent Secretary.

Working Relationships with Arms Length Bodies (ALBs)

The Capability Re–review of Defra carried out by Cabinet Office in the first quarter of 2009 concluded that not only had Defra made good progress but also that the Department “remains well regarded by stakeholders for its use of analysis and its scientific evidence base. It has improved relationships with its major delivery bodies”; and went on to say that “It will be important for the Department to make full use of the mechanisms it has put in place in order to prioritise future activity effectively. It needs to place a greater focus on building the capability, and managing the performance, of the wider delivery network.” A similar message of progress made but continued effort required came from the spring 2010 re–review.

The Public Value Programme has picked up much of the work in considering how Defra’s delivery landscape should be structured in the future.

Those currently responsible for the sponsorship of the delivery network have continued to improve the relationship by:

- defining and clarifying governance structures and accountabilities;
- holding conferences for delivery body Chairs and Chief Executive Officers (CEOs). These have led to a number of ‘Deals’ being developed between Defra and individual delivery bodies to shape corporate behaviours needed for effective partnership working;
- implementing the policy cycle, which was developed to provide a common approach to policy development across the Department and embeds both a customer focus and the involvement of delivery partners throughout the policy making process;
- the development of a set of tools and techniques to improve Defra’s insight about its customers – these will shortly be rolled out to staff and will provide practical support to policy development, delivery management and more effective engagement with customers;
- managing a formal programme for bi–annual engagement between Defra Ministers and the Management Board and the Environment Agency, Natural England, Rural Payments Agency and Animal Health (the ‘Big 4’ delivery bodies);
- supporting the Defra Network Delivery Group as a forum for collaborative discussion of issues and agreement of investments that affect the delivery network; and
- promoting best practice in working with ALBs, and guidance on merging and de–merging delivery bodies and functions. A survey at the December 2009 Network Conference revealed that the delivery bodies CEOs considered their relationship with Core Defra had improved over the last year.

Remuneration Report

Remuneration Policy

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

Defra's Remuneration Committee is made up as follows:

Chair	Helen Ghosh
Members	Gill Aitken (until 28 February 2010)
	Peter Unwin
	Bill Stow
	Bill Griffiths
	Robert Watson
	Katrina Williams
	Mike Anderson (from 1 June 2009)

Defra develops its SCS Pay Strategy within the Cabinet Office framework and contains individual awards within the set range, ensuring that the overall pay awards for the SCS are within the cost ceiling allowed. Defra's SCS Pay Strategy sets out the circumstances which govern the basis for line managers making pay recommendations, based on relative performance and Cabinet Office guidance. The Remuneration Committee takes the final decisions on relative assessments of staff performance. The Human Resource team carries out the calculations to make individual payments based on a matrix. Individual performance for the majority in the SCS is assessed relative to all others in their peer group. Consolidated pay awards and unconsolidated bonuses are calculated entirely on the basis of their achievements. Each consolidated award is different depending on individual's position on the pay range and their level of performance.

Members of the Senior Civil Service, excluding the Permanent Secretary, are eligible to be considered for individual levels of non–pensionable non–consolidated variable pay (NCVP). NCVP is paid in arrears in the financial year after that in which they were earned, are performance related and approved by the Remuneration Committee. For 2009–10, NCVP was paid from a pot of 8.6% of the total salary bill and paid to approximately 65% of the SCS in Defra and its Executive Agencies. NCVP for the 2008–09 performance year, paid as part of the 1 April 2009 pay award, was capped at £10,000 for Paybands 1 & 1A, £12,500 for Payband 2 and £15,000 for Payband 3.

The Permanent Secretary is eligible to be considered for a non–pensionable, non–consolidated variable pay award calibrated against achievement of objectives, which for 2008–09 was subject to a maximum of 15% of salary. Such awards are made by the Permanent Secretaries' Remuneration Committee which comprises the Chairman of the SSRB (who acts as Chair), two other members of the SSRB, the Cabinet Secretary and the Permanent Secretary of HM Treasury. Ministerial salaries are determined by the Cabinet Office, under the Ministerial and Other Salaries Act 1997. For the 2008–09 performance year (2009 pay award), the Permanent Secretary voluntarily waived payment of her NCVP, in line with a common agreement across Whitehall and to reflect the current economic environment.

Service Contracts

Civil Service appointments are made in accordance with the Civil Service Commissioners' Recruitment Code, which requires appointment to be on merit on the basis of fair and open competition but also includes the circumstances when appointments may otherwise be made.

Unless otherwise stated below, the officials covered by this report hold appointments which are open–ended. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme.

Further information about the work of the Civil Service Commissioners can be found on the Civil Service Commissioners website([6]). All Defra Management Board members are on permanent Civil Service contracts, with the exception of Professor Robert Watson who is on a Fixed Term contract due to end on 16 September 2012.

[6] http://www.civilservicecommissioners.org

Salary and Pension Entitlements (Audited)

The following sections provide details of the remuneration and pension interests of the Ministers and Management Board members of the Department. The following tables in the Remuneration Report have been subject to audit.

Dan Norris is an unpaid Minister and does not receive any salary or pension entitlement in respect of his service for the Department. Lord Davies of Oldham also receives no salary or pension from the Department, but receives a Ministerial salary in respect of his position as Deputy Chief Whip in the House of Lords.

The salary and pension entitlements of Ministers and senior officials during the year were:

Ministers

	Salary as defined below	Prior year salary as defined below	Real increase in pension at age 65	Total accrued pension at age 65 as at 31 March 2010	CETV at 31 March 2009	CETV at 31 March 2010	Real increase in CETV *
	£	£	£000	£000	£000	£000	£000
Ministers							
Rt Hon Hilary Benn MP	78,356	79,326	0-2.5	10-15	128	161	19
Huw Irranca-Davies MP	30,851	12,855	0-2.5	0-5	23	35	6
Jim Fitzpatrick *(from 8 June 2009)*	31,110	-	0-2.5	5-10	90	107	11
Ministers who have served during 2009-10, but are not in post as at 31 March 2010 were:							
Lord Hunt of Kings Heath *(until 8 June 2009)*	22,890	51,286	0-2.5	10-15	233	244	-
Rt Hon Jane Kennedy MP *(until 8 June 2009)*	7,678	16,936	0-2.5	5-10	125	141	10

Full year equivalents for part year officials were:

	2009-10	2008-9
Lord Davies of Oldham	-	-
Jim Fitzpatrick	41,274	-
Dan Norris	-	-
Lord Hunt of Kings Heath	122,194	121,323
Rt Hon Jane Kennedy MP	40,646	40,646

* After adjustment for inflation and changes in market investment factors.

Senior Officials

Officials	Salary as defined below	Prior year salary as defined below	Real increase in pension and related lump sum at pension age	Total accrued pension at pension age as at 31 March 2010 and related lump sum	CETV at 31 March 2009*	CETV at 31 March 2010	Real increase in CETV **
	£000	£000	£000	£000	£000	£000	£000
Helen Ghosh *Permenant Secretary*	140-145	150-155	2.5-5 plus 12.5-15 lump sum	50-55 plus 160-165 lump sum	953	1,110	95
Bill Stow *Director General*	100-105	145-150	0-2.5 plus 30-32.5 lump sum	70-75 † plus 230-235 lump sum ††	1,569	1,641	70
Katrina Williams *Director General*	115-120	115-120	2.5-5 plus10-12.5 lump sum	35-40 plus105-110 lump sum	502	588	56
Peter Unwin *Director General*	145-150	140-145	2.5-5 plus7.5-10 lump sum	55-60 plus170-175 lump sum	1,076	1,203	57
Mike Anderson *Director General* *(from 1 June 2009)*	105-110	-	0-2.5	10-15 no lump sum	147	178	25
Professor Robert Watson *Chief Scientific Advisor*	145-150	140-145	2.5-5	5-10 no lump sum	81	135	44
Management board member who have served during 2009-10, but were not in post as at 31 March 2010 were:							
Gill Aitken *Solicitor and Director General* *(Until 28 February 2010)*	115-120	125-130	2.5-5 plus 7.5-10 lump sum	25-30 plus75-80 lump sum	381	445	33

Full year equivalents for part year officials were:

	2009-10	2008-9
Mike Anderson	120-125	-
Gill Aitken	125-130	125-130

* The figure may be different to the closing figure in last year's accounts. This is due to the application of different actuarial factors for this year.

** After adjustment for inflation and changes in market investment factors.

† Of which 65-70 is in payment.

†† Of which 220-225 is in payment.

Salary

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

This report is based on payments made by the Department and thus recorded in these accounts. In respect of Ministers in the House of Commons, departments bear only the cost of the additional ministerial remuneration; the salary for their services as a Member of Parliament (£64,766 from 1 April 2009, £63,291 from 1 April 2008, £61,820 from 1 November 2007) and various allowances to which they are entitled are borne centrally. However, the arrangement for Ministers in the House of Lords is different in that they do not receive a salary but rather an additional remuneration, which cannot be quantified separately from their ministerial salaries. This total remuneration, as well as the allowances to which they are entitled, is paid by the Department and is therefore shown in full in the figures above.

In addition to the above, Poul Christensen and Bill Griffiths were paid a total of £13,475 for their services and expenses as Non–Executive board members. They do not receive any pension benefits. Alexis Cleveland did not receive any payment.

The information given above relates to the Permanent Secretary and senior managers of the Department. Equivalent information relating to the Executive Agencies consolidated into the Departmental Resource Accounts is given in their separate accounts.

Benefits in Kind

The monetary value of benefits in kind covers any benefits provided by the Department and treated by HM Revenue and Customs as a taxable emolument. No Management Board members were in receipt of any benefits in kind during 2009–10 (2008–09 £Nil).

Pension Benefits

Ministerial Pensions

Pension benefits for Ministers are provided by the Parliamentary Contributory Pension Fund (PCPF). The scheme is made under statute (the regulations are set out in Statutory Instrument SI 1993 No 3253, as amended).

Those Ministers who are Members of Parliament may also accrue a MP's pension under the PCPF (details of which are not included in this report). The arrangements for Ministers provide benefits on an 'average salary' basis, taking account of all service as a Minister. The accrual rate has been 1/40th since 15 July 2002 (or 5 July 2001 for those that chose to backdate the change) but Ministers, in common with all other members of the PCPF, can opt for a 1/50th accrual rate for a lower rate of employee contribution. An additional 1/60th accrual rate option (backdated to 1 April 2008) was introduced from 1 January 2010.

Benefits for Ministers are payable at the same time as MPs' benefits become payable under the PCPF or, for those who are not MPs, on retirement from ministerial office from age 65. Pensions are re–valued annually in line with changes in the Retail Prices Index. From 1 April 2009 members pay contributions of 5.9% of their ministerial salary if they have opted for the 1/60th accrual rate, 7.9% of salary if they have opted for the 1/50th accrual rate or 11.9% of salary if they have opted for the 1/40th accrual rate. There is also an employer contribution paid by the Exchequer representing the balance of cost as advised by the Government Actuary. This is currently 28.7% of the ministerial salary.

The accrued pension quoted is the pension the Minister is entitled to receive when they reach 65, or immediately on ceasing to be an active member of the scheme if they are already 65.

Civil Service Pensions

Pension benefits are provided through the Civil Service pension arrangements. From 30 July 2007, civil servants may be in one of four defined benefit schemes; either a final salary scheme (classic, premium or classic plus); or a whole career scheme (nuvos). These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, classic plus and nuvos are increased annually in line with changes in the Retail Prices Index (RPI). Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder pension with an employer contribution (partnership pension account).

Employee contributions are set at the rate of 1.5% of pensionable earnings for classic and 3.5% for premium, classic plus and nuvos. Benefits in classic accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years initial pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum. Classic plus is essentially a hybrid with benefits for service before 1

October 2002 calculated broadly as per classic and benefits for service from October 2002 worked out as in premium. In nuvos a member builds up a pension based on his pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with RPI. In all cases members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of three providers. The employee does not have to contribute, but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of centrally–provided risk benefit cover (death in service and ill health retirement).

The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of classic, premium and classic plus and 65 for members of nuvos.

Further details about the Civil Service pension arrangements can be found on the Civil Service website([7]).

Cash Equivalent Transfer Values (CETV)

A CETV is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the pension benefits they have accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

Regarding the Management Board, the CETV figures include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their buying additional pension benefits at their own cost.

Real Increase in CETV

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

For Ministers, this is the element of the increase in accrued pension funded by the Exchequer. It excludes increases due to inflation and contributions paid by the Minister. It is worked out using common market valuation factors for the start and end of the period.

Helen Ghosh 21 July 2010
Accounting Officer for the Department for Environment, Food and Rural Affairs

[7] http://www.civilservice-pensions.gov.uk

Statement of Accounting Officer's Responsibilities

Under the Government Resources and Accounts Act 2000, HM Treasury has directed the Department for Environment, Food and Rural Affairs to prepare, for each financial year, Resource Accounts detailing the resources acquired, held or disposed of during the year and the use of resources by the Department during the year. The Accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the Department and of its net resource outturn, resources applied to objectives, statement of 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 HM Treasury, 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 Accounts;
- prepare the Accounts on a going concern basis.

HM Treasury has appointed the Permanent Head of the Department as Accounting Officer of the Department for Environment, Food and Rural Affairs. 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 Department's assets, are set out in *Managing Public Money* published by HM Treasury.

Statement on Internal Control

Scope of Responsibility and Accountability Arrangements

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of Defra's policies, aims and objectives, whilst safeguarding the public funds and Departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in *Managing Public Money* ([8]).

Accounting Officers for Defra's Agencies and sponsored public bodies are appointed in accordance with the requirements of Managing Public Money. Each is responsible for the operation of a system of internal control and is required to sign a Statement on Internal Control (SIC) which is reproduced in the body's annual accounts. These statements contribute to the assurances supporting my own Statement.

The Purpose of the System of Internal Control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of departmental policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them effectively, efficiently and economically. The system of internal control has been in place in Defra for the year ended 31 March 2010 and up to the date of approval of the annual report and accounts, and accords with HM Treasury guidance.

Capacity to Handle Risk

I believe that our risk handling capacity continues to improve as risk management becomes better integrated into the regular working of the Department. A particular improvement in capacity in the last year has been in the Management Board's on-going review of strategic-level risk. Escalation processes are in place when risks emerge. Examples include EU infraction risks associated with the Urban Waste Water Treatment Directive where the SRO was required to report developments back to the Board. The Risk Centre at Cranfield University (a partnership, co-funded with three national Research Councils) has operated throughout the year to help us build environmental risk appraisal capacity.

I believe that we have an effective risk handling capacity, and reports from Internal Auditors support this, but I recognize that ensuring the maintenance and improvement of this capacity is one of the main challenges that we face in the coming year.

The Risk and Control Framework

The Management Board continues to review risk at regular intervals. This includes an annual discussion of longer–term horizon scanning concerns and trends; a six monthly session, to unearth the more personal concerns of Board members; a quarterly review of progress and risks against DSOs([9]), Board-level programmes and a range of cross-cutting activities; and a monthly review of exception reports from SROs.

At lower levels, the key mechanisms for controlling risk include approvals panels which scrutinise business cases for programmes, projects and ongoing activities. This control is supported by SROs and their programme/project boards.

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[8] Available online at http://www.hm-treasury.gov.uk
[9] As part of the 2010 Spending Review, the Government is replacing the existing performance framework including DSOs.

Again, Internal Auditors have confirmed that our risk and control framework functioned effectively during 2009-10, and a key priority will be to ensure that this continues in the coming year.

Review of Effectiveness of Internal Control

As Accounting Officer I have responsibility for reviewing the effectiveness of the system of internal control. My review is informed by the work of internal auditors and by executive managers within the Department who have responsibility for the development and maintenance of the internal control framework and who provide me with a formal annual assurance statement on the system of internal control and report areas of weakness. I also take account of comments made by external auditors in their management letter and other reports. I have been advised by the Management Board and the Audit and Risk Committee (ARC) on the implications of the result of my review, and a plan to address weaknesses and ensure continuous improvement of the system is in place.

During 2009-10, we have worked to embed new and improved ways of working within the Department. These include reorganising the Department around programme activity and managing these programmes as a portfolio; operating flexible staffing processes; and new arrangements to develop the skills and capabilities of our staff. We received a positive independent assessment of the Department's capability from the Cabinet Office (i.e. their latest Capability Review assessment).

The Department acknowledges the criticisms made by NAO and by the Public Accounts Committee (PAC) of RPA's administration of the Single Payment Scheme (SPS) ([10]). These include criticisms of the cost and effectiveness of the Agency's administration of the scheme; of the lack of progress in addressing problems, particularly the recovery of overpayments; and of the Department's oversight and governance of the Agency. Further details of our action in response to these criticisms is provided later in this Statement. The Department will also continue to respond positively to the recommendations made by NAO and PAC in other reports on Defra.

Overall, we are continuing to improve the Department's internal controls, and to strengthen its resilience, flexibility and responsiveness. The coming years will be extremely challenging as Defra, like all Departments, will be required to make very significant reductions in budgets whilst still delivering key objectives and priorities.

Effectiveness of Risk Management

I believe that the developments outlined in this Statement have improved risk awareness and management during 2009–10, although continuing attention is needed to develop more consistent and widespread use of good risk management practices particularly in some of our key risk areas, three of which (managing large external contracts, planning and responding to emergencies, and managing risks in our Arms Length Bodies) are mentioned in sections below.

In his report published in March 2008 into the Foot and Mouth Disease outbreak in 2007, Dr Iain Anderson recommended that Defra's ARC "should review processes within Defra for identifying and elevating risks to board level" and should publish its findings. During 2009-10, the ARC received initial evidence from Defra Management covering a number of key areas including animal disease emergencies, flooding, and financial and legal risks. The Committee have asked Management to complete a self-assessment of this evidence, and will evaluate this when it is received and publish their conclusions in October.

A key operational risk during 2009-10 was the relocation of the Marine Fisheries Agency (MFA) headquarters to Tyneside and the subsequent transition to the Marine Management Organisation (MMO). Our Internal Auditors have reviewed these programmes of work and provided assurance that the changes were carried out effectively. The forthcoming merger of Animal Health and the Veterinary Laboratories Agency announced on 29th June 2010, will create further significant operational risks in 2010-11. It is planned to appoint a single

[10] The NAO's 'Second Progress Update on the Administration of the Single Payment Scheme by the Rural Payments Agency' published on 15 October 2009 is available at http://www.nao.org.uk, and the PAC's 1st Report of 2009-10 published on 16 December 2009 is available at http://www.parliament.uk.

Chief Executive for the new agency as soon as possible who will lead work to achieve full integration of the agencies. In the meantime, both existing agencies will continue to be led by their chief executives and senior teams.

Information Risk Management

Defra and its network continue to make steady progress in working together proportionately to identify and address information risks. We have checked and treated risks to key IT systems, rolled out encrypted laptops to protect information used by staff working remotely and spread best practice to a wider range of delivery partners. We have also responded actively to a declining number of significant incidents. We have, for example, improved the handling of back–up media following a problem at RPA when a number of back-up tapes for the RITA system could not be accounted for. The physical protection of unencrypted PCs has also been increased following the theft of a desktop containing sensitive information. These and other actions are reflected in a significantly improved formal assessment against the information assurance maturity model. The improvements to the handling of back-up media have also been the subject of an audit by the Information Commissioner's Office which found high assurance on the documentation of transfer processes, on the labelling and cataloguing of back-up media, and on physical security arrangements.

Our approach will continue to take account of the fact that we do not handle as much sensitive information as some other Departments and that our information is not held in a single system but in a number of different systems across the delivery Network.

While Defra remains unaccredited under the ISO 27001 standard, there is a strategy to achieve compliance with the Cabinet Office's mandatory standards and assurance on this has been obtained from Internal Audit.

Governance

The Management Board provides strategic leadership for the Department and is accountable for our performance, risk management and internal control. The recent Cabinet Office Capability Review reassessment concluded that the Board operates effectively and in a collegiate manner, and that it is capable of making tough decisions. Below Board level, the Department is organised into Director led programmes which provide the main governance structures. The Capability Review again concluded that this new operating model and associated management systems, have been embedded into the Department, substantially improving our capability to plan, resource and deliver our priorities.

Internal auditors highlighted weaknesses in the governance and management of specific back office functions during 2009-10 particularly procurement and estates. Although swift action was taken to address the problems identified, I recognise these as ongoing risks that we must continue to manage and mitigate. Internal investigations revealed weaknesses in the controls exercised over interims and contract staff in our purchasing and procurement and in our IT functions: we have too many interims and they are not always effectively managed. I recognise this as a serious problem particularly given the number of interim and contract staff used by the Department in specialist areas, and because of the high-risk of irregularity in areas such as procurement if things do go wrong. In each case, management acted swiftly to rectify the weaknesses identified including the dismissal of staff and the immediate implementation of strengthened processes and controls. I intend, however, to take steps to ensure that the risk of the problems revealed during 2009-10 occurring again is minimised. I recognise that we are reliant on interims in specialist areas, and that we need to both strengthen controls here, and to continue to reduce the numbers recruited.

Performance Management

The Department has a comprehensive system of corporate performance monitoring. The Management Board has designated 12 major programmes as 'Management Board programmes' which it reviews quarterly and monthly by exception. All other Defra programmes are designated as 'Group programmes' and their performance is monitored by the Director Generals, as are ongoing functions and a few stand–alone projects. In addition, the components of the Corporate Management Dashboard which tracks key measures of operational effectiveness are reviewed regularly. There is also a rolling challenge programme requiring SROs to discuss progress on their programmes with the Management Board.

During 2009-10, the Department rolled out a new approach to assurance across its portfolio. The assurance project provided advice, support and challenge to the Department's SROs in the adoption of best practice in the management of their portfolio.

I recognise, however, that NAO have made recommendations about improving the quality and consistency of performance management information in a number of its recent reports on Defra's work. These recommendations included the need for defined indicators and more reliable evidence for performance measurement. Our response will need to take into account the changing environment set by the Spending Review 2010 including the ending of Public Service Agreements and Departmental Strategic Objectives.

Finance Management

I believe that the Department's financial capability continues to improve. The Finance function is now more stable than in recent years, with almost all senior posts filled in the last year by permanent staff. Professional skill levels have increased with the recruitment of qualified accountant Business Managers. We have also established an Arms Length Bodies Finance Directors' forum which meets regularly to discuss the financial risks within the wider Defra Network. The allocation and re-allocation of resources between programmes is managed by the Central and Local Approval Panels.

Defra was praised by HMT for its exemplary and well constructed response to the Public Value Programme (PVP) and to the Operational Efficiency Programme (OEP). The results of these exercises should provide the Department with a good foundation for establishing how to manage a reduced budget in the coming year.

I recognise, however, that further improvement is required. Whilst Internal Auditors have confirmed that the control environment has improved, they also found examples in 2009-10 of non-compliance with procedures; of gaps in the budget delegation process; and of weaknesses in the quality of budget forecasting. Particular attention needs to be paid to ensure that the self certification controls over our expenses, GPC card and purchasing systems ('Buy4Defra') are robust and operating correctly. Building on work undertaken in previous years, a third finance improvement programme, "Finance Counts" is underway. This will address a wide range of issues, and includes specific work to improve the way that we delegated our budgets and forecast expenditure. Other key financial challenges in the coming year will include preparing for the consolidation into our accounts of NDPBs under the 'Clear Line of Sight Project', and managing financial risks and pressures within reduced baseline budgets. This is a particular issue in respect of disallowance risk arising from our management of EU funds, which make up about 40% (£2.3bn) of our total budget, and which have to be managed within the remaining 60% (£3.1bn) of funding received from HM Treasury.

I also acknowledge that against a total resource requirement of £6 bn in the 2009-10 Spring Supplementary Estimate (SSE), the Department underspent by over £900m. However, almost £541m of this total was mainly due to a prior year adjustment for a one-off and complex change in accounting policy at RPA for recognising SPS income and expenditure and compliance with IAS21. At the time the SSE was prepared, the new accounting policy was still being finalised and RPA estimates were based on the best available information at the time. Analysis at that stage led to an increase of £181m being included in the SSE. However, after the policy was finalised, detailed analysis at the year end calculated a prior period credit of £316m. A further £115m underspend was due to recurring technical accounting anomalies in respect of differences in reporting through Resource Accounts and Estimates of British Waterways Cost of Capital Charge and Environment Agency Closed Pension Scheme provision. This leaves an underlying £262m underspend (4.4%) in year against Resource Estimate which was principally due to fewer claims being paid than forecast during the final quarter against EU funded schemes administered by RPA, and through slower than expected uptake on Rural Development Programme for England Schemes. It is important to stress that the vast majority of this underspend, over £850m, was not money that could have been diverted to other uses. This is primarily because, in accordance with Treasury guidelines, EU funded schemes are included in the Estimates process and count as a technical Request for Resources because the initial outlay is funded by HMT who are then reimbursed by the EU. Due to this, any underspend cannot be recycled on any other Exchequer funded activities.

In May 2010 our Shared Services Directorate discovered that two payments that were intended to be made in March 2010 to an authorised supplier on behalf of one of their customer organisations were diverted and paid into a 3rd party bank account. Defra initially suspended further payments, although we have now resumed weekly payment runs subject to additional manual controls agreed with our Internal Auditors and the NAO. The matter has been referred to the police whose enquiries are continuing. I am content that our business continuity plans coped effectively with the disruption caused to normal payment run procedures.

Managing Large Contracts

The Department has three major contracts with external suppliers for the provision of IT, for property services, and for facilities management. These large contracts are innovative in scale and in their focus on achieving sustainability (i.e. "green") targets. The Department is going through a learning process in managing these contracts which is to be expected, but weaknesses in this management do nevertheless exist. Our internal auditors have confirmed, however, that remediation measures which have been implemented will play a significant role in mitigating the immediate risks.

Emergency Preparedness

I believe that effective arrangements and systems are in place to cope with emergencies across the full range of the Department's responsibilities. Particular areas where improvements have continued include our ability to cope with larger outbreaks of animal disease, particularly the number and resourcing of the Local Disease Control Centres (LDCCs) we might require. We have also continued to make improvements in our preparedness for flooding, based in part on lessons learned from the Summer 2007 floods and more localized flooding incidents. These strengthened arrangements were put to the test in the Cumbrian floods in November 2009.

A priority for the coming year will to test our emergency preparedness arrangements in major exercises. A national exercise to assess our ability to manage complex animal disease outbreaks is planned for November 2010. We are also planning a national exercise (Exercise Watermark) to provide a more comprehensive test of our national flood response capability in March 2011.

Arms Length Bodies

Defra has a large network of over 80 Arms Length Bodies (ALBs) through which £4.2 bn, or almost 80% of our spending is channelled. Whilst this network is vital to the delivery of our policies, its scale and complexity present us with significant management risks. Work has continued during 2009-10 to improve the governance structures and arrangements for the Department's relationship with its ALBs particularly by raising the profile of the Defra Network Delivery Group (DNDG) as a forum for collective discussion of issues and agreement of investments that affect the network. I decided in December 2009 to chair this group myself particularly to help ensure engagement at the highest level on the OEP and PVP programmes. There are also other network groups to cover specific areas including finance, internal audit, IT, communications and Human Resources.

The Cabinet Office Capability Review reported that relations between Defra and its delivery partners have on the whole improved, and several have reported a better sense of engagement. The Review did also, however, make suggestions for further development, including a simplification of governance arrangements, improving accountability, and reducing perceived micromanagement and low-level data collection. We will consider how best to take forward these suggestions.

Seafish is an NDPB sponsored by Defra and the Devolved Administrations (DAs). In March 2010, the Court of Appeal ruled that the levy they collect from the industry on fish and fish products imported into the United Kingdom was unlawful. The effect of the judgment was to render approximately 75% of Seafish's levy income unlawful (approximately 65% of its total income) and to expose it to significant potential liabilities relating to unlawfully collected levy. Together these raise serious concerns about the future of the organisation. The Department has, however, been granted leave to appeal to the Supreme Court against the Court of Appeal's decision. The Department maintains that sea fish and sea fish products imported into the UK can be levied as the term “landed” in the Fisheries Act 1981 is sufficiently broad to cover these imports as well as direct landings from fishing vessels.

Significant Issues

The Rural Payments Agency

The RPA’s own SIC outlines some serious weaknesses in the Agency’s internal controls. In particular, the Department accepts the criticisms made during 2009-10 by NAO and the PAC of RPA’s administration of the SPS, and of Defra’s oversight and governance of the Agency. Although there have been major improvements in recent years in the speed of SPS payments, I do recognise the need to make further and significant improvements. In response to the NAO and PAC’s recommendations, the Department has committed to providing the PAC with progress updates every three months detailing how we are addressing the PAC and NAO recommendations. Updates were submitted at the end of January and April.

In addition, ahead of the PAC’s report, the Director General for Food and Farming announced in September 2009, a ‘2013 Review’ of the Agency which considered the RPA’s financial, operational and IT processes with a view to identifying where the Agency may be able to make improvements and efficiencies in its activities so that it is ready to react to expected changes to the Common Agricultural Policy in 2013. The 2013 Review’s Report was published on 20th July 2010, and its key findings were that RPA’s finance function and controls need to be strengthened, with concern particularly that the Agency’s Management could not form a view on the value of the debts in the accounts; that there are significant opportunities to provide better customer service and deliver efficiencies through improvements in operational processes; that a significant opportunity exists in developing new IT systems for post 2013, learning from the implementation in 2005; that there was a lack of appropriate governance and oversight from within RPA’s leadership and Defra; and that there are considerable gaps in the organisation’s controls and leadership capability. Defra and RPA published a response to the Review on the 20th July. This sets out the progress we have already made with implementation of the Review’s urgent recommendations. In particular, this has included making significant improvements to RPA’s finance controls and establishing a project to identify ways to improve the quality of the underlying data utilising external expertise. There is still significantly more to do to implement the Review and the next phase of planning change throughout the Agency’s operations will be challenging.

In response to NAO’s criticisms, and to the findings of the ‘2013 Review’, we are proposing to strengthen the governance arrangements for the Agency. This will include concentrating governance under a single ownership body, the RPA Oversight Board (OB), and creating a sponsorship team in Defra that can take a holistic view of the Department’s requirements and relationship with the Agency and better support the OB to exercise its governance role.

RPA’s 2008-09 Accounts were qualified by the NAO on three issues relating to the treatment of foreign currency transactions, the valuation of debtors resulting from overpayments made under SPS, and the imposition of financial corrections (disallowance) by the European Commission for weaknesses in the control systems for administering payments under various Common Agricultural Policy schemes. RPA and Defra finance staff have worked closely with NAO and external advisors to implement a new accounting policy for foreign currency transactions which is fully compliant with accounting standards. However, disallowance remains a significant risk, and whilst good progress has been made, there continue to be issues surrounding the valuation of SPS debtors.

Disallowance

The 2008-09 Accounts of both Defra and RPA were qualified on regularity because of the imposition of disallowance penalties by the European Commission. The 2009-10 Accounts of Defra have been qualified due to the recognition of accruals for material disallowance penalties payable in 2010-2011. These post balance sheet adjusting events for material irregularities amounted to approximately £160m. Potential disallowances to a value of £220m have also been provided for.

Work continues to mitigate the risk of disallowance penalties with further improvements proposed following the review of RPA finance and operational activities. The risks of disallowance are monitored at various levels with the two key responsible bodies being the Disallowance Working Group (DWG) within Defra and the Disallowance and Accreditation Committee (DAC) within RPA. Both groups comprise representatives from policy, finance, operations and legal teams, with the DWG also having representation from the UK Co-ordinating Body to give a wider perspective of UK issues. The DWG seeks to assess future risks, whilst the DAC concentrates more on identified issues and mitigating strategies.

SPS Trade Receivables and Payables

A limitation of opinion has also been applied to the 2009-10 accounts of both Defra and RPA in respect of the valuation, existence and completeness of SPS trade receivable and trade payable balances in the RPA. The previous year's (2008/09) RPA accounts received a similar qualification on net SPS debts but this net value was not material for Defra's accounts. Improvements made during 2009-10 in the available data have allowed us to provide separate trade receivables and payables figures and therefore allowed greater audit scrutiny. This in turn has led to insufficient audit assurance to support SPS trade payables and the now separately identified SPS trade receivables, the combined value of which is material to Defra. It is the increase in available data rather than a deterioration of performance that underlies the materiality of this issue to our 2009-10 accounts. Project plans in response to the RPA Review have been put in place to look at debtor balances and at improving data quality, and will help to address the issues that led to this limitation of opinion.

Helen Ghosh 21 July 2010

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

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

I certify that I have audited the financial statements of the Department for Environment, Food and Rural Affairs for the year ended 31 March 2010 under the Government Resources and Accounts Act 2000. These comprise the Statement of Parliamentary Supply, the Operating Cost Statement and the Statement of Financial Position, the Statement of Cashflows, the Statement of Changes in Taxpayer's Equity, the Statement of Net Operating Costs by Departmental Strategic Objectives 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 the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Department's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Department; and the overall presentation of the financial statements.

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

Qualified audit opinion on Regularity

The European Commission has confirmed disallowance penalties of £160 million. These disallowance penalties represent a material loss to the UK Exchequer. I consider that this loss falls outside of Parliament's intentions in relation to the proper administration of European funding and is therefore irregular.

In my opinion, except for confirmed disallowance penalties of £160 million, in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Qualified opinion due to limitation of scope

The audit evidence available to me was limited because the Department was unable to provide me with sufficient evidence to support the Single Payment Scheme trade receivables and the Single Payment Scheme trade payables recorded in the financial statements.

Except for the financial effects of such adjustments, if any, that might have been necessary had I been able to satisfy myself regarding the Single Payment Scheme trade receivables balance of £17.25 million and the Single Payment Scheme trade payables balance of £30.86 million, as outlined in my accompanying report, in my opinion:

- the financial statements give a true and fair view of the state of the Department's affairs as at 31 March 2010 and of its net cash requirement, net resource outturn, net operating cost, net operating costs applied to departmental strategic objectives, changes in taxpayers' equity and cash flows for the year then ended; and

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

Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000; and
- the information given in the Management Commentary and Corporate Governance, included in the Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

In respect solely of the limitation on our work relating to the Single Payment Scheme trade receivables and Single Payment Scheme trade payables balances:

- I have not obtained all the information and explanations that I considered necessary for the purpose of my audit; and
- I was unable to determine whether proper accounting records had been maintained for Single Payment Scheme trade receivables and Single Payment Scheme trade payables.

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

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

Report

My report on pages 35 to 39 provides further detail of my qualified opinions on the financial statements and on regularity.

Amyas C E Morse 26 July 2010
Comptroller and Auditor General
National Audit Office
157–197 Buckingham Palace Road
Victoria
London SW1W 9SS

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

Introduction

The Department for Environment, Food and Rural Affairs develops and implements policy relating to the environment, food and rural issues. It is also responsible for negotiating EU agricultural and rural funding on behalf of the UK. The Department receives funding from the European Commission to deliver the Common Agricultural Policy and other initiatives.

I have reported previously on the difficulties experienced by the Rural Payments Agency, an executive agency of the Department, in implementing the Single Payment Scheme. The Single Payment Scheme was introduced by the European Union as part of the 2003 Common Agricultural Policy reforms which replaced 11 separate crop and livestock based production subsidies with a single payment based on land area.

The Rural Payments Agency's difficulties have resulted in the European Commission proposing financial penalties. Where the European Commission takes the view that the detailed European Regulations have not been applied correctly in processing European Union Scheme transactions there is a risk of financial penalties (referred to as disallowance) of expenditure under the Scheme. These penalties are payable by the Department for Environment, Food and Rural Affairs as a deduction from future Commission funding. In anticipation of these financial penalties the Department retains a provision in its resource accounts for disallowance penalties arising in respect of the Single Payment Scheme, for a number of smaller on-going schemes and for Single Payment Scheme predecessor schemes. The total provision for penalties held at 31 March 2010 by Defra is £220 million. In addition, penalties totalling £160 million were confirmed during 2009-2010.

Purpose of Report

The financial statements on the following pages represent the results of the Department for Environment, Food and Rural Affairs for the period from 1 April 2009 to 31 March 2010. I have qualified my opinion on the 2009-2010 resource accounts on the grounds of regularity. The requirement to pay material disallowance penalties results in a loss to the UK exchequer which is outside Parliament's intentions in relation to the proper administration of European funding. In 2009-2010 the European Commission has confirmed penalties totalling £160 million.

In addition, I have limited the scope of my audit opinion as I was unable to obtain sufficient audit assurance to support the balances relating to Single Payment Scheme trade receivables of £17.2 million and Single Payment Scheme trade payables of £30.9 million which are recorded in the Department's resource accounts.

The purpose of this Report is to explain the background to the qualifications of my audit opinion. The report also provides an overview of progress made by the Department in addressing the prior year qualifications and the issues identified in the Rural Payment Agency as highlighted in my previous reports([11]), the most recent of which was issued in October 2009.

My obligations as Auditor

Under the Government Resources and Accounts Act 2000, I am required to examine, certify and report on the financial statements that I receive. I am required, under International Standards on Auditing (UK and Ireland), to obtain evidence to give reasonable assurance that the Department for Environment, Food and Rural Affairs financial statements are free from material misstatement. In forming my opinion I examine, on a test basis, evidence supporting the disclosures in the financial statements and assess the significant estimates and

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[11] *The delays in Administering the 2005 Single Payment Scheme in England, HC 1631 Session 2005-06, 18 October 2006.*
Progress update in resolving the difficulties in administering the Single Payment Scheme in England, HC 10 Session 2007-08, 12 December 2007.
A second progress update on the Administration of the Single payment Scheme by the Rural Payments Agency, HC880 Session 2008-2009, 15 October 2009

judgements made in preparing them. I also consider whether the accounting policies are appropriate, consistently applied and adequately disclosed. I am also required to satisfy myself that, in all material respects, the expenditure and income of the Department for Environment, Food and Rural Affairs have been applied to the purposes intended by Parliament and conform to the authorities that govern them.

Progress since my report on the 2008-2009 financial statements

In 2008-2009 I qualified my audit opinion on the Department's resource accounts on two bases.

- The Department's resource accounts consolidate the results of its Agencies, the most significant being the Rural Payments Agency. The Department and its agencies are required to produce financial statements in accordance with HM Treasury's 'Financial Reporting Manual'. I did not consider that the Department's or the Rural Payments Agency's 2008-09 financial statements complied with Financial Reporting Standard 23 'The effects of changes in foreign exchange rates'. The Department and the Agency had significant exposure to exchange rate risk as the Agency paid out European scheme funds (the most significant of which is the Single Payment Scheme) to English farmers in sterling – but the cash was reimbursed in euro. I therefore qualified my opinion on the basis of a disagreement on the application of this standard in the financial statements. The Agency has worked closely with the Department to resolve this issue and the Department has appropriately reflected the effects of foreign exchange transactions in its 2009-2010 financial statements. In addition, the Department has restated its prior year balances to reflect the correction needed to last year's financial statements. I have therefore removed my qualification in this respect.

- In addition, I qualified my regularity opinion due to the payment of material disallowance penalties being imposed by the European Commission. I have also qualified my audit opinion on the 2009-2010 financial statements due to further material disallowance arising from the Rural Payments Agency's administration of European Commission agricultural subsidy schemes. Further details are provided in the disallowance penalties section below.

Limitation of scope on Single Payment Scheme trade receivables and Single Payment Scheme trade payables

I limited the scope of my audit opinion on the Rural Payments Agency's 2008-09 financial statements as I was unable to obtain sufficient audit assurance to support the trade receivables balance arising from Single Payment Scheme overpayments. This balance was not material to the consolidated Defra resource account in 2008-09 and therefore I did not qualify my opinion on the Defra resource accounts in this respect.

The 2009-2010 financial statements for both the Department and the Agency record Single Payment Scheme trade receivables after providing for doubtful debt of £17.2 million and trade payables in respect of underpayments made to farmers of £30.9 million. There was insufficient evidence to support that these balance are reflected in the financial statements at the appropriate amount and represent the total value of Single Payment Scheme trade receivable and Single Payment Scheme trade payables owing to or from the Rural Payments Agency. I consider that the total value of these balances in 2009-2010 is material to the Department for Environment, Food and Rural Affairs and I have therefore limited the scope of my audit opinion on both the Department and the Rural Payments Agency in respect of the valuation, existence and completeness of these balances.

I have reported separately on this issue in my report accompanying the Rural Payments Agency 2009-2010 financial statements (HC 141).

Disallowance penalties

I qualified my audit opinion on the Department's resource accounts in 2008-09 on the grounds of regularity due to confirmed disallowance penalties totalling £92.25 million. These penalties included £55 million in respect of Arable Area Payments Scheme (AAPS), the largest of the SPS predecessor schemes in England; £15 million relating to export refunds, cross compliance, exceptional measures and meat premiums; and £22 million in respect of fruit and vegetable operational funds and product groups for 2006 which impacted on the Rural Payments Agency financial statements.

Prior to my certification of this account the European Commission confirmed disallowance penalties of £160 million. This includes penalties of £132 million in respect of the administration of the Single Payment Scheme in England in 2005, 2006 and 2007. The residual penalties confirmed relate to cross compliance penalties (£14 million) and the administration of the Rural Development Programme for England in 2006 (£3 million). In addition, the European Commission has confirmed a disallowance of £11 million in respect of the administration of the Single Payment Scheme in Northern Ireland. In the future disallowance incurred by the devolved administrations will be met by the relevant administration. I have qualified my audit opinion on the Department's resource accounts in 2009-10 on the grounds of regularity due to confirmed disallowance penalties totalling £160 million.

The Department's 2009-2010 resource accounts include provision for a further £220 million in respect of disallowance penalties. This sum includes a total of £171 million in respect of the Single Payment Scheme in England for 2007, 2008 and 2009. The European Commission has made observations on the operation of the Scheme in 2007 and 2008 which are similar in nature to those identified in the 2005 and 2006. The Department does not consider that significant progress in Scheme administration will be identified in respect of the 2009 scheme year, and my financial audit continues to identify significant issues in respect of data quality and IT systems within the Agency, including under and over payments, control failings and IT systems which are out of support or due to fall out of support.

The remaining disallowance provision reflected in the 2009-2010 resource accounts includes £22 million in respect of fruit and vegetable operational funds and product groups for 2007 and £7 million in respect of the Rural Development Programme for England in 2007 and 2008.

The Department for Environment, Food and Rural Affairs continues to contest the amounts of disallowance that will be applied and will seek arbitration on the amounts prior to accepting the settlement.

Progress made by the Department in resolving the Rural Payments Agency's difficulties in administering European Funds

Disallowance penalties have been incurred as a direct result of weaknesses in the management and administration of the Rural Payments Agency. The difficulties experienced by the Rural Payments Agency have led to three value for money reports([12]) by the National Audit Office. Following the publication of the second report the Department and the Agency made a number of assurances to the Committee of Public Accounts that the problems of the original implementation were largely addressed and that progress was well underway to rectify mistakes and recover overpayments. However my last report in October 2009([13]) demonstrated that there was still a long way to go and that progress has been slow and costly. In particular, my report highlighted that IT systems were expensive and cumbersome, the administrative cost per claim was high, there are unquantified under and over payments, and management and governance issues.

I have reported separately in my report accompanying the Rural Payments Agency 2009-2010 financial statements on the extent of the progress made by the Agency since October 2009 (HC 141).

[12] *The delays in Administering the 2005 Single Payment Scheme in England, HC 1631 Session 2005-06, 18 October 2006. Progress update in resolving the difficulties in administering the Single Payment Scheme in England, HC 10 Session 2007-08, 12 December 2007. A second progress update on the Administration of the Single payment Scheme by the Rural Payments Agency, HC880 Session 2008-2009, 15 October 2009*

[13] *A second progress update on the Administration of the Single payment Scheme by the Rural Payments Agency, HC880 Session 2008-2009, 15 October 2009*

Financial management within the Department for Environment, Food and Rural Affairs

The Department's resource accounts for 2009-2010 show that the Department has under spent against its Resource Estimate of £6 billion by £938 million (15.7 per cent). The Department has historically under spent by significant amounts: 12 per cent in 2006-2007, 12.5 per cent in 2007-2008 and 7 per cent in 2008-2009. The NAO highlighted the Department's difficulties in accurately budgeting and forecasting expenditure in a value for money report issued in March 2008([14]). This emphasised that in order to secure long term improvements in financial management the Department had to ensure that senior management in the Department and the Agencies fully supported the financial management improvement plans and that management throughout the organisation had the skills and information to produce reliable cost estimates of activities and objectives to justify resource bids and to evaluate the cost- effectiveness of work done.

The Department's plans that fed into the 2009-2010 Estimates were shown to be significantly overstated. This was primarily due to the inaccurate estimation of the impact of a change of accounting policy on the prior year in respect of Single Payment Scheme income and expenditure which accounts for £496 million of the under spend. The work underpinning this complex change in accounting policy was not complete at the time the Estimate was agreed and the Department considers that this represented the best estimate at this time. This leaves an underlying under spend of £442 million of which £231 million is due to expenditure being less than forecast on European Funded schemes. The Department explains this in detail in its Management Commentary (Page 5) and in the Statement on Internal Control.

The Department for Environment, Food and Rural Affairs recognised that the Rural Payments Agency did not have sufficient capacity and capability within the finance function and bought in significant resources to improve financial management within Rural Payments Agency. This investment has resulted in additional costs of £1.4 million during 2009-2010.

The additional support to the Rural Payments Agency finance function has allowed progress to be made in the current year and this has resulted in improvements in key financial controls and reconciliations. It has also allowed the Agency to implement a number of significant and complex accounting adjustments relating to foreign exchange transactions and to reduce the Agency's exposure to volatility arising from these transactions. There is a risk however that the underlying capacity and capability of the Agency remains unaddressed as the level of investment in temporary support is not sustainable and their skills and knowledge is not yet embedded within the Agency's own staff.

The Department relies on a significant number of agency or temporary staff. During 2009-2010 the core Department spent £23.4 million on contractor and temporary staff. The length of time which contractors operate with the Department can be substantial and whilst they have often built up extensive knowledge of the business, the approach is not sustainable and is not leading to enhancements in the capacity and capability of permanent staff.

Further actions taken or proposed to be taken by the Department for Environment Food and Rural Affairs

As a result of my audit qualifications on the 2008-09 financial statements and the findings in my Value for Money report, the Department for Environment, Food and Rural Affairs commissioned an external review of the Rural Payments Agency. The findings of this review were published on 20 July 2010. This review commenced in August 2009 and cost a total of £1.9 million .

The review's recommendations included:

- improvements to the Agency's operations in order to reduce duplication and to bring down the cost of administering a claim;

[14] Department of Environment, Food and Rural Affairs Management of Expenditure, HC 309 Session 2007-2008, 6 March 2008

- the use of a specialist team to improve the quality of the information on which claims are processed;
- changes to the Agency's responsibilities and operating model;
- improvement to the Agency's financial controls;
- reducing the Agency's reliance on temporary staff; and
- improvements to the governance arrangements exercised over the Rural Payments Agency by the Department for Environment, Food and Rural Affairs.

I have reported previously on the problems with the Department's oversight of the Rural Payments Agency and my concerns remain extant. Progress in remedying the situation is slow and until the Department put in place a management team with the skills and experience necessary to address the challenges little progress is likely to be made. The Department for Environment, Food and Rural Affairs should:

- recruit, appoint or assign staff from its better performing agencies and non departmental public bodies to the Agency so that it has the management capability and culture to address the on-going issues highlighted in this report and in my previous value for money reports;
- set targets to accurately measure the Agency's performance against which it can challenge and monitor progress; and
- prepare a robust action plan to tackle the major challenges it faces in improving data quality, ensure that IT systems work effectively and reducing the costs of administering the Single Payments Scheme.

I have also reported previously on the financial management in the Department. The Department must ensure that it can accurately forecast expenditure and improve the Estimate process to avoid requesting for resources that are not utilised. In order to achieve this Department and its Agencies must be able to produce reliable cost estimates of activities and objectives to support resource bids. This information is also fundamental to allow the Department to accurately assess the cost effectives of work completed. The reduction in public sector spending means that Department must be able to clearly prioritise what matters most, based on an accurate and realistic assessment of the costs and benefits.

Amyas C E Morse 26 July 2010
Comptroller and Auditor General
National Audit Office
157–197 Buckingham Palace Road
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Financial Statements

Statement of Parliamentary Supply

Consolidated Summary of Resources Outturn 2009–10

Since 2008–09, the Forestry Commission, which is a non–ministerial department, has been included in Defra's Estimate for parliamentary reporting purposes. Under this arrangement, the Forestry Commission receives its funding from Defra, for which Defra draws down parliamentary supply on its behalf. As a result, the Forestry Commission no longer formally lays its own Resource Accounts, but its Resource Outturn is reported in Defra's Statement of Parliamentary Supply below.

However, the Forestry Commission is not fully consolidated into Defra's Resource Accounts, and all subsequent statements and notes in these accounts (except Note 5) relate to Defra only. The Forestry Commission continues to publish separate accounts, which report more fully upon the figures supporting their Resource Outturn.

To distinguish between Defra and the Forestry Commission, the Estimate is divided into two Requests for Resources. Request for Resources 1 relates solely to Defra, whilst Request for Resources 2 relates solely to the Forestry Commission. Details of the work undertaken against each Request for Resources are as follows:

Request for Resources 1: Ensuring that consumers benefit from competitively priced food, produced to high standards of safety; environmental care and animal welfare from a sustainable, efficient food chain, to contribute to the well–being of rural and coastal communities and funding aspects of the Common Agricultural Policy and Rural Development Programme England as economically, efficiently and effectively as possible.

Request for Resources 2: Direction of the delivery of the Government's Strategy for Trees, Woods and Forests in England and taking the lead in development and promotion of sustainable forest management across Great Britain.

		2009-10							2008-09
		Estimate			Outturn				Outturn
	Note	Gross expenditure	A-in-A	Net total	Gross expenditure	A-in-A	Net total	Net total outturn compared with Estimate: saving /(excess)	Net total
		£000	£000	£000	£000	£000	£000	£000	£000
Request for Resources 1	3, 4	7,274,221	1,398,429	5,875,792	6,355,839	1,398,429	4,957,410	918,382	4,873,007
Request for Resources 2		92,514	-	92,514	72,505	-	72,505	20,009	80,812
Total resources		**7,366,735**	**1,398,429**	**5,968,306**	**6,428,344**	**1,398,429**	**5,029,915**	**938,391**	4,953,819
Non-operating cost A-in-A				**5,700**			**5,139**	**561**	31,300

Net Cash Requirement 2009–10

			2009-10		2008-09
	Note	**Estimate**	**Outturn**	**Net total Outturn compared with Estimate: saving /(excess)**	Outturn
		£000	**£000**	**£000**	£000
Defra			5,416,243		4,802,945
Forestry Commission			50,839		54,829
Net cash requirement	5	**6,273,825**	**5,467,082**	**806,743**	4,857,774

Summary of the Income Payable to the Consolidated Fund

In addition to Appropriations–in–Aid (A–in–A), the following income relates to the Department and is payable to the Consolidated Fund (cash receipts being shown in italics).

		2009-10 Forecast		**2009-10 Outturn**	
	Note	**Income**	***Receipts***	**Income**	***Receipts***
		£000	***£000***	**£000**	***£000***
Defra	6	**(2,575,744)**	***(3,077,372)***	**(2,403,936)**	***(2,425,223)***
Total		**(2,575,744)**	**(3,077,372)**	**(2,403,936)**	(2,425,223)

Explanations of variances between Estimate and outturn are given in the Management Commentary on pages 5–7.

The notes on pages 50 to 108 form part of these accounts.

Consolidated Operating Cost Statement

for the year ended 31 March 2010

		2009-10						2008-09 Restated	2008-09 Restated
		Core-Department			**Consolidated**			Core-Department	Consolidated
	Note	**Staff costs**	**Other costs**	**Income**	**Staff costs**	**Other costs**	**Income**		
		£000	**£000**	**£000**	**£000**	**£000**	**£000**	£000	£000
Administration costs									
Staff costs	10	126,615			229,243			125,091	223,877
Administration costs	11		163,467			324,791		197,705	341,626
Operating income	13			(25,042)			(77,574)	(28,156)	(81,361)
								294,640	484,142
Programme costs									
Request for Resources 1									
Staff costs*	10	2,514			188,370			1,926	188,941
Programme costs*	12		2,602,404			5,905,869		2,360,651	5,673,406
Income**	13			(347,854)			(3,655,133)	(341,469)	(3,565,045)
								2,021,108	2,297,302
Total		**129,129**	**2,765,871**	**(372,896)**	**417,613**	**6,230,660**	**(3,732,707)**		
Net operating cost				**2,522,104**			**2,915,566**	2,315,748	2,781,444

* The total programme expenditure for Consolidated is £6,094,239,000 (Restated 2008–09 £5,862,347,000). The total programme expenditure for the Core–Department is £2,604,918,000 (Restated 2008–09 £2,362,577,000).

** Defra acts as an agent for the EU in making payments to third parties, income relating to this for 2009–10 was: Consolidated £3,581,781,000 (Restated 2008–09 £3,464,732,000).

The notes on pages 50 to 108 form part of these accounts.

Consolidated Statement of Financial Position

as at 31 March 2010

		31 March 2010		31 March 2009		1 April 2008	
				Restated	Restated	Restated	Restated
		Core-Department	Consolidated	Core-Department	Consolidated	Core-Department	Consolidated
	Note	£000	£000	£000	£000	£000	£000
Non-current assets							
Property, plant and equipment	15	176,298	589,883	200,729	662,077	211,448	695,373
Intangible assets	16	125,927	255,642	140,964	249,251	165,452	250,827
Financial assets	18	5,318	5,468	6,001	6,151	6,933	7,083
Receivables falling due after more than one year	21	2,632	2,669	3,635	3,669	2,501	2,545
Total non-current assets		310,175	853,662	351,329	921,148	386,334	955,828
Current assets							
Assets classified as held for sale	15	2,108	3,068	12,086	13,448	39,310	41,469
Inventories	20	4,140	45,910	10,043	27,922	4,836	8,451
Trade and other receivables	21	516,526	937,702	410,195	626,096	343,471	667,691
Financial assets	21	704	7,766	896	896	1,024	1,024
Cash and cash equivalents	22	62,255	137,147	728,819	1,120,495	103,026	813,281
Total current assets		585,733	1,131,593	1,162,039	1,788,857	491,667	1,531,916
Total assets		895,908	1,985,255	1,513,368	2,710,005	878,001	2,487,744
Current liabilities							
Trade and other payables	23	(696,154)	(1,187,740)	(1,146,733)	(1,884,293)	(687,558)	(1,529,492)
Financial liabilities	23	(5,232)	(5,944)	(6,196)	(89,403)	(1,024)	(85,634)
Total current liabilities		(701,386)	(1,193,684)	(1,152,929)	(1,973,696)	(688,582)	(1,615,126)
Non-current assets plus/less net current assets/liabilities		194,522	791,571	360,439	736,309	189,419	872,618
Non-current liabilities							
Provisions	24	(269,028)	(281,939)	(339,614)	(363,246)	(423,212)	(451,464)
Pension liabilities	24	(1,147,900)	(1,147,900)	(977,998)	(977,998)	(1,082,933)	(1,082,933)
Other payables	23	(17,125)	(134,102)	(4,861)	(112,673)	(13,719)	(56,237)
Financial liabilities	23	(11,486)	(11,486)	(16,593)	(16,593)	(6,840)	(6,840)
Total non-current liabilities		(1,445,539)	(1,575,427)	(1,339,066)	(1,470,510)	(1,526,704)	(1,597,474)
Assets less liabilities		**(1,251,017)**	**(783,856)**	(978,627)	(734,201)	(1,337,285)	(724,856)
Taxpayers' equity							
General fund	SCTE	(1,298,606)	(928,338)	(1,040,834)	(925,067)	(1,446,208)	(974,257)
Revaluation reserve	SCTE	47,589	144,415	62,207	190,866	108,923	249,401
Hedging reserve	SCTE	-	67	-	-	-	-
Total taxpayers' equity		**(1,251,017)**	**(783,856)**	(978,627)	(734,201)	(1,337,285)	(724,856)

Helen Ghosh 21 July 2010

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

The notes on pages 50 to 108 form part of these accounts.

Consolidated Statement of Cash Flows

for the year ended 31 March 2010

	Note	2009-10 £000	Restated 2008-09 £000
Cash flows from operating activities			
Net operating cost		(2,915,566)	(2,781,444)
Adjustments for non-cash transactions	11, 12	210,791	199,619
(Increase) / Decrease in trade and other receivables	21	(317,476)	40,599
less movements in receivables relating to items not passing through the OCS	21	319,170	(153)
(Increase) / Decrease in inventories	20	(17,988)	(19,471)
Increase / (Decrease) in trade payables	23	(763,690)	424,759
less movements in payables relating to items not passing through the OCS		840,293	(351,480)
Use of provisions	24	(267,457)	(204,746)
Net cash outflow from operating activities		**(2,911,923)**	(2,692,317)
Cash flows from investing activities			
Purchase of property, plant and equipment	15	(33,816)	(52,888)
Purchase of intangible assets	16	(46,773)	(46,655)
Proceeds of disposal of property, plant and equipment		5,139	33,484
Loans to other bodies	18	-	(11,000)
Repayments from other bodies	18	-	11,000
Net cash outflow from investment activities		**(75,450)**	(66,059)
Cash flows from financing activities			
From Consolidated Fund (Supply): current year		4,600,780	5,177,851
Advances from the Contingencies Fund		50	-
Repayments to the Contingencies Fund		(50)	-
Loans received from NLF		-	11,000
Repayment of loans from NLF		-	(11,000)
Capital element of payments in respect of finance leases and on-balance sheet PFI contracts		(5,366)	(5,340)
Funding paid to Forestry Commission		(59,095)	(60,519)
Net financing		**4,536,319**	5,111,992
Net increase/(decrease) in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund		**1,548,946**	2,353,616
Receipts due to the Consolidated Fund which are outside the scope of the Department's activities		1,720	2,591
Payments of amounts due to the Consolidated Fund		(2,534,014)	(2,048,993)
Net increase/(decrease) in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund		**(983,348)**	307,214
Cash and cash equivalents at the beginning of the period	22	1,120,495	813,281
Cash and cash equivalents at the end of the period	22	**137,147**	1,120,495

The notes on pages 50 to 108 form part of these accounts.

Consolidated Statement of Changes in Taxpayers' Equity

for the year ended 31 March 2010

Consolidated

		2009-10				2008-09			
	Note	**General Fund**	**Revaluation Reserve**	**Hedging Reserve**	**Total Reserves**	Restated General Fund	Restated Revaluation Reserve	Hedging Reserve	Restated Total Reserves
		£000	**£000**	**£000**	**£000**	£000	£000	£000	£000
Balance at 31 March		(873,058)	201,711	-	(671,347)	(1,211,780)	259,687	-	(952,093)
Changes in accounting policy									
Prior year non-IFRS adjustments	35	(41,763)	(10)	-	(41,773)	241,370	-	-	241,370
Prior year IFRS adjustments	2	(10,246)	(10,835)	-	(21,081)	(3,847)	(10,286)	-	(14,133)
Restated balance at 1 April		**(925,067)**	**190,866**	**-**	**(734,201)**	(974,257)	249,401	-	(724,856)
Changes in taxpayers' equity									
Net gain/(loss) on revaluation of property, plant and equipment			(43,111)		(43,111)		(9,967)		(9,967)
Net gain/(loss) on revaluation of intangible assets			10,701		10,701		(2,966)		(2,966)
Net gain/(loss) on revaluation of investments			21		21		571		571
Non-cash charges - cost of capital	11,12.1	2,993			2,993	(6,405)			(6,405)
Non-cash charges - auditors' remuneration	11,12.1	1,274			1,274	1,210			1,210
Non-cash charges - other		(653)			(653)	719			719
Net operating cost for the year	4	(2,915,566)			(2,915,566)	(2,781,444)			(2,781,444)
Transfers between reserves		14,062	(14,062)		-	46,173	(46,173)		-
Pension actuarial gain/(loss)		(211,462)			(211,462)	66,018			66,018
Contributions in respect of unfunded benefits		11,600			11,600	11,700			11,700
Movement in derivative asset				88,517	88,517			-	-
Movement in derivative liability				(712)	(712)			-	-
Transfer to OCS on cashflow hedges				(87,738)	(87,738)			-	-
Total recognised income and expense		**(3,097,752)**	**(46,451)**	**67**	**(3,144,136)**	(2,662,029)	(58,535)	-	(2,720,564)
Net Parliamentary Funding - drawn down		4,600,780			4,600,780	5,177,851			5,177,851
Net Parliamentary Funding - deemed		635,426			635,426	315,349			315,349
Funding to Forestry Commission		(59,095)			(59,095)	(60,519)			(60,519)
Transfer to general fund - net asset transfer		(614)			(614)	6,891			6,891
Non-operating A-in-A		-			-	(1,317)			(1,317)
Additional A-in-A		(48,856)			(48,856)	(89,969)			(89,969)
Supply (payable)/receivable adjustment		230,874			230,874	(635,426)			(635,426)
CFERs payable to the Consolidated Fund		(2,288,863)			(2,288,863)	(2,075,651)			(2,075,651)
less non-reimbursement by EC of late payments		9,043			9,043	67,427			67,427
less unrealised CFER Income		15,786			15,786	6,580			6,580
less other recoverable CFER Income		-			-	3			3
Balance at 31 March		**(928,338)**	**144,415**	**67**	**(783,856)**	(925,067)	190,866	-	(734,201)

Core–Department

		2009-10				2008-09			
	Note	**General Fund**	**Revaluation Reserve**	**Hedging Reserve**	**Total Reserves**	Restated General Fund	Restated Revaluation Reserve	Hedging Reserve	Restated Total Reserves
		£000	**£000**	**£000**	**£000**	£000	£000	£000	£000
Balance at 31 March		(1,074,470)	70,682	-	(1,003,788)	(1,486,829)	117,138	-	(1,369,691)
Changes in accounting policy									
Prior year non-IFRS adjustments	35	40,146	(260)	-	39,886	40,200	-	-	40,200
Prior year IFRS adjustments	2	(6,510)	(8,215)	-	(14,725)	421	(8,215)	-	(7,794)
Restated balance at 1 April		**(1,040,834)**	**62,207**	**-**	**(978,627)**	(1,446,208)	108,923	-	(1,337,285)
Changes in taxpayers' equity									
Net gain/(loss) on revaluation of property, plant and equipment			(20,006)		(20,006)		(4,003)		(4,003)
Net gain/(loss) on revaluation of intangible assets			10,696		10,696		(2,951)		(2,951)
Net gain/(loss) on revaluation of investments			21		21		(36)		(36)
Non-cash charges - cost of capital	11,12.1	(25,632)			(25,632)	(33,167)			(33,167)
Non-cash charges - auditors' remuneration	11,12.1	400			400	390			390
Non-cash charges - other		(54,341)			(54,341)	(2,029)			(2,029)
Net operating cost for the year		(2,522,104)			(2,522,104)	(2,315,748)			(2,315,748)
Transfers between reserves		5,329	(5,329)		-	39,726	(39,726)		-
Pension actuarial gain/(loss)		(211,462)			(211,462)	66,018			66,018
Contributions in respect of unfunded benefits		11,600			11,600	11,700			11,700
Total recognised income and expense		**(2,796,210)**	**(14,618)**	**-**	**(2,810,828)**	(2,233,110)	(46,716)	-	(2,279,826)
Net Parliamentary Funding - drawn down		4,600,780			4,600,780	5,177,851			5,177,851
Net Parliamentary Funding - deemed		635,426			635,426	315,349			315,349
Funding to Agencies		(2,549,721)			(2,549,721)	(1,816,541)			(1,816,541)
Funding to Forestry Commission		(59,095)			(59,095)	(60,519)			(60,519)
Transfer to general fund - net asset transfer		(3,090)			(3,090)	(341)			(341)
Non-operating A-in-A		-			-	(1,317)			(1,317)
Additional A-in-A		(48,856)			(48,856)	(89,969)			(89,969)
Supply (payable)/receivable adjustment		230,874			230,874	(635,426)			(635,426)
CFERs payable to the Consolidated Fund		(267,880)			(267,880)	(250,606)			(250,606)
less other recoverable CFER Income		-			-	3			3
Balance at 31 March		**(1,298,606)**	**47,589**	**-**	**(1,251,017)**	(1,040,834)	62,207	-	(978,627)

The notes on pages 50 to 108 form part of these accounts.

Consolidated Statement of Operating Costs by Departmental Strategic Objectives

for the year ended 31 March 2010

During 2009–10, the Department's objectives were as follows:

DSO 1: A society that is adapting to the effects of climate change, through a national programme of action and a contribution to international action;

DSO 2: A healthy, resilient, productive and diverse natural environment;

DSO 3: Sustainable, low carbon and resource efficient patterns of consumption and production;

DSO 4: An economy and a society that are resilient to environmental risk;

DSO 5: Championing sustainable development;

DSO 6: A thriving farming and food sector with an improving net environmental impact;

DSO 7: A sustainable, secure and healthy food supply;

DSO 8: Socially and economically sustainable rural communities;

DSO 9: A respected department delivering efficient and high quality services and outcomes.

	2009-10			2008-09		
	Gross	**Income**	**Net**	Gross	Income	Net
	£'000	**£'000**	**£'000**	£'000	£'000	£'000
DSO 1	23,014	(197)	22,817	24,910	(67)	24,843
DSO 2	1,291,756	(337,315)	954,441	1,230,178	(304,114)	926,064
DSO 3	200,109	(60)	200,049	158,677	(4,922)	153,755
DSO 4	1,014,829	(31,786)	983,043	962,204	(36,670)	925,534
DSO 5	9,028	(24)	9,004	6,615	30	6,645
DSO 6	3,764,762	(3,315,547)	449,215	3,627,013	(3,230,557)	396,456
DSO 7	3,022	-	3,022	2,336	-	2,336
DSO 8	91,237	(8,770)	82,467	93,272	(24,699)	68,573
DSO 9	250,516	(39,008)	211,508	322,645	(45,407)	277,238
	6,648,273	**(3,732,707)**	**2,915,566**	6,427,850	(3,646,406)	2,781,444

For a description of the methodology used see Note 1.20 and for a further breakdown see Note 25.

Defra's Departmental Strategic Objectives were set as part of the Comprehensive Spending Review 2007 (CSR07) and subsequently modified following the creation of the Department of Energy and Climate Change (DECC).

The notes on pages 50 to 108 form part of these accounts.

Notes to the Departmental Resource Accounts

1 Statement of Accounting Policies

The financial statements have been prepared in accordance with the 2009–10 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS), as adapted or interpreted for the public sector context.

In addition to the primary statements prepared under IFRS, the FReM also requires the Department to prepare two additional primary statements. The Statement of Parliamentary Supply and supporting notes show outturn against Estimate in terms of the net resource requirements and the net cash requirement. The Statement of Net Operating Cost by Departmental Strategic Objectives and supporting notes analyse the Department's income and expenditure by the objectives agreed with Ministers.

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

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities and the reported amount of income and expenditure. All estimates are based on knowledge of current facts and circumstances, assumptions concerning past events, and forecasts of future events and actions. For example, estimates for provisions are informed by the outcome of previous and relevant legal cases and the extrapolation of average costs required to settle the resulting liabilities. Provisions may be raised in particular in relation to EC financial corrections, as detailed in Note 1.16. Pension provision liabilities are assessed by actuaries, and are based on factors such as life expectancy, age of scheme members, prevailing interest and inflation rates and projected returns on invested funds. Actual results may differ from these estimates.

1.1 Accounting Convention

These accounts have been prepared under the historical cost convention, modified to account for the revaluation of property, plant and equipment, intangible assets and, where material, inventories.

1.2 Basis of Consolidation

These accounts comprise a consolidation of those entities that fall within the departmental boundary as defined in the FReM. Transactions between entities included in the consolidation have been eliminated. A list of those entities within the departmental boundary is given in Note 37.

The Department is excluded from the requirement to fully consolidate the Forestry Commission and its related bodies under accounts direction given by HM Treasury, and as set out in Section 5(2) of the Government Resources and Accounts Act 2000 and paragraphs 4.2.13 and 4.2.14 of the FReM. The Forestry Commission is consolidated in these accounts to the extent that it is included within the Statement of Parliamentary Supply and the Reconciliation of Net Resource Outturn to Net Cash Requirement (Note 5).

1.3 Scheme Costs and Grants

1.3.1 Income and Expenditure

For each of the schemes administered by RPA, with the exception of the Single Payment Scheme (SPS), an accrual point has been established according to the applicable scheme rules and regulations. Where a present obligation for payment is identified to fall on or before the Statement of Financial Position date, it is shown as a payable in the current year's financial statements with the EC funded element offset as a receivable. Similarly any element paid in advance of these accrual points is treated as a prepayment with an offsetting payable.

With the exception of intervention income, EC income is accrued where the related expenditure has been accrued and is deferred where the related expenditure has been prepaid. Funding of Rural Development expenditure under the Rural Development Programme for England (RDPE) is managed by RPA on behalf of the Core-Department, but scheme income and expenditure is reported in the Core–Department's account.

SPS expenditure for England is recognised when there is a present obligation to make payments to the claimants as a result of the completion of all substantive processes to validate each claim, and the amount payable to each claimant is considered reliably measurable and probable.

SPS income for England is recognised when it is probable that a reimbursement will be received from the EC for scheme expenditure incurred and the amount to be received from the EC is considered reliably measurable. These conditions are deemed to be met at the point that the related scheme expenditure is recognised, that is, upon the completion of all substantive processes to validate and reliably measure each claim.

All of RPA's scheme expenditure is pre–funded by the UK Exchequer. Subsequent receipts reclaimed from the EC budget (subject to retentions for National Modulation) are surrendered to HM Treasury as Consolidated Funds Extra Receipts (CFER) when received.

In accordance with EC regulations RPA collects and surrenders both Sugar and Isoglucose production charges, and charges to fund the restructuring of the sugar regime. Production charges are recognised as income with the associated CFER liability and these funds are remitted to the EC via HM Treasury. Sugar restructuring receipts are remitted directly to the EC through the monthly reimbursement process and are not reported as income in these accounts.

The Core–Department maintains a provision for potential disallowance penalties, which covers all UK paying agencies for probable liabilities incurred up to 31 March 2006 and England only for liabilities arising thereafter. The Core–Department also accrues for liabilities arising from the EC's non–reimbursement of any late payments made under the SPS.

Other grants, for example Government Grant–in–Aid and Government grants paid or payable, are recorded as expenditure on an annual basis.

1.3.2 Other paying Agencies

Other UK paying agencies make payments to claimants under European Agricultural Guarantee Fund (EAGF) and European Agricultural Fund for Rural Development (EAFRD). These payments are pre–funded by RPA and subsequently recovered from the EC.

Scheme expenditure in relation to this funding is recognised when there is a present obligation to make payment to the other UK paying agencies and the amount payable is considered reliably measurable and probable. These conditions are deemed to be met upon the receipt of a funding request.

Scheme income in relation to this funding is recognised when it is probable that a reimbursement will be received from the EC for scheme expenditure incurred and the amount to be received from the EC is considered reliably measurable. These conditions are deemed to be met at the point that the related scheme expenditure is recognised, that is, upon the receipt of a funding request.

1.3.3 Modulation

Modulation is a vehicle for redirecting into Rural Development a proportion of support payments to farmers and other claimants. This process is supported by EC and national legislation. Under these arrangements, there are two types of modulation – National (or Voluntary) Modulation and EC (or Compulsory) Modulation.

National Modulation is managed on the Core–Department's behalf by RPA with the cash retained in RPA's bank accounts. The funds are accounted for as deferred income to fund future Rural Development expenditure in the Core–Department's account.

From SPS 2007 onwards, scheme payments are reclaimed net of all modulation. National Modulation funds for the UK are reclaimed from the EC when the Rural Development expenditure is incurred.

EC Modulation reduces the net amounts paid to traders and farmers, with the funds retained in the first instance by the EC. However, the EC has committed at least 80% of these funds to be available to cover Rural Development expenditure in the UK. EC Modulation will be reclaimed from the EC when the Rural Development expenditure is incurred.

Within these accounts SPS is reported net of National Modulation and EC Modulation for SPS 2007 and subsequent years.

1.4 Property, Plant and Equipment

1.4.1 Recognition and Valuation

Freehold land and buildings are stated at fair value and are professionally revalued at least every five years at existing use value, in accordance with guidance issued by the Royal Institute of Chartered Surveyors. A revaluation has taken place in 2010, carried out by Christopher Murfitt MRICS of DTZ Ltd. Non–specialised properties are revised annually by means of a desk top review, where every valuation is reviewed having regard to local and national indices and local knowledge. Specialised properties are updated annually by adopting the Building Cost Information Service All–in Tender Price Index supplied by the Royal Institute of Chartered Surveyors. Construction in Progress (CIP) is not revalued until the property is fully operational in the business.

Non property tangible assets have been stated at fair value using appropriate indices provided by the Office of National Statistics.

The minimum level of capitalisation in the Core–Department is £2,000. Other entities within the departmental boundary are not materially different.

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

Further details are provided in Note 15.

1.4.2 Service Concession Arrangements

Defra has entered into a contract with IBM for the supply of IT services. The contract is for a term of eight years from February 2010. The contract falls within the scope of IFRIC 12 as interpreted by the FReM and is disclosed within the accounts as a service concession arrangement. A lease liability has been included to reflect the capital value of payments to IBM to lease IT infrastructure assets throughout the duration of the eight year contract. A matching asset has been raised to reflect the benefit that the Department will derive from having access to IBM's IT infrastructure assets. Depreciation has been applied on a straight line basis consistent with the Department's depreciation policy. These IT infrastructure assets, which consist of laptops, servers and hardware, are classed as one tangible service concession asset under property, plant and equipment.

1.4.3 Non–Current Assets classified as Held for Sale

Non–current assets are classified as held for sale if their carrying amount is to 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 Department's Statement of Financial Position.

1.5 Intangible Non Current Assets

These comprise software licences and internally developed IT software, including CIP.

In addition, the Department holds various software licences, which were capitalised at purchase cost where this exceeds capitalisation thresholds. Such assets are revalued only where it is possible to obtain a reliable estimate of their market value. They are reviewed annually for any impairment, to ensure they are not carried in the Statement of Financial Position above their recoverable amounts.

Internally generated assets are recognised as CIP, and not revalued until the completed asset is brought into service. The costs are classified as relating either to research or to development phases. The Department's expenditure on research activities is written off to the Operating Cost Statement as incurred, due to the inherent uncertainty surrounding the economic benefit resulting from it. Capitalisation of development costs is contingent on fulfilment of the criteria noted in IAS 38 (Intangible Assets).

Internally developed computer software includes capitalisation of internal IT staff costs on projects costing in excess of £20,000 for FERA, £50,000 for the Core–Department and £100,000 for RPA. The Department does not hold any intangible assets with an indefinite useful life.

When fully operational in the business, internally generated software is stated at fair value, with values being updated annually using indices supplied by the Office of National Statistics.

Further details are provided in Note 16.

1.6 Depreciation

Depreciation and amortisation are provided at rates estimated to write off the valuation of freehold buildings, other items of property, plant and equipment, software licences and fully operational internally developed software by the straight line method over the estimated useful life of the asset, and is charged in the month of disposal but not in the month of purchase.

Where applicable, componentisation has been adopted by certain entities within the consolidation boundary. In this instance, each component of an asset with a value deemed material to the total fair value of the asset is capitalised and depreciated separately. Components no longer to be used are derecognised. Where componentisation is not yet fully in place, proxy values have been estimated using the weighted average useful life method. Estimated useful lives, component values and residual values are revised annually.

Depreciation is not charged on assets held for sale, freehold land and CIP. Lives are normally in the following ranges:

Freehold buildings	4 to 65 years
Property on historic lease	Remaining life of lease
Scientific equipment	5 to 15 years
IT hardware	2 to 12 years
IT software	2 to 12 years
Software licences	5 to 20 years
Furniture and fittings	3 to 30 years
Vehicles, plant and machinery	3 to 25 years
Office equipment	3 to 11 years
Vessels	15 to 30 years

Further details are provided in Notes 15 and 16.

1.7 Impairment

The carrying amounts of the Department's tangible and finite life intangible assets are reviewed at each balance sheet date to establish whether there are any indications of impairment. If such indications are evident, the estimated recoverable amount of the assets is compared to their carrying amount. If the carrying amount exceeds the recoverable amount, an impairment loss is immediately recognised. The recoverable amount is the greater of the fair value, less costs to sell, and the value in use. The value in use is an estimate of the future cash flow benefits expected to derive from the asset, discounted by a rate that reflects current market assessments of the time value of money and the risks specific to the asset.

1.8 Inventories and Work in Progress

1.8.1 Inventories

The Core–Department, FERA, AH and VLA recognise inventories in their accounts. These are brought into the consolidated accounts at the lower of cost (or at current replacement cost where materially different) or net realisable value. The Core–Department only records inventory over £250,000 due to the non–cost effectiveness of collecting this information.

1.8.2 Work in Progress

Work in progress is valued at the lower of cost (including appropriate overheads) or net realisable value.

1.8.3 Intervention inventories

These comprise agricultural commodities purchased into intervention under terms specified by EAGF and valued in accordance with its directions. The effect of these directions is to secure inventories at the stated value, as any shortfall in sales revenues is made good by the EC.

Tallow inventories, which arise as a by–product of the cattle rendering process associated with the Bovine Spongiform Encephalopathy (BSE) schemes, are valued at the date of the Statement of Financial Position, reflecting their value to the business.

Further details of inventories are provided in Note 20.

1.9 Operating Income

Operating income relates directly to the operating activities of the Department. It includes income appropriated–in–aid of the Estimate, income due to the Consolidated Fund (which in accordance with the FReM is treated as operating income) and receipts from the EU. All RPA scheme income, with the exception of Other Paying Agencies income, is paid directly to HM Treasury and is treated as Consolidated Funds Extra Receipts.

1.10 Administration and Programme Expenditure and Income

The Operating Cost Statement (OCS) is analysed between administration and programme costs. The classification of expenditure and income as administration or programme follows the definition set by HM Treasury. Administration costs reflect the costs of running the Department, as defined under the administration cost control regime, together with associated operating income. Income is analysed in the notes between that which is allowed to be offset against gross administrative costs and that operating income which is not. Programme costs reflect administration costs of frontline services and all other non–administration costs, including payments of grants, subsidies and other disbursements by the Department, as well as certain staff costs where they relate directly to service delivery.

1.11 Capital Charge

A charge reflecting the cost of capital utilised by the Department is included in operating costs. The charge is calculated at the real rate set by HM Treasury, currently 3.5% (2008–09 3.5%), on the average carrying amount of all assets less liabilities, except for donated assets, cash balances with the Office of the Paymaster General, amounts due from or to the Consolidated Fund and liabilities in respect of advances outstanding from the Contingencies Fund. Core–Department cost of capital has been analysed between administration and programme. The programme element relates to EA closed pension fund. The capital charge for RPA has been allocated to programme.

1.12 Foreign Exchange

Transactions that are denominated in a foreign currency are translated into sterling at the exchange rate ruling at the date of each transaction. Balances held in foreign currencies are translated at the rate of exchange ruling at date of the Statement of Financial Position.

In agreement with HM Treasury, RPA hedges against currency movements associated with the EC reimbursement process. Reporting and disclosure is in line with IAS 39 and is discussed in Note 1.13.3: Derivative Financial Instruments.

1.13 Financial Instruments

1.13.1 Financial Assets

The Department holds Loans and Receivables and Available for Sale Financial Assets in this category.

Loans and Receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans in this category are carried at historic cost less impairments and receivables are carried in the balance sheet at cost less appropriate provisions for specific doubtful receivables.

Available for Sale Financial Assets are non derivative financial assets that are classed as available for sale on initial recognition, or are not categorised in line with any other financial asset classification. They include a small number of equity share investments and a National Loan Fund (NLF) loan, which in turn has been lent to British Waterways. The equity share investments comprise a small quantity of shares in a number of public limited companies (plc) and the entire share capital of Cefas Technology Limited. Available for Sale Financial Assets are measured at fair value, with the plc shares being valued on an annual basis as quoted on the London Stock Exchange. All unrealised gains or losses are set against equity reserves, with gains or losses on disposal recognised in the Operating Cost Statement.

1.13.2 Financial Liabilities

These comprise trade and other payables and other financial liabilities. They are initially recognised at the fair value of consideration received, less directly attributable transaction costs. They are subsequently measured at amortised cost.

1.13.3 Derivative Financial Instruments

Derivative financial instruments are initially recognised at fair value at the date a derivative contract is entered into and are subsequently re–measured to their fair value at each date of the Statement of Financial Position. The resulting gain or loss is recognised in the Operating Cost Statement immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in the Operating Cost Statement depends on the nature of the hedge relationship. RPA designates certain derivatives as hedges of highly probable forecast transactions (cash flow hedges).

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

In accordance with IAS 39, RPA elected to designate certain foreign currency derivatives as cash flow hedges of the Euro denominated receipts from the EC in relation to SPS and RDPE. At the inception of the hedge relationship, RPA documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, RPA documents whether the hedging instrument is highly effective in offsetting changes in cash flows of the hedged items, as required by the standard.

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

Amounts previously recognised in the cash flow hedge reserve and accumulated in Taxpayers' Equity are reclassified to the Operating Cost Statement in the periods when the hedged item is recognised in the Operating Cost Statement, in the same line of the Operating Cost Statement as the recognised hedged item.

Hedge accounting is discontinued when RPA revokes the hedging relationship, the hedging instrument expires or is sold, terminated or exercised, or the hedging instrument no longer qualifies for hedge accounting. Any gain or loss recognised in the cash flow hedge reserve at that time is accumulated in Taxpayers' Equity and is recognised when the forecast transaction is ultimately recognised in the Operating Cost Statement. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in Taxpayers' Equity is recognised immediately in the Operating Cost Statement.

1.14 Employee Benefits

1.14.1 Pensions

Pension benefits are provided through the civil service pension arrangements, full details of which can be found in the Remuneration Report and in Note 10.

Although the Principal Civil Service Pension Scheme (PCSPS) is a defined benefit scheme, departments, agencies and other bodies covered by the scheme recognise the cost of the elements on a systematic and rational basis over the period during which it benefits from employees' services by payment to the PCSPS of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on PCSPS. In respect of defined contribution schemes, the Department recognises the contributions payable for the year.

Where the Department is responsible for pension schemes from delivery bodies, it has fully adopted IAS 19 Employee Benefits. The Department recognises a liability in respect of any deficit, being the excess of the present value of the scheme's liabilities over the value of the assets in the scheme, to the extent that the Department has a legal or constructive obligation to make good the deficit in the scheme. For further details on pensions, please see Note 24.

1.14.2 Other Employee Benefits

The Department 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 the overall staff costs.

Termination benefits are recognised as a liability when the Department 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.

1.15 Early Retirement Costs

The Department is required to meet the additional costs of benefits beyond the normal PCSPS benefits in respect of employees who retire early. The Department provides in full for this cost when the early retirement programme has been announced and is binding on the Department. The Department may, in certain circumstances, settle some or all of its liability in advance by making a payment to the Paymaster General's account at the Bank of England for the credit of the Civil Superannuation Vote. The amount provided is shown net of any such payments.

Further information is provided in Note 24.

1.16 Provisions

The Department provides for obligations arising from past events where the Department has a present obligation at the statement of financial position date, and where it is probable that it will be required to settle the obligation and a reliable estimate can be made. It is only when the timing and amount of an obligation become certain that a provision is recategorised as an accrual. Where material, the future costs (excluding those relating to pensions, early retirement and EC disallowance) have been discounted using the rate of 2.2%, as directed by HM Treasury. Pension provisions are discounted at prevailing rates, and calculated by Actuaries. Early retirement provisions are discounted at the pensions rate. Disallowance provisions are not discounted due to uncertainty around timing, estimates and foreign exchange fluctuations.

The Department considers that an obligation arises in relation to payments made on schemes regulated by the EC when a breach in the EC's regulations has been identified, and moreover that it is probable this breach will lead to financial corrections, known as disallowances, and a reliable estimate can be made. Further information is provided in Note 24. The Department no longer makes provisions relating to the risk of disallowance in respect of the UK Devolved Administrations.

1.17 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. The Department evaluates contractual arrangements, including those classed within Public Private Partnerships, in accordance with the above criteria.

Both the asset value and liability to pay future rentals under a finance lease are discounted at the interest rate implicit in the lease to derive the present value. Assets obtained under a finance lease are revalued and depreciated.

Where the total of future minimum lease payments are known, the expense is recognised in the Operating Cost Statement on a straight line basis over the length of the lease. Otherwise, payments are charged to the Operating Cost Statement as they are incurred.

1.18 Value Added Tax (VAT)

Most of the activities of the Department are outside the scope of VAT and in general output tax does not apply and input tax on purchases is not recoverable. Some recoveries of input tax do take place under the contracted out services provisions applicable to government departments. Irrecoverable VAT is charged to the relevant expenditure category or included in the capitalised purchase cost of fixed assets. Where output tax is charged, or input tax is recoverable, the amounts are stated net of VAT.

1.19 Contingent Liabilities

In addition to contingent liabilities disclosed in accordance with IAS 37 (Provisions, Contingent Liabilities and Contingent Assets), the Department discloses, for Parliamentary reporting and accountability purposes, certain statutory and non–statutory contingent liabilities where the likelihood of a transfer of economic benefit is remote.

Where the time value of money is material, contingent liabilities are stated at discounted amounts and the amount reported to Parliament separately noted. Contingent liabilities that are not required to be disclosed by IAS 37 are stated at the amounts reported to Parliament. Further information is provided in Notes 30 and 31.

1.20 Consolidated Statement of Operating Costs by Departmental Strategic Objectives

The Consolidated Statement of Operating Costs by Departmental Strategic Objective (DSO) reports expenditure and income against each of the Department's nine DSOs, which were set in CSR07 and were slightly amended following the creation of the Department of Energy and Climate Change.

The income and expenditure for the Core–Department are mapped directly via the scheme code (objective code) to one of the Defra's nine DSOs. The income and expenditure of each Agency is mapped directly to a DSO related to specific deliverables.

1.21 Adoption of New and Revised Standards

These financial statements are the first to be prepared in accordance with IFRS and accordingly IFRS 1 'First Time Adoption of International Reporting Standards' has been applied in their preparation. Reconciliations disclosing the effect of the transition from UK GAAP to IFRS on Defra's financial statements are shown in Note 2. Comparative figures in respect of 2008–09 have been restated to reflect these adjustments.

Changes to IFRS

IFRS 8 'Operating Segments' applies to annual financial statements for periods beginning on or after 1 January 2009. Defra has applied IFRS 8 in these financial statements as interpreted by the FReM, and the required segmental analysis is presented in the Consolidated Statement of Operating Costs by Departmental Strategic Objectives.

IFRS 8 was amended in April 2009, resulting in a change to the requirement to present a segmental analysis of assets. This amendment applies for periods beginning on or after 1 January 2010, but Defra has adopted it early. This early adoption did not lead to a change in the presentation or incremental disclosure in these financial statements.

The following new standards will be adopted by Defra in full, when they are adopted by the FReM, unless the requirements are interpreted or adapted by the FReM:

- IFRS 9 'Financial Instruments' – effective date: financial periods beginning on or after 1 January 2013.
- IAS 24 'Related Party Disclosures' (revised) – effective date: financial periods beginning on or after 1 January 2011.

Changes to the FReM

The following changes to the FReM will impact on the Department's accounts with effect from 2010-11:

- The FReM will no longer permit the inclusion of notional cost of capital charges when calculating the Department's Operating Costs.
- As adaptation of IAS 36 will lead to all impairments that are caused by consumption of economic benefit being charged to operating costs.
- The FReM will require that all provisions are to be treated as programme costs with effect from 2010-11.

1.22 Changes in Accounting Policies

In the Department's UK GAAP Resource Accounts for 2008–09, recognition of income and expenditure for SPS England was recognised evenly over each calendar year to which it was applied. On adoption of IFRS, the Department has changed its accounting policy, whereby scheme income and expenditure are recognised as each claim is validated and the amount payable to the claimant is reliably measurable.

In addition, SPS customers with both receivable and payable balances in different scheme years were presented on a gross basis in the Statement of Financial Position. As the Department has both the intention and the right to offset SPS receivables and payables with individual customers, in accordance with IAS 32, these have been re–presented on a net basis for prior periods.

These changes in accounting policy have resulted in a £189.3m increase to scheme income and a £206.0m increase to scheme expenditure for the year ended 31 March 2009. They have also resulted in decreases to trade receivables and other current assets of £567.3m at 31 March 2009 and £745.4m at 1 April 2008, and decreases to trade payables and other current liabilities of £531.5m at 31 March 2009 and £726.3m at 1 April 2008.

2 First Time Adoption of IFRS

In line with HM Treasury advice, Prior Period Adjustments (PPAs) arising from the adoption of IFRS were not included in the Spring Supplementary Estimates for 2009–10 on the basis that the PPA numbers could have been misleading, particularly where transactions may well have pre–dated the 2001–02 cut off point for reporting PPAs, as only part of an obligation would have been included. PPAs arising from a change in accounting policy related to other than IFRS were included in the Estimates in line with conventional arrangements.

Consolidated

	General Fund	Revaluation Reserve	Total Taxpayers Equity
	£000	£000	£000
Taxpayers' equity at 31 March 2008 under UK GAAP	(970,410)	259,687	(710,723)
Adjustments for:			
IAS 17 - Leases	421	(8,215)	(7,794)
IAS 19 - Employee Benefit Accrual	(7,077)		(7,077)
IAS 36 - Impairment	2,072	(2,072)	-
IAS 38 - Intangible Assets	737	1	738
Taxpayers' equity at 1 April 2008 under IFRS	(974,257)	249,401	(724,856)

	Operating Cost Statement
	£000
Net operating cost for 2007-08 under UK GAAP	2,680,051
Adjustments for:	
IAS 19 Employee Benefit Accrual	7,077
IAS 36 Impairment	(2,072)
IAS 38 - Intangible Assets	(750)
Cost of Capital Adjustment	(3)
Net operating cost for 2007-08 under IFRS	2,684,303

	General Fund	Revaluation Reserve	Total Taxpayers Equity
	£000	£000	£000
Taxpayers' equity at 31 March 2009 under UK GAAP	(914,821)	201,701	(713,120)
Adjustment for IFRS as at 1 April 2008	(3,847)	(10,286)	(14,133)
Adjustments for:			
IAS 19 Employee Benefit Accrual	(6,582)	-	(6,582)
IAS 17 - Leases	387	-	387
IFRS 5 - Assets held for sale	(550)	-	(550)
IAS 36 Impairment	562	(562)	-
IAS 38 - Intangible Assets	(216)	13	(203)
Taxpayers' equity at 1 April 2008 under IFRS	(925,067)	190,866	(734,201)

	Operating Cost Statement
	£000
Net operating cost for 2008-09 under UK GAAP	2,775,184
Adjustments for:	
IAS 19 Employee Benefit Accrual	6,582
IAS 17 - Leases	(387)
IFRS 5 - Assets held for sale	550
IAS 36 Impairment	(562)
IAS 38 - Intangible Assets	203
Cost of Capital Adjustment	(126)
Net operating cost for 2008-09 under IFRS	2,781,444

Core–Department

	General Fund	Revaluation Reserve	Total Taxpayers Equity
	£000	£000	£000
Taxpayers' equity at 31 March 2008 under UK GAAP	(1,446,629)	117,138	(1,329,491)
Adjustments for:			
IAS 17 - Leases	421	(8,215)	(7,794)
Taxpayers' equity at 1 April 2008 under IFRS	(1,446,208)	108,923	(1,337,285)

There were no adjustments to the Core–Department Operating Cost Statement for 2007-08

	General Fund	Revaluation Reserve	Total Taxpayers Equity
	£000	£000	£000
Taxpayers' equity at 31 March 2009 under UK GAAP	(1,034,324)	70,422	(963,902)
IFRS adjustments in 2007-08	421	(8,215)	(7,794)
Adjustments in 2008-09 for:			
IAS 19 - Employee Benefits	(6,114)	-	(6,114)
IFRS 5 - Assets held for Sale	(550)	-	(550)
IFRS 38 - Intangible assets	(267)	-	(267)
Taxpayers' equity at 1 April 2009 under IFRS	(1,040,834)	62,207	(978,627)

	Operating Cost Statement
	£000
Net operating cost for 2008-09 under UK GAAP	2,308,817
Adjustments for:	
IAS 19 - Employee Benefits	6,114
IFRS 5 - Assets held for Sale	550
IFRS 38 - Intangible assets	267
Net operating cost for 2008-09 under IFRS	2,315,748

Brought forward balances in these tables have been restated to reflect non–IFRS related adjustments, as detailed in Note 35.

3 Analysis of Net Resource Outturn by Section

	2009-10								Restated 2008-09
	Outturn						Estimate		Outturn
	Admin	Other current	Grants	Gross resource expenditure	A-in-A	Net total	Net total	Net total Outturn compared with Estimate: saving/(excess)	Net total
	£000	£000	£000	£000	£000	£000	£000	£000	£000'
Request for resources 1:									
Spending in Departmental Expenditure Limits (DEL)									
Central Government									
A Healthy Natural Environment	40,467	636,476	40,560	717,503	(68,701)	648,802	815,289	166,487	652,058
Sustainable Consumption and Production	9,030	25,018	55,588	89,636	(60)	89,576	97,020	7,444	74,764
Addressing Environmental Risk and Emergencies	53,542	302,986	40,609	397,137	(31,786)	365,351	369,611	4,260	352,641
A Thriving Farming and Food Sector	27,932	81,630	188	109,750	(11,760)	97,990	103,902	5,912	74,414
Championing Sustainable Development	1,876	2,168	-	4,044	(24)	4,020	5,755	1,735	6,051
Strong Rural Communities	1,862	21,747	61,228	84,837	(8,942)	75,895	89,975	14,080	68,240
A Respected Department	219,679	12,471	30	232,180	(38,832)	193,348	216,185	22,837	272,232
Rural Payments Agency: EC Funded	-	2,053,124	6,838	2,059,962	-	2,059,962	2,229,990	170,028	1,830,175
Rural Payments Agency: Running Costs	-	224,619	-	224,619	(48)	224,571	243,140	18,569	239,388
Rural Payments Agency: Other	-	140,906	-	140,906	-	140,906	110,500	(30,406)	-
Adapting to Climate Change	2,959	13,628	6,427	23,014	(197)	22,817	23,636	819	24,879
A Sustainable, Secure and Healthy Food Supply	1,642	1,380	-	3,022	-	3,022	4,066	1,044	2,342
Local Authority									
A Healthy Natural Environment	-	-	61,897	61,897	-	61,897	67,293	5,396	57,011
Sustainable Consumption and Production	-	-	110,473	110,473	-	110,473	118,916	8,443	78,931
Rural Payments Agency EC Funded	-	-	-	-	-	-	4,868	4,868	-
Area Based Grants: Defra	-	-	2,887	2,887	-	2,887	2,997	110	2,997
Total	**358,989**	**3,516,153**	**386,725**	**4,261,867**	**-160,350**	**4,101,517**	**4,503,143**	**401,626**	**3,736,123**
Request for resources 1:									
Spending in Annually Managed Expenditure (AME)									
Central Government									
A Healthy Natural Environment	-	(63,532)	-	(63,532)	-	(63,532)	24,300	87,832	(63,408)
Addressing Environmental Risk and Emergencies	-	-	-	-	-	-	-	-	4,727
A Respected Department	-	18,276	-	18,276	-	18,276	-	(18,276)	-
Rural Payments Agency: Running Costs	-	-	-	-	-	-	-	-	748
Rural Payments Agency Other	-	-	-	-	-	-	-	-	-
Total	**-**	**(45,256)**	**-**	**(45,256)**	**-**	**(45,256)**	**24,300**	**69,556**	**(57,933)**
Request for resources 1:									
Non-budget									
A Healthy Natural Environment	-	-	528,580	528,580	-	528,580	537,515	8,935	521,731
Addressing Environmental Risk and Emergencies	-	-	617,692	617,692	-	617,692	617,692	-	568,188
A Thriving Farming and Food Sector	-	-	3,045	3,045	-	3,045	2,804	(241)	11,737
Strong Rural Communities	-	-	6,400	6,400	-	6,400	6,400	-	6,400
Rural Payments Agency: EC Funded	-	1,226,479	(247,952)	978,527	(1,238,079)	(259,552)	180,700	440,252	86,171
Championing Sustainable Development	-	-	4,984	4,984	-	4,984	3,238	(1,746)	590
Total	**-**	**1,226,479**	**912,749**	**2,139,228**	**(1,238,079)**	**901,149**	**1,348,349**	**447,200**	**1,194,817**
Resource Outturn	**358,989**	**4,697,376**	**1,299,474**	**6,355,839**	**(1,398,429)**	**4,957,410**	**5,875,792**	**918,382**	**4,873,007**
Netted off expenditure	167	562	-	729	(729)	-			
Internal income	194,878	(194,878)	-	-	-	-			
Operating income not classified as A in A	-	-	-	-	(2,402,245)	(2,402,245)			
Prior Period Adjustments	-	43,753	247,952	291,705	68,696	360,401			
Net Operating Cost	**554,034**	**4,546,813**	**1,547,426**	**6,648,273**	**(3,732,707)**	**2,915,566**			

Refer to the Statement of Parliamentary Supply for a description of Request for Resources 1.

Detailed explanations of significant variances between Estimate and Net Resource Outturn are shown in the Management Commentary on pages 5–6.

4 Reconciliation of Outturn to Net Operating Cost and against Administration Budget

4.1 Reconciliation of Net Resource Outturn to Net Operating Cost

		2009-10			2008-09 Restated
	Note	**Estimate**	**Outturn**	**Outturn compared with Estimate**	Outturn
		£000	**£000**	**£000**	£000
Net resource outturn	3	5,875,792	4,957,410	918,382	4,873,007
Non-supply income (CFERs)	6	(2,575,744)	(2,402,245)	(173,499)	(2,429,230)
Prior period adjustments		(180,700)	360,401	(541,101)	331,406
First time adoption of IFRS					6,261
Net operating cost		**3,119,348**	**2,915,566**	**744,883**	2,781,444

Net Operating Cost is the total of expenditure and income appearing in the Operating Cost Statement. Net Resource Outturn is the total of those elements of expenditure and income that are subject to parliamentary approval and included in the Department's Supply Estimate. The outturn against the Estimate is shown in the Statement of Parliamentary Supply.

4.2 Outturn against Final Administration Budget

	2009-10		2008-09 Restated
	Budget	**Outturn**	Outturn
	£000	**£000**	£000
Gross Administration Budget	441,724	358,989	387,701
Income allowable against the Administration Budget	(137,228)	(77,407)	(81,169)
Net outturn against final Administration Budget	**304,496**	**281,582**	306,532

5 Reconciliation of Net Resource Outturn to Net Cash Requirement

	Note	2009-10 Estimate	2009-10 Defra Outturn	2009-10 Forestry Commission Outturn	2009-10 Total Outturn	2009-10 Net total outturn compared with Estimate: saving/(excess)	Restated 2008-09 Outturn
		£000	£000	£000	£000	£000	£000
Resource outturn	3	5,968,306	4,957,410	72,505	5,029,915	938,391	4,953,819
Capital							
Acquisition of Property, Plant and Equipment		77,985	29,378	2,815	32,193	45,792	41,887
Acquisition of intangibles		-	44,643	-	44,643	(44,643)	50,893
Non-operating cost A-in-A							
Proceeds of asset disposals		(5,700)	(5,139)	-	(5,139)	(561)	(31,300)
Accruals adjustments							
Non-cash items	11, 12.1	(291,735)	(210,791)	(3,886)	(214,677)	(77,058)	(205,178)
Changes in working capital other than cash		585,669	(36,998)	(55)	(37,053)	622,722	(406,512)
Changes in payables falling due after more than one year		-	9,882	(312)	9,570	(9,570)	(66,072)
Use of provision	24	120,000	267,457	1,279	268,736	(148,736)	205,131
Timing between accrual and cash VAT		-	-	826	826	(826)	59
Non-cash inter-country transfers		-	-	485	485	(485)	453
Other adjustments							
Adjustment of FE net deficit to financing		-	-	(22,818)	(22,818)	22,818	(23,073)
Sub total before prior period adjustments		6,454,525	5,055,842	50,839	5,106,681	1,347,844	4,520,107
Prior period adjustments		(180,700)	360,401	-	360,401	(541,101)	337,667
Net cash requirement		**6,273,825**	**5,416,243**	**50,839**	**5,467,082**	**806,743**	4,857,774

6 Analysis of income payable to the Consolidated Fund

In addition to Appropriations–in–Aid, the following income relates to the Department and is payable to the Consolidated Fund (cash receipts being shown in italics).

	Note	Forecast 2009-10 Income	Forecast 2009-10 *Receipts*	Outturn 2009-10 Income	Outturn 2009-10 *Receipts*
		£000	*£000*	£000	*£000*
Operating income & receipts - excess A-in-A		-	-	48,856	*48,856*
Other operating income & receipts, not classified as A-in-A		2,575,744	*3,077,372*	2,353,389 *	*2,374,647*
		2,575,744	***3,077,372***	**2,402,245**	***2,423,503***
Other non-operating income & receipts not classified as A-in-A	9	-	-	1,691	*1,720*
Total income payable to the Consolidated Fund		**2,575,744**	***3,077,372***	**2,403,936**	***2,425,223***

* This figure differs from the amount that will actually be paid to the Consolidated Fund, as per the Statement of Changes in Taxpayers' Equity. This is due to additional EU income of £64.5m accrued this year by RPA, but which will not be recognised as a payable to the Consolidated Fund until formally claimed from the EU. Additionally, the amount repayable to the Consolidated Fund has been reduced in respect of EU non–reimbursement of late payments (£9m) and income recognised under IAS 21 that will not be realised as cash (£15.8m).

7 Reconciliation of income recorded within the Operating Cost Statement to operating income payable to the Consolidated Fund

	Note	2009-10 £000	Restated 2008-09 £000
Operating income	13	3,732,707	3,646,406
Income authorised to be A-in-A	3	(1,398,429)	(1,138,979)
Netted-off gross expenditure in net sub head	3	(729)	(1,127)
Prior period adjustments		68,696	(77,070)
Operating income payable to the Consolidated Fund	6	**2,402,245**	2,429,230

8 Non–Operating Income — Excess Appropriations–in–Aid

	2009-10 £000	2008-09 £000
Proceeds on disposal of Property, Plant and Equipment	-	2,184
Non-operating income - excess A-in-A	**-**	2,184

9 Non–Operating Income not Classified as A–in–A

The following amounts are not regarded as income in 2009–10 for the Department and are surrendered to the Consolidated Fund:

	2009-10 Income £000	*Receipts £000*
Gangmaster Licensing Authority - surrender to Department of surplus funds	1,151	*1,151*
Miscellaneous non-operating receipts	540	*569*
Total amounts surrendered to the Consolidated Fund	**1,691**	***1,720***

10 Staff Numbers and Related Costs

10.1 Staff Costs

Staff costs comprise:

	2009-10					2008-09
	Permanent employed staff	**Others**	**Ministers**	**Special advisors**	**Total**	Total
	£000	**£000**	**£000**	**£000**	**£000**	£000
Salaries and wages	302,667	35,621	178	104	**338,570**	333,445
Social security costs	23,373	165	16	9	**23,563**	23,243
Other pension costs	55,500	1	3	23	**55,527**	56,189
Sub-total	**381,540**	**35,787**	**197**	**136**	**417,660**	412,877
Less: recoveries in respect of outward secondments	(4,608)	-	-	-	**(4,608)**	(1,054)
Total net costs	**376,932**	**35,787**	**197**	**136**	**413,052**	411,823
Of which:						
Core-Department (Restated 2008-09)	**116,632**	**7,850**	**197**	**136**	**124,815**	126,181

Out of the total, £4,608,000 (£4,361,000 Core–Department) recoveries in respect of outward secondments have been netted off, £47,000 (£47,000 Core–Department) has been charged to capital and the balance of £417,613,000 (£129,129,000 Core–Department) has been charged in the Operating Cost Statement.

Principal Civil Service Pension Scheme

Pension benefits for most employees of the Department are provided through the PCSPS. The PCSPS is an unfunded multi–employer defined benefit scheme. Defra is unable to identify its share of the underlying assets and liabilities. The scheme actuary valued the scheme as at 31 March 2007. Details can be found in the Resource Accounts of the Cabinet Office: Civil Superannuation([15]).

For 2009–10, employer's contributions of £55,118,000 (Restated 2008–09 £55,786,000) were payable to the PCSPS at one of four rates in the range 16.7% to 24.3% of pensionable pay, based on salary bands. The Scheme Actuary reviews employer contributions usually every four years following a full scheme valuation. From 2010–11, the rates will be in the range 16.7% to 24.3%. The contribution rates are set to meet the cost of the benefits accruing during 2009–10 to be paid when the member retires, and not the benefits paid during this period to current pensioners.

Other Pension Schemes

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employer's contributions of £392,000 for 2009–10 (2008–09 £382,000) were paid to one or more of the panel of three appointed stakeholder pension providers. Employer contributions are age–related and range from 3% to 12.5% of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay. In addition, employer contributions of £17,000 for 2009–10 (2008–09 £15,000), 0.8% of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service or ill health retirement of these employees. Contributions due to the partnership pension providers at the balance sheet date were £Nil. Contributions prepaid at that date were £Nil.

3 individuals (2008–09 9 individuals) retired early on ill health grounds: the total additional accrued pension liabilities in the year amounted to £19,343 (2008–09 £19,526).

[15] http://www.civilservice-pensions.gov.uk

Loans are made to staff to cover season ticket advances and to relocate. As at 31 March 2010, there were no outstanding balances to Management Board Members.

10.2 Average Number of Persons Employed

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

	2009-10					Restated 2008-09
Departmental Strategic Objective	**Permanent employed staff**	**Others**	**Ministers**	**Special advisors**	**Total**	Total
	Number	**Number**	**Number**	**Number**	**Number**	Number
DSO 1	46	5	-	-	**51**	88
DSO 2	1,172	94	-	-	**1,266**	1,139
DSO 3	146	8	-	-	**154**	84
DSO 4	3,071	78	-	-	**3,149**	3,107
DSO 5	26	2	-	-	**28**	72
DSO 6	3,183	723	-	-	**3,906**	4,344
DSO 7	25	-	-	-	**25**	11
DSO 8	35	-	-	-	**35**	32
DSO 9	1,969	196	5	2	**2,172**	1,857
Staff engaged on capital projects	1	-	-	-	**1**	2
Total	**9,674**	**1,106**	**5**	**2**	**10,787**	10,736
Of which:						
Core-Department	**2,464**	**291**	**5**	**2**	**2,762**	2,533

11 Administration Costs

	Note	2009-10 Core-Department £000	2009-10 Consolidated £000	Restated 2008-09 Core-Department £000	Restated 2008-09 Consolidated £000
Rentals under operating leases		35,768	36,798	24,939	25,765
PFI service charges		480	480	332	332
Travel, subsistence and hospitality		4,735	9,689	4,969	9,697
Consumables		-	30,237	-	25,086
Vessels		-	4,452	-	4,170
IT Services/software/hardware		42,604	45,345	34,567	37,647
Estate management		18,840	59,509	26,812	65,709
Consultancy/subcontracting		21,360	34,854	21,147	34,981
Training		2,044	3,623	2,147	3,120
Early retirement		-	(32)	-	85
Realised exchange rate (gains)/losses		-	169	-	(388)
Other		15,224	16,445	21,699	26,751
Non-cash items					
Depreciation		17,080	38,454	12,492	34,265
Amortisation		15,370	16,315	22,870	23,948
Profit on the disposal of Property, Plant and Equipment		(726)	(726)	(8,041)	(8,041)
Loss on the disposal of Property, Plant and Equipment		2,540	2,555	7,576	7,705
Impairment		-	420	14	2,270
Downward revaluation		773	22,763	637	3,481
Cost of capital charge		7,900	21,902	3,146	18,521
Auditors' remuneration & expenses		400	619	390	627
Provisions(released)/provided for in year		(21,977)	(19,923)	22,009	25,843
Unwinding of discount on provisions	24.1.1	1,052	1,090	-	42
Other non-cash items		-	(247)	-	10
Total		**163,467**	**324,791**	197,705	341,626

During the year the department did not purchase any non–audit services from its auditor, the National Audit Office (NAO).

Within the Consolidated Operating Cost Statement, rental costs in relation to buildings that are leased by Defra are stated net of the proportion of rent recovered from occupiers who fall outside of the Department's accounting boundary.

IT costs shown in notes 11 & 12 include payments that have been incurred in relation to the use of IT infrastructure assets supplied under contract with IBM. We have been unable to separate out finance and capital charges for 2009–10 as this would have required a disproportionate effort.

12 Programme Costs

12.1 Analysis of Programme Costs

		2009-10		Restated 2008-09	Restated
		Core-Department	**Consolidated**	Core-Department	Consolidated
		£000	**£000**	£000	£000
Rentals under operating leases		34	2,674	8	6,192
Interest charges		562	902	935	1,311
Research and development expenditure		95,421	95,421	85,417	85,417
Travel, subsistence and hospitality		122	10,223	134	9,536
Consumables		-	846	-	751
IT Services/software/hardware		348	52,350	8,284	60,658
Estate management		47	21,837	(193)	17,188
Consultancy/subcontracting		429	22,429	131	12,617
Training		22	2,589	17	5,628
Early retirement		-	1,641	-	2,014
Realised exchange rate (gains)/losses		-	(24,672)	(8,187)	241,382
Other		277,232	131,207	305,693	162,255
Non-cash items					
Depreciation		(7)	6,697	5,876	13,981
Amortisation		8,112	30,974	2,857	25,826
Profit on the disposal of Property, Plant and Equipment		(166)	(166)	-	-
Loss on the disposal of Property, Plant and Equipment		-	1,197	5	863
Impairment		-	-	-	250
Downward revaluation		18,276	18,284	-	534
Cost of capital charge		(33,532)	(18,909)	(36,313)	(24,926)
Auditors' remuneration and expenses		-	655	-	583
Provisions(released)/provided for in year		174,740	174,706	63,278	71,565
Unwinding of discount on provisions	24.1.1	215	317	-	115
Other non-cash items		-	(74)	-	(25)
Grants & subsidies: EU					
Unrealised (gains)/losses		-	4,041	-	-
Derivative ineffectiveness		-	(5,473)	-	-
Other EU grants and subsidies expenditure		267,732	3,569,630	248,021	3,282,123
Grants & subsidies: Other		1,792,817	1,806,543	1,684,688	1,697,568
Total		**2,602,404**	**5,905,869**	2,360,651	5,673,406

The depreciation for 2008–09 reflects a recharge of £784,000 to NE for the use of an asset owned by Defra. From 2009–10, this recharge has been treated as income.

Within the Consolidated Operating Cost Statement, rental costs in relation to buildings that are leased by Defra are stated net of the proportion of rent recovered from occupiers who fall outside of the Department's accounting boundary.

IT costs shown in notes 11 & 12 include payments that have been incurred in relation to the use of IT infrastructure assets supplied under contract with IBM. We have been unable to separate out finance and capital charges for 2009–10 as this would have required a disproportionate effort.

12.2 Analysis of Major Scheme Expenditure

The consolidated programme costs above include expenditure on the following major schemes:

	2009-10 Consolidated £000
Grant in Aid Environment Agency	775,029
EA Closed Pension Fund	143,456
Veterinary Surveillance Strategy	63,533
Grant in Aid Natural England	245,489
RPA Scheme Expenditure	3,311,113
RPA Running Costs	120,236
Regional Development Agencies	60,558
Rural Development Programme for England	360,869
British Waterw ays Board	86,606
Waste Implementation	105,977
CAP Disallow ance	227,756

13 Income

13.1 Analysis of Operating Income

	2009-10		Restated 2008-09	Restated
	Core-Department	**Consolidated**	Core-Department	Consolidated
	£000	**£000**	£000	£000
Administration income				
Sale of Services to External Customers	4,728	60,407	2,850	58,442
Sale of Services to Other departments	7,668	17,167	14,504	22,919
Sale of Services to Agencies	12,646	-	10,802	-
Total Admin Income	**25,042**	**77,574**	28,156	81,361
Programme income				
EU Funding				
Single Payment Scheme	-	1,868,813	-	2,010,755
Income Payable to Other Paying Agencies	-	1,218,230	-	1,126,818
Structural Funds (EU)	267,880	267,880	250,592	250,592
BSE Related Income	-	8,829	-	10,851
Trader Based Income - Internal Market	-	170,046	-	24,993
Trader Based Income - External Market	-	19,138	-	23,171
TSE Surveillance	3,429	3,429	4,504	4,504
National Scrapie Plan	-	-	1,263	1,263
Avian Influenza	91	91	1,000	1,000
Fisheries Guidance	18,056	18,056	-	-
Other Services	146	7,269	(51)	10,785
Other				
British Waterways Cost of Capital	27,700	27,700	31,200	31,200
Sale of Bluetongue Vaccine	2,664	2,664	10,242	10,242
WRAP VAT Recovery	-	-	5,169	5,169
OFWAT water licence fee	5,667	5,667	5,512	5,512
TB Compensation salvage receipts	5,297	5,297	4,396	4,396
Fisheries data collection	870	870	3,162	3,162
Structural Funds (Exchequer)	-	-	2,703	2,703
Sale of other goods	1,765	1,765	2,227	2,227
Sale of other services	13,727	17,008	18,615	23,388
Taxation Income	-	11,560	-	10,233
Grant Income	-	259	-	1,146
Total Programme Income	**347,292**	**3,654,571**	**340,534**	**3,564,110**
Interest on NLF loans on-lent to British Waterways	562	562	935	935
Total	**372,896**	**3,732,707**	369,625	3,646,406

The Core–Department receives rental income of £Nil (2008–09 £199,534) from other government departments and £719,103 (Restated 2008–09 £650,925) from external customers.

13.2 Miscellaneous Core–Department income

	2009-10			2008-09		
	Income	**Full cost**	**Surplus/ (Deficit)**	Income	Full cost	Restated Surplus/ (Deficit)
	£000	**£000**	**£000**	£000	£000	£000
Provision of Corporate Services to NE	3,362	3,362	-	4,364	4,364	-
	3,362	**3,362**	**-**	4,364	4,364	-

The above income forms part of the Sale of Services Income shown in Note 13.1. Income from services provided by the Executive Agencies can be found in their respective accounts.

The above information is provided for fees and charges purposes and not for IFRS 8 purposes

Miscellaneous other services, not reportable to HM Treasury, attracted accrued revenue of £297,000 (2008–09 £1,155,000), against costs of £302,000 (2008–09 £2,200,000), giving a deficit of £5,000 (2008–09 £1,045,000).

14 Analysis of Net Operating Cost by Spending Body

	2009-10 Estimate	2009-10 Outturn	Restated 2008-09 Outturn
	£000	**£000**	£000
Spending Body			
Core-Department	1,368,820	1,311,769	1,268,577
Agencies			
AH	136,946	133,983	116,735
CEFAS	-	(200)	(31)
FERA	-	527	396
MFA	29,484	31,124	33,641
RPA	418,954	208,049	309,441
VLA	(2,505)	19,941	5,702
VMD	-	38	(188)
NDPBs			
Commission for Rural Communities	6,400	6,400	7,538
Consumer Council for Water	5,512	5,667	5,300
Environment Agency	861,616	775,029	578,532
Food from Britain	500	559	5,965
Gangmasters Licencing Authority	2,304	2,243	2,855
Joint Nature Conservation Committee	1,920	1,920	4,835
National Forest Company	3,570	3,310	3,350
Natural England	254,089	260,415	184,992
Royal Botanic Gardens, Kew	28,500	28,739	25,693
Sustainable Development Commission	3,238	3,184	-
Total grants to local authorities	*	122,869	228,111
Net operating cost	**3,119,348**	**2,915,566**	2,781,444

* The local authority Estimate is included within the Core–Department figure.

15 Property, Plant and Equipment

15.1 Non Current

Consolidated

	Land	Buildings	Dwellings	Scientific equipment	IT	Furniture & fittings	Vehicles, Plant & Machinery	Office equipment	Payments on Account & Assets under construction	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Cost or valuation										
At 1 April 2009	66,238	563,227	5,235	62,799	34,918	99,853	37,289	4,159	18,046	**891,764**
Additions	280	1,696	-	4,642	2,331	4,112	671	18	15,628	**29,378**
Transfers	-	(793)	-	81	117	1,181	989	(1,209)	(1,335)	**(969)**
Disposals	(155)	(11,725)	-	(3,006)	(3,585)	(3,211)	(793)	(269)	(201)	**(22,945)**
Reclassifications	441	6,184	(3,770)	-	489	10,742	2,336	(78)	(16,134)	**210**
Reclassified as held for sale	1,210	2,080	-	-	-	-	-	-	-	**3,290**
Revaluation	(23,107)	(119,030)	155	876	1,141	674	547	8	-	**(138,736)**
At 31 March 2010	**44,907**	**441,639**	**1,620**	**65,392**	**35,411**	**113,351**	**41,039**	**2,629**	**16,004**	**761,992**
Depreciation										
At 1 April 2009	-	129,978	-	42,203	22,924	34,952	10,343	2,000	-	**242,400**
Charges in year	-	19,260	-	4,202	4,019	11,950	1,928	254	-	**41,613**
Impairment	-	194	-	-	-	-	226	-	-	**420**
Transfers	-	-	-	-	(2,244)	7	-	(2)	-	**(2,239)**
Disposals	-	(5,854)	-	(2,636)	(3,479)	(2,742)	(467)	(237)	-	**(15,415)**
Reclassifications	-	(74)	-	-	104	447	(373)	(35)	-	**69**
Revaluation	-	(64,604)	-	573	2,944	732	138	6	-	**(60,211)**
At 31 March 2010	**-**	**78,900**	**-**	**44,342**	**24,268**	**45,346**	**11,795**	**1,986**	**-**	**206,637**
Net book value 31 March 2010	**44,907**	**362,739**	**1,620**	**21,050**	**11,143**	**68,005**	**29,244**	**643**	**16,004**	**555,355**
Net book value 31 March 2009	66,238	433,249	5,235	20,596	11,994	64,901	26,946	2,159	18,046	649,364
Assets financing										
Owned	44,907	362,739	1,620	21,050	9,930	68,005	29,244	643	16,004	**554,142**
Finance leased	-	-	-	-	1,213	-	-	-	-	**1,213**
Net book value 31 March 2010	**44,907**	**362,739**	**1,620**	**21,050**	**11,143**	**68,005**	**29,244**	**643**	**16,004**	**555,355**

	Land	Buildings	Dwellings	Scientific equipment	IT	Furniture & fittings	Vehicles, plant & machinery	Office equipment	Payments on Account & Assets under construction	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Cost or valuation										
At 1 April 2008	79,967	527,214	775	60,879	29,544	81,628	37,267	9,417	70,809	**897,500**
Additions	295	2,773	-	5,769	4,262	11,015	1,065	1,552	12,748	**39,479**
Transfers	-	(3,065)	(235)	-	6,445	1,467	-	(6,492)	(219)	**(2,099)**
Disposals	(1,278)	(2,689)	-	(4,210)	(4,589)	(14,074)	(841)	(431)	(1,989)	**(30,101)**
Reclassifications	-	38,911	5,135	-	(98)	17,736	-	46	(63,303)	**(1,573)**
Reclassified as held for sale	(7,155)	(1,380)	(150)	-	-	-	-	-	-	**(8,685)**
Revaluation	(5,591)	1,463	(290)	361	(646)	2,081	(202)	67	-	**(2,757)**
At 31 March 2009	**66,238**	**563,227**	**5,235**	**62,799**	**34,918**	**99,853**	**37,289**	**4,159**	**18,046**	**891,764**
Depreciation										
At 1 April 2008	-	105,503	-	42,159	19,444	34,349	9,207	6,619	723	**218,004**
Charges in year	-	23,293	-	4,042	3,983	11,277	1,866	294	-	**44,755**
Impairments	-	1,547	-	5	-	-	-	-	1,266	**2,818**
Transfers	-	(2,620)	-	-	4,541	(6)	-	(4,541)	-	**(2,626)**
Disposals	-	(2,219)	-	(4,134)	(4,173)	(11,710)	(773)	(428)	(1,989)	**(25,426)**
Reclassifications	-	-	-	-	22	-	-	14	-	**36**
Reclassified as held for sale	-	-	-	-	(101)	-	-	-	-	**(101)**
Revaluation	-	4,474	-	131	(792)	1,042	43	42	-	**4,940**
At 31 March 2009	**-**	**129,978**	**-**	**42,203**	**22,924**	**34,952**	**10,343**	**2,000**	**-**	**242,400**
Net book value 31 March 2009	**66,238**	**433,249**	**5,235**	**20,596**	**11,994**	**64,901**	**26,946**	**2,159**	**18,046**	**649,364**
Net book value 31 March 2008	79,967	421,711	775	18,720	10,100	47,279	28,060	2,798	70,086	679,496
Assets financing										
Owned	66,238	433,249	5,235	20,596	10,781	64,901	26,946	2,159	18,046	**648,151**
Finance leased	-	-	-	-	1,213	-	-	-	-	**1,213**
Net book value 31 March 2009	**66,238**	**433,249**	**5,235**	**20,596**	**11,994**	**64,901**	**26,946**	**2,159**	**18,046**	**649,364**

Vehicles, plant and machinery include vessels owned by Cefas valued at £24,107,000 (2008–09 £24,815,000).

Additions include a non–cash element represented by payables and transfers. Cash additions amount to £33,816,000 (Restated 2008–09 £52,888,000) as per the Consolidated Statement of Cash Flows.

The net book value of leasehold land and buildings at 31 March 2010 comprises £8,517,000 for short leasehold and £Nil for long leasehold.

Core–Department

	Land	Buildings	Dwellings	Scientific equipment	IT	Furniture & fittings	Vehicles, Plant & Machinery	Office equipment	Payments on Account & Assets under construction	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Cost or valuation										
At 1 April 2009	19,491	96,509	5,235	6,732	3,413	95,495	2,100	536	15,217	**244,728**
Additions	280	1,115	-	321	49	3,913	489	3	1,649	**7,819**
Transfers	-	(2,208)	-	-	117	(19)	-	-	(946)	**(3,056)**
Disposals	(155)	(6,262)	-	(946)	-	(2,931)	(584)	(213)	(201)	**(11,292)**
Reclassifications	-	5,006	(3,770)	-	-	10,270	1,813	-	(13,319)	**-**
Reclassified as held for sale	1,210	2,080	-	-	-	-	-	-	-	**3,290**
Revaluation	(1,810)	(30,795)	155	65	(1)	605	43	(19)	-	**(31,757)**
At 31 March 2010	**19,016**	**65,445**	**1,620**	**6,172**	**3,578**	**107,333**	**3,861**	**307**	**2,400**	**209,732**
Depreciation										
At 1 April 2009	-	13,355	-	2,814	921	32,940	981	355	-	**51,366**
Charges in year	-	2,520	-	650	722	11,304	581	53	-	**15,830**
Transfers	-	-	-	-	(2,244)	-	-	5	-	**(2,239)**
Disposals	-	(666)	-	(715)	-	(2,518)	(361)	(176)	-	**(4,436)**
Reclassifications	-	25	-	-	-	(25)	-	-	-	**-**
Revaluation	-	(10,011)	-	26	2,031	686	(2)	(6)	-	**(7,276)**
At 31 March 2010	**-**	**5,223**	**-**	**2,775**	**1,430**	**42,387**	**1,199**	**231**	**-**	**53,245**
Net book value 31 March 2010	**19,016**	**60,222**	**1,620**	**3,397**	**2,148**	**64,946**	**2,662**	**76**	**2,400**	**156,487**
Net book value 31 March 2009	19,491	83,154	5,235	3,918	2,492	62,555	1,119	181	15,217	193,362
Assets financing										
Owned	19,016	60,222	1,620	3,397	2,148	64,946	2,662	76	2,400	**156,487**
Net book value 31 March 2010	**19,016**	**60,222**	**1,620**	**3,397**	**2,148**	**64,946**	**2,662**	**76**	**2,400**	**156,487**

	Land	Buildings	Dwellings	Scientific equipment	IT	Furniture & fittings	Vehicles, plant & machinery	Office equipment	Payments on Account & Assets under construction	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Cost or valuation										
At 1 April 2008	31,492	85,988	775	5,028	3,526	76,174	1,767	776	40,606	**246,132**
Additions	295	4,638	-	1,894	-	10,936	847	91	2,924	**21,625**
Transfers	-	(45)	(235)	-	4	(48)	-	(51)	(219)	**(594)**
Disposals	(1,278)	(362)	-	(133)	(297)	(11,370)	(645)	(345)	-	**(14,430)**
Reclassifications	-	5,217	5,135	-	41	17,742	-	40	(28,094)	**81**
Reclassified as held for sale	(7,155)	(1,380)	(150)	-	-	-	-	-	-	**(8,685)**
Revaluation	(3,863)	2,453	(290)	(57)	139	2,061	131	25	-	**599**
At 31 March 2009	**19,491**	**96,509**	**5,235**	**6,732**	**3,413**	**95,495**	**2,100**	**536**	**15,217**	**244,728**
Depreciation										
At 1 April 2008	-	8,857	-	2,416	799	30,178	1,058	576	-	**43,884**
Charges in year	-	4,549	-	612	216	10,859	448	101	-	**16,785**
Disposals	-	(51)	-	(134)	(103)	(9,152)	(573)	(344)	-	**(10,357)**
Reclassifications	-	-	-	-	(8)	-	-	8	-	**-**
Revaluation	-	-	-	(80)	17	1,055	48	14	-	**1,054**
At 31 March 2009	**-**	**13,355**	**-**	**2,814**	**921**	**32,940**	**981**	**355**	**-**	**51,366**
Net book value 31 March 2009	**19,491**	**83,154**	**5,235**	**3,918**	**2,492**	**62,555**	**1,119**	**181**	**15,217**	**193,362**
Net book value 31 March 2008	31,492	77,131	775	2,612	2,727	45,996	709	200	40,606	202,248
Assets financing										
Owned	19,491	83,154	5,235	3,918	2,492	62,555	1,119	181	15,217	**193,362**
Net book value 31 March 2009	**19,491**	**83,154**	**5,235**	**3,918**	**2,492**	**62,555**	**1,119**	**181**	**15,217**	**193,362**

The net book value of long leasehold land and buildings at 31 March 2010 is £Nil (Restated 2008–09 £16,451,000).

15.2 Right of Use Assets

Defra has a contract with IBM for the provision of IT services and infrastructure assets. This contract was renewed on 1 February 2010. It aims to support the Department by providing a modernised IT infrastructure, in line with the wider government IS strategy, which will give the Department access to cost effective IT services and infrastructure.

During the life of the contract, Defra has the right to use assets owned by IBM and IBM are obliged to provide a consistent level of performance as set out in the contract. This includes underlying IT product developments commissioned by the Department.

The contract prices are subject to an annual incremental increase, applied from 1 April. This increase is based on the Consumer Price Index (CPI) as at the end of January in the previous financial year.

There is flexibility in terms of termination providing the option to end the service or key aspects thereof. The financial penalty for termination is on a sliding scale depending on several factors, including time left on the contract. There are no beneficial entitlements at the end of the contract, although the Department has the option to purchase specified assets at net book value on exiting the contract. This gives the Department control of the assets during the life of the contract.

The following assets are included in the Consolidated Statement of Financial Position under Property, Plant and Equipment, together with those detailed in Note 15.1.

	2009-10		2008-09	
	Core Department	**Consolidated**	**Core Department**	**Consolidated**
	£000	**£000**	**£000**	**£000**
At 1 April 2009	7,367	12,713	9,200	15,877
Extension to the service concession arrangement	14,379	25,544	-	-
Adjustment to the service concession arrangement	636	1,137	795	1,372
Depreciation	(2,571)	(4,866)	(2,628)	(4,536)
At 31 March 2010	**19,811**	**34,528**	**7,367**	**12,713**

15.3 Assets Held for Sale

	2009-10		2008-09	
	Core Department	**Consolidated**	**Core Department**	**Consolidated**
	£000	**£000**	**£000**	**£000**
Cost or valuation				
At 1 April 2009	12,086	13,448	39,310	41,469
Reclassified as held for sale	(3,290)	(3,292)	8,685	8,685
Revaluation	(1,838)	(1,838)	(7,179)	(7,630)
Transfers	-	-	-	400
Disposals	(4,850)	(5,250)	(28,730)	(29,476)
At 31 March 2010	**2,108**	**3,068**	**12,086**	**13,448**

16 Intangible Assets

Consolidated

	2009-10				2008-09			
	Internally Generated Software	**Purchased Software**	**Payments on account & IT CIP**	**Total**	Restated Internally Generated Software	Restated Purchased Software	Payments on account & IT CIP	Restated Total
	£000	**£000**	**£000**	**£000**	£000	£000	£000	£000
Cost or valuation								
At 1 April	402,775	19,155	40,019	461,949	358,235	26,862	52,053	437,150
Additions	1,421	231	42,991	44,643	7,497	2,759	41,020	51,276
Disposals	(39,250)	(8,110)	(523)	(47,883)	(24,868)	(10,184)	(3)	(35,055)
Transfers	15,246	-	(15,643)	(397)	15,681	(93)	(18,790)	(3,202)
Reclassifications	26,826	109	(27,145)	(210)	34,182	140	(34,261)	61
Revaluation	5,753	531	-	6,284	12,048	(329)	-	11,719
At 31 March	**412,771**	**11,916**	**39,699**	**464,386**	402,775	19,155	40,019	461,949
Amortisation								
At 1 April	199,942	12,756	-	212,698	171,890	14,433	-	186,323
Charged in year	45,460	1,829	-	47,289	42,423	7,291	-	49,714
Impairment	-	-	-	-	264	-	-	264
Disposals	(38,561)	(7,723)	-	(46,284)	(24,103)	(8,695)	-	(32,798)
Transfers	2,331	-	-	2,331	(2,654)	(10)	-	(2,664)
Reclassifications	(69)	-	-	(69)	-	72	-	72
Revaluation	(7,658)	437	-	(7,221)	12,122	(335)	-	11,787
At 31 March	**201,445**	**7,299**	**-**	**208,744**	199,942	12,756	-	212,698
Net Book Value at 31 March	**211,326**	**4,617**	**39,699**	**255,642**	202,833	6,399	40,019	249,251
Net Book Value at 1 April	202,833	6,399	40,019	249,251	186,345	12,429	52,053	250,827
Assets Financing								
Owned	210,763	4,595	39,699	255,057	202,270	6,377	40,019	248,666
Finance leased	563	22	-	585	563	22	-	585
Net book value 31 March	**211,326**	**4,617**	**39,699**	**255,642**	202,833	6,399	40,019	249,251

Cash additions shown in the Consolidated Statement of Cash Flows amount to £46,773,000 (Restated 2008–09 £46,655,000).

Core–Department

	2009-10				2008-09			
	Internally Generated Software	**Purchased Software**	**Payments on account & IT CIP**	**Total**	Restated Internally Generated Software	Restated Purchased Software	Payments on account & IT CIP	Restated Total
	£000	**£000**	**£000**	**£000**	£000	£000	£000	£000
Cost or valuation								
At 1 April	189,206	8,530	13,752	211,488	199,384	14,039	24,135	237,558
Additions	560	1	7,132	7,693	2,586	41	6,825	9,452
Disposals	(11,234)	(5,536)	(288)	(17,058)	(19,947)	(5,457)	-	(25,404)
Transfers	(58)	-	(728)	(786)	(10,907)	(93)	(138)	(11,138)
Reclassifications	6,080	-	(6,080)	-	16,991	-	(17,070)	(79)
Revaluation	2,773	-	-	2,773	1,099	-	-	1,099
At 31 March	**187,327**	**2,995**	**13,788**	**204,110**	189,206	8,530	13,752	211,488
Amortisation								
At 1 April	64,689	5,835	-	70,524	67,858	4,248	-	72,106
Charged in year	22,695	787	-	23,482	19,776	5,891	-	25,667
Impairment	-	-	-	-	14	-	-	14
Disposals	(11,197)	(5,172)	-	(16,369)	(19,751)	(4,294)	-	(24,045)
Transfers	2,331	-	-	2,331	(3,880)	(10)	-	(3,890)
Revaluation	(1,785)	-	-	(1,785)	672	-	-	672
At 31 March	**76,733**	**1,450**	**-**	**78,183**	64,689	5,835	-	70,524
Net Book Value at 31 March	**110,594**	**1,545**	**13,788**	**125,927**	124,517	2,695	13,752	140,964
Net Book Value at 1 April	124,517	2,695	13,752	140,964	131,526	9,791	24,135	165,452
Assets Financing								
Owned	110,594	1,545	13,788	125,927	124,517	2,695	13,752	140,964
Net book value 31 March	**110,594**	**1,545**	**13,788**	**125,927**	124,517	2,695	13,752	140,964

17 Financial Instruments

The Department is required to disclose the role financial instruments had during the period in creating or changing the risks faced in undertaking its activities. The non–trading nature of Defra's activities and the way government departments are financed means the Department is not exposed to the degree of financial risk faced by business entities. Defra has very limited powers to borrow or invest surplus funds. Financial assets and liabilities generated by day–to–day operational activities are not held to change the risks facing the Department in undertaking its activities.

17.1 Categories of Financial Instruments

Details of financial instruments held by the Department are included in Notes 18, 21, 22 and 23. Further details are given below only where the financial instruments are significant.

The fair value of all assets and liabilities in this note approximates to book value.

17.1.1 Available for Sale Financial Assets

The Department holds a small number of equity share investments and a National Loan Fund (NLF) loan, which in turn has been lent to British Waterways. The equity share investments comprise a small quantity of shares in a number of public limited companies (plc) and the entire share capital of Cefas Technology Limited. Details of book values are given in Notes 18, 21 and 23.

17.1.2 Termination Benefits

Termination benefits are recognised as a liability when the Department 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.

The Department's Termination Benefit liability is detailed below:

	2009-10	Restated 2008-09
	£000	£000
Amounts falling due within one year	4,528	5,300
Amounts falling due after more than one year	6,246	10,649

17.1.3 Derivatives

RPA holds the following derivative assets and liabilities for the purpose of managing foreign currency risk:

	2009-10	2008-09
	£000	£000
Derivative assets classified as held for trading	5,907	-
Derivative assets in designated hedge accounting relationships	1,155	-
Derivative liabilities classified as held for trading	-	(83,207)
Derivative liabilities in designated hedge accounting relationships	(712)	-

These are discussed in Note 17.2.2 below.

17.1.4 Cash Securities

Traders wishing to undertake certain transactions under EC regulations are required to guarantee completion of the transaction by lodging a security with RPA. The security may be forfeited (in whole or in part) if the undertaking is not completely fulfilled. Cash securities totalling £2.7m were deposited with RPA at 31 March 2010 (£2.6m at 31 March 2009), with the corresponding liability included in trade and other payables.

No interest is paid to traders on cash balances lodged as security.

17.1.5 Non Cash Guarantees

Securities may also be in the form of a guarantee by a bank or an insurance company acceptable to RPA. Sterling guarantees totalling £669.9m and Euro guarantees totalling €63.6m (£56.5m) were held at 31 March 2010 (£400.2m and €70.9m (£66.0m) at 31 March 2009).

The interest rate applicable to these guarantees is nil.

17.2 Exposure to Risk

17.2.1 Liquidity Risk

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

Liquidity risk does, however, arise with RPA operations. The main driver is the successful recovery from the EC of funds paid to claimants under the CAP. As these funds are financed by HM Treasury in the first instance, there is no exposure to interest rate risks.

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

The following table details RPA's liquidity analysis for its undiscounted derivative financial instruments. All derivatives used for hedging purposes are shown by maturity based on their contractual undiscounted gross cash flows.

	31 March 2010	31 March 2009
	£000	£000
Derivative Liabilities		
Gross settled: Foreign exchange forward contracts		
Less than or equal to 3 months	(712)	-
More than 3 months but less than or equal to 6 months	-	(83,207)
Total	**(712)**	(83,207)
Derivative Assets		
Gross settled: Foreign exchange forward contracts		
Less than or equal to 3 months	7,023	-
More than 3 months but less than or equal to 6 months	80	-
Total	**7,103**	-

17.2.2 Foreign Currency Risk

Excluding RPA, there is no significant foreign currency risk, as foreign currency income and expenditure is negligible.

RPA's activities expose it to the financial risks of changes in foreign currency exchange rates. RPA enters into several forward foreign exchange contracts to manage its exposure to foreign currency risk relating to Euro denominated receipts from the EC for SPS and Rural Development Programme scheme expenditure (including Scotland, Wales and Northern Ireland in addition to England).

From January 2003, in accordance with Commission Regulation (EC) No. 1997/2002 (as amended), non–Eurozone member states, such as the UK, are reimbursed by the EC in Euros. However, the majority of distributions by RPA are transacted in Pound Sterling, which creates an exposure to gains or losses from fluctuations in foreign exchange rates between the Euro and the Pound Sterling. RPA has managed its exposure to this risk through the purchase of forward foreign currency contracts.

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

	Assets		**Liabilities**	
	2009-10	2008-09	**2009-10**	2008-09
	£000	£000	**£000**	£000
Euro Denominated	**465,045**	361,944	**113,487**	121,024

The following table details RPA's sensitivity to a 10% increase and decrease in Sterling against the Euro. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for 10% change in foreign currency rates. A positive number below indicates a decrease in net operating cost where Sterling weakens 10% against the Euro. For a 10% strengthening of Sterling against the Euro, there would be a comparable impact on the income, and the balances below would be negative. For derivative instruments a positive number below indicates a increase in Taxpayers' Equity where Sterling appreciates 10% against the Euro. For a 10% decrease of Sterling against the Euro, there would be a comparable impact on the Taxpayers' equity.

	Impact of movement in Euro/Sterling rate		**Impact of movement in Euro/Sterling rate**	
	Sterling appreciates by 10%		**Sterling depreciates by 10%**	
	2009-10	2008-09	**2009-10**	2008-09
	£000	£000	**£000**	£000
Net Operating cost *	**(57,853)**	(48,297)	**57,853**	48,297
Derivative instruments:				
Net Operating cost **	**30,775**	55,359	**(17,240)**	(55,359)
Other Equity **	**11,404**	-	**(10,405)**	-

* This is mainly attributable to the exposure outstanding on Euro receivables and payables at the Statement of Financial Position date.
** This is the result of the changes in fair value of derivatives instruments designated as cash flow hedges.

The following table analyses RPA's outstanding foreign currency contracts:

	Average Exchange Rate 2009-10 Euro: Sterling	Foreign Currency 2009-10 €000	Notional value 2009-10 £000	Fair value 2009-10 £000
Current Derivative Assets	0.9079	360,721	327,495	7,062
Current Derivative Liabilities	0.8717	42,022	36,628	(712)

RPA has entered into a forward exchange contract to hedge the monthly Euro denominated receipts in relation to the Single Payment Scheme. In March 2010, this hedge became ineffective and the requirements for applying hedge accounting were therefore no longer met. As at 31 March 2010, the aggregate amount of losses under forward foreign exchange contracts deferred in the cash flow hedging reserve relating to the exposure on these anticipated future receipts is nil.

RPA has also entered into a forward exchange contract to hedge the quarterly Euro denominated receipts in relation to the Rural Development Programme. As at 31 March 2010, the aggregate amount of losses under forward foreign exchange contracts deferred in the cash flow hedging reserve relating to the exposure on these anticipated future receipts is £67k. It is anticipated that the Euro receipts will occur in September 2010 at which time the amount deferred in equity will be reclassified to income or cost.

For the year ended 31 March 2010, a credit of £5,473k has been recognised in the Operating Cost Statement arising from the hedges. See Note 12.1.

Fair value of foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts. They represent Level 2 fair value measurements which are those derived from inputs, other than quoted prices, that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Net gains/(losses) on cash hedges transferred from Taxpayers' Equity to the Operating Cost Statement are as follows:

	2009-10 £000
Agency - Scheme Income	**11,362**
Other Paying Agencies - Scheme Income	**(281)**
Gains - Scheme Expenditure	**76,657**
Total transferred to Operating Cost Statement	**87,738**

18 Financial Assets

	British Waterways NLF loan on-lent	Stocks and shares CEFAS Technology Ltd	Stocks and shares Dairy Crest Plc	Stocks and shares Genus Plc	Total
	£000	£000	£000	£000	£000
Consolidated					
Balance at 1 April 2008	6,840	150	62	31	**7,083**
Additions	11,000	-	-	-	**11,000**
Revaluations	-	-	(27)	(9)	**(36)**
Loan repayments	(11,000)	-	-	-	**(11,000)**
Loan repayable within 12 months transferred to receivables	(896)	-	-	-	**(896)**
Balance at 31 March 2009	**5,944**	**150**	**35**	**22**	**6,151**
Revaluations	-	-	14	7	**21**
Loan repayable within 12 months transferred to receivables	(704)	-	-	-	**(704)**
Balance at 31 March 2010	**5,240**	**150**	**49**	**29**	**5,468**
Of which:					
Core-Department	**5,240**	**-**	**49**	**29**	**5,318**

Receipts from disposal of investments total £Nil (2008–09 £Nil).

The National Milk Records plc is not shown in the above table as the actual balances are less than £1,000.

The Department's share of the net assets and results of Cefas Technology Limited are summarised below.

	CEFAS Technology Ltd
	£000
Net Assets at 31 March 2010	820
Turnover	349
Surplus/profit for the year (before financing)	44
Net Assets at 31 March 2009	920
Turnover	400
Surplus/profit for the year (before financing)	52

19 Impairments

	Property, Plant and Equipment	Intangible Assets	Investments	Total
	£000	**£000**	**£000**	**£000**
Charged to the OCS	420	-	-	420
As at March 2010	**420**	**-**	**-**	**420**
Charged to the OCS	2,256	264	-	2,520
Taken to the Revaluation Reserve	562	-	-	562
As at March 2009	**2,818**	**264**	**-**	**3,082**

20 Inventories

	2009-10		2008-09		2007-08	
	Core-Department	**Consolidated**	Core-Department	Consolidated	Core-Department	Consolidated
	£000	**£000**	£000	£000	£000	£000
Inventories	4,140	42,932	10,043	25,253	4,836	6,629
Work in progress	-	2,978	-	2,669	-	1,822
	4,140	**45,910**	10,043	27,922	4,836	8,451

The above inventories include intervention inventories held by RPA, valued at £36.7m (2008–09 £13.1m, 2007–08 Nil).

21 Trade Receivables and Other Current Assets

21.1 Analysis by Type

	2009-10		2008-09		2007-08	
	Core-Department	Consolidated	Restated Core-Department	Restated Consolidated	Restated Core-Department	Restated Consolidated
	£000	£000	£000	£000	£000	£000
Amounts falling due within one year						
Trade receivables	24,120	65,006	54,897	115,889	43,349	110,787
Less bad debt impairment	(19)	(20,937)	(1,111)	(31,669)	(1,101)	(22,989)
Deposits and advances	678	682	647	657	393	439
Other receivables	111,933	115,779	197,900	218,358	98,292	122,654
Prepayments and accrued income	141,502	534,235	154,299	314,994	188,282	437,478
VAT	7,438	12,063	3,563	7,867	14,256	19,322
Amounts due from the Consolidated Fund in respect of supply	230,874	230,874	-	-	-	-
Trade and other receivables	**516,526**	**937,702**	410,195	626,096	343,471	667,691
Current part of NLF loan	704	704	896	896	1,024	1,024
Derivative financial instrument asset	-	7,062	-	-	-	-
Financial assets	**704**	**7,766**	896	896	1,024	1,024
Amounts falling due after one year						
Trade receivables	97	97	122	122	127	127
Deposits and advances	57	82	79	108	127	155
Other receivables	700	700	700	700	2,247	2,247
Prepayments and accrued income	1,778	1,790	2,734	2,739	-	16
Receivables due after more than one year	**2,632**	**2,669**	3,635	3,669	2,501	2,545
Total Receivables	**519,862**	**948,137**	414,726	630,661	346,996	671,260

Included within receivables is £308,852,000 (Restated 2008–09 £354,968,000) that will be due to the Consolidated Fund once the debts are collected.

This includes £82,353,000 closing accrual not recognised in the CFER payable; see note 6 for further information.

21.2 Intra–Government Balances

	Amounts due within one year			Amounts due after one year		
	2009-10	Restated 2008-09	Restated 2007-08	2009-10	2008-09	Restated 2007-08
	£000	£000	£000	£000	£000	£000
Balances with other central government bodies	268,130	100,502	165,289	1,872	2,734	-
Balances with local authorities	2,174	15,518	1,599	-	-	-
Balances with NHS trusts	155	-	25	-	-	-
Balances with public corporations and trading funds	8	898	6,667	-	-	-
Subtotal: intra-government balances	**270,467**	116,918	173,580	**1,872**	2,734	-
Balances with bodies external to government	675,001	510,074	495,135	797	935	2,545
Total Receivables as at 31 March	**945,468**	626,992	668,715	**2,669**	3,669	2,545

22 Cash and Cash Equivalents

	2009-10		2008-09	
	Core-Department	Consolidated	Core-Department	Consolidated
	£000	£000	£000	£000
Balance at 1 April	728,819	1,120,495	103,026	813,281
Net change in cash balance	(666,564)	(983,348)	625,793	307,214
Balance at 31 March	**62,255**	**137,147**	728,819	1,120,495
The following balances at 31 March are held at:				
Office of HM Paymaster General/Government Banking Services	60,614	133,565	722,556	1,109,193
Commercial bank accounts and cash in hand	1,641	3,582	6,263	11,302
Balance at 31 March	**62,255**	**137,147**	728,819	1,120,495

23 Trade Payables and Other Current Liabilities

23.1 Analysis by Type

	2009-10		2008-09		2007-08	
			Restated	Restated	Restated	Restated
	Core-Department	Consolidated	Core-Department	Consolidated	Core-Department	Consolidated
	£000	£000	£000	£000	£000	£000
Amounts falling due within one year						
VAT	-	138	-	111	-	-
Other taxation & social security	2,665	9,042	3,091	9,655	3,246	9,490
Trade payables	28,775	49,640	37,200	82,951	54,556	45,213
Other payables:						
EU	33,958	33,958	13,588	13,588	169	22,544
Other	53,075	59,309	10,270	13,406	5,821	10,623
Accruals and deferred income	294,574	424,281	169,888	298,127	214,771	341,102
Current part of finance leases	2,742	5,138	2,999	5,367	2,628	4,692
Amounts issued from the Consolidated Fund for supply but not spent at year end	-	-	635,426	635,426	315,349	315,349
Consolidated Fund Extra Receipts due to be paid to the Consolidated Fund						
Received	250,693	379,735	134,291	488,521	80,945	495,694
Receivable	29,672	226,499	139,980	337,141	10,073	284,785
Trade and other payables	**696,154**	**1,187,740**	1,146,733	1,884,293	687,558	1,529,492
Derivative financial instrument liability	-	712	-	83,207	-	84,610
Current part of NLF loan	704	704	896	896	1,024	1,024
Other financial liabilities	4,528	4,528	5,300	5,300	-	-
Financial liabilities	**5,232**	**5,944**	6,196	89,403	1,024	85,634
Amounts falling due after more than one year						
Other payables, accruals and deferred income	380	103,716	493	103,829	7,147	43,399
Finance leases	16,745	30,386	4,368	8,844	6,572	12,838
Other payables	**17,125**	**134,102**	4,861	112,673	13,719	56,237
NLF loan	5,240	5,240	5,944	5,944	6,840	6,840
Other financial liabilities	6,246	6,246	10,649	10,649	-	-
Financial liabilities	**11,486**	**11,486**	16,593	16,593	6,840	6,840
Total Payables	**729,997**	**1,339,272**	1,174,383	2,102,962	709,141	1,678,203

23.2 Intra–Government Balances

Consolidated

	Amounts due within one year			Amounts due after one year		
	2009-10	2008-09	2007-08	**2009-10**	2008-09	2007-08
	£000	£000	£000	**£000**	£000	£000
Balances with other central government bodies	719,612	1,517,843	1,375,855	110,010	120,422	43,092
Balances with local authorities	2,295	6,093	11,691	-	-	-
Balances with public corporations and trading funds	4,776	7,369	917	-	-	-
Subtotal: intra-government balances	**726,683**	1,531,305	1,388,463	**110,010**	120,422	43,092
Balances with bodies external to government	467,001	442,391	226,663	35,578	8,844	19,985
Total Payables at 31 March	**1,193,684**	1,973,696	1,615,126	**145,588**	129,266	63,077

24 Provisions

24.1 Provisions for Liabilities and Charges

24.1.1 Provisions for Liabilities and Charges (excluding Pension Liabilities)

	Early retirement costs	Foot and Mouth	CAP Disallowance	Programme provisions	Admin provisions	Total
	£000	£000	£000	£000	£000	£000
Consolidated						
Balance at 1 April 2008	36,302	21,983	320,079	67,351	5,749	451,464
Provided in the year	7,200	3,122	-	27,035	37,052	74,409
Provisions not required written back	(15,981)	(16,502)	-	(10,667)	(1,291)	(44,441)
Provisions utilised in year	(16,879)	(4,274)	(73,455)	(22,255)	(1,480)	(118,343)
Unwinding of discount	157	-	-	-	-	157
Balance at 31 March 2009	**10,799**	**4,329**	**246,624**	**61,464**	**40,030**	**363,246**
Balance at 1 April 2009	10,799	4,329	246,624	61,464	40,030	363,246
Provided in the year	1,879	46	110,727	13,318	6,477	132,447
Provisions not required written back	(128)	(3,644)	-	(5,580)	(27,508)	(36,860)
Provisions utilised in year	(4,708)	(719)	(137,041)	(25,503)	(10,330)	(178,301)
Unwinding of discount	140	-	-	215	1,052	1,407
Balance at 31 March 2010	**7,982**	**12**	**220,310**	**43,914**	**9,721**	**281,939**
Core-Department (Restated 2008-09)						
Balance at 1 April 2008	25,468	21,983	320,079	51,920	3,762	423,212
Provided in the year	3,380	3,122	-	19,765	35,107	61,374
Provisions not required written back	(15,949)	(16,502)	-	(9,785)	(1,291)	(43,527)
Provisions utilised in year	(12,246)	(4,274)	(73,455)	(11,112)	(358)	(101,445)
Unwinding of discount	-	-	-	-	-	-
Balance at 31 March 2009	**653**	**4,329**	**246,624**	**50,788**	**37,220**	**339,614**
Balance at 1 April 2009	653	4,329	246,624	50,788	37,220	339,614
Provided in the year	-	46	110,727	13,003	4,650	128,426
Provisions not required written back	-	(3,644)	-	(3,692)	(27,523)	(34,859)
Provisions utilised in year	(48)	(719)	(137,041)	(17,428)	(10,184)	(165,420)
Unwinding of discount	-	-	-	215	1,052	1,267
Balance at 31 March 2010	**605**	**12**	**220,310**	**42,886**	**5,215**	**269,028**

24.1.2 Analysis of Expected Timing of Discounted Flows (excluding Pension Liabilities)

	Early retirement costs	Foot and Mouth	CAP Disallowance	Programme provisions	Admin provisions	Total
	£000	£000	£000	£000	£000	£000
Consolidated						
Within 1 year	2,695	12	199,170	9,767	4,745	216,389
Between 2 and 5 years	4,389	-	21,021	31,926	3,202	60,538
Between 6 and 10 years	293	-	-	1,965	1,774	4,032
Thereafter	605	-	119	256	-	980
Total	**7,982**	**12**	**220,310**	**43,914**	**9,721**	**281,939**
Core-Department						
Within 1 year	-	12	199,170	8,758	2,749	210,689
Between 2 and 5 years	-	-	21,021	31,907	2,466	55,394
Between 6 and 10 years	-	-	-	1,965	-	1,965
Thereafter	605	-	119	256	-	980
Total	**605**	**12**	**220,310**	**42,886**	**5,215**	**269,028**

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

24.1.3 Provisions for Pension Liabilities

	Environment Agency	Nature Conservancy Council	Former Countryside Agency RCC	Former Countryside Agency Ex-chairman	Horticultural Research International	Total
	£000	£000	£000	£000	£000	£000
Balance at 1 April 2008	**1,046,700**	**18,806**	**2,690**	**206**	**14,531**	**1,082,933**
Charge to Operating Cost	57,300	964	149	11	762	59,186
Other provision movements	(75,000)	(758)	(281)	-	(1,678)	(77,717)
Provision utilised in year	(84,400)	(1,404)	(152)	(16)	(432)	(86,404)
Restated Balance at 31 March 2009	**944,600**	**17,608**	**2,406**	**201**	**13,183**	**977,998**
Balance at 1 April 2009	**944,600**	**17,608**	**2,406**	**201**	**13,183**	**977,998**
Charge to Operating Cost	57,100	1,023	165	12	896	59,196
Other provision movements	191,600	3,449	588	40	4,185	199,862
Provision utilised in year	(87,100)	(1,366)	(109)	(16)	(565)	(89,156)
Balance at 31 March 2010	**1,106,200**	**20,714**	**3,050**	**237**	**17,699**	**1,147,900**

24.1.4 Analysis of Expected Timing of Discounted Flows (Pension Liabilities)

	Environment Agency	Nature Conservancy Council	Former Countryside Agency RCC	Former Countryside Agency Ex-chairman	Horticultural Research International	Total
	£000	£000	£000	£000	£000	£000
Total projected furture spend						
Within 1 year	86,600	1,374	109	16	500	88,599
Between 2 and 5 years	346,400	5,919	436	64	2,000	354,819
Between 6 and 10 years	433,000	8,453	545	80	2,500	444,578
Thereafter	240,200	4,968	1,960	77	12,699	259,904
Total	**1,106,200**	**20,714**	**3,050**	**237**	**17,699**	**1,147,900**

The timing of cash flows for the provisions requires management to make estimates and assumptions. All estimates for provisions are based upon knowledge of current facts and circumstances, assumptions concerning past events, and forecasts of future events and actions. Some of the assumptions made have limitations that will mean that the actual timings of cash flows could vary significantly from these estimates. One of the major assumptions made is in respect of the future cash flows of pension provisions. It is assumed that payments made in the future years will be in line with payments made in the current year until the provision is exhausted, and that inflationary factors will be offset by the mortality rates of scheme members.

24.1.5 Early Retirement Costs

The early departure costs are those additional costs of benefits beyond the normal PCSPS benefits, in respect of employees who retire early. These are met by the Department by paying the required amount annually to the PCSPS over the period between early departure and the normal retirement date. The Department provides for this in full when the early retirement programme becomes binding on the Department by establishing a provision for the estimated payments.

24.1.6 Other Provisions

FMD Provisions

The reduction in the FMD Burial Site provision relates mainly to the settlement of invoices during the year and then at year end the reduction of the remaining balance to zero in line with the departmental treatment of a similar liability in the 2008–09 accounts.

Further amounts in relation to FMD Burial Sites are recognised as a contingent liability in these accounts.

The reduction in the FMD Legal provision relates mainly to the settlement of claims following the FMD 2001 outbreak.

Disallowance provision (CAP)

The EC can apply financial corrections if Defra (through RPA) does not comply with EC regulations for payments funded through the Common Agricultural Policy. Any amounts disallowed (and hence funded by Defra instead) will depend on the assessed severity of the breach of regulations and on subsequent clarification negotiations with the European Commission in accordance with the Commission's clearance of accounts procedure.

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

These liabilities are disclosed as provisions for all schemes, except where the actual cash refusal is expected within the next 12 months. In these cases, the liability is disclosed as an accrual.

During the course of the year the Commission published various Ad–Hoc Clearance Decisions confirming the amounts of disallowance to be imposed. £9m for export refunds was deducted from reimbursement claims during the year and offset against the provision.

In addition, there was a further net reduction of the CAP disallowance provision of £17m, due to the take-up of £111m of new provisions being offset against £128m of provisions for SPS 2005 & 2006 being converted to accruals as they are due to crystallise shortly after the year-end.

The Programme Provisions include:

- The Modernising Rural Delivery (MRD) funding of Redundancy Costs provision of £3.3m, which relates to the redundancy and relocation elements associated with the set–up of NE and Commission for Rural Communities (CRC).

- The Fur Farming provision of £1.0m, which was set up to provide compensation to Fur Farmers resulting from the Fur Farming (Prohibition) Act 2000. It is expected that all compensation claims will be settled by the end of the 2010–11 financial year.

- The Masters Sand Pit provision of £9.4m, Hatfield Moor provision of £2.3m, Crowle Moor provision of £0.7m, and Portland Quarry provision of £10.6m relate to an obligation arising from Government's Outline Position 1998, in which the Government set out circumstances in which it would meet compensation payable by local planning authorities in meeting its responsibilities under regulation 50 of the Conservation (Natural Habitats) Regulations 1994.

- The Habitats Directive (92/43/EEC) obliges the UK to select and submit sites to the European Commission for adoption as Sites of Community Importance (SCIs) and subsequent designation as Special Areas of Conservation (SACs). The designation of Bolton Fell Moss is part of the UK Government's response to Commission infraction proceedings with regard to sufficiency of designated sites. The provision currently stands at £4.0m in pursuance of this.

- The Onerous Lease Provision of £5.9m relates only to those properties that are vacant with no foreseeable use for the Department. The value of the provision represents total programme costs to the earlier of the lease break or expiry.

The Administration Provisions include:

- The Onerous Lease Provision of £2.7m, which relates only to those properties that are vacant with no foreseeable use for the Department. The value of the provision represents total administration costs to the earlier of the lease break or expiry.

- The Building Dilapidation Provision of £2.1m, which represents the estimated liability arising from contractual dilapidations claims in respect of leased properties. The provision represents the value of formal notifications from landlords and formal assessments instructed by Defra in anticipation of a claim.

24.2 Provision for Environment Agency pension liability

24.2.1 The Environment Agency Closed Fund (the Fund) is vested in the Environment Agency by Regulation 2(1) of the Local Government Pension Scheme Regulations 1996 and Environment Act 1996 and is maintained for the purposes of Section 7 of the Superannuation Act 1972. The Secretary of State has the function conferred by Section 173 of the Water Act 1989 (the Act) to make such payments into the Fund as may be considered appropriate in respect of the actual and contingent liabilities falling from time to time. This was reaffirmed through the Memorandum of Understanding between the Accounting Officers of Defra and the Environment Agency, 17 May 2005. These are met out of the Fund to persons who were ex–employees of regional water authorities and other water industry bodies at the time of water privatisation in 1989 (the Closed Fund members).

The assets in the scheme and the expected rate of return were:

	Actuals 2009-10		Actuals 2008-09		Actuals 2007-08	
	Long term rate of return expected at 31 March 2010	**Value at 31 March 2010**	Long term rate of return expected at 31 March 2009	Value at 31 March 2009	Long term rate of return expected at 31 March 2008	Value at 31 March 2008
		£000		£000		£000
Bonds	4.5 %	121,300	4.3 %	107,000	4.6 %	110,800
Cash	4.8 %	6,000	4.5 %	4,200	4.8 %	4,800
Market value of assets		127,300		111,200		115,600
Present value of scheme liabilities		(1,233,500)		(1,055,800)		(1,162,300)
Net pension liabilities (as per Actuarial Report)		(1,106,200)		(944,600)		(1,046,700)
Pension liability		(1,106,200)		(944,600)		(1,046,700)

The major financial assumptions used by the Actuary when providing the assessment of the accrued liabilities as at the following dates for the Resource Accounting assessments were:

	At 31 March 2010	At 31 March 2009	At 31 March 2008
Rate of increase on salaries	4.3 %	4.3 %	4.3 %
Rate of increase on pensions in payment and deferred pensions	2.8 %	2.8 %	2.8 %
Inflation assumption	2.8 %	2.8 %	2.8 %
Discount rate	4.6 %	6.0 %	5.3 %

The Environment Agency is responsible for providing the Actuary with the relevant information to carry out the triennial valuations of the Closed Fund. This information includes, but is not limited to, details of:

- scheme membership, including age and gender profile, active membership, deferred pensioners and pensioners;
- statutory benefit structure, including details of any discretionary benefits and any proposals to amend these;
- following consultation with the Actuary, the key assumptions that should be used to value the scheme liabilities, ensuring that the assumptions are mutually compatible and reflect a best estimate of future experience.

The value of the liability included on the balance sheet may be significantly affected by even small changes in assumptions. For example, if at a subsequent valuation it is considered appropriate to reduce the assumed rate of inflation then the value of the pension scheme liability will decrease (other things being equal). Conversely, if the assumed rates are increased, the value of the liability will increase. The managers of the scheme accept that, as a consequence the valuation provided by the Actuary is inherently uncertain. The increase or decrease in future liability charged or credited for the year, resulting from changes in assumptions, is disclosed in Notes 24.2.4 and 24.2.5. The note also discloses ‘experience’ gains or losses for the year, showing the amount charged or credited for the year because events have not coincided with assumptions made for the last valuation.

24.2.2 Analysis of Movement in Scheme Liability

	2009-10	2008-09
	£000	£000
Scheme liability at 1 April	(944,600)	(1,046,700)
Sponsor contributions	87,100	84,400
Contributions in respect of unfunded benefits	11,600	11,700
Other outgoings (e.g. expenses, service costs etc)	(1,000)	(1,000)
Net return on assets (Note 24.2.3)	(56,100)	(56,300)
Actuarial gain/(loss) (Note 24.2.4)	(203,200)	63,300
Scheme liability at 31 March	**(1,106,200)**	(944,600)

24.2.3 Analysis of the Amount Charged to Operating Costs

	2009-10	2008-09
	£000	£000
Expected return on pension scheme assets	4,800	5,200
Interest on pension scheme liabilities	(60,900)	(61,500)
Net return on assets	(56,100)	(56,300)
Other outgoings (e.g. expenses, service costs etc)	(1,000)	(1,000)
Charged to operating cost	**(57,100)**	(57,300)

24.2.4 Analysis of Amount Recognised as Gains and Losses

	2009-10	2008-09
	£000	£000
Actual return less expected return on pension scheme assets	10,300	(6,500)
Experience gains/(losses) arising on the scheme liabilities	3,500	17,500
Changes in financial assumptions underlying the present value of the scheme liabilities	(217,000)	52,300
Actuarial gain/(loss) recognised as gains and losses	**(203,200)**	63,300

24.2.5 History of Experience Gains and Losses

	2009-10	2008-09	2007-08	2006-07	2005-06
Difference between the expected and actual return on scheme assets:					
Amount (£000)	10,300	(6,500)	9,700	3,900	4,800
Percentage of assets	8.1%	(5.8%)	8.4%	3.9%	5.3%
Experience gains/(losses) on liabilities:					
Amount (£000)	3,500	17,500	(139,385)	(33,339)	(100)
Percentage of liabilities	0.3%	1.7%	(12.0%)	(3.0%)	0.0%
Total amount recognised as gains and losses:					
Amount (£000)	(203,200)	63,300	(90,585)	(105,339)	(44,200)
Percentage of liabilities	(16.5%)	6.0%	(7.8%)	(9.5%)	(4.2%)

24.3 Pension provisions (excluding Environment Agency pension liability)

Nature Conservancy Council pension provision

The Nature Conservancy Council (NCC) pensions provision provides for former NCC staff (and their surviving dependents) who decided not to transfer their provision to an alternative scheme when the NCC was disbanded.

Former Countryside Agency pension schemes (RCC & Ex–chairman schemes)

The former Countryside Agency Rural Community Councils (RCC) and Ex–Chairman pension provisions were transferred to the Core–Department on 30 September 2006. The RCC fund is managed by the Xafinity Paymaster, and any pensions are administered by them in accordance with standard rules (by–analogy with the PCSPS).

Horticultural Research International pension scheme

The Horticultural Research International (HRI) pension scheme is now closed following the restructuring of HRI in 2004. There are no active members in the scheme, only pensioners (deferred and current). The HRI pension scheme is PCSPS by analogy and is a final salary scheme providing a combination of pension and lump sum benefits on a range of contingencies: retirement, death and resignation.

24.3.1 An actuarial valuation was carried out on these schemes as at 31 March 2010 by the Government Actuary's Department. The major assumptions used by the Actuary were:

	31 March 2010	31 March 2009	31 March 2008
Rate of increase in salaries	4.3%	4.3%	4.3%
Increase in pensions in payment	2.8%	2.8%	2.8%
Discount rate	4.6%	6.0%	5.3%
Inflation assumption	2.8%	2.8%	2.8%

24.3.2 Analysis of Movement in Scheme Liability

	2009-10					2008-09
	NCC	**HRI**	**Former CA RCC**	**Former CA Ex-Chair**	**Total**	Total
	£000	**£000**	**£000**	**£000**	**£000**	£000
Scheme liability at 1 April	17,608	13,183	2,406	201	**33,398**	36,233
Current service cost	-	-	21	-	**21**	23
Employee contributions	-	-	1	-	**1**	1
Interest on scheme liability	1,023	783	143	12	**1,961**	1,876
Benefits payable	(1,366)	(452)	(109)	(16)	**(1,943)**	(1,933)
Pension payments to and on account of leavers & transfers in	-	-	-	-	**-**	(84)
Actuarial (gain)/loss	3,449	4,185	588	40	**8,262**	(2,718)
Scheme liability at 31 March	**20,714**	**17,699**	**3,050**	**237**	**41,700**	33,398

24.3.3 Analysis of Benefits Paid

	2009-10					2008-09
	NCC	HRI	Former CA RCC	Former CA Ex-Chair	Total	Total
	£000	£000	£000	£000	£000	£000
Pensions of annuities to retired employees and dependents	1,344	413	109	16	**1,882**	1,804
Commutations and lump sum benefits on retirement	22	39	-	-	**61**	129
Per cash flow statement	**1,366**	**452**	**109**	**16**	**1,943**	1,933

24.3.4 Analysis of Payments to and on Account of Leavers

	2009-10					2008-09
	NCC	HRI	Former CA RCC	Former CA Ex-Chair	Total	Total
	£000	£000	£000	£000	£000	£000
Individual transfers to other schemes	-	-	-	-	**-**	84
Per cash flow statement	**-**	**-**	**-**	**-**	**-**	84

24.3.5 Analysis of Amount Recognised as Gains and Losses

	2009-10					2008-09
	NCC	HRI	Former CA RCC	Former CA Ex-Chair	Total	Total
	£000	£000	£000	£000	£000	£000
Experience gains and losses arising on the scheme liabilities	122	66	3	(39)	**152**	(598)
Changes in assumptions underlying the present value of scheme liabilities	(3,571)	(4,251)	(591)	(1)	**(8,414)**	3,316
Total actuarial (losses)/gains	**(3,449)**	**(4,185)**	**(588)**	**(40)**	**(8,262)**	2,718

24.3.6 History of Experience Gains and Losses

Nature Conservancy Council pension provision

	2009-10	2008-09	2007-08	2006-07	2005-06
Experience (gains)/losses on liabilities					
Amount (£'000s)	(122)	536	534	262	55
Percentage of the present value of scheme liabilities	(0.6%)	3.0%	2.8%	1.4%	0.3%
Total amount recognised as (gains)/losses					
Amount (£'000s)	3,449	(758)	1,198	2,258	77
Percentage of the present value of scheme liabilities	16.7%	(4.3%)	6.4%	12.5%	0.5%

Former Countryside Agency (CA) pension schemes: RCC Directors

	2009-10	2008-09	2007-08	2006-07
Experience (gains)/losses on liabilities				
Amount (£'000s)	(3)	(80)	121	68
Percentage of the present value of scheme liabilities	(0.1%)	(3.3%)	4.5%	2.6%
Total amount recognised as (gains)/losses				
Amount (£'000s)	588	(275)	(3)	435
Percentage of the present value of scheme liabilities	19.3%	(11.4%)	(0.1%)	16.4%

Former CA pension schemes: Ex–Chairman

	2009-10	2008-09	2007-08	2006-07
Experience (gains)/losses on liabilities				
Amount (£'000s)	1	8	(55)	(1)
Percentage of the present value of scheme liabilities	0.6%	4.0%	26.7%	(0.2%)
Total amount recognised as (gains)/losses				
Amount (£'000s)	40	-	(53)	27
Percentage of the present value of scheme liabilities	16.9%	0.0%	(25.7%)	10.4%

Horticultural Research International Pension Scheme

	2009-10	2008-09	2007-08	2006-07
Experience (gains)/losses on liabilities				
Amount (£'000s)	(66)	134	179	190
Percentage of the present value of scheme liabilities	(0.4%)	1.0%	(1.2%)	(1.2%)
Total amount recognised as (gains)/losses				
Amount (£'000s)	4,185	(1,685)	(1,101)	2,548
Percentage of the present value of scheme liabilities	23.6%	(12.8%)	(7.6%)	16.6%

25 Notes to the Consolidated Statement of Operating Costs by Departmental Strategic Objectives

Programme grants and other current expenditures have been allocated as follows:

	2009-10	2008-09
	£000	£000
DSO 1	18,557	17,445
DSO 2	1,160,248	1,100,252
DSO 3	176,787	141,203
DSO 4	899,664	864,600
DSO 5	6,617	4,500
DSO 6	3,719,954	3,595,915
DSO 7	1,277	1,559
DSO 8	82,762	84,476
DSO 9	28,373	52,397
	6,094,239	5,862,347

For a description of the Objectives, see page 49.

26 Capital Commitments

	2009-10		2008-09	
	Core-Department	**Consolidated**	Core-Department	Consolidated
	£000	**£000**	£000	£000
Contracted capital commitments at 31 March for which no provision has been made:				
Property, plant and equipment	7,738	11,133	1,140	1,350
Intangible assets	309	2,628	885	21,787
	8,047	**13,761**	2,025	23,137

27 Commitments under Leases

27.1 Operating Leases

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

	2009-10		2008-09	
	Core-Department	**Consolidated**	Core-Department	Consolidated
	£000	**£000**	£000	£000
Obligations under operating leases comprise				
Land				
Land Operating Leases - Not later than 1 year	5	63	7	38
Land Operating Leases - 1 to 5 years	17	122	29	113
Land Operating Leases - Over 5 years	281	882	502	1,121
Total of Land Operating Leases	**303**	**1,067**	538	1,272
Buildings				
Buildings Operating Leases - Not later than 1 year	15,326	22,745	18,349	25,989
Buildings Operating Leases - 1 to 5 years	56,825	79,418	69,555	95,721
Buildings Operating Leases - Over 5 years	157,286	191,815	140,440	186,731
Total of Buildings Operating Leases	**229,437**	**293,978**	228,344	308,441
Other				
Other Operating Leases - Not later than 1 year	-	408	-	341
Other Operating Leases - 1 to 5 years	-	439	-	174
Total of Other Operating Leases	**-**	**847**	-	515

The consolidated land and buildings figures within note 27.1 shows the costs related to properties leased by Defra, net of the proportion occupied by entities outside the Department's accounting boundary. These arrangements between the occupier and Defra reflect a future commitment to reimburse Defra for the underlying rentals paid to landlords for the provision of leasehold accommodation.

27.2 Finance Leases

The total future minimum lease payments under finance leases (excluding Right of Use assets) are given in the table below for each of the following periods:

	2009-10		2008-09	
	Core-Department	**Consolidated**	Core-Department	Consolidated
	£000	**£000**	£000	£000
Obligations under finance leases comprise				
Buildings				
The Department holds no finance leases relating to Buildings				
Other				
Other Finance Leases - Not later than 1 year	-	530	-	531
Other Finance Leases - 1 to 5 years	-	1,594	-	2,125
	-	**2,124**	**-**	2,656
Less: Interest element of Other Finance Leases	-	(818)	-	(1,158)
Total of Other Financial Leases	**-**	**1,306**	**-**	1,498

27.3 Right of Use Assets

The total future minimum lease payments in respect of Right of Use assets are given in the table below for each of the following periods:

	2009-10		2008-09	
	Core-Department	**Consolidated**	Core-Department	Consolidated
	£000	**£000**	£000	£000
Obligations under service concession arrangement				
Right of Use Assets				
Obligation under service concession arrangement - Not later than 1 year	2,990	4,984	2,999	5,176
Obligation under service concession arrangement - 1 to 5 years	11,960	20,133	4,368	7,537
Obligation under service concession arrangement - Over 5 Years	4,537	7,900	-	-
Total obligation under service concession arrangement	**19,487**	**33,017**	7,367	12,713

28 Commitments under PFI Contracts

28.1 Off–balance Sheet

The majority of PFI contracts associated with Defra are funded by NDPB and public corporations outside the resource accounting boundary. An off–balance sheet contract was signed by the Department in February 2001 to develop land at Brooklands Avenue, Cambridge. The scheme involves the PFI partner constructing an office building for Defra and other government departments to occupy and for surplus land to be used for housing. The estimated capital value of the contract was £18.21m, of which a £0.25m deposit was paid during the contract exchange in February 2001. A further £5m was received in February 2002 after planning permission was granted. The project was completed in March 2003, phased occupation took place between March and April. The Department formally gave vacant possession of the site in April 2003 and £8.73m was received by Defra in May 2003. A final payment of £9.42m was received in October 2006 (incorporating £4.42m final payment and an overage payment of £5m to acknowledge the increase in value of the land).

28.2 Charge to the Operating Cost Statement and Future Commitments

The total amount charged in the Operating Cost Statement in respect of off–balance sheet PFI transactions was £480,000 (Restated 2008–09 £332,000). The payments to which the Department is committed are as follows:

	2009-10		2008-09	
	Core-Department	**Consolidated**	Core-Department	Consolidated
	£000	**£000**	£000	£000
Expiry within 21 to 25 years	79	94	79	93
	79	**94**	79	93

29 Other Financial Commitments

The Department is committed to making payments to non–cancellable contracts (which are not leases or PFI contracts). The payments which the Department is committed to make during 2010–11 analysed according to the period during which the commitment expires, are as follows:

	2009-10		2008-09	
	Core-Department	**Consolidated**	Core-Department	Consolidated
	£000	**£000**	£000	£000
Not later than one year	29,803	38,999	40,563	49,415
Later than one year and not later than five years	54,764	78,360	72,496	120,425
Later than five years	43,492	96,988	11,017	29,835
	128,059	**214,347**	124,076	199,675

Within the other financial commitments disclosure, £25,758,000 (2008–09 £25,721,000) relate to facilities management costs associated with the occupation of buildings that are either owned or leased by Defra or specialised properties held on Agencies' Statements of Financial Position. These commitments are net of the proportion occupied by entities outside the Department's accounting boundary, where the commitments are consistent with arrangements containing a lease as defined by IFRIC 4.

Defra also entered into multi–annual agreements with beneficiaries under a number of schemes within the RDPE. Under these agreements, payments are due annually to beneficiaries upon their submission of a signed claim form and following their completion of specified activities and adherence to laid down prescriptions. In the event of activities and prescriptions specified within the agreements not being undertaken there is no liability to pay.

30 Contingent Liabilities Disclosed under IAS 37 and Contingent Assets

30.1 Contingent Liabilities

There are a number of events, with uncertain outcomes, that could potentially lead to liabilities for the Department. Given such uncertainties, these items have not been accrued for in the accounts, but are instead listed separately as contingent liabilities. At 31 March 2010, the main items under this heading were:

- liability for landfill sites that do not reach the standards required by Pollution Prevention and Control regulations if the licence holder becomes insolvent. Potential liability estimated at £20m;
- infringements of the Urban Waste Water Treatment Directive could lead to substantial fines from the EU (unquantifiable);
- investment guarantees, up to a maximum of £3.7m, related to the Waste and Resources Action Programme (WRAP), together with various liabilities concerning WRAP lease commitments to a maximum of £0.4m, due in stages to 2011;
- potential future claims for pollution that may arise from FMD Farm Burial Grounds. The potential liability is estimated at a maximum of £2m;
- indemnity against all actions, costs and expenses made against the National Institute of Agricultural Botany (NIAB) arising from their contract with Defra. The value of any such possible future actions is not quantifiable but, to minimise liability, the contract requires NIAB to take out a £5m professional insurance;
- RPA is in dispute with the owners of certain storage facilities which it has used for the storage of tallow (under the Over Thirty Month Scheme). The disputes relate to alleged tank damage and/or contamination and tank rentals payable. RPA has made provision for the amount for which it believes it is liable, and is continuing to pursue investigations to reach an agreed settlement;
- the East Malling Research (EMR) liability arises from the agreement made in 2004 for Defra to cover redundancy costs should EMR need to make HRI staff redundant. The liability was estimated at £4.5m when the agreement was made in 2004–05, but declines every year down to £0.3m in the final year of the agreement in 2023–24. The full amount would only be paid once, in the case of East Malling winding down. Small claims may arise should EMR need to make staff redundant during a specific year;
- a writ has been received seeking damages of £9.5m from the Department and IBM, relating to an alleged breach of software licensing conditions;
- the HR Redundancy relates to planned restructuring affecting 51 IBM staff; the estimated charge for this campaign is £3.8m and is over 8 years;
- a contractual liability for dilapidations arises to the extent that the tenant fails to repair, maintain or decorate in accordance with the terms of the lease. A liability for reinstatement arises where a leased building is altered by the tenant at the request of the tenant. These obligations cannot be reliably estimated at inception. Provision is made where the landlord has notified an intention to enforce a claim and the amount of such a claim can be assessed. A contingent liability therefore exists for potential claims over and above the existing provision;
- potential costs associated with a possible adverse outcome to a European Court of Justice case which would require the slaughter of goat herds where scrapie has been confirmed are estimated at £1m;
- the European Commission have acknowledged that sugar levy rates, advised by regulation, were incorrect leading to overcharged levies during the period 2002 to 2006. The European Commission has issued new regulations which are being challenged by sugar producers with the European Union;
- a potential liability arising from Government's Outline Position 1998, in which the Government set out circumstances in which it would meet compensation payable by local planning authorities in meeting its responsibilities under regulation 50 of the Conservation (Natural Habitats) Regulations 1994;

- the Government has an obligation under Article 14.2 of an agreement of 1988, registered with the UN, to support the Commonwealth Agricultural Bureau International (CABI). For the year to 31 December 2006, Defra provided 35% of the member contributions towards CABI's costs. Under the Agreement, the Government is required to underwrite any future deficit or recover any surplus on winding up of CABI in the same proportion as its members' contributions. Defra considers that, on the basis of the assessment of CABI's management, the liabilities gap is currently falling, and that the residual obligation is potentially below £5m;

- the Court of Appeal has ruled that the levy Seafish collects from industry on imported sea fish and sea fish products is unlawful, raising serious concerns about the future of the organisation. The decision is being challenged through the Courts, and the Department has been granted leave to appeal to the Supreme Court against the Court of Appeal's decision. Timing and cost of the outcome cannot yet be determined;

- Fera has received a professional negligence claim which seeks an indemnity to pay for future claims. This is being defended. (unquantifiable);

- potential liabilities arising from small claims against Defra. The potential liability is estimated at no more than £2m.

Defra has the lead responsibility for a large number of NDPBs and Public Corporations (see Note 38). Although these sponsored bodies lie outside the accounting boundary, the Department is still required to meet any liabilities they are unable to absorb themselves.

30.2 Contingent Assets

At 31 March 2010, the main items under this heading were:

- a surplus of £0.3m may arise as a result of a reorganisation of the Sugar Board Pension Scheme. This was provided for in 1976 by a group annuity policy, but this is now disproportionate for the small number of surviving pensioners;

- possible recoveries resulting from future surpluses from the NIAB redundancy fund;

- Defra is entitled to a future share of enhancement in value on a number of properties and land previously sold. These enhancements generally arise from the planning and development process and are based on a number of trigger points, planning thresholds and increased values;

- once correct rates are confirmed by regulation, the repayment of overcharged sugar levy will be reimbursed by the European Commission. The above contingent liability is matched by an equal contingent asset.

31 Contingent Liabilities not Required to be Disclosed under IAS 37 but Included for Parliamentary Reporting and Accountability Purposes

31.1 Quantifiable

Defra has entered into the following quantifiable contingent liabilities by offering guarantees, indemnities or by giving letters of comfort. None of these are contingent liabilities within the meaning of IAS 37 since the likelihood of a transfer of economic benefits in settlement is too remote.

	01 April 2009	Increase in year	Liabilities crystallised in year	Obligation expired in year	31 March 2010
	£000	£000	£000	£000	£000
Guarantees					
Guarantee of British Waterways borrowing	3,000	-	-	-	3,000

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

- Defra has agreed to provide a letter of comfort to close a funding gap that would otherwise prevent the completion of the redevelopment of the New Covent Garden Market site at Nine Elms. The Department has agreed to underwrite the redevelopment of the Covent Garden Market Authority in the event that costs exceed the budget allowed to them by HMT, up to a maximum of £10m;

- potential liabilities arising from small claims against Defra. The potential liability is estimated at no more than £2.4m.

31.2 Unquantifiable

Defra has entered into the following unquantifiable contingent liabilities by offering guarantees, indemnities or by giving letters of comfort. None of these are contingent liabilities within the meaning of IAS 37 since the possibility of a transfer of economic benefits in settlement is too remote.

Indemnities:

- Defra indemnifies the UK Chemicals Stakeholders Forum against legal action by companies affected by Forum decisions or announcements on chemicals;

- indemnity to maintain an offshore works, built in the 1970s, to ensure that no danger or nuisance is caused;

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

- Defra received an EU Article 226 letter dated 20 December 2009 relating to the Drinking Water Directive (98/83/EC) (EU case reference: 06/2005). Should the case reach the Article 228 European Court of Justice (ECJ) stage, the Court would determine the extent of any fines. Fines may be back–dated and substantial, but cannot be quantified at this stage;

- swill feeder claims connected with the FMD outbreak;

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

- environmental contamination arising from the use, and former use of sites which Defra controls, or formally controlled, may give rise to a future remediation liability;

- Judicial review of river basin management plans prepared under the Water Framework Directive (WFD). The challenge is whether they comply with the requirements of the WFD.

32 Losses and Special Payments

32.1 Losses Statement

	2009-10		2008-09	
	No. of cases	**Value**	No. of cases	Value
		£000		£000
Cash losses	28,186	14,379	155	943
Stores losses	51	5	4	18
Fruitless payments	2	2,505	1	-
Claims abandoned	5,561	565	16,839	1,485
Total	**33,800**	**17,454**	16,999	2,446

Details of Cases over £250,000

- £390,851 relating to Beck Foods Ltd who received payments in 1996 from the Beef Stock Transfer Scheme (BSTS). The company went into receivership in 1997 and there is no prospect of further recovery.

- £278,884 relating to Alpine Cold Stores who received a Processing and Marketing grant from the England Rural Development Programme in 2005–06 and went into administration in 2007. There is no prospect of further recovery.

- £3,089,559 relating to Ulster Meats who received export refunds from RPA's predecessor, the Intervention Board, before going into liquidation in 1991. There is no prospect of further recovery.

- £6,641,608 relating to British Sugar plc who were issued a penalty invoice in 1997. Following a ruling by the High court of justice that this should be quashed, the presumed debt has now been written off.

- Constructive losses were incurred on the dissolved Waveney campus project, originally intended to provide new facilities within Lowestoft. The costs expensed in this year in regard to closing the whole project were in the region of £2,505,000.

- A sum of £1,280,015 intended for the payment of a supplier was stolen from Defra when funds were fraudulently misdirected to a third party's bank account. There is little prospect of full recovery.

32.2 Special Payments

	2009-10		2008-09	
	No. of cases	**Value £000**	No. of cases	Value £000
Special payments	260	3,417	3,026	1,187
Total	**260**	**3,417**	3,026	1,187

Details of Cases over £250,000

- £2,915,704 to settle a claim from Speciality Produce Ltd in respect for the Fruit and Vegetable scheme following a Judicial Review.

33 Related Party Transactions

The Department is the parent of the Executive Agencies shown in Note 37. The Department's NDPBs within the departmental accounting boundary are also shown in Note 37 and those outside the boundary are shown in Note 38. These bodies are regarded as related parties with which the Department has had various material transactions during the year.

In addition, the Department has had a number of transactions with other government departments (e.g. Department for Business, Innovation and Skills, Department for Communities and Local Government, Meat Hygiene Service, Department of Energy and Climate Change, Health and Safety Commission and Executive, and the Devolved Administrations).

Other than, those disclosed below, none of the Board Members, key managerial staff or other related parties have undertaken any material transactions with the Department during the year.

During the year, Fera entered into a number of transactions with Natural England where Adrian Belton, Chief Executive, has a related party interest. The contracts for the year totalled £63k. The specific related parties are not involved in contractual negotiations between the organisations. Adrian is Chair for the Institute of Environmental Management and Assessment but receives no payment for this position.

Katrina Williams' husband is employed by Defra as a permanent, full–time member of staff. He does not receive any preferential treatment.

Nigel Gibbens' wife is employed by Defra as a permanent, full–time member of staff. She does not receive any preferential treatment.

Close family members of Poul Christensen, Alexis Cleveland and Gill Aitken claim Single Farm Payment. A close family member of Gill Aitken also claims HLS payments.

Cefas Technology Limited (CTL) is a fixed asset investment of Cefas. The shares are held by Richard Judge (Chief Executive) as nominee of the trustees for Cefas. Turnover of £178,000 was derived from CTL (2008–09 £249,998) and costs of £59,000 were payable to CTL (2008–09 £148,701). At 31st March 2010 £8,000 was due from CTL (2008–09 £110,749) and £54,000 was owed to CTL (2008–09 £49,266).

Robert Watson resigned from the Biotechnology and Biological Sciences Research Council on 12 November 2009. He is still a member of Natural Environment Research Council and receives no payments for this.

No other Defra Management Board member, including Non–Executive members or other key managerial staff hold directorships or other significant interests in any other related organisations.

34 Events After the Reporting Period

Defra's Financial Statements are laid before the House of Commons by HM Treasury. International Accounting Standard 10: *Events after the reporting period* requires Defra to disclose the date on which the accounts are authorised for issue. The authorised date for issue is 26 July 2010.

On 1 April 2010, the Marine and Fisheries Agency (MFA) ceased to exist as an Executive Agency of Defra, and most of its functions and responsibilities transferred to a new Non–Departmental Public Body, the Marine Management Organisation (MMO) with the exception of licensing activities in Wales, which transferred to the Welsh Assembly Government.

Additionally, MMO took on functions from other government departments – Department for Transport, Department of Energy and Climate Change, and the Department for Business, Innovation and Skills. It has also taken on new functions through the Marine and Coastal Access Act 2009.

On 29 June 2010, the Secretary of State announced her intention to merge Animal Health and the Veterinary Laboratories Agency. Additionally, she announced that the Commission for Rural Communities would be abolished, and that rural policy would be delivered within Defra by a strengthened Rural Communities Policy Unit. Transitional arrangements have yet to be announced.

It was announced in the Budget on 22 June 2010 that the Government intends to adopt the Consumer Price Index (CPI) for the indexation of public service pensions from April 2011. This will have an impact upon the future operation of the pension schemes that Defra provides to employees.

The Prime Minister announced on the 20 July his intention to transfer non-safety-related food labelling and composition policy, currently with the Food Standards Agency, to the Department. The transfer will mean Defra will lead on EU negotiations for all non-safety aspects of food labelling, except for nutrition. It will also see around 25 posts transfer from the Food Standards Agency to the Food Policy Unit. Further announcements are expected as part of the Spending Review in October 2010; at present there are no specific proposals that should be reflected in these accounts.

35 Prior Year Adjustments

Prior year adjustments have been made to reflect the following:

- RPA has changed its accounting policy for the recognition of income and expenditure for SPS England. Scheme income and expenditure are now recognised as each claim is validated and the amount payable to the claimant is reliably measurable. In addition, receivable and payable balances with individual SPS customers are now presented on a net, not gross, basis.

  These changes have resulted in a £189.3m increase to scheme income and a £206.0m increase to scheme expenditure for the year ended 31 March 2009. They have also resulted in decreases to trade receivables and other current assets of £567.3m at 31 March 2009 and £745.4m at 1 April 2008, and decreases to trade payables and other current liabilities of £531.5m at 31 March 2009 and £726.3m at 1 April 2008.

- RPA has restated its Euro-denominated scheme income and expenditure to translate transactions at the spot rate on the date such transactions are recognised. In addition, RPA has restated its Euro-denominated monetary assets and liabilities to translate them at the spot rate at each reporting date.

These changes have resulted in a £216.0m increase to scheme income and a £195.0m increase to scheme expenditure for the year ended 31 March 2009. They have also resulted in decreases to trade receivables and other current assets of £45.0m at 31 March 2009 and £53.1m at 1 April 2008, a decrease to trade payables and other current liabilities of £2.6m at 31 March 2009, and a corresponding increase of £10.3m at 1 April 2008.

- RPA has restated the value at 31 March 2009 of a forward contract with the Royal Bank of Scotland, which was incorrectly based on the Bank of England rate as at 1 April 2009. Remeasuring based on the Bank of England rate as at 31 March 2009 has resulted in a £7.4m increase to the derivative liability.

- The Core-department has restated its CFER payable to correct for a £43.9m overstatement of CFER income and matching expenditure in a previous financial year.

- The Core-department's figures only have been restated (Net Operating Cost £1.7m) to reflect the transfer of functions into the new Executive Agency, Fera, which has replaced CSL and GDS.

36 Third Party Assets

The Department holds money relating to Twinning and projects on behalf of European Partners and Defra.

These are not departmental assets and are not included in the accounts. The assets held at the Statement of Financial Position date to which it is practical to ascribe a monetary value comprised monetary assets, such as bank balances and monies on deposits. They are set out in the table below:

	2009-10	2008-09
	£000	£000
Monetary Assets - Opening Balance	4,924	1,923
Monetary Assets - Gross Inflows	2,707	6,808
Monetary Assets - Gross Outflows	(3,597)	(3,807)
Monetary Assets - Closing Balance	**4,034**	4,924

37 Entities within the Departmental Boundary

The entities within the departmental boundary during 2009–10 comprise the Core–Department, its Executive Agencies and NDPBs as follows:

Executive Agencies

Animal Health (AH)
Centre for Environment, Fisheries and Aquaculture Science (Cefas)
Food and Environment Research Agency (Fera) (from 1 April 2009)
Marine and Fisheries Agency (MFA) (Replaced by Marine Management Organisation (MMO) on 1 April 2010)
Rural Payments Agency (RPA)
Veterinary Laboratories Agency (VLA)
Veterinary Medicines Directorate (VMD)

The Executive Agencies' accounts have been prepared under the direction of HM Treasury in accordance with Section 7(2) of the Government Resources and Accounts Act 2000 and are published separately.

The Forestry Commission has been included in Defra's Estimate under RfR 2. A separate Accounts Direction has been issued for Defra and the Forestry Commission for 2009–10 which excludes the requirement for a full consolidation. However the Forestry Commission's outturn has been included in the Statement of Parliamentary Supply and Note 5 to enable a full comparison against the Estimate.

Executive NDPBs (Defra Funded)

Agricultural Wages Board for England and Wales
Agricultural Wages Committee

Advisory NDPBs (Defra Funded)

Advisory Committee on Hazardous Substances
Advisory Committee on Organic Standards
Advisory Committee on Packaging
Advisory Committee on Pesticides
Advisory Committee on Releases to the Environment
Agricultural Dwelling House Advisory Committees
Air Quality Expert Group
Darwin Advisory Committee (the Darwin Initiative)
England Implementation Group of The Animal Health and Welfare Strategy for Great Britain (until September 2009)
Farm Animal Genetics Resources Group
Farm Animal Welfare Council
Independent Agricultural Appeals Panel
Inland Waterways Advisory Council
Pesticide Residues Committee
Royal Commission on Environmental Pollution
Science Advisory Council
Veterinary Products Committee
Veterinary Residues Committee
Zoos Forum

Advisory NDPBs

Spongiform Encephalopathy Advisory Committee (jointly funded with Department of Health and Food Standards Agency)
Committee on Agricultural Valuation (dormant)

Tribunal NDPBs (Defra Funded)

Agricultural Land Tribunal (England)
Plant Varieties and Seeds Tribunal

38 Bodies Outside the Departmental Boundary

The public sector bodies which have not been consolidated in these accounts, but for which the Department had lead responsibility during the year, are as follows:

Executive NDPBs

Commission for Rural Communities
Consumer Council for Water
Environment Agency
Food from Britain (ceased trading on 31 March 2009 and now dormant)
Gangmasters Licensing Authority
Joint Nature Conservation Committee (funded from NE grant–in–aid)
National Forest Company
Natural England
Royal Botanic Gardens, Kew
Sustainable Development Commission

Levy Bodies

Agriculture and Horticulture Development Board
Sea Fish Industry Authority

Public Corporations

British Waterways
Covent Garden Market Authority

Other Bodies

British Wool Marketing Board
Broads Authority
National Parks Authorities

Annexes

These Annexes have not been subject to audit and do not form part of the auditors' opinion on the accounts.

Annex 1: Commentary on Sustainable Performance

The information contained within this annex has not been subject to audit and does not form part of the auditors' opinion on the accounts.

Purpose

As part of its sustainable development strategy the Government encourages both companies and public bodies to disclose their sustainability and environmental performance via their annual reports and accounts. The Defra data presented in the following pages conforms with the requirements of the Public Sector Guidance for Sustainability Reporting.

Summary of Performance

Defra has committed to achieving the Sustainable Operations on the Government Estate (SOGE) targets. Performance is reported annually and the latest performance data (2008–09 financial year) can be viewed through the OGC website([16])

Defra is already exceeding the 2010–2011 targets for carbon emissions from offices, carbon emissions from travel and waste arisings.

SOGE Target Area	Target Performance
Carbon emissions from offices	Achieved target
Energy efficiency	Not on target
Carbon emissions from travel	Achieved target
Waste arisings	Achieved target
Recycling	On target
Water consumption	Not on target

Where possible, the data presented in the following tables aligns with data reported as part of the SOGE process.

Governance

Defra has established a unique, fifteen year partnership with Interserve plc which will deliver sustainable workplace support throughout its estate. This involves support service delivery, maintenance of the estate and utilities management. Under the terms of the contract Interserve are required to gather all appropriate data at site level in order to evaluate progress against the SOGE targets. Furthermore they are contractually required to deliver significant performance improvements and financial savings (year on year) in specific areas, which include energy efficiency, carbon reduction, water consumption, waste and recycling efficiencies. They will also help Defra embed sustainable development throughout all levels of the organisation and across the entire network.

Performance is reported through a series of governance boards which culminates at Defra's Management Board on a quarterly basis. In addition, added value is achieved through incentives (within the terms of the contract) in appropriate parts of the business where performance improvement is made. Conversely, the contract allows Defra to restrict payment if Interserve fail to implement effective measures to deliver improvement.

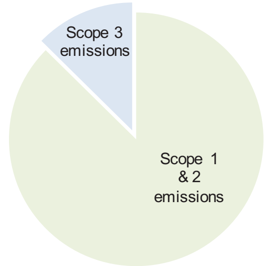
In addition to the SOGE targets Defra aims to be a leader within government in embedding sustainability and utilising cutting edge technology in its refurbishment and new build projects. Sustainability is a key component in all development project undertaken within the estate, delivering long term financial benefits and meeting the

[16] http://www.ogc.gov.uk/sustainability_programme_progress.asp

Government's long term commitments to mitigate against climate change. Effectiveness in this area has been recognised externally through a number of awards from BREEAM (Building Research Establishment Environmental Assessment Method), the Carbon Trust, CoreNet Global and OGC. Defra is therefore recognised as an exemplar in sustainable development within government and beyond.

Defra is also working towards the new Sustainable Development in Government (SDiG) targets, launched in March 2010.

Defra Sustainability Report

GREENHOUSE GAS EMISSIONS		2009-10	Graphical Analysis
Non financial indicators (tCO_2e)	Total Gross Emissions for Scopes 1 & 2	43,172	
	Total Net Emissions for Scopes 1 & 2	43,172	
	Gross emissions attributable to Scope 3 official business travel	6,212	
Financial indicators (£)	Expenditure on accredited offsets (e.g. GCOF)	50,541	
	Expenditure on official business travel	8,139,315	

TARGETS AND NARRATIVE

Defra has the following carbon targets:
i. To reduce carbon emissions from its office estate by 12.5% by 2010-11, relative to the 1999-2000 levels. The Department is currently overachieving against this target by 6%.
ii. To reduce carbon emissions from road vehicles used for Government administrative operations by 15% by 2010-11, relative to 2005-06 levels. The Department is currently overachieving against this target by 5%. Scope 1 and 2 emissions relate to those sites included within SOGE reporting.

DIRECT IMPACTS COMMENTARY

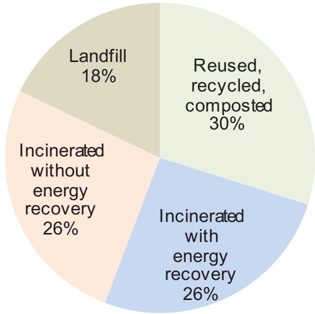
The main emissions impacts for Defra arise from operational energy and fossil fuel consumption by offices and laboratory functions and also from transport miles. Defra is performing well against the carbon targets but is working to further improve its performance through a number of carbon reduction and climate change commitments.

OVERVIEW OF INDIRECT IMPACTS

Defra is working to reduce its scope 1, 2 & 3 emissions from its estate and operations and has a number of programmes in place across it's estates, travel, procurement and ICT workstreams to identify and implement carbon reduction initiatives across the Department.

WASTE		2009-10
Non financial indicators (tonnes)	Total waste	4,105
	Hazardous waste	969
	Reused, recycled, composted	1,226
	Incinerated with energy recovery	1,064
	Incinerated without energy recovery	1,080
	Landfill	735
Financial indicators (£)	Total disposal cost	1,235,410

Graphical Analysis



TARGETS AND NARRATIVE

Defra has a Sustainable Operations on the Government Estate (SOGE) target to reduce its total waste arisings by 5% by 2010, from a 2006-07 baseline. The Department is already overachieving against this target by 3% and is now working towards reducing waste arisings by 25% by 2020. This has been achieved through a number of initiatives such as introduction of binless offices, changes to procurement procedures and estate rationalisation. Defra is also working towards recycling 40% of its waste by 2010-11.

Waste data is collected from all Defra sites with an occupancy of 25 staff or more. The costs shown above relate to the total estate.

DIRECT IMPACTS COMMENTARY

Defra's waste arisings comprises waste generated from both its office and laboratory functions. The waste generated in the laboratories constitutes approximately 65% of Defra's total.

The primary waste stream arising from Defra’s office estate is paper, accounting for 31%. A number of initiatives have been implemented which will reduce paper use, including printer rationalisation, duplex printing and awareness campaigns.

OVERVIEW OF INDIRECT IMPACTS

Waste arisings resulting from activities undertaken at the Veterinary Laboratories Agency's site in Weybridge is the main contributor to Defra's waste arisings, producing 31% of the Department's total waste arisings.

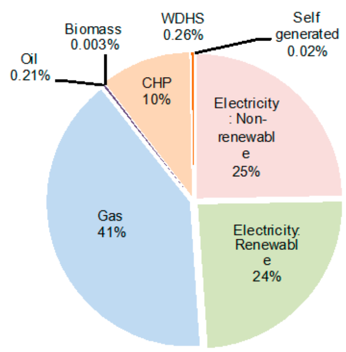
The current SOGE recycling target only includes waste that is recycled, reused or composted, but excludes waste that is incinerated with energy recovery (energy from waste). Defra incinerates a large proportion of its waste (at VLA Weybridge). Due to the biohazard potential of this waste it cannot be recycled and therefore it is more advantageous to incinerate (with energy recovery) than send it to landfill.

FINITE RESOURCE CONSUMPTION - WATER			2009-10	Graphical Analysis
Non financial indicators (m3)	Water Consumption	Supplied	426,000	N/A
		Abstracted	0	
Financial indicators (£)	Water Supply Costs		983,912	

TARGETS AND NARRATIVE
Defra has a Sustainable Operations on the Government Estate (SOGE) target to reduce its water consumption by 25% by 2020, relative to 2004-05 levels. Current circumstances make achieving this target a challenge for Defra, but the Department has made good progress achieving a reduction of 14% against a 2007-08 peak. This has been achieved through projects such as installation of rainwater harvesting at offices in York and Alnwick and introduction of water efficient Autoclaves at laboratory sites across the estate. The consumption and supply costs relate solely to the sites included within SOGE reporting.
DIRECT IMPACTS COMMENTARY
Defra’s water consumption includes water used in both its office and laboratory functions. In 2009-10 Defra’s laboratories consumed over 85% of the Departments total water consumption. A programme is in place to identify and implement water saving initiatives across Defra's laboratory operations. This is expected to deliver significant savings over the next three years.
OVERVIEW OF INDIRECT IMPACTS
Defra laboratories undertake scientific research to develop and support government policy and maintain the capability to respond to animal and plant disease outbreaks. Water is a requirement in many laboratory processes, e.g. sample testing, sterilisation of equipment, veterinary post mortems, steam generation. Due to the nature of specialist work undertaken at Defra laboratories water consumption will fluctuate subject to the demands of the research being undertaken. Water use surveys have been undertaken to identify potential savings from laboratory processes, the results of which will be used to reduce water consumption across the laboratory estate.

FINITE RESOURCE CONSUMPTION - ENERGY			2009-10
Non financial indicators (kWh)	Energy Consumption	Electricity: Non-renewable	29,584,730
		Electricity: Renewable	28,999,335
		Gas	48,389,889
		Oil	252,444
		Biomass	3,198
		CHP	12,195,337
		WDHS	315,000
		Self generated	36,725
Financial indicators (£)	Total Energy Expenditure		9,017,572

Graphical Analysis



TARGETS AND NARRATIVE

Defra does not have a direct target for reducing energy consumption, but does have a SOGE target to improve the energy efficiency per m² of its estate by 15% by 2010, relative to the 1999-2000 baseline. The Department's current strategy of reducing the size of its estate is having a detrimental effect on performance against this target as the Department consolidates its business into a smaller footprint effectively increasing energy consumption per m². However, Defra is currently making significant year on year reductions on its overall energy consumption, having delivered a 20% reduction since a peak in 2005-06 (following the introduction of an energy intensive Category Four laboratory complex to the estate).
The consumption and expenditure relate solely to those sites included within SOGE reporting.

DIRECT IMPACTS COMMENTARY

The majority of Defra's energy (73%) is used by its laboratory estate, which undertakes research and also responds to plant and animal disease outbreaks. Defra's capability to respond to these requirements has increased over the past 10 years resulting in increased energy consumption.
On Defra's office estate, energy is primarily used for lighting, heating, ICT and a limited amount of cooling. An ongoing programme of energy surveys has identified significant opportunities for further reducing Defra's energy consumption. These have been incorporated into a delivery plan to be implemented between 2010 and 2012.

OVERVIEW OF INDIRECT IMPACTS

Defra's laboratory estate is at the cutting edge of UK and global research into plant and animal disease and the natural environment. In addition it is the first line response to UK animal and plant disease outbreaks. Much of this work is carried out in energy intensive Category Three and Four laboratories, with limited opportunity for significant reductions.

Annex 2: Departmental Data Reporting Tables

The information contained within this annex has not been subject to audit and does not form part of the auditors' opinion on the accounts.

Core Tables

The aim of the published tables is to provide an explanation of what Defra spends its money on. They provide an analysis of departmental expenditure in resource terms, showing resource consumption and capital investment. The information includes Voted and Non-Voted expenditure and includes tables outlining how Defra spends its money by country and region.

The details of the Parliamentary Main Estimate are published separately.

Table 1 – Defra Total Departmental Spending

This table sets out a summary of the expenditure on Departmental Strategic Objectives which underpin the Department, covering the period from 2004–05 to 2010–11. Future year figures reflect the budgeted figures agreed with HM Treasury for the Department.

Table 2 – Defra Resource Budget DEL and AME

This table provides the resource consumption details in Table 1, broken down into greater detail. It shows the expenditure for each of the Department's Departmental Strategic Objectives and Intermediate Outcomes.

Table 3 – Defra Capital Budget DEL and AME

This table provides details of the capital expenditure plans in the same format as Table 2.

Table 4 – Defra Capital Employed

This table shows the capital employed by the Department, in a balance sheet format. It provides a high–level analysis of the various categories of fixed assets, debtor and creditor values, and also the extent of provisions made.

Table 5 – Defra's Administration Costs

This table presents, in more detail, information concerning the administration costs of running the Department. For the current year and past years there is an analysis of administration expenditure showing pay bill costs and other costs.

Table 6 – Staff Numbers

This table shows actual and projected staffing in the Department from 2001–02 to 2008–09, split between permanent staff, casuals and overtime.

Table 7 – Defra's identifiable expenditure on services, by country and region

This table shows actual and projected identifiable expenditure on services, by country and region.

Table 8 – Defra's identifiable expenditure on services, by country and region, per head

This table shows actual and projected identifiable expenditure on services, by country and region per head.

Table 9 – Defra's identifiable expenditure on services by function, country and region for 2008–09

This table shows actual identifiable expenditure on services by function, country and region for 2008–09.

Commentary on Core Tables

Introduction

These tables are an authoritative statement of how the Department has used its resources. The tables are split by Departmental Strategic Objectives (DSO) to be consistent with the layout of the Parliamentary Estimate and are sub–analysed by Intermediate Outcome (IO). The tables are also split between Departmental Expenditure Limit (DEL) & Annually Managed Expenditure (AME), both terms being explained below.

HM Treasury publishes a glossary in the Public Expenditure Statistical Analyses report http://www.hm–treasury.gov.uk/pespub_pesa09.htm (CM 7630) that explains most of the terms used in the common core tables and in the commentary below so these are not all repeated here.

There are many references to individual programme budgets within the main text of the Report so the comments below are restricted to the trends shown by the common core tables.

Table 1 – Total Departmental Spending

Background

Total Departmental Spending is the sum of the Resource Budget and Capital Budget less depreciation (excluded so as to avoid double counting). Both the Resource and Capital Budgets are split into Departmental Expenditure Limit (DEL) and Annually Managed Expenditure (AME) elements for control purposes.

DEL budgets are negotiated with HM Treasury via Spending Reviews (SRs) that cover three years. The most recent CSR07 covers 2008–09 to 2010–11. DEL includes the accruals–based consumption of the Non–Departmental Public Bodies (NDPBs) that the Department sponsors and excludes the grant–in–aid which provides them with the necessary cashflow.

AME budgets are usually demand led and not easily controllable by departments, so are set at the beginning of each year via the Parliamentary Main Estimate. They can be updated during the year via the Winter and Spring Supplementary Estimates, subject to approval by Parliament.

Defra has a relatively small AME Budget. It is limited to the impact of the costs associated with the provision for the water industry closed pension fund (£51m charge for the unwinding of the discount rate and £87m credit for the utilisation of the provision), the consumption of the Levy Funded Bodies (LFBs) that the Department sponsors (£53m per annum) and the AME element of the movement on provisions.

The Budgeting Guidance has been changed for 2010–11 in line with the Budget Regime changes included in HM Treasury's Clear Line of Sight (CLoS) project. These tables follow the new guidance and all years' figures have been revised accordingly. The main changes that affect the tables are the removal of the cost of capital charge completely from budgets and a change to the way provisions are recorded. The take–up and utilisation of a provision now scores to resource AME (previously scored to non–cash DEL) and the scoring of the payments associated with releasing a provision remain in either resource DEL or resource AME, depending on the type of expenditure (i.e. no change to the way this is scored). In this commentary, where comparisons are made to tables published in the 2009 Departmental Report or the published Spring Supplementary Estimate (SSE), the figures quoted are on a pre CLoS regime basis to agree with the published documents. The CLoS adjustments are explained separately in these cases.

As this table is a summary of tables 2 and 3, only commentary on the overall totals is added here.

Comparisons – current and forward looking

2010–11 Main Estimate

The plans for 2010–11 agree to the 2010–11 Main Estimate. They are based on the 2007 Comprehensive Spending Review (CSR) settlement, amended for changes processed during the preparation of the subsequent Main and Supplementary Estimates. The main changes are the transfer of the majority of Defra's Climate Change responsibilities to the Department of Energy and Climate Change (DECC), the removal of the cost of capital charge in line with HM Treasury's CLoS project and the £162m reduction to the DEL budget, relating to Defra's contribution towards the £6bn savings announced by the Chancellor on 24th May 2010.

Comparison of 2009–10 estimated outturn with the 2009–10 Spring Supplementary Estimate

The resource outturn for 2009–10 was estimated, at the beginning of the fourth quarter, to be £229m lower than the budget made available via the SSE. That was made up of a £173m forecast underspend in Resource DEL and a £56m forecast underspend in Resource AME.

Of the forecast underspend in Resource DEL, £110m is due to the SSE being produced before the CLoS budget regime changes were implemented and the remaining £63m relates to a number of small underspends across the programme portfolio, including expenditure by the Environment Agency (EA) in respect of flood defences where the exact nature and classification of the expenditure is determined by the EA as they undertake the work. A Written Ministerial Statement was made on the 30 March 2010 to announce that Defra would switch £25m from Resource DEL to Capital DEL to cover this.

Of the £56m forecast underspend in Resource AME, £22m is due to the SSE being produced before the CLoS budget regime changes were implemented and the remaining £34m relates to a number of small underspends.

The estimated capital outturn for 2009–10 is £40m more than the budget made available in the SSE. This forecast overspend is almost entirely within DEL and reflects a movement in spend from Resource to Capital in respect of flood defences explained above. The Department has continued to manage away the risk of any small remaining overspend through to the year end.

Comparison of the 2009–10 estimated outturn with 2009–10 Plans published in the 2009 Departmental Report

Comparing the total Resource Budget for 2009–10, the estimated outturn is £220m lower than the Plans that were published in the 2009 Departmental Report. This is due to:

- £161m decrease to the DEL Budget:
    - £110m decrease due to the CLoS budget regime changes;
    - £63m forecast underspend in DEL at the time the tables were prepared (explained above);
    - offset by £12m increase during 2009, mainly due a £30m transfer from Resource to Capital for the EA, £30m brought forward from 2010–11 as negotiated with HM Treasury for Common Agricultural Policy (CAP) disallowance and a transfer processed in the SSE of £12.5m, also for CAP disallowance, from DECC returning funds previously provided by Defra to DECC to meet the expected costs of the Carbon Capture and Storage Front–End Engineering Design (FEED) studies, which in the event they did not spend.
- £59m decrease to the AME Budget:
    - £22m decrease due to the CLoS budget regime changes;
    - a decrease of £3m in the SSE relating to the utilisation of the EA Closed Pension Fund;
    - £34m forecast underspend in AME (explained above).

Comparing the total Capital Budget for 2009–10, the estimated outturn is £65m higher than the plans that were published last year. This is almost entirely within DEL and is mainly due to:

- £25m increase during 2009–10, mainly due to a £30m transfer from Resource to Capital for the EA;
- £40m forecast overspend explained above.

Comparison of the 2010–11 Main Estimate with the 2009–10 Spring Supplementary Estimate

The Resource DEL Budget is £304m lower in the 2010–11 Main Estimate than in the 2009–10 SSE. £110m of this reduction is due to the CLoS budget regime changes and £97m of this relates to Defra's contribution towards the £6bn savings announced by the Chancellor on 24th May 2010. The remainder of the reduction arose due to adjustments processed in the 2009–10 SSE which contained an increase to the CAP disallowance provision negotiated with HM Treasury, including transferring ring–fenced provision from 2010–11 back into 2009–10.

The Capital DEL Budget is £147m lower in the 2010–11 Main Estimate than in the 2009–10 SSE, this is due to a £65m reduction relating to Defra's contribution towards the £6bn savings announced by the Chancellor on

24th May 2010 and a decrease in cover in 2010–11 for Waste Infrastructure capital grants due to this spend being front end loaded over the three CSR years.

Comparisons – backward looking

Review of movements within previous years outturn

As outlined above, since the last Departmental Report, HM Treasury have implemented their CLoS budget regime changes. These tables now reflect the changes for all years.

Comparison of 2008–09 actual outturn with the estimated outturn published in the 2009 Departmental Report

The actual resource outturn for 2008–09 is £155m lower than the estimated outturn published in last year's Report. This is made up of £208m DEL and -£53m AME.

The decrease in outturn for DEL is mainly due to:

- £157m due to CLoS budget regime changes;
- the remaining decrease is made up a number of small underspends, including lower than expected outturn for the Rural Development Programme for England (RDPE) and a delay in the Animal Health (AH) Business Reform programme.

The increase in outturn for AME is mainly due to the CLoS budget regime changes and an increase in the interest on scheme liabilities for the EA Closed Pension Fund.

The actual capital outturn for 2008–09 is £8m lower than the estimated outturn published in last year's Report. This is change of less than 1% and mainly relates to DEL.

Table 1: Total Departmental Spending

	2004-05 Outturn	2005-06 Outturn	2006-07 Outturn	2007-08 Outturn	2008-09 Outturn	2009-10 Estimated Outturn	2010-11 Plans
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Resource budget							
Resource DEL							
A Healthy Natural Environment	811,666	696,656	831,598	837,068	879,618	934,109	930,349
Sustainable Consumption and Production	116,784	129,904	194,957	231,889	77,545	102,434	90,026
Addressing Environmental Risk and Emergencies	477,760	525,468	612,240	614,071	629,587	645,915	669,745
A Thriving Farming and Food Sector	96,536	116,414	101,107	102,632	91,866	104,627	101,058
Championing Sustainable Development	3,800	9,143	11,823	7,641	6,043	9,001	8,507
Strong Rural Communities	112,575	133,729	104,584	92,918	47,747	74,259	78,346
A Respected Department	300,397	230,401	225,495	282,040	270,896	215,427	172,136
Area Based Grant	-	-	-	-	2,997	2,998	2,997
Departmental Unallocated Provision	-	-	-	-	-	-	50,000
Rural Payments Agency	444,222	334,424	297,627	291,105	358,873	370,279	242,085
Forestry Commission	52,991	59,256	52,997	63,349	53,917	61,353	45,256
Adapting to Climate Change	34,822	41,670	17,659	6,226	24,835	23,643	23,778
A Sustainable, Secure and Healthy Food Supply	4,569	4,934	7,423	2,390	2,336	3,417	3,008
Total resource budget DEL	**2,456,122**	**2,281,999**	**2,457,510**	**2,531,329**	**2,446,260**	**2,547,462**	**2,417,291**
Resource AME							
A Healthy Natural Environment	28	62,258	(19,570)	(14,192)	(11,258)	(26,011)	(40,087)
Addressing Environmental Risk and Emergencies	-	12,086	1,850	2,393	7,493	(6,101)	250
A Thriving Farming and Food Sector	61,587	63,000	51,308	56,687	55,489	57,851	44,882
Strong Rural Communities	-	-	1,004	665	(1,009)	(53)	(512)
A Respected Department	-	35,261	13,228	23,881	(6,792)	13,802	(9,650)
Rural Payments Agency	-	150,222	263,912	(22,826)	(46,083)	(92,999)	(18,000)
Forestry Commission	-	62	(568)	139	2,265	(1,134)	-
A Sustainable, Secure and Healthy Food Supply	-	-	1	670	-	-	-
Total resource budget AME	**61,615**	**322,889**	**311,165**	**47,417**	**105**	**(54,645)**	**(23,117)**
Total resource budget	**2,517,737**	**2,604,888**	**2,768,675**	**2,578,746**	**2,446,365**	**2,492,817**	**2,394,174**
of which: depreciation	183,308	137,083	156,175	211,893	198,972	208,715	210,616

Capital budget

Capital DEL							
A Healthy Natural Environment	72,997	73,772	93,440	72,108	106,424	113,739	80,507
Sustainable Consumption and Production	47,295	58,489	58,573	60,788	75,623	117,385	44,750
Addressing Environmental Risk and Emergencies	126,987	404,623	301,746	338,600	378,547	435,750	400,305
A Thriving Farming and Food Sector	15,081	19,983	1,843	(3,468)	537	3,188	300
Championing Sustainable Development	-	-	-	-	8	-	-
Strong Rural Communities	152	21,501	30,390	28,206	29,471	21,205	8,067
A Respected Department	42,885	48,814	68,538	32,918	(5,159)	11,519	1,102
Rural Payments Agency	7,362	9,471	26,108	24,041	21,756	28,988	10,683
Forestry Commission	2,797	2,967	2,405	2,936	2,521	2,001	2,000
Adapting to Climate Change	525	-	-	794	-	-	-
A Sustainable, Secure and Healthy Food Supply	-	-	-	-	(17)	-	-
Total capital budget DEL	**316,081**	**639,620**	**583,043**	**556,923**	**609,711**	**733,775**	**547,714**
Capital AME							
A Healthy Natural Environment	500	-	208	40	98	-	-
A Thriving Farming and Food Sector	896	-	175	192	626	501	10,650
Total capital budget AME	**1,396**	**-**	**383**	**232**	**724**	**501**	**10,650**
Total capital budget	**317,477**	**639,620**	**583,426**	**557,155**	**610,435**	**734,276**	**558,364**
Total departmental spending†							
A Healthy Natural Environment	850,191	803,953	888,624	850,371	935,481	974,397	923,323
Sustainable Consumption and Production	164,079	188,222	253,288	292,562	152,341	218,969	133,928
Addressing Environmental Risk and Emergencies	542,846	872,563	824,572	878,992	926,687	982,860	976,849
A Thriving Farming and Food Sector	173,032	196,997	149,946	152,141	146,071	165,086	155,905
Championing Sustainable Development	3,800	9,143	11,016	7,442	6,051	9,001	8,507
Strong Rural Communities	112,727	153,694	136,907	118,262	67,281	87,220	77,870
A Respected Department	258,677	297,661	285,123	278,976	227,497	207,442	128,871
Area Based Grant	-	-	-	-	2,997	2,998	2,997
Departmental Unallocated Provision	-	-	-	-	-	-	50,000
Rural Payments Agency	451,584	478,262	568,995	271,402	310,409	284,626	213,126
Forestry Commission	55,054	61,002	53,133	64,141	55,932	58,719	43,760
Adapting to Climate Change	35,347	41,037	17,097	6,802	24,762	23,643	23,778
A Sustainable, Secure and Healthy Food Supply	4,569	4,891	7,225	2,917	2,319	3,417	3,008
Total departmental spending†	**2,651,906**	**3,107,425**	**3,195,926**	**2,924,008**	**2,857,828**	**3,018,378**	**2,741,922**
of which:							
Total DEL	2,589,545	2,785,704	2,884,842	2,877,219	2,863,043	3,073,600	2,755,329
Total AME	62,361	321,721	311,084	46,789	-5,215	-55,222	-13,407

† Total departmental spending is the sum of the resource budget and the capital budget less depreciation. Similarly, total DEL is the sum of the resource budget DEL and capital budget DEL less depreciation in DEL, and total AME is the sum of resource budget AME and capital budget AME less depreciation in AME.

Spending by local authorities on functions relevant to the department

Current spending	4,082,831	4,440,822	4,656,771	4,962,252	5,270,133	5,579,975
of which:						
financed by grants from budgets above	2,401	51,486	34,962	23,527	48,894	34,548
Capital spending	415,932	433,264	382,147	453,533	565,800	844,300
of which:						
financed by grants from budgets above††	121,880	143,677	140,189	69,449	170,100	218,616

†† This includes loans written off by mutual consent that score within non-cash Resource Budgets and aren't included in the capital support to local authorities line in Table 3.

Table 2 – Resource Budget DEL and AME

Movements within Administration spend are dealt with in the Table 5 commentary.

Resource Budget DEL

A Healthy Natural Environment

Under Biodiversity, figures from 2006–07 onwards include funding transferred to Natural England (NE) from Defra, in respect of the Shared Services and IBM Enabling contracts.

The large increase in Sustainable Water Use from 2006–07 relates to the debit entry for the utilisation of the Environment Agency (EA) Closed Pension Fund Provision. The credit entry is shown under Annually Managed Expenditure (AME).

The increase to Land Management Sustainability from 2007–08 is due to increased expenditure on the Rural Development Programme for England (RDPE). The drop in outturn in 2008–09 relates to lower than forecasted outturn and additional European Commission (EC) income carried forward from 2007–08, both relating to the RDPE programme.

The decrease in 2005–06 for Improved Local Environment is due to the transfer of capital grants from Resource to Capital.

EA Fisheries and Water Resources spend is now reported against Improved Local Environment, along with the rest of EA's non–Flood spend, rather than Sustainable Water Use.

Sustainable Consumption and Production

Spending on Less Waste reduced in 2008–09 following the end of the Business Resource Efficiency and Waste (BREW) programme. The programme operated from 2005 to 2008 and funded a range of delivery bodies that provided sustainability advice and support to businesses. In 2008–09, to realise greater value for money, the Department changed its approach to how the remaining funding was deployed, resulting in a reorganisation of expenditure lines. There was a further reduction due to an element of the Carbon Trust that was held under Less Waste being transferred to Department of Energy and Climate Change (DECC) and a delay in the establishment of the London Waste and Recycling Board until September 2008.

Addressing Environmental Risk and Emergencies

Spending on Flood and Coastal Erosion Risk Management has risen across the years.

Spending on Bovine Spongiform Encephalopathy (BSE) under Animal Disease Protection rose in 2006–07 because of the start of the testing regime, funded here, for cattle over 30 months old to enter the food chain. This allowed for the termination of the culling and compensation scheme Over Thirty Month Scheme (OTMS), that was funded from the Rural Payments Agency (RPA) OTMS line. Expenditure for Animal Disease Protection had increased in previous years following the creation and increased investment in the Animal Health (AH) Agency, whose functions were previously carried out in the Core Department. This expenditure has stabilised and is now starting to trend downwards, primarily due to successful cost sharing initiatives on key programmes such as Transmissible Spongiform Encephalopathy (TSE) surveillance. There has been a further decrease to the 2010–11 animal disease protection budget relating to part of Defra's £162m contribution towards the £6bn savings announced by the Chancellor on 24th May 2010.

Spending on Addressing Environmental Risk and Emergencies Administration costs reduced in 2007–08 due to consultancy spend that had previously been allocated to Business Areas on the HM Treasury database (COINS), and are now being held centrally.

Championing Sustainable Development

Spending on Sustainable Development from 2006–07 reflects an increase in project activity on Sustainable Development Dialogues as the dialogues have developed and matured.

Strong Rural Communities

The drop in expenditure for Rural Economy in 2006–07 relates to the transfer of functions relating to the Rural Development Service from the Core department to Natural England (NE).

The lower outturn for Rural Economy in 2008–09 relates to reductions in Regional Development Agencies (RDA) spending due to an agreement with HM Treasury. There was also a transfer of a small element of the RDA's budget to DECC for the three Comprehensive Spending Review (CSR) years.

A Respected Department

The relatively high outturn on Effective Delivery (Skills) for 2008–09 was due to the utilisation of various provisions that are held centrally. The negative value in 2010–11 reflects the late negotiated deduction in depreciation budget as part of the CLoS budget regime changes. There has been a further decrease to the 2010–11 Effective Delivery (Skills) budget relating to part of Defra's £162m contribution towards the £6bn savings announced by the Chancellor on 24th May 2010. Both the depreciation and budget savings are currently held centrally and will be reviewed and potentially re–distributed during the year.

Spending on Emergency Response starts in 2005–06 due to the formation of the executive agency Government Decontamination Service (GDS). From 2009–10 onwards GDS merged to form the new Executive agency, Food and Environment Research Agency (FERA), and this is reported under A Respected Department Effective Delivery (Policy).

The increase in A Respected Department administration costs in 2007–08 is mainly due to £22m allocated in the 2007–08 WSE to cover the costs of voluntary early retirement / voluntary early severance schemes. There was also a further increase due to previous years consultancy spend being allocated to the Business Areas in the HM Treasury database (COINS) and much of the 2007–08 budget and onwards being held centrally. Additionally there were non–cash increases in 2007–08 relating to various property impairments.

Area Based Grant

Area based grants to Local Authorities (LA's) were introduced in the CSR07 settlement. They were part of the reforms to LA funding and the reduction in ring–fenced funding.

Departmental Unallocated Provision

As part of the CSR 07 settlement, Defra created a Departmental Unallocated Provision (DUP) to meet unforeseen pressures. This was set at £50m per year. In 2008–09 and 2009–10 the DUP was reduced to meet increased spend on Warm Front as announced in the Energy Efficiency package in the Pre Budget Report (November 2008). This was subsequently transferred to DECC as part of the Machinery of Government (MoG) changes. The remainder of 2009–10 DUP was drawn down in the Spring Supplementary Estimate (SSE) to cover an RPA Common Agricultural Policy (CAP) disallowance issue that has materialised in year.

Rural Payments Agency

OTMS spend fell significantly from 2005–06 onwards as the cattle culling and compensation scheme (OTMS) was replaced by a testing regime, funded under the Animal Disease Protection line. The much smaller Older Cattle Disposal Scheme funded here ended in 2008–09. The negative amount in 2009–10 relates to the final EC income reimbursement paid once the scheme was closed.

The reduction in Direct Payments under CAP and CAP income in 2007–08 was due to a change by the EU in the applicable accounting policy. The increase in 2008–09 and 2009–10 was to mitigate against RPA exposure to the declining sterling/euro exchange rate on their European Union Single Payment Scheme payments. 2009–10 increased further to cover the effect of a change in accounting policy for income and cost recognition and accounting for the impact of exchange rates on Single Payment Scheme (SPS) payments. The 2010–11 budget was updated during the Main Estimate to reflect the ongoing impact of these changes.

The negative spend in 2007–08 for Other Funding relates to a write back of a previous years CAP provision. This also had an effect on the AME budget. The increases from 2008–09 onwards relate to the utilisation of the RPA CAP disallowance provision that remains in Delegated Expenditure Limits (DEL). The relatively high value in 2009–10 relates to part of the 2010–11 ring fenced disallowance provision being brought forward, drawdown of the DUP and reallocation of DECC budget for Carbon Capture and Storage Front End Engineering and Design (FEED) studies to cover the CAP disallowance issue that materialised in year.

The 2009–10 estimated outturn for RPA administration costs increases due to in year allocations for specific projects such as the CAP health check project and exchange rate losses. There has been a decrease to the 2010–11 RPA administration costs budget relating to part of Defra's £162m contribution towards the £6bn savings announced by the Chancellor on 24th May 2010.

Resource Budget AME

Under CLoS the credit entry for the utilisation of provisions has moved to AME from DEL. This explains the increased entries now showing under AME and the volatility due to the changing rates of utilisation. The debit entry for provisions remains in DEL. The creation of provisions now also scores under AME.

A Healthy Natural Environment

There has been a large decrease in the AME Budget for Sustainable Water Use from 2006–07 due to the credits for the utilisation of the provision for the water industry closed pension fund.

Rural Payments Agency

The credit entry in 2007–08 relates to the write back of a previous years provision that was originally created in AME. From 2008–09 onwards the negative values relate to the utilisation of the CAP disallowance provision.

The positive expenditure in 2005–06 and 2006–07 is due to increased provisions for potential disallowance of payments made to farmers under the EC Common Agricultural Policy schemes.

Table 2: Resource Budget DEL and AME

	2004-05 Outturn	2005-06 Outturn	2006-07 Outturn	2007-08 Outturn	2008-09 Outturn	2009-10 Estimated Outturn	2010-11 Plans
	£000	£000	£000	£000	£000	£000	£000
Resource DEL							
A Healthy Natural Environment	**811,666**	**696,656**	**831,598**	**837,068**	**879,618**	**934,109**	**930,349**
of which:							
Pollutant Free Air	13,875	2,094	1,513	3,015	9,885	11,055	10,951
Biodiversity	211,397	185,012	294,338	270,182	261,835	264,271	272,335
Sustainable Water Use	9,157	11,597	103,868	92,954	101,145	108,389	83,855
Clean Healthy Oceans	36,549	27,139	17,796	40,302	59,204	68,298	68,314
Land Management Sustainability	202,658	163,838	165,252	186,282	180,763	198,870	199,823
Natural Environment Enjoyment	28,330	43,538	43,318	44,743	48,295	48,490	62,102
Improved Local Environment	191,561	136,420	97,629	111,446	146,400	149,685	157,277
Sustainable Living Landscapes	93,420	94,435	76,027	64,927	51,564	56,184	46,561
A Healthy Natural Environment Administration Costs	24,719	32,583	31,857	23,217	20,527	28,867	29,131
Sustainable Consumption and Production	**116,784**	**129,904**	**194,957**	**231,889**	**77,545**	**102,434**	**90,026**
of which:							
Better Products	5,948	8,770	6,754	7,335	16,290	12,875	14,132
Less Waste	103,649	110,263	179,312	215,514	55,357	79,939	66,074
Sustainable Consumption and Production Administration Costs	7,187	10,871	8,891	9,040	5,898	9,620	9,820
Addressing Environmental Risk and Emergencies	**477,760**	**525,468**	**612,240**	**614,071**	**629,587**	**645,915**	**669,745**
of which:							
Flood Management	224,754	219,824	285,634	288,305	291,783	306,504	363,985
Environmental Risk Protection	3,490	7,241	387	10,942	19,981	19,630	14,113
Animal Disease Protection	202,536	239,073	271,357	296,774	297,292	295,685	268,625
Addressing Environmental Risk and Emergencies Administration Costs	46,980	59,330	54,862	18,050	20,531	24,096	23,022
A Thriving Farming and Food Sector	**96,536**	**116,414**	**101,107**	**102,632**	**91,866**	**104,627**	**101,058**
of which:							
Environmental Farming	7,738	11,773	6,659	18,408	22,761	34,258	37,376
Competitive Farming	47,303	34,411	32,498	32,456	35,008	44,294	34,296
CAP Delivered	6,012	3,570	9,657	3,361	513	577	468
Animal Welfare	2,511	19,208	10,409	16,281	9,516	7,457	6,564
A Thriving Farming and Food Sector Administration Costs	32,972	47,452	41,884	32,126	24,068	18,041	22,354
Championing Sustainable Development	**3,800**	**9,143**	**11,823**	**7,641**	**6,043**	**9,001**	**8,507**
of which:							
World Summit on Sustainable Development	895	1,119	2,727	2,737	235	3,642	2,803
Sustainable Development	-	-	1,806	2,965	4,023	3,351	3,350
Championing Sustainable Development Administration Costs	2,905	8,024	7,290	1,939	1,785	2,008	2,354
Strong Rural Communities	**112,575**	**133,729**	**104,584**	**92,918**	**47,747**	**74,259**	**78,346**
of which:							
Rural Economy	104,990	120,676	92,430	79,349	27,801	56,543	55,911
Rural Needs	1,675	3,154	8,629	9,391	18,039	15,756	20,973
Strong Rural Communities Administration Costs	5,910	9,899	3,525	4,178	1,907	1,960	1,462

A Respected Department	**300,397**	**230,401**	**225,495**	**282,040**	**270,896**	**215,427**	**172,136**
of which:							
Effective Delivery (Skills)	94,953	37,784	28,978	23,566	55,423	12,609	(29,597)
Effective Delivery (Policy)	12,824	13,114	14,318	20,353	18,299	8,559	8,493
Communications	5,671	2,227	3,786	7,623	4,648	3,027	3,894
Emergency Response	-	951	2,204	1,876	2,119	-	-
A Respected Department Administration Costs	186,949	176,325	176,209	228,622	190,407	191,232	189,346
Area Based Grant	**-**	**-**	**-**	**-**	**2,997**	**2,998**	**2,997**
of which:							
Area Based Grant	-	-	-	-	2,997	2,998	2,997
Departmental Unallocated Provision	**-**	**-**	**-**	**-**	**-**	**-**	**50,000**
of which:							
Departmental Unallocated Provision	-	-	-	-	-	-	50,000
Rural Payments Agency	**444,222**	**334,424**	**297,627**	**291,105**	**358,873**	**370,279**	**242,085**
of which:							
OTMS/OCDS	130,243	77,573	73,687	44,780	46,990	(5,377)	-
Direct Payments Under CAP	2,257,989	2,030,580	1,829,861	1,582,255	1,757,453	2,127,913	1,949,815
CAP Income	(2,175,984)	(2,008,684)	(1,819,892)	(1,580,766)	(1,735,989)	(2,127,914)	(1,949,815)
Other Funding	-	-	-	(1,220)	53,277	128,001	60,000
Rural Payments Agency Front Line Administration Costs	231,974	234,955	213,971	246,056	237,142	247,656	182,085
Forestry Commission	**52,991**	**59,256**	**52,997**	**63,349**	**53,917**	**61,353**	**45,256**
of which:							
Forestry Commission (England)	40,930	45,529	36,562	46,007	38,451	42,068	27,490
Forestry Commission (GB Core)	12,061	13,727	16,435	17,342	15,466	19,285	17,766
Adapting to Climate Change	**34,822**	**41,670**	**17,659**	**6,226**	**24,835**	**23,643**	**23,778**
of which:							
Climate Change Adaptation	21,746	26,412	-	1,105	18,825	20,523	20,681
Adapting to Climate Change Administration Costs	13,076	15,258	17,659	5,121	6,010	3,120	3,097
A Sustainable, Secure and Healthy Food Supply	**4,569**	**4,934**	**7,423**	**2,390**	**2,336**	**3,417**	**3,008**
of which:							
Reduce Impact of Food Production	2,834	2,417	5,198	681	1,686	2,011	844
A Sustainable, Secure and Healthy Food Supply Administration Costs	1,735	2,517	2,225	1,709	650	1,406	2,164
Total resource budget DEL	**2,456,122**	**2,281,999**	**2,457,510**	**2,531,329**	**2,446,260**	**2,547,462**	**2,417,291**
of which:†							
Pay	922,746	975,560	994,062	1,073,484	1,072,348	1,055,561	1,156,830
Procurement	713,240	670,917	848,398	774,839	719,208	855,217	
Current grants and subsidies to the private sector and abroad	516,709	343,678	349,461	295,599	331,106	310,972	315,932
Current grants to local authorities	2,401	51,486	34,962	23,527	48,894	34,548	24,496
Depreciation	182,658	135,915	155,711	211,033	192,928	207,637	209,676

Resource AME

A Healthy Natural Environment	**28**	**62,258**	**(19,570)**	**(14,192)**	**(11,258)**	**(26,011)**	**(40,087)**
of which:							
Biodiversity	-	-	(821)	15,245	676	(5,472)	(17,037)
Sustainable Water Use	-	54,900	(31,379)	(43,197)	(27,140)	(29,400)	(35,600)
Clean Healthy Oceans	28	7,358	9,930	10,346	20,883	9,862	8,200
Land Management Sustainability	-	-	-	1,135	(8,186)	-	-
Improved Local Environment	-	-	2,700	1,900	2,509	(1,001)	4,350
Sustainable Living Landscapes	-	-	-	379	-	-	-
Addressing Environmental Risk and Emergencies	**-**	**12,086**	**1,850**	**2,393**	**7,493**	**(6,101)**	**250**
of which:							
Flood Management	-	-	1,800	-	2,842	(5,001)	250
Environmental Risk Protection	-	-	68	(61)	(32)	-	-
Animal Disease Protection	-	12,086	(18)	2,454	4,683	(1,100)	-
A Thriving Farming and Food Sector	**61,587**	**63,000**	**51,308**	**56,687**	**55,489**	**57,851**	**44,882**
of which:							
Environmental Farming	-	-	18	584	(254)	-	-
Competitive Farming	61,587	63,000	51,290	56,103	58,474	57,850	44,882
CAP Delivered	-	-	-	-	(25)	-	-
Animal Welfare	-	-	-	-	(2,706)	1	-
Strong Rural Communities	**-**	**-**	**1,004**	**665**	**(1,009)**	**(53)**	**(512)**
of which:							
Rural Needs	-	-	1,004	665	(1,009)	(53)	(512)
A Respected Department	**-**	**35,261**	**13,228**	**23,881**	**(6,792)**	**13,802**	**(9,650)**
of which:							
Effective Delivery (Skills)	-	35,261	13,063	23,504	(6,668)	13,802	(9,650)
Effective Delivery (Policy)	-	-	165	377	(124)	-	-
Rural Payments Agency	**-**	**150,222**	**263,912**	**(22,826)**	**(46,083)**	**(92,999)**	**(18,000)**
of which:							
OTMS/OCDS	-	-	102	-	5,015	-	-
Direct Payments Under CAP	-	-	1,840	-	250	-	-
Other Funding	-	150,222	260,784	(27,955)	(53,277)	(92,999)	(18,000)
Rural Payments Agency Front Line Administration Costs	-	-	1,186	5,129	1,929	-	-
Forestry Commission	**-**	**62**	**(568)**	**139**	**2,265**	**(1,134)**	**-**
of which:							
Forestry Commission (England)	-	-	51	213	1,290	230	-
Forestry Commission (GB Core)	-	62	(619)	(74)	975	(1,364)	-
A Sustainable, Secure and Healthy Food Supply	**-**	**-**	**1**	**670**	**-**	**-**	**-**
of which:							
Reduce Impact of Food Production	-	-	1	670	-	-	-
Total resource budget AME	**61,615**	**322,889**	**311,165**	**47,417**	**105**	**(54,645)**	**(23,117)**
of which:†							
Pay	(10,400)	32,588	26,216	25,038	24,414	23,997	21,400
Procurement	71,718	38,799	37,193	37,693	34,341	40,476	
Current grants and subsidies to the private sector and abroad	-	-	-	-	-	-	-
Current grants to local authorities	-	-	-	-	-	-	-
Depreciation	650	1,168	464	860	6,044	1,078	940
Total resource budget	**2,517,737**	**2,604,888**	**2,768,675**	**2,578,746**	**2,446,365**	**2,492,817**	**2,394,174**

† The economic category breakdown of resource budgets only shows the main categories, so may not sum to the total. The breakdown may even exceed the total where further income scores in resource budgets

Table 3 – Capital Budget DEL and AME

A Healthy Natural Environment

The reducing level of expenditure in Land Management Sustainability from 2005–06 was due to winding down the current Rural Development Programme for England (RDPE) predecessor scheme. The increase on the same line from 2008–09 onwards is due to the end of the Local Area Agreements and subsequent re–allocation of funding to this area.

Expenditure on Natural Environment Enjoyment only started in 2007–08 as the schemes relating to grants to Local Authorities (LA) only started in this year.

Sustainable Consumption and Production

The increase for Less Waste in 2008–09 and 2009–10 is due to the end of the Local Area Agreements and subsequent re–allocation of funding to this area. The further movement in 2009–10 relates to an increase in Grants due to the late set up for the London Waste and Recycling Board.

Addressing Environmental Risk and Emergencies

The increase in Flood Management from 2005–06 onwards reflects increased investment in flood risk management. The reduction in 2010–11 relates to part of Defra's £162m contribution towards the £6bn savings announced by the Chancellor on 24th May 2010.

Strong Rural Communities

The increase in Rural Economy reflects the transfer of capital grants for the Regional Development Agencies (RDA) from Resource for 2005–06 onwards. The reduction in 2010–11 relates to a reduction to the RDA's funding as part of Defra's £162m contribution towards the £6bn savings announced by the Chancellor on 24th May 2010.

A Respected Department

The spike in 2006–07 for Effective Delivery (Skills) was because the budgets for IT project capital spend were held centrally but in subsequent years they have been progressively delegated out to business areas to increase accountability.

This was the same for 2007–08 but the figures are lower due to capital disposals for various sites including High Mowthorpe Farm, Malton and Rosemund Farm, Worcestershire. The negative outturn for 2008–09 for Effective Delivery (Skills) relates to the capital receipts from the sale of the Guildford site. The reduction in 2010–11 relates to part of Defra's £162m contribution towards the £6bn savings announced by the Chancellor on 24th May 2010. These budget savings are currently held centrally and will be reviewed and potentially re–distributed during the year.

Rural Payments Agency

The increased capital spend for Rural Payment Agency (RPA) from 2006–07 reflects the increased investment in their recovery plan reducing in later years when efficiency gains are realised. The 2009–10 estimated outturn was higher due to in year allocations for specific projects such as the Common Agricultural Policy (CAP) health check project.

Table 3: Capital Budget DEL and AME

	2004-05 Outturn £000	2005-06 Outturn £000	2006-07 Outturn £000	2007-08 Outturn £000	2008-09 Outturn £000	2009-10 Estimated Outturn £000	2010-11 Plans £000
Capital DEL							
A Healthy Natural Environment	**72,997**	**73,772**	**93,440**	**72,108**	**106,424**	**113,739**	**80,507**
of which:							
Pollutant Free Air	2,497	2,402	2,297	2,376	3,125	4,965	4,965
Biodiversity	7,041	25,387	19,414	13,827	16,655	17,043	13,542
Sustainable Water Use	65	-	223	387	5,006	6,681	4,069
Clean Healthy Oceans	1,600	8,846	4,363	2,027	1,504	3,500	8,900
Land Management Sustainability	43,807	26,005	13,597	5,021	8,297	12,000	10,000
Natural Environment Enjoyment	-	-	-	362	963	112	1,000
Improved Local Environment	14,820	8,005	45,200	31,586	39,547	43,139	18,983
Sustainable Living Landscapes	3,167	3,127	8,346	16,522	31,327	26,299	19,048
Sustainable Consumption and Production	**47,295**	**58,489**	**58,573**	**60,788**	**75,623**	**117,385**	**44,750**
of which:							
Better Products	-	-	-	-	(19)	-	-
Less Waste	47,295	58,489	58,573	60,788	75,642	117,385	44,750
Addressing Environmental Risk and Emergencies	**126,987**	**404,623**	**301,746**	**338,600**	**378,547**	**435,750**	**400,305**
of which:							
Flood Management	99,781	363,490	268,687	289,214	341,022	397,029	372,000
Environmental Risk Protection	1,520	11,061	483	1,875	-	-	-
Animal Disease Protection	25,686	30,072	32,576	47,511	37,525	38,721	28,305
A Thriving Farming and Food Sector	**15,081**	**19,983**	**1,843**	**(3,468)**	**537**	**3,188**	**300**
of which:							
Environmental Farming	524	1,473	-	-	-	-	-
Competitive Farming	65	10,008	1,642	(3,806)	266	2,888	-
CAP Delivered	-	-	(6)	80	-	-	-
Animal Welfare	14,492	8,502	207	258	271	300	300
Championing Sustainable Development	**-**	**-**	**-**	**-**	**8**	**-**	**-**
of which:							
World Summit on Sustainable Development	-	-	-	-	8	-	-
Strong Rural Communities	**152**	**21,501**	**30,390**	**28,206**	**29,471**	**21,205**	**8,067**
of which:							
Rural Economy	152	21,501	30,302	28,199	29,466	17,466	8,967
Rural Needs	-	-	88	7	5	3,739	(900)

A Respected Department	**42,885**	**48,814**	**68,538**	**32,918**	**(5,159)**	**11,519**	**1,102**
of which:							
Effective Delivery (Skills)	40,399	47,436	67,058	28,654	(12,926)	11,520	(5,748)
Effective Delivery (Policy)	1,940	1,378	1,442	1,516	7,765	(1)	2,450
Communications	546	-	-	1,823	-	-	4,400
Emergency Response	-	-	38	925	2	-	-
Rural Payments Agency	**7,362**	**9,471**	**26,108**	**24,041**	**21,756**	**28,988**	**10,683**
of which:							
Rural Payments Agency Front Line Administration Costs	7,362	9,471	26,108	24,041	21,756	28,988	10,683
Forestry Commission	**2,797**	**2,967**	**2,405**	**2,936**	**2,521**	**2,001**	**2,000**
of which:							
Forestry Commission (England)	108	79	500	718	40	40	40
Forestry Commission (GB Core)	2,689	2,888	1,905	2,218	2,481	1,961	1,960
Adapting to Climate Change	**525**	**-**	**-**	**794**	**-**	**-**	**-**
of which:							
Climate Change Adaptation	525	-	-	794	-	-	-
A Sustainable, Secure and Healthy Food Supply	**-**	**-**	**-**	**-**	**(17)**	**-**	**-**
of which:							
Reduce Impact of Food Production	-	-	-	-	(17)	-	-
Total capital budget DEL	**316,081**	**639,620**	**583,043**	**556,923**	**609,711**	**733,775**	**547,714**
of which:							
Capital expenditure on fixed assets net of sales†	189,454	221,458	199,483	184,177	178,008	291,129	172,186
Capital grants to the private sector and abroad	3,986	252,781	221,851	204,620	220,881	180,236	255,358
Net lending to private sector	-	-	-	-	-	-	-
Capital support to public corporations	761	204	7,640	15,618	28,459	24,549	18,048
Capital support to local authorities††	121,880	143,677	140,189	69,449	170,100	218,616	100,240
Capital AME							
A Healthy Natural Environment	**500**	**-**	**208**	**40**	**98**	**-**	**-**
of which:							
Clean Healthy Oceans	500	-	208	40	98	-	-
A Thriving Farming and Food Sector	**896**	**-**	**175**	**192**	**626**	**501**	**10,650**
of which:							
Competitive Farming	896	-	175	192	626	501	10,650
Total capital budget AME	**1,396**	**-**	**383**	**232**	**724**	**501**	**10,650**
Total capital budget	317,477	639,620	583,426	557,155	610,435	734,276	558,364
Of which:							
Capital expenditure on fixed assets net of sales†	190,850	221,458	199,866	186,151	178,732	291,630	182,836
Less depreciation†††	183,308	137,083	156,175	211,893	198,972	208,715	210,616
Net capital expenditure on tangible fixed assets	7,542	84,375	43,691	(25,742)	(20,240)	82,915	(27,780)

† Expenditure by the department and NDPBs on land, buildings and equipment, net of sales. Excludes spending on financial assets and grants, and public corporations' capital expenditure.
†† This does not include loans written off by mutual consent that score within non-cash Resource Budgets.
††† Included in Resource Budget.

Table 4 – Capital Employed

The figures for the years 2008–09 and earlier are extracted from the audited Resource Accounts for those years, including those of the Non Departmental Public Bodies (NDPB's) that are not consolidated into Defra's own accounts but which form part of the Delegated Expenditure Limits (DEL) group.

The figures for 2007–08 onwards have been amended to reflect the Department of Energy and Climate Change (DECC) transfer.

Tangible assets have shown significant growth since 2003–04 reflecting investment in both the building estate and IT projects. This investment has slowed down and the impact of depreciation has begun to reduce the net book value.

In 2006–07 a reclassification of assets occurred between Land and Buildings and Fixtures and Fittings and in 2009–10 a reclassification occurred between Tangible: Equipment and IT and Intangible assets as a result of implementing International Financial Reporting Standards (IFRS).

The reduction in the net book value of Equipment and IT from 2006–07 to 2007–08 reflects the planned transfer of IT assets from Core Defra to Natural England (NE).

The increase in current assets and creditors due within one year for 2005–06 and 2006–07 relates to balances with the European Commission (EC) for Common Agricultural Policy (CAP) Pillar 1 payments. 2005–06 shows a much larger creditor and corresponding EC debtor figure because of the delays in making payments to land owners on the Single Payment Scheme (SPS) 2005 following the issue of their entitlements in February 2006. The creditor is higher than the debtor because this also includes a creditor with HM Treasury, as the Department has to surrender this EC income as a Consolidated Fund Extra Receipt (CFER). Accrued payments and income for 2006–07 and 2007–08 were lower than 2005–06, as the timing of payments under the SPS improved.

Provisions increased in 2003–04 due to the provision for the water industry closed pension scheme and again in 2005–06 and 2006–07 due to the CAP disallowance provision. Provisions reduced in 2008–09 mainly due to utilisation of this provision.

In the last Departmental Report NDPB net assets were forecast to increase from 2007–08 through to the end of the Comprehensive Spending Review (CSR) period, mainly due to additional projected investment in flood risk management by the Environment Agency (EA). In addition to this, in 2007–08 there was a planned transfer of IT equipment from the Core Department to Natural England (NE). The anticipated 2008–09 increase in NDPB net assets did not materialise because the increases noted above were offset by a devaluation of EA tangible assets, as a result of the economic downturn, where upward revaluations had previously been forecast. Additionally, there has been a substantial increase in the EA's pension liability.

Table 4: Capital Employed

	2002-03 outturn	2003-04 outturn	2004-05 outturn	2005-06 outturn	2006-07 outturn	2007-08 outturn	2008-09 outturn	2009-10 estimated outturn	2010-11 projected
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Assets and liabilities on the Statement of Financial Position at end of year:									
Assets									
Fixed assets									
Intangible	6	13	16	17	16	12	6	250	250
Tangible	599	741	813	893	957	960	912	630	620
of which: •									
Land and buildings	383	444	461	563	538	551	527	465	460
Fixtures and Fittings	26	25	30	28	60	47	65	70	65
Vehicles, Plant & Machinery	35	33	31	30	29	28	27	25	25
Equipment & IT	155	239	291	272	330	212	235	45	45
Assets under construction						122	58	25	25
Investments	16	16	12	11	9	8	6	5	5
Current Assets	1,417	983	1,486	4,429	2,419	2,160	2,367	2,400	2,400
Liabilities									
Creditors (<1 year)	(1,378)	(944)	(1,512)	(6,120)	(3,311)	(2,528)	(2,501)	(2,650)	(2,650)
Creditors (>1 year)	(42)	(38)	(25)	(21)	(19)	(50)	(120)	(120)	(120)
Provisions	(238)	(1,038)	(1,125)	(1,319)	(1,533)	(1,534)	(1,341)	(1,225)	(1,225)
Capital employed within main Department	380	(267)	(335)	(2,110)	(1,462)	(972)	(671)	(710)	(720)
NDPB net assets	1,984	2,150	2,336	2,387	2,223	2,554	2,310	2,435	2,435
Total capital employed in the Departmental Group	**2,364**	**1,883**	**2,001**	**277**	**761**	**1,582**	**1,639**	**1,725**	**1,715**

Table 5 – Administration Costs

The Administration Budget falls from 2007–08 as efficiency savings are realised. The low outturn in 2008–09 occurs mainly due to the Clear Line of Sight (CLoS) adjustment transferring an admin provision from Delegated Expenditure Limits (DEL) admin to Annually Managed Expenditure (AME) programme. The provision was created in 2008–09 to cover the continuing rent on buildings that Defra has vacated and did not affect other years.

Table 5: Administration Costs

	2004-05 Outturn	2005-06 Outturn	2006-07 Outturn	2007-08 Outturn	2008-09 Outturn	2009-10 Estimated Outturn	2010-11 Plans
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Administration Expenditure							
Paybill	228,870	241,284	239,171	227,429	212,533	222,680	
Other	280,397	312,778	319,440	316,069	127,772	125,107	
Total administration expenditure	**509,267**	**554,062**	**558,611**	**543,498**	**340,305**	**347,787**	**371,473**
Administration income	(199,600)	(216,051)	(229,794)	(236,073)	(83,512)	(84,499)	(88,723)
Total administration budget	**309,667**	**338,011**	**328,817**	**307,425**	**256,793**	**263,288**	**282,750**
Analysis by activity							
A Healthy Natural Environment	22,719	24,318	29,803	18,917	17,193	27,148	29,131
Sustainable Consumption and Production	7,187	10,871	8,891	9,040	5,898	9,620	9,820
Addressing Environmental Risk and Emergencies	38,980	42,181	46,106	10,879	13,132	11,606	23,022
A Thriving Farming and Food Sector	32,774	45,897	41,300	31,255	23,672	18,009	22,354
Championing Sustainable Development	2,905	8,024	7,290	1,939	1,785	2,008	2,354
Strong Rural Communities	5,910	9,899	3,525	4,178	1,907	1,960	1,462
A Respected Department	184,381	179,046	172,018	224,387	186,546	188,411	189,346
Adapting to Climate Change	13,076	15,258	17,659	5,121	6,010	3,120	3,097
A Sustainable, Secure and Healthy Food Supply	1,735	2,517	2,225	1,709	650	1,406	2,164
Total administration budget	**309,667**	**338,011**	**328,817**	**307,425**	**256,793**	**263,288**	**282,750**

Table 6: Staff Numbers

		2003-04 ACTUAL	2004-05 ACTUAL	2005-06 ACTUAL	2006-07 ACTUAL	2007-08 ACTUAL	2008-09 ACTUAL	2009-10 ACTUAL	2010-11 PLANS
Department for Environment, Food and	CS FTEs	10,132	9,732	9,326	8,604 (4)	8,572	7,915 (6)	7,889 (8)	6,725 (9)
Rural Affairs	Overtime	174	144	209	194	224	136	101	37
(Gross Control Area) (2)	Casuals (1)	642	775	1,004	670	223	89	120	110
	TOTAL	**10,948**	**10,651**	**10,539**	**9,468**	**9,019**	**8,140**	**8,110**	**6,872**
Veterinary Laboratories Agency	CS FTEs	1,303	1,244	1,210	1,226	1,201	1,219	1,211	1,192
(Net Control Area)	Overtime	25	35	35	34	34	34	19	19
	Casuals (1)	32	17	20	24	29	16	20	10
	TOTAL	**1,360**	**1,296**	**1,265**	**1,284**	**1,264**	**1,269**	**1,250**	**1,221**
Food and Environment Research Agency	CS FTEs	646	644	635	628	630	792	811	951 (10)
(Net Control Area) (7)	Overtime	8	8	8	8	7	9	10	5
	Casuals (1)	32	41	44	52	28	15	28	11
	TOTAL	**686**	**693**	**687**	**688**	**665**	**816**	**849**	**967**
Veterinary Medicines Directorate	CS FTEs	124	125	128	136	135	156	159	152
(Net Control Area)	Overtime	1	0	1	1	1	1	0	0
	Casuals (1)	0	0	0	0	0	0	0	0
	TOTAL	**125**	**125**	**129**	**137**	**136**	**157**	**159**	**152**
Centre for Environment, Fisheries	CS FTEs	521	515	504	533	520	534	544	528
and Aquaculture Science	Overtime	12	12	13	12	11	11	15	15
(Net Control Area)	Casuals (1)	7	2	5	1	0	0	5	6
	TOTAL	**540**	**529**	**522**	**546**	**531**	**545**	**564**	**549**
Pesticide Safety Directorate	CS FTEs		182 (3)	191	181	178	(5)		
(Net Control Area)	Overtime		0	1	0	0			
	Casuals (1)		8	7	7	2			
	TOTAL	**0**	**190**	**199**	**188**	**180**	**0**	**0**	**0**
TOTAL DEFRA		**13,659**	**13,484**	**13,341**	**12,311**	**11,795**	**10,927**	**10,932**	**9,761**

(1) The outturn and estimated figures include casuals filling vacant permanent posts.

(2) Gross Control Area includes core-Defra, PSD (from 1 April 1993 to 31 March 2004), RPA (from 16 October 2001), Animal Health (from 1 April 2005 (named State Veterinary Service until 31 March 2007)), MFA (from 1 October 2005 to 31 March 2010 when it was subsumed into the Marine Management Organisation, as new Executive NDPB of Defra) and GDS (from 1 October 2005 to 31 March 2009).

(3) PSD became a Net Control Agency from 1 April 2004.

(4) The Rural Development Service (RDS) transferred from Defra to Natural England on 1 October 2006.

(5) PSD transferred to the Health and Safety Executive on 1 April 2008.

(6) Approximately 320 Defra staff transferred to the newly-created Department of Energy and Climate Change on 3 October 2008 and 46 Defra staff transferred to the Sustainable Development Commission NDPB on 1 February 2009.

(7) Fera was created on 1 April 2009 from CSL, GDS and 170 staff from core-Defra.

(8) 170 staff transferred to Fera and 60 staff transferred to Interserve (Facilities Management) Ltd under TUPE on 1 April 2009.

(9) The planned figure for 2010-11 for the Defra GCA is an estimate which will vary depending on the available budget, turnover and the needs of the business.

(10) The increase in the number of Fera staff in 2010-11 is due to the filling, as part of the new Agency structure, of a number of posts that have been vacant since its formation. In addition, there will be an increase of around 30 staff in the Plant Health & Seeds Inspectorate.

Table 7, 8, 9 – Regional tables

Tables 7, 8 and 9 show analyses of the department's spending by country and region, and by function. The data presented in these tables are consistent with the country and regional analyses (CRA) published by HM Treasury in Chapter 9 of Public Expenditure Statistical Analyses (PESA) 2010. The figures were taken from the HM Treasury public spending database in December 2009 and the regional distributions were completed in January and February 2010. Therefore the tables may not show the latest position and are not consistent with other tables in the Departmental Report. These tables do not reflect Defra's £162m contribution towards the £6bn savings announced by the Chancellor on 24th May 2010.

The analyses are set within the overall framework of Total Expenditure on Services (TES). TES broadly represents the current and capital expenditure of the public sector, with some differences from the national accounts measure Total Managed Expenditure. The tables show the central government and public corporation elements of TES. They include current and capital spending by the department and its Non Departmental Public Bodies (NDPBs), and public corporations' (PCs) capital expenditure, but do not include capital finance to PCs. They do not include payments to local authorities (LAs) or LAs own expenditure.

TES is a near–cash measure of public spending. The tables do not include depreciation, cost of capital charges, or movements in provisions that are in departmental budgets. They do include pay, procurement, capital expenditure, and grants and subsidies to individuals and private sector enterprises. Further information on TES can be found in Appendix E of PESA 2010.

The data are based on a subset of spending – identifiable expenditure on services – which is capable of being analysed as being for the benefit of individual countries and regions. Expenditure that is incurred for the benefit of the UK as a whole is excluded.

Across government, most expenditure is not planned or allocated on a regional basis. Social security payments, for example, are paid to eligible individuals irrespective of where they live. Expenditure on other programmes is allocated by looking at how all the projects across the department's area of responsibility, usually England, compare. So the analyses show the regional outcome of spending decisions that on the whole have not been made primarily on a regional basis.

The functional analyses of spending in Table 9 are based on the United Nations Classification of the Functions of Government (COFOG), the international standard. The presentations of spending by function are consistent with those used in chapter 9 of PESA 2010. These are not the same as the strategic priorities shown elsewhere in the report.

Table 7: Defra's Identifiable Expenditure on Services by Country and Region

	2004-05 Outturn £m	2005-06 Outturn £m	2006-07 Outturn £m	2007-08 Outturn £m	2008-09 Outturn £m	2009-10 Plans £m	2010-11 Plans £m
North East	256	273	269	247	236	260	234
North West	497	520	502	493	474	505	475
Yorkshire and the Humber	565	569	536	493	469	540	498
East Midlands	669	711	621	525	507	548	508
West Midlands	447	504	490	449	424	456	421
East	676	680	678	692	623	659	608
London	407	206	208	174	224	225	224
South East	540	535	531	559	742	804	706
South West	896	1,051	944	905	890	939	884
Total England	**4,954**	**5,048**	**4,778**	**4,538**	**4,589**	**4,937**	**4,558**
Scotland	2	2	3	3	3	3	1
Wales	1	1	1	1	1	1	0
Northern Ireland	-	-	-	-	-	-	-
UK identifiable expenditure	**4,957**	**5,051**	**4,783**	**4,541**	**4,593**	**4,941**	**4,560**
Outside UK	-	-	2	3	4	3	1
Total identifiable expenditure	**4,957**	**5,051**	**4,785**	**4,544**	**4,597**	**4,944**	**4,561**
Non-identifiable expenditure	-	-	-	2	2	28	50
Total expenditure on services	**4,957**	**5,051**	**4,785**	**4,546**	**4,600**	**4,972**	**4,611**

Table 8: Defra's Identifiable Expenditure on Services by Country and Region, Per Head

	2004-05 Outurn £ per head	2005-06 Outturn £ per head	2006-07 Outturn £ per head	2007-08 Outturn £ per head	2008-09 Outturn £ per head	2009-10 Plans £ per head	2010-11 Plans £ per head
North East	101	107	105	96	92	101	91
North West	73	76	73	72	69	73	68
Yorkshire and the Humber	112	111	104	95	90	102	94
East Midlands	156	164	142	119	114	122	112
West Midlands	84	94	91	84	78	84	77
East	123	122	121	122	109	114	104
London	55	28	28	23	29	29	29
South East	66	65	64	67	89	96	83
South West	178	207	184	175	171	179	167
England	**99**	**100**	**94**	**89**	**89**	**95**	**87**
Scotland	-	-	1	1	1	-	-
Wales	-	-	-	-	-	-	-
Northern Ireland	-	-	-	-	-	-	-
UK identifiable expenditure	**83**	**84**	**79**	**74**	**75**	**80**	**73**

Table 9: Defra's Identifiable Expenditure on Services by Function, Country and Region, for 2008–09

	North East	North West	Yorkshire and The Humber	East Midlands	West Midlands	East	London	South East	South West	England	Scotland	Wales	Northern Ireland	UK Identifiable expenditure	Outside UK	Total Identifiable expenditure	Not Identifiable	Totals
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Economic affairs																		
General economic, commercial and labour affairs	6.0	9.5	7.3	4.0	7.4	3.2	-	4.0	4.2	45.5	-	-	-	45.5	-	45.5	-	45.5
Agriculture, forestry, fishing and hunting	169.3	309.4	351.2	388.1	325.0	477.1	46.5	631.8	657.4	3,356.0	2.0	0.8	-	3,358.8	-	3,358.8	-	3,358.8
of which: forestry	2.3	4.9	3.9	4.1	4.5	5.5	0.9	9.4	9.0	44.5	2.0	0.8	-	47.3	-	47.3	-	47.3
of which: market support under CAP	129.3	223.5	256.2	299.8	225.8	367.5	33.5	545.9	442.0	2,523.5	-	-	-	2,523.5	-	2,523.5	-	2,523.5
of which: other agriculture, food and fisheries policy	37.7	81.1	91.1	84.3	94.7	104.2	12.1	76.5	206.4	788.1	-	-	-	788.1	-	788.1	-	788.1
R&D economic affairs	0.1	0.1	0.0	0.0	0.1	0.1	0.0	0.1	0.1	0.6	0.7	0.1	-	1.4	-	1.4	-	1.4
Total economic affairs	**175.3**	**319.0**	**358.5**	**392.2**	**332.4**	**480.5**	**46.5**	**635.9**	**661.7**	**3,402.1**	**2.7**	**1.0**	**-**	**3,405.7**	**-**	**3,405.7**	**-**	**3,405.7**
Environment protection																		
Waste management	4.5	11.2	9.1	8.4	9.3	10.6	11.2	13.4	9.6	87.3	-	-	-	87.3	-	87.3	-	87.3
Waste water management	0.9	2.4	1.8	1.5	1.9	2.0	2.6	2.9	1.8	17.7	-	-	-	17.7	-	17.7	-	17.7
Pollution abatement	2.2	5.7	5.2	4.0	4.6	5.0	8.4	8.1	4.6	47.6	-	-	-	47.6	-	47.6	-	47.6
Protection of biodiversity and landscape	17.1	34.3	24.4	20.8	23.0	27.6	8.3	34.6	55.9	246.1	-	-	-	246.1	-	246.1	2.4	248.5
Environment protection n.e.c	35.8	101.7	70.9	80.7	53.4	98.2	147.8	47.9	156.7	793.1	-	-	-	793.1	4.0	797.2	-	797.2
Total environment protection	**60.6**	**155.3**	**111.3**	**115.4**	**92.2**	**143.4**	**178.3**	**106.8**	**228.5**	**1,191.9**	**-**	**-**	**-**	**1,191.9**	**4.0**	**1,195.9**	**2.4**	**1,198.3**
Housing and community amenities																		
Water supply	(0.3)	(0.7)	(0.5)	(0.5)	(0.6)	(0.6)	(0.8)	(0.9)	(0.5)	(5.3)	-	-	-	(5.3)	-	(5.3)	-	(5.3)
Total housing and community amenities	**(0.3)**	**(0.7)**	**(0.5)**	**(0.5)**	**(0.6)**	**(0.6)**	**(0.8)**	**(0.9)**	**(0.5)**	**(5.3)**	**-**	**-**	**-**	**(5.3)**	**-**	**(5.3)**	**-**	**(5.3)**
Education																		
Pre-primary and primary eduction	0.0	0.1	0.1	0.1	0.1	0.1	0.0	0.2	0.1	0.8	-	-	-	0.8	-	0.8	-	0.8
of which: primary education	0.0	0.1	0.1	0.1	0.1	0.1	0.0	0.2	0.1	0.8	-	-	-	0.8	-	0.8	-	0.8
Total education	**0.0**	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**	**0.0**	**0.2**	**0.1**	**0.8**	**-**	**-**	**-**	**0.8**	**-**	**0.8**	**-**	**0.8**
TOTAL DEPARTMENT FOR ENVIRONMENT, FOOD AND RURAL AFFAIRS	**235.7**	**473.7**	**469.4**	**507.2**	**424.1**	**623.4**	**224.1**	**742.1**	**889.9**	**4,589.5**	**2.7**	**1.0**	**-**	**4,593.1**	**4.0**	**4,597.2**	**2.4**	**4,599.6**

Performance Data

1.1 PSA/ DSO Indicators

Indicator	Indicator belongs to: (PSA x and/ or DSO y)	Statement on data[17]
Water quality in English rivers as measured by parameters assessed by Environment Agency river water quality monitoring programmes	PSA 28	The most recent data show that 78.5% of monitored river lengths were assessed as 'good' in relation to chemical quality (compared with 76.2% reported 'good' for the same period in 2007 and against the baseline of 55.2% reported 'good' in 1990). 72.0% of monitored river lengths were assessed as 'good' in relation to biological quality (compared with 72.3% reported as 'good' in the same period in 2007, against the baseline of 55.4% in 1990).
Biodiversity as indicated by changes in wild breeding bird populations in England, as a proxy for the health of wider biodiversity	PSA 28	The most recent data show that the indicator of wild bird populations declined by 1% between 2007 and 2008 (as measured by the underlying trend of the combined indicator of farmland, woodland and wetland birds). In 2008 the index of wild bird populations was 24% below its 1970 level. Results for the three smoothed component measures in the combined indicator are as follows • The farmland bird indicator declined by 2% between 2007 and 2008. The indicator was 52% lower in 2008 than in 1970. • The woodland bird indicator was unchanged between 2007 and 2008. The indicator was 21% lower in 2008 than in 1970. • The water and wetland bird index declined by 1% between 2007 and 2008. The indicator was 13% higher in 2008 than in 1970.
Air quality – meeting the Air Quality Strategy objectives for eight air pollutants as illustrated by trends in measurements of two or more important pollutants which affect public health: particles and nitrogen dioxide	PSA 28	The UK is meeting air quality objectives for sulphur dioxide, benzene, carbon monoxide, lead, 1,3 butadiene and ozone. On the basis of 2008 data (the last available year) air quality continues to be good across 99% of the UK landmass and this is similar to levels recorded in 2007. Latest modeling shows that we should meet the particulate matter (PM_{10}) EU daily limit value by 2011. The limit value for nitrogen dioxide (NO_2) is not currently being achieved on a number of roads in urban areas, and without further action by 2015 we still expect to have exceedences of the NO_2 limit value along major roads in urban areas, mainly Greater London.
Marine health – clean, healthy, safe, productive and biologically diverse oceans and seas as	PSA 28	This indicator is measured through 3 proxy measurements: • Most recent data (2008) shows that inputs of hazardous metals to the marine environment have been further reduced compared with the previous year and overall

[17] A further column entitled 'OGDs (where indicator lead different to PSA reporting lead)' was not required and therefore deleted.

indicated by proxy measurements of fish stocks, sea pollution and plankton status		compared with the 1990 baseline. 2008 figures represent a 61% reduction against baseline compared to 59% in 2007. • Most recent data (2008) show that 50% of fish stocks around the UK were at full reproductive capacity and harvested sustainability, compared with 39% in 2007[18] and 12% for the 1990 baseline year. • Abundance in zooplankton (a contextual measure of the state of basic components of the marine food chain) in 2008 stood at 42% of that measured in 1960 (compared to 33% in 2007, as reported in DR 2009). The change is thought to be in the range of expected natural variability rather than linked to any reversals of the long term trend.
Land management – the contribution of agricultural land management to the natural environment as measured by the positive and negative impacts of farming	PSA 28	The positive and negative impacts of farming are based on a range of measures associated with water, air, soil, landscape and biodiversity. The most recent data for 2008 show that: • The damages index stands at 82.5, a decrease against the 2007 figure of 85.6 and against the base year (where 2000=100). • The benefits index stands at 126.2, an increase against the 2007 figure of 120.2 and against the base year (where 2000=100).
Proportion of areas with sustainable abstraction of water	DSO 1	This indicator captures an important aspect of adapting to climate change. Sustainable water management and abstraction is achieved through a variety of supply measures, such as modifying, revoking or placing time limits on water abstraction licences, or through demand measures to reduce water consumption. Although the methodology has changed (so that it is technically more robust and sensitive to policy interventions) there has been no significant change in the amount of water available for abstraction. Currently: • 77% of water bodies are assessed as having flows compliant with the standards, with 4% as significantly below standards; and • 46% of water bodies can support further abstraction that will be reliable for 95% of the time, while 22% of water bodies can support new abstractions for less than 30% of the time.
Local Authority preparedness for climate change	DSO 1	Measured under the Local Authority National Indicator set, NI188 measures, local authorities on embedding climate change adaptation in the full range of their work. Local authorities self assess their performance against the indicator levels each year and performance is assessed by the Audit Commission, the auditor for local government. In 2009, the results from the first year of NI188 showed that 82% of local authorities who had included it as a priority indicator in their local area agreement had met or exceeded their agreed target. Overall, around half (49%) of all 150 local authority areas reported they were at Level 1 or above.

[18] The values in the indicator will alter each year because the annual ICES advice revises the full time-series of spawning stock biomass and fishing mortality estimates for each stock, particularly in recent years, as new data are added. Any loss or addition of stocks to the indicator (e.g. the reduction from 20 stocks in the 2009 indicator series to 18 this year) will also change the trend. This explains why we are now comparing to 39% in 2007 rather than the 25% reported in the Autumn Performance Report 2009. While these data refinements have the effect of shifting the absolute values in the indicator, the underlying relative trend remains upwards.

Meeting the Air Quality Strategy targets for eight air pollutants as illustrated by trends in measurements of two the more important pollutants, particles and nitrogen dioxide	DSO 2	This is reported on under the air quality indicator of PSA 28.
Trends in populations of wild birds: population index for farmland; woodland; water and wetland	DSO 2	This is reported on under the water quality indicator of PSA 28.
Percentage of SSSIs meeting target condition	DSO 2	This is reported on under SR04 PSA 3b Sites of Special Scientific Interest target.
Water quality in English rivers as measured by parameters assessed by Environment Agency river water quality monitoring programmes	DSO 2	This is reported on under indicator 28.1 of PSA 28.
The number of Environment Agency catchment abstraction management strategies (CAMS) that are not either “over–abstracted” or over–licensed	DSO 2	This is reported on under the sustainable abstraction of water indicator of DSO 1 and under 27.2 of PSA27 by the Department of Energy and Climate Change.
Riverine and direct inputs of metals from the UK to marine waters around the UK	DSO 2	This is reported under the marine health indicator of PSA 28.
Number of fish stocks around the UK at full reproductive capacity and harvested sustainably	DSO 2	This is reported under the marine health indicator of PSA 28.
Plankton status	DSO 2	This is reported under the marine health indicator of PSA 28.
Land managed sustainably as measured by overall area coverage of the Environmental Stewardship Scheme and previous agri–environment schemes	DSO 2	In March 2010, 67.3% of available farmland was covered by agri-environment schemes, compared to 65.1% in March 2009.
Soil Status (chemical and physical)	DSO 2	The latest additional and final soils–related data from the Countryside Survey show that there have been small but significant decreases in soil nitrogen concentrations across Great Britain between 1998 and 2007 and that phosphorus concentrations have also decreased, in line with a reduction in the use of phosphorus–based fertilisers. There have been relatively small changes in soil trace metal concentrations. Soil invertebrate numbers (including insects, spiders and worms) have increased in all habitats, although the results of future Countryside Survey sampling will be needed before it is possible to determine whether a large scale and long term change in soil biodiversity is underway. As reported in last year’s Departmental Report, the 2007 Countryside Survey results show no overall change in the average carbon concentration in soils in Great Britain since 1978, contrasting with a previous study (NSI) in England and Wales.

		Given the important role that soils play in carbon storage, these differences will be investigated. The 2007 Countryside Survey also found that soil acidity decreased from 1978 to 2007 in Great Britain, with the average pH (a measure of acidity) changing from 5.67 to 5.87 (the smaller the number the more acid the soil). The trend mirrors declining emissions and deposition of sulphur (and is consistent with previous studies), though other factors such as liming and fertiliser use on agricultural land are also important drivers of change in some habitats.
Soil management as measured by compliance with cross–compliance and take–up of agri-environment options	DSO 2	Between April 2009 and March 2010 there have been 1641 new agreements with buffer strip options, 499 agreements with overwintered stubbles and 47 new agreements with undersown spring cereals. This compares with 2008/09, when there were 1443, 327 and 36 agreements with these options respectively. Between April 2009 and March 2010 there were also 13 new agreements with erosion control under maize option, compared with 53 in 2008/09. This means that the total number of agreements with soil protection options now stands at 17,801 for buffer strips, 5164 with overwintered stubbles, 524 with undersown spring cereals and 434 agreements with erosion control under maize. The inspection statistics for cross–compliance for 2009 show that the majority of farmers are complying with standards relating to soil protection (GAEC1–4). There has been a slight increase in overall inspection failures although this figure remains well below 0.1% of all recipients receiving payments under the Single Payment Scheme. In 2009, there were 61 failures to comply fully with GAEC 1 (general requirements for soil management and protection). In 2009 there was 1 failure for non–compliance with GAEC3 on waterlogged soils, and there were no inspection failures for GAEC2 (post–harvest management) or GAEC4 (burning crop residues).
The proportion of the adult population taking part in visits to the outdoors from home for leisure purposes and the frequency of these visits	DSO 2	Data for this indicator is being collected by the Monitor of Engagement with the Natural Environment Survey (MENE), which began in March 2009. The draft report of the first year's data has been received from the consultants and commented on, with publication due in September. The report will provide information on: • The number of visits to the natural environment from a home base by the adult population in England. • The characteristics of visits to the natural environment (including the duration of visit, main activity, origin and destination, type of destination, group composition, distance travelled and mode of travel). • Reasons for not visiting the natural environment. • Other measures of engagement with the natural environment.
Local street and environmental cleanliness, as measured through the percentage of relevant land and highways that is assessed as having combined levels of litter,	DSO 2	Data for this indicator is not yet available. Returns for the year 2008/09 will be made up of an aggregation of the three four–monthly survey returns from local authorities on the National Indicator 195 (street cleansing). Baseline data for the first year (2008/09) has been fully collated. Data from local authorities is being received (97% of authorities have submitted returns for tranche one and about 25% so far for tranche two of 2009/10).

detritus, graffiti and fly posting that fall below an acceptable level		First assessment of this indicator will follow in August 2010.
Length of hedgerows planted, restored or managed under agri–environment schemes and length of dry stone walls restored and managed under agri–environment schemes	DSO 2	Under Environmental Stewardship (ES), 132,000 km of hedgerows are now under environmentally friendly management (compared to 128,000 km in DR 2009). About 18,000 km of dry stone walls are being protected and maintained (there was no figure in DR 2009). There continues to be good uptake of hedgerow management options under ELS where boundary management options have been extremely popular. This may change with farmers being encouraged to adopt more in–field options as ELS agreements are renewed.
Low carbon patterns of production: CO_2 emissions from energy use by the UK manufacturing and service sectors	DSO 3	This indicator assesses the climate change impact of the UK manufacturing and service sectors in terms of carbon dioxide (CO_2) emissions from energy use[19.] It is similar to one of the elements of the corresponding indicator shown in the 2009 report, but with a revised coverage of sectors. The most recent data shows a 1% reduction in CO_2 emissions between 2006 and 2007.
Low carbon patterns of consumption: CO_2 emissions from energy use by UK households	DSO 3	This indicator assesses the climate change impact of households in the UK, by reference to CO_2 emissions from energy use[20]. It is similar to one of the elements of the corresponding indicator shown in the 2009 report, but the scope has been extended to include emissions from private road transport. The most recent data shows a 2% reduction in CO_2 emissions between 2006 and 2007.
Resource efficient patterns of production: waste to landfill by the UK non–domestic sector	DSO 3	This indicator assesses the resource efficiency of the UK manufacturing and service sectors by reference to changes in the amount of non–domestic waste sent to landfill in the UK21. It is similar to one of the elements of indicator 3.1.1 shown in the 2009 report, but the coverage has been extended from England only to include the rest of the UK. The most recent data shows an 18% reduction in waste to landfill between 2006 (the latest year reported on in the previous year's report) and 2008[22].
Resource efficient patterns of consumption: UK household waste not recycled	DSO 3	This indicator assesses the resource efficiency of the consumption of UK households by reference to changes in the amount of household waste not recycled[23.] It is identical to one of the elements of indicator 3.1.2 shown in the 2009 report, which also included two other measures of impacts from household activities. The latest data shows a 14% reduction in non–recycled waste between 2006 (the latest year reported on in the previous year's report) and 2008.
Household residual waste per head in England (i.e. after prevention re–use,	DSO 3	Targets aim to reduce household waste after reuse, recycling and composting from over 22.2 million tonnes in 2000 by 29% to 15.8 million tonnes in 2010 with an aspiration to reduce it to 12.2 million tonnes in 2020 – a reduction of 45%. This is equivalent to a fall of

[19] Source: Office for National Statistics see http://www.statistics.gov.uk/focuson/environmental/

[20] Source: Office for National Statistics, see http://www.statistics.gov.uk/focuson/environmental/

[21] Source: Landfill Operator returns to the Environment Agency.

[22] Note that the reported figures include waste to landfill by sectors other than the manufacturing and service sectors. Evidence from the latest Commercial and Industrial Waste survey indicates that this is not likely to affect the totals or trend significantly. The results from the Commercial and Industrial Waste survey undertaken in 2010 should enable us to update this analysis in the 2011 report.

[23] Source WasteDataFlow, see http://www.wastedataflow.org

recycling and composting)		50% per person (from 450 kg per person in 2000 to 225 kg in 2020). Residual household waste was 15.18mt (or 295kg per head) in year to end March 2009, a decrease of over 1.3 million tonnes compared to 2007/08.
Household waste recycling in England	DSO 3	Targets for household recycling and composting are set at 40% in 2010, 45% in 2015 and 50% in 2020. • The household recycling rate increased to 37.6% in year to end March 2009, compared to 35% in 2007/2008. • In 2007/08, green recycling accounted for almost 40% of total recycling, compared to around one–fifth in 1998/99.
Non–inert, non municipal waste landfilled in England	DSO 3	Total waste to landfill in England has decreased by 19% (15mt) from 80mt in 2000/01 to 65mt in 2006. • Non–municipal/non–inert waste to landfill is a proxy for commercial and industrial waste. This is calculated by subtracting municipal and inert waste landfilled from total waste going to landfill. • The BIS Strategy for Sustainable Construction set a target for a 50% reduction of Construction, Demolition and Excavation (CD&E) waste to landfill in 2012 compared to 2008. This excludes aggregates used for backfilling quarries, site restoration and spreading on exempt sites. The total amount disposed via landfill is estimated at around 25 million tonnes, but data will be developed further to assess the baseline and progress.
Households at significant risk of flooding or coastal erosion	DSO 4	Current estimates indicate that there are approximately 489,000 properties at significant risk of flooding. A short–term target exists to remove 45,000 households from significant risk by 31 March 2011. As of 31 March 2010, 27,854 households have been removed from significant risk.
Biodiversity protection	DSO 4	This indicator measures the number of hectares of biodiversity action plan habitat created and the number of hectares of Sites of Special Scientific Interest land brought into target condition through flood and erosion risk management work. A short–term target exists to create 800 hectares of biodiversity action plan habitat by 31 March 2011, of which at least 300 ha should be inter–tidal habitat. As of 31 March 2010, 689 hectares of biodiversity action plan habitat have been created, of which 50 hectares are inter–tidal habitat.
Flood warning take–up	DSO 4	Current estimates indicate that there are approximately 1.63 million properties (households and businesses) at high risk of flooding. This indicator measures the number of such properties that are registered to receive the Environment Agency's Flood Warning Direct service – a free service that provides community–based flood warnings to affected individuals by telephone, mobile, email, SMS text message and fax. As of 31 March 2010, 757,000 properties had registered.
Emergency response preparedness	DSO 4	This indicator assesses both central government and local–level planning for flood emergencies. The second part of this indicator measures the proportion of Local Resilience Forum flood response plans considered to be satisfactory by the Environment

		Agency. As of 31 March 2010, 104 multi–agency flood plans (out of a total of 413) were assessed as satisfactory.
Inappropriate development	DSO 4	This indicator measures the proportion of planning applications (where the Environment Agency objects on flood risk grounds) that are determined in line with EA advice (or are withdrawn by developers before determination is needed). As of 31 March 2010, 98% of such planning applications were determined in line with EA advice (or were withdrawn) – over the period beginning 1 April 2008.
Longer–term capability and planning	DSO 4	This indicator is still in development, so no baseline assessment has been made.
REACH implementation	DSO 4	There are a large number of industrial chemicals for which there is inadequate data to judge whether they are likely to represent a risk to the environment and/or human health, both in the short– and long–term. The EU Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH) Regulation provides a single control framework that attempts to address these gaps in our knowledge. This is a proxy measure – the assumption is that if REACH is being implemented effectively, the environment and the public should be protected from unacceptable risk. REACH implementation in the UK is currently on track.
Nanotechnology Assessment	DSO 4	This interim indicator monitors the development of a risk–based approach to the use of nanomaterials, as a proxy for direct measurement of the presence of potentially harmful nanomaterials in the environment. It assesses progress in the areas of evidence–gathering and policy response. Progress is assessed as on track.
Pesticides	DSO 4	This indicator is still in development, so no baseline assessment has been made.
Genetically Modified Organism (GMO) control environment	DSO 4	This indicator monitors the deliberate release of GMOs and the contained use of GM pathogens, as well as the occurrence of unforeseen incidents or impacts. The residual environmental risk from GMOs is currently assessed as very low.
Defra emergency preparedness	DSO 4	This indicator is primarily for internal management use, as it assesses the preparedness of the Department to respond effectively to a range of emergency situations for which it has 'lead department' responsibility (excluding flooding and exotic animal disease, which are dealt with elsewhere in DSO4, but comprising: plant diseases and pests, waste management, CBRN (chemical, biological, radiological and nuclear) and pollution of controlled waters).
International disease management	DSO 4	This indicator is primarily for internal management use, as it provides Defra's Management Board with a snapshot of the current main disease threats outside our borders. It also monitors the speed with which new international outbreaks are assessed.
Early warning of new threats	DSO 4	This indicator monitors the average number of days taken to detect an incursion of exotic notifiable disease and the extent of veterinary practitioner awareness of the Veterinary Laboratories Agency, as a route for the investigation of the unusual. Work is ongoing to develop measures for the latter. During the financial year 2009/10 there was only one recorded outbreak of a notifiable exotic disease (Equine Infectious Anaemia in two imported horses).
Preparedness for exotic	DSO 4	This indicator is primarily for internal use and is still under

disease outbreaks		development. It identifies the ten exotic diseases currently of most concern to Defra, and measures the level of preparedness and risk mitigation in place for them, as well as identifying where more could be done by Defra to reduce the threat.
BSE incidence	DSO 4	This indicator monitors the number of BSE cases in Great Britain. A Spending Review 2004 target aims to eradicate BSE in Great Britain by 2010. This target has not been met because of a very small number of cases in 2010 and, we anticipate, for a few years thereafter. We expect the number of new infections in 2010 to be close to zero, although it will not be possible to confirm this until at least 2015 due to the average incubation period of the disease (five years).
Salmonella control	DSO 4	This indicator monitors the level of Salmonella infection (of public health significance) at the farm–level in specified animal populations (chicken layers, breeders and broilers, and turkey breeders and fatteners). As of 31 May 2010, salmonella prevalence is below EU target levels.
Bovine TB incidence	DSO 4	Due to the unstable nature of the existing PSA9 indicator (which measures the spread of bovine TB to new parishes) we are in the process of developing alternative measures which give an indication of the overall bTB situation, not just spread. See below for information on PSA9 indicator.
Performance of Government as a whole against the Sustainable Operations on the Government Estate (SOGE) targets and against SD action plans as summarised in the Sustainable Development Commission's (SDC) reports	DSO 5	Government performance against the SOGE for 2008/09 was good. There was improvement in performance across all five key SOGE target areas, and government is now on track to meet, or has already met targets in carbon emissions, waste, recycling and water. An updated delivery plan was published on 18 December 2009 at: http://www.ogc.gov.uk/sustainability_programme_progress.asp The final report on Defra's previous Sustainable Development Action Plan (SDAP) (2007–09) showed that 87% of the actions set in the plan were either complete or recoverable (due to be completed). Defra reached the highest level (level 5 – lead) in three out of five themes of the Sustainable Procurement Task Force's Flexible Framework and was "on track" to embedding sustainability into its organisation. Defra published a new SDAP in November 2009, aiming to build on previous progress and embed sustainable development at the heart of the way we work.
Indicator on Government estate water use and waste to landfill, and CO_2 emissions from the wider Government estate	DSO 5	This is reported on as above.
Stakeholders' perceptions of Defra's (and the SDC's) effectiveness and usefulness as champion of sustainable development	DSO 5	This indicator is not yet assessed. The stakeholders' survey was completed in 2009. The results overall were positive, showing that the majority of stakeholders felt that Defra was championing SD fairly/very well, with room for improvement.
Index of farming's positive benefits on the natural environment	DSO 6	This is reported under the land management indicator of PSA 28.

Greenhouse gas (GHG) emissions from agriculture	DSO 6	Data issued by the Office for National Statistics, 2 February 2010[24] shows a steady decline in total UK GHG emissions from agriculture (including fuel use) from 61.3Mt CO_{2e} in 1990 to 48.4Mt CO_{2e} in 2008; a reduction of some 21%. There has been a decline from 48.9 Mt CO_{2e} in 2007. The agriculture sector still accounts for a significant proportion of the UK's methane and nitrous oxide emissions – the 2008 data shows it is responsible for 38% of methane emissions and 76% of nitrous oxide. The next annual data (for 2009) are expected to be available by February 2011.
Index of farming's negative impacts on the natural environment (excluding GHGs)	DSO 6	This is reported under the land management indicator of PSA 28.
Gross value added (GVA) per person, as a ratio of UK to EU 14	DSO 6	The provisional 2009 ratio of UK GVA to EU 14 stands at 1.41. This represents a decrease of 8% on the 2008 figure of 1.53, but continues the longer term recovery seen since the 2004 figure of 1.19 (an increase of 18%)[25].
Production linked support as measured by projections of reductions in the sum of EU15 support to the Amber and Blue boxes	DSO 6	This indicator shows the extent of EU production–linked support which is trade distorting, including a measure of market support and direct payments linked to production. This support is classified by the World Trade Organisation's (WTO) Amber and Blue box definitions. A final overall agreement of the WTO Doha Development Agenda (DDA) negotiations remained unattainable this year. Negotiations continued but at a slow pace while WTO members attempted to resolve the remaining issues. Delays affect the Government's ability to secure the further reductions to overall trade distorting domestic support (including Amber and Blue box spending) as well as securing a reduction in agricultural tariffs that the DDA deal can achieve.
Securing Common Agricultural policy (CAP) Health Check reforms	DSO 6	This indicator is under development. Securing CAP Health Check Reforms' related specifically to Defra's work negotiating the Health Check agreement. The Health Check was formally completed in early 2009. The indicator was designed to be a 'one shot' assessment of the final package, and is no longer relevant to the progress being made on implementation. Defra will be pressing for further reform of the CAP in the forthcoming negotiations on the future of CAP post–2013. Other measures of future progress are currently being investigated.
Percentage of Animal Health random inspections which achieve full compliance with welfare code and law per annum	DSO 6	Full compliance was identified at 90.7% of random inspections carried out during Quarter 1 2010/11.
Education	DSO 8	This is measured by data that compares outcomes for rural areas with the national average, rather than against a historical baseline. In 2008/9 the percentage of pupils leaving school with 5 A* – C at

[24] http://www.decc.gov.uk/en/content/cms/statistics/climate_change/gg_emissions/uk_emissions/2008_final/2008_final.aspx

[25] External factors have had an impact on the UK's productivity between 2008 and 2009. In particular, 2008 saw an increase in total cereal production (to record levels) which was not matched in 2009, when area planted and yields fell back due to poor planting conditions in autumn 2008. There were also small reductions in livestock and milk output. Note that since DR 2009 a revised version has been calculated by updating the factors within the calculation (using the latest data on the relationship between input prices and the exchange rate). There have also been a number of backdated revisions from Eurostat.

		GCSE was 76% for rural areas and 70% nationally. The number of entrants to Higher Education per 1,000 18–20 year olds was 180 in rural areas and 142 nationally.
Social capital	DSO 8	This is measured by data that compares outcomes for rural areas with the national average, rather than against a historical baseline. In 2007 the percent of people who felt they belonged in their neighbourhood was 81 in rural areas and 75 nationally. The percentage of people who felt that people from different backgrounds get on well together in their area was 87 in rural areas and 82 nationally. The percentage of people who participate in regular formal volunteering at least once a month was 38 in rural areas and 27 nationally.
Health	DSO 8	This is measured by data that compares outcomes for rural areas with the national average, rather than against a historical baseline. In 2008, the life expectancy at birth for people in rural areas was 79.3 for males and 83.0 for females; the figures for England were 77.9 and 81.8. The infant mortality rate per 1,000 live births for rural areas was 4.0 compared to 4.7 for England as a whole. The potential years life lost from all cancers was 136.6 in rural areas and 150.9 nationally.
Affordable housing	DSO 8	This is measured by data that compares outcomes for rural areas with the national average, rather than against a historical baseline. In 2008/9 the ratio of lower quartile house prices to lower quartile earnings was 8.0 in rural areas and 7.0 nationally. The number or people who were homeless per 1,000 population was 1.5 in rural areas and 2.6 nationally.
Crime	DSO 8	This is measured by data that compares outcomes for rural areas with the national average, rather than against a historical baseline. In 2008/9 there were 9.3 violence against the person offences per 1,000 population in rural areas, compared to 16.7 nationally. There were 0.2 robbery offences per 1,000 population in rural areas compared to 1.5 nationally. There were 1.4 theft of motor vehicle offences per 1,000 population in rural areas compared to 2.8 nationally.
Poverty (after housing costs) and unemployment	DSO 8	This is measured by data that compares outcomes for rural areas with the national average, rather than against a historical baseline. In 2007/8 the percentage of households with income below poverty thresholds was 19 in rural areas and 22 nationally. The percentage of children in households with income below the poverty level was 25 in rural areas and 32 nationally. The unemployment rate in rural areas was 3.2 and 6.0 nationally.
Headline indicator – district level GVA per workforce jobs	DSO 8	This is measured by data that compares outcomes for rural areas with the national average, rather than against a historical baseline. In 2007 the district level GVA per workforce job was 85.4 in rural areas, 100.0 nationally.
Employment	DSO 8	This is measured by data that compares outcomes for rural areas with the national average, rather than against a historical baseline. In 2007 the district level GVA per workforce job was 85.4 in rural areas, 100.0 nationally.
Skills	DSO 8	This is measured by data that compares outcomes for rural areas with the national average, rather than against a historical baseline. In 2008 the economic activity rate in rural areas was 82.8%, whereas the national rate was 79.0%. The employment rate in rural areas was 79.0%, compared with the national rate of 74.0%

Enterprise	DSO 8	This is measured by data that compares outcomes for rural areas with the national average, rather than against a historical baseline. In 2008 9.7% of the population of rural areas had no qualifications, this compares to 12.3% nationally. There were 69.4% of the population in rural areas with qualifications at NVQ2 level or equivalent, the national figure is 68.7%. The proportion of the working age population that had on the job training in the previous 4 weeks was 10.3 in rural areas and 10.2 nationally.
Investment	DSO 8	This is measured by data that compares outcomes for rural areas with the national average, rather than against a historical baseline. In 2008 there were 460 businesses per 10,000 population in rural areas, this compares with 390 businesses per 10,000 population in England as a whole. In 2008 there were 43 business start–ups per 10,000 population in rural areas, this compares with 46 in England as a whole.

Indicator (from Spending Review 04 Targets)	Indicator belongs to: (PSA x and/ or DSO y)	Statement on data[26]
Reversing the long–term decline in the number of farmland birds	PSA 3a	The smoothed index, which tracks the long term trends in farmland bird populations and against which the PSA target is assessed, decreased by 2 per cent relative to the 1966 level, according to data published by BTO in October 2009. The long–term decline in the farmland birds index for England is primarily driven by the farmland specialists (those species that breed solely or mainly on farmland).
Sites of Special Scientific Interest (SSSI)	PSA 3b	On the basis of latest condition assessments on each unit of land, the baseline position in March 2003 was 56.9% and in March 2010 it was 93.1%. Data are publically available and updated monthly on the Natural England website.
To improve the health and welfare of kept animals, and protect society from the impact of animal diseases, through sharing the management of risk with industry	PSA 9	Our policy desire is to maintain the spread at or below the former PSA9 (2008) target level (i.e. spread of bTB to new parishes is below the incremental trend of +17.5 confirmed new incidents per annum). The PSA9 indicator has been negative throughout 2009. It decreased gradually, from -3.0 at the end of 2008, through -3.8 at the end of March, -10.0 at the end of June, -10.2 at the end of September to -14.6 at the end of December 2009.

1.2 CSR07 Efficiency Programme

The CSR07 Efficiency Programme was a CSR commitment to an overall target across Government of £35bn efficiency savings for the spending review period. Defra's contribution to this target is £381m.

[26] A further column entitled 'OGDs (where indicator lead different to PSA reporting lead)' was not required and therefore deleted.

	2008-09	2009-10	2010-11
	£m	£m	£m
Target savings profile	177	244	381
Outturn	175	293	-
Includes SR04 “over delivery” *	34	34	34

* With HM Treasury agreement, Defra was able to count as early delivery of CSR07 value for money savings, up to £34 million of SR04 financial efficiencies in excess of our target.

Defra responses to PAC recommendations

Natural England's Role in Improving Sites of Special Scientific Interest
34th Report of 2008–09 (7th July 2009) ([27])

PAC Recommendation	Department's Response
Natural England expects to meet the Public Service Agreement target for 95% of SSSIs to be in 'favourable' or 'recovering' condition by December 2010, but it may be many years before some sites reach a 'favourable' condition. At the end of the current target period the Department and Natural England should set targets for managing and monitoring the progress of sites currently in the 'recovering' classification, alongside actions to monitor progress in bringing more sites into this group.	The Department and Natural England agree with the conclusion. The target is achievable with concerted action by partners. The Department and Natural England will continue to work with these partners to meet the December 2010 target. The Department and Natural England agree that future targets should be set to ensure that SSSI condition is maintained and continues to improve steadily towards 'favourable condition' whilst recognising that monitoring will also need to continue. These targets will be agreed before the end of the current target period.
Natural England's reported performance in managing SSSIs is based on out of date information and incomplete records. Around a quarter of sites have not been assessed within the six year timescale set out in national guidelines, and around 35% of SSSIs do not have written descriptions of the monitoring requirements for the special features that they were notified to conserve, nor the specific conservation actions necessary to provide protection. Natural England should develop a programme for the forward management of SSSI inspection. This would match resources to the work required to meet the national guidelines, building on the approach taken to address the existing weaknesses, by April 2009 for conservation objectives and December 2010 for six yearly inspections.	The Department and Natural England partly agree with the conclusion. Natural England has been addressing these issues and by the end of March 2009 it had successfully completed the programme to develop conservation objectives for all SSSIs. Since then, Natural England has developed a similar programme to ensure that all SSSIs have up to date Common Standards Monitoring condition assessments in place by December 2010. Natural England is on track to achieve this.
Natural England's record keeping is inconsistent and there is no comprehensive quality assurance system in place to check that conservation objectives and condition assessments for each site comply with national guidelines. Inconsistencies exist in the information recorded for each site. Natural England should define the mandatory data to be maintained for each site such as the extent and location of all features of the SSSI, the dates of field visits, compliance checks and contact with the landowner/occupier. It should introduce quality assurance mechanisms in accordance with ISO 9000 such as peer review and process mapping, to confirm, for example, that the conservation objectives recorded and condition assessments completed meet required standards.	The Department and Natural England agree with the conclusion. Natural England will define the mandatory data to be maintained for each SSSI and will explore the cost: benefit of developing its national database to store a greater proportion of this information electronically. Whilst there are a number of measures already in place to address quality assurance, Natural England will review these processes and identify what improvements can be made

[25] http://www.publications.parliament.uk/pa/cm200809/cmselect/cmpubacc/244/244.pdf

PAC Recommendation	Department's Response
Natural England cannot demonstrate that all SSSI sites, some of which were designated 60 years ago, still demonstrate features of special importance, nor whether other currently undesignated locations may not provide more valuable wildlife and habitat conservation opportunities. The changing nature of biodiversity means sites may lose the special feature or features for which they were first designated, or may acquire new features worthy of conservation. New locations may provide a better opportunity for meeting specific conservation objectives. To make sure that public investment in SSSIs is directed to those sites and locations which offer the best value for money in conservation and cost terms, Natural England should establish a systematic approach to reviewing the designation of existing sites and to identifying and designating new sites.	The Department and Natural England agree with the conclusion. The Common Standards Monitoring (CSM) condition assessment programme will ensure that Natural England monitors the condition of all special features for which SSSIs are notified. The full condition assessment programme will ensure that the backlog is dealt with by December 2010. In November 2008, Natural England's Executive Board agreed a SSSI Notification Strategy, which committed Natural England to keeping the SSSI series under review. This will ensure that the features and boundaries of existing designations are reviewed and potential new designations considered systematically. Implementation of this strategy is already underway.
The current approach of designating individual locations or sites may not be the most appropriate as biodiversity responds to increasing climate and environmental pressures. Enabling species to move between sites may be essential if they are to adapt, for example, to a changing climate. Natural England should research and report on the effectiveness of the current approach for designating SSSIs to establish whether wider issues, such as the need for corridors to enable longer–term movement of flora and fauna between sites, are adequately addressed.	The Department and Natural England agree with the conclusion. The need for ecological coherence in a protected areas network is well known, but how this might be best delivered is less well understood. Natural England's SSSI notification strategy, and the Department's wider biodiversity and climate change policy recognise these issues. Defra has recently announced a review of England's wildlife and ecological network, including its links with the National Parks, and its ability to adapt to climate change and other pressures. The review is to report by June 2010 and will explore if the present range of designations represents a coherent and robust ecological network for England, capable of responding to the challenges of climate change and other pressures. At the same time, Natural England is designing a research programme to establish the value and effectiveness of SSSIs in climate change adaptation. Furthermore, as part of the implementation of its SSSI Notification Strategy, Natural England aims to ensure that, where appropriate, sites are able to respond dynamically to natural processes and that the SSSI series as a whole is resilient to such processes and pressures, including the predicted effects of climate change. Accordingly, existing sites will be kept under review to ensure new features are adequately protected and site boundaries reflect needs of dynamic systems.

PAC Recommendation	Department's Response
Natural England has failed to use its enforcement powers to take action against landowners and occupiers who persistently refuse to manage land in a way which conserves the SSSI, allowing negotiations to become protracted at a financial and conservation cost. Senior management in Natural England should monitor the action taken to reach agreement on the management of SSSI sites with landowners/occupiers on an exception basis, based on elapsed time against an internally established benchmark. Natural England should pilot the use of a specialist team to enforce the body's powers where negotiations exceed the benchmark.	The Department and Natural England agree with the conclusion. Whilst voluntary negotiations with land managers have delivered large improvements in SSSI management, Natural England agrees that in some cases where voluntary negotiations have not succeeded, the time has come for enforcement powers to be exercised to achieve appropriate management of sites (in part or whole). This process is already well underway. Natural England's national regulatory team work closely with a newly established network of dedicated Regulatory and Enforcement leads in each region to deliver an efficient and effective approach to its regulation and enforcement responsibilities. Corporate targets have been set for the delivery of recovering condition through use of enforcement powers where there is a high risk that voluntary negotiations will fail.
The Department and Natural England should improve the financial management of the SSSI programme by improving the reliability of the underlying data on which expenditure forecasts have been produced. It took some three to four years after the Public Service Agreement was set in 2000 for an estimate of the total costs of bringing SSSI sites into target condition to be finalised. Forecasts were based on incomplete information as not all sites had conservation objectives in place. The Department and Natural England should establish a programme and detailed plan of work for moving all SSSIs into a favourable condition, and use the plan to establish reliable financial forecasts and commitments, and to prioritise actions annually based on available funding.	The Department and Natural England agree with the conclusion. An accurate costing to achieve the 2010 PSA target could not be undertaken until detailed site–based planning of recovery had been undertaken. Natural England will continue to work with the Department and other partners further to improve the completeness of forecasts and commitments. This will continue to work from the bottom up using detailed site–based information to drive planning. Continued financial commitments to undertake annual management are of critical importance to prevent land in target condition slipping into unfavourable condition and to ensure that recovering sites steadily continue on their path to favourable condition. Natural England's corporate plans from 2011–12 will define the target area to move from unfavourable to recovering / favourable condition. Such targets will take account of progress under the above within the context of the Notification Strategy and subject to other priorities and the availability of resources.
Natural England's role in protecting SSSI sites can appear obstructive and public understanding of the role, existence and accessibility of sites is low. The majority of sites are open to the public and provide recreational opportunities. Some, such as blanket bogs, help to combat climate change and the risk of flooding. The public is often unaware of the accessibility of sites. Raising awareness of SSSIs and Natural England's role would help public understanding of apparently controversial decisions on planning and development work, and also increase accessibility. Through its website and other media, Natural England should pilot	The Department and Natural England agree with the conclusion. SSSIs will play an important role in achieving one of Natural England's strategic outcomes: 'People are inspired to value and conserve the natural environment'. Natural England will continue to work to increase the public understanding of the role, value and accessibility of SSSIs, by continuing to build on the success of its websites, Natural England and Nature on the Map. Natural England's own estate of National Nature Reserves (NNR) also offers an opportunity to engage directly with the public

approaches to encourage responsible public use of sites and to explain Natural England's statutory powers in relation to conserving SSSIs.	and Natural England is currently developing an NNR strategy that will ensure that the NNR estate is managed in a way that maximises the opportunities to develop public appreciation, understanding and engagement of wildlife sites in the natural environment. A number of innovative pilot projects are already underway including: the development of selected NNR as high quality visitor destinations and the use of NNR as a platform to launch Family Wildlife Activity Days with a commercial partner. The Department is about to go to tender for new research to look at the benefits of protected area designations. This will include estimating both the economic and wider biodiversity benefits of SSSIs.

The Health of Livestock and Honeybees in England

36th Report of 2008–09 (14th July 2009) ([28])

Recommendation	Department's Response
Success in tackling disease incidence in honeybees and livestock will require the Department to work more collaboratively with farmers, beekeepers and leading academic researchers in these areas. The Department should pilot local consultative arrangements in livestock disease hotspots involving farmers, veterinarians and local authorities to adopt a collaborative approach to risk assessment, preventative actions and enforcement. A similar approach between beekeepers and the Department's inspectors would help to involve the key stakeholders actively in minimising risks and enforcing good bee husbandry in local areas. Before allocating its new honeybee research funding, the Department should discuss priorities with beekeeping associations and leading academic researchers in this area.	The Department agrees with this recommendation. In relation to honey bees, the following actions are underway or committed to: • the Food and Environment Research Agency (Fera) is leading the Department's engagement with beekeeping associations in work to improve bee health. • the number of colonies inspected by Fera's National Bee Unit's (NBU) Bee Inspectors this year is the highest level since 1988 (over 38,700 colonies). These inspection visits also include 1:1 training with beekeepers. As part of the Healthy Bees plan, work is also underway with the beekeeping associations to establish and deliver a coordinated beekeeper education programme to improve both husbandry standards and the management of pests and diseases; • local training events on key beekeeping skills, (this year over 700 attended by over 22,000 beekeepers) currently delivered through Fera's NBU and beekeeping associations, will be augmented and better publicised; and • regional forums will be increased from three to seven providing full geographic

[28] http://www.publications.parliament.uk/pa/cm200809/cmselect/cmpubacc/366/366.pdf

	coverage of England and aligned with the NBU's regions. These are consultative events for beekeeping associations, bee inspectors and the NBU to explore specific local issues and share the latest advice. The allocation of the Department's new research funding will be decided by the Insect Pollinator Initiative funding consortium of which the Department is a member. In addition, the Department is maintaining and expanding a range of communications with a wide range of stakeholders and researchers to develop an overall view on priorities. In respect of bovine tuberculosis (bTB) the Department recognises that working with industry, and other stakeholders, offers the best chance of reducing and ultimately eradicating the disease. To this end, the Bovine TB Eradication Group for England (TBEG) was established in 2008 with a membership representing the Departments Food and Farming Group, Animal Health, the farming industry and the veterinary profession. TBEG is developing a programme of measures to reduce the incidence of bTB and support farmers affected by the disease. The Group will develop a national framework for tackling bTB and will tailor it to take full account of the local and regional variations in disease prevalence. Animal Health already participates in a number of regional and local collaborative initiatives involving farmers, veterinarians, local authorities designed to reduce disease incidence and will consider how best to incorporate this element once a national framework is agreed
By widening the focus of the additional research funding to cover other pollinating insects as well as honeybees, work into the underlying causes of the decline in honeybee numbers might not be enough to reverse this trend. The Department should specify which aspects of honeybee health it plans to research and what proportion of the additional funds are likely to be ring–fenced for this purpose.	The Department understands the Committee's concerns regarding the widening of the research scope to other pollinators in the Insect Pollinator Initiative (IPI). The Department has contributed £2.5 million to the IPI, the purpose of which is to promote innovative research aimed at understanding and mitigating the biological and environmental factors that adversely affect insect pollinators. It is noteworthy that by scoping the IPI to cover all insect pollinators, substantially more funds are available (total funding for IPI – £10 million) from other parties, than if the research had been targeted simply at honey bees. This will enable cross–cutting and complex science questions raised about factors affecting the health and lifespan of all pollinators to be tackled, and holistic solutions to be identified. As a result of this wider approach there will be engagement from a broader range of researchers, generating new insights and leveraging better value from the research spend.

	Under the terms of the consortium no single member, including the Department, can ring–fence funds for any particular area or research body. The Department and the other members of the consortium will jointly make final decisions on the projects to be funded having regard to the recommendations from peer review, the overall balance and scope of the proposals, as well as the specific merits of individual projects.
Adopting rigorous bio–security measures might limit disease impact and incidence, but the Department has made little progress in establishing minimum standards of bio–security with the farming industry to allow for effective farm risk assessment. In consultation with the farming industry and veterinarians from farming practices, the Department and its Agency, Animal Health, should develop bio–security guidelines and standards appropriate to different livestock sectors sufficient to enable Animal Health Officers to assess the risk exposure on each farm.	The Department has issued a significant amount of guidance about biosecurity since 2001, which sets out clearly the key actions and behaviours all livestock keepers should adopt. In addition, *Codes of Recommendations on Welfare* published for different species include biosecurity measures. The Department is investing in research studies that will provide evidence about the relative effectiveness of different biosecurity interventions and the economic benefits gained, but the practical difficulties in gathering this evidence should not be underestimated. DEFRA promoted and provided pump–priming funding to encourage the farming and veterinary profession to establish farm–health planning; essentially an approach by which livestock keepers and vets work to identify animal disease risks taking into account the specific circumstances on the farm. As part of the Department's Responsibility and Cost Sharing Programme it is intended that financial and other incentives will be established under partnership working to encourage effective biosecurity, reduce disease risks and strengthen business resilience to the impacts of responding to disease outbreaks. In relation to bovine TB (bTB), the Department agrees that rigorous bio–security measures might reduce the risk of the disease in a herd. In 2007, the BTB Husbandry Working Group; a partnership of key farming, veterinary and wildlife groups and Government produced advice recommending precautionary measures and a common sense approach that farmers can take to help reduce the risk of bTB transmission between cattle and wildlife. The advice is based on the best available evidence, and was trialled with some farmers before it was disseminated more widely. The Department recognises that a greater understanding of the disease transmission routes between wildlife and cattle could

	contribute greatly to the development of biosecurity advice and controls for bTB. However, a conclusive answer on the transmission of the disease cannot currently be produced. The Department continues to fund research into the cost and feasibility of practical husbandry measures.
The Department has failed to implement a cost sharing compensation system for farmers which takes account of farmers' actions to prevent and minimise the risk of disease. In our Ninth Report of Session 2005–06 we recommended that the Department should make quick progress on consultation on a levy scheme which would transfer the cost of future disease outbreaks from the taxpayer to farmers, and provide incentives to improve farm bio–security by, for example, linking the levy contribution to bio–security standards on the farm. Three or more years later the Department's consultations are still ongoing. The Department should establish a firm timetable to bring implementation of such a scheme to an urgent conclusion.	The Department accepts the Committee's conclusion and following three public consultations, intends shortly to publish a draft Bill. The planned legislation will include provisions for livestock producers contributing directly to Departmental costs of dealing with exotic notifiable animal diseases and establish financial and other incentives to encourage effective biosecurity. The Department introduced new cattle compensation arrangements for cattle affected by bTB in February 2006. Under this system, compensation payments are directly linked to average market prices, and as a result, the risk of over–compensation has been significantly reduced (as have payments to cattle owners).
The Department should enforce rigorously the compulsory testing regimes and the timely testing of contiguous farms, to minimise the risk of disease spread and the impact for neighbouring farms where a farmer resists inspection. Animal Health should work with local authorities to determine the level of enforcement actions available and to agree the circumstances, which trigger enforcement action. The latter should take account of the wider risk of disease spread and the potential inconvenience for neighbouring farms which non–compliance causes.	The Department agrees that enforcement of Bovine Tuberculosis (bTB) controls is a critical part of tackling the disease. In February 2005, the 'zero tolerance' movement restrictions policy was introduced to reduce TB risks to neighbouring farms by prohibiting cattle movements to/from herds with overdue tests. In 2009 Animal Health introduced new enforcement protocols, to tie–in with a more robust and standardised approach for dealing with herds with overdue bTB tests. These new protocols have resulted in better co–ordinated and more consistent enforcement of bTB control measures, including the requirement to test within stated timescales. As a further measure to reduce the risk of disease spread, herd tests are carried out on farms contiguous to identified bTB infected herds. The precise timing of these tests are determined following a veterinary risk assessment. Further contiguous tests will be carried out six months (discretionary) and 12 or 18 months after the first contiguous test. If any contiguous test is not completed by the due date, the herd is placed under zero tolerance TB movement restrictions.
Only half of active beekeepers are registered with the Department and subject to the Department's inspection regime because, unlike in some other countries, registration is not compulsory. In maintaining a voluntary approach to registration and inspection, the Department should develop a strategy to increase significantly the number of registered beekeepers. This would enable it to enhance its data on bee disease incidence and better target advice on good husbandry and its	The Department agrees with this recommendation and welcomes the Committee's recognition of the benefits of registration. Increasing the numbers of beekeepers known to the National Bee Unit (NBU) is a key objective of the Healthy Bees plan. So far this year, the number of beekeepers registered on the NBU's BeeBase database has increased by 15% (over 2500), which has partially been achieved through the

research programme.	increased number of Bee Inspectors in the field and possibly increased self registration by beekeepers (30%). The strategy to increase registrations further is being developed and includes: • a publicity campaign to reach beekeepers who are not registered on BeeBase, as part of the communication strategy for the Healthy Bees plan, for implementation during 2009 and 2010; and • collaboration with beekeeping associations in encouraging their members to register. Depending on the success of the strategy, compulsory registration may be considered but the Department's preferred approach remains one of encouraging voluntary registration in line with the principles of better regulation. Other countries' experience of compulsory registration indicates mixed levels of success.
Reports of notifiable disease in honeybees are much lower in Scotland than in England and Wales, but the Department has no strategy for collaborating with the devolved administration in Scotland to manage the risks to honeybee colonies across the United Kingdom. The Department should work with bee inspectors and bee keepers in Scotland to obtain a greater understanding of the incidence of disease and colony loss, and to establish a common system for registering beekeepers and for measuring and reporting disease.	The Department will strengthen existing links with the Devolved Administrations including setting up more regular formal discussions and developing opportunities to collaborate and in particular will work closer with the devolved administration in Scotland on Bees. The Department co–ordinates bee health policy on behalf of the UK and does this through planned meetings and regular informal discussions with the Devolved Administrations. Recent examples of closer collaboration are: • the Department is sharing information, and providing advice and help with diagnostics in response to recent outbreaks of European and American foulbrood in Scotland; • the Department has initiated discussions with the Scottish Executive regarding the registration of Scottish beekeepers and possible use of the NBU's BeeBase database; and, • the Scottish Executive has been invited to attend the Department's Healthy Bees plan's Project Management Board as an observer.
Farmers can be subject to numerous uncoordinated inspections from central and local government bodies, alongside inspections arising from independent quality assurance schemes and food buyers such as the major supermarkets. The Department should take the lead in co–ordinating routine inspection visits carried out by the public bodies it sponsors, and facilitate information sharing between them and local authorities to minimise disruption to farmers.	The Department supports the Committees conclusion that improved coordination between farm inspection bodies would minimize disruption to farmers and has already taken steps to reduce burdens on famers through the improved sharing of information and encouraging more joined up inspections. An On Farm Inspections Steering Group (OFISG) has been set up to explore the opportunities for joining up farm inspections. Membership of this group includes representatives of the

	Department, its key delivery partners, Animal Health (AH) and the Rural Payments Agency (RPA), and customer representation such as Assured Food Standards and the National Farmers Union. The Group set up a pilot project to enable a number of inspections to be done at the same time. This recommended that the scope for joining up visits to farms should be extended to include other TB tests and that joined up visits should become part of business as usual and farmers are being notified accordingly. RPA and AH are working together to take this forward. A further pilot involving the Food Standards Agency and AH is underway to reduce the burden of official controls on dairy production holdings in England and Wales by recognising the results of audits carried out by Assured Dairy Farms (hygiene aspects only).

A second progress update on the administration of the Single Payment Scheme by the Rural Payments Agency

1st Report of 2009–10 (16th December 2009) ([29])

PAC Recommendation	Department's Response
The Department and Agency Accounting Officers have failed to get to grips with the issues, resulting in a lack of any clear progress in addressing our concerns. This is wholly unacceptable. In the circumstances we have no option but to put the Department on report. We insisted and the Department agreed to provide this Committee with a clear action plan by the end of January 2010 that would explain how they have addressed all of the National Audit Office's recommendations and would provide evidence of what progress they had made. We recommend that the Department sends us a progress report on a three monthly basis thereafter, and that these reports should be validated by the National Audit Office so that we can avoid the Accounting Officer having to appear before us again on this issue.	The Department submitted the requested Action Plan to the Committee on 29 January 2010 and remains committed to providing the Committee with progress updates every three months. Details on progress will be shared with the NAO on an on–going basis. The Action Plan detailed work undertaken since October 2009 on all the NAO recommendations. Where possible, it drew on initial results from the *2013 RPA Review* which the Department announced on 2 September and which was intended to produce the evidence base required to take a fundamental look at the RPA's activities and capabilities, including finance, operations, IT and management. The timing for the first Action Plan was such that it could not be fully informed by the *2013 RPA Review's* outputs, but the three–monthly updates will be able to go further. In the original Action Plan, some details were provided on a new joint project between the Department and the Agency (the *SPS debt and data project*) to address the underlying data issues which have led to inaccurate payments made to Single Payment

[29] http://www.publications.parliament.uk/pa/cm200910/cmselect/cmpubacc/98/98.pdf

	Scheme (SPS) claimants. This project is being progressed as a priority, and brings together existing Agency work on correcting known entitlement errors and additional correction activity focussed on key risk areas, for example cases where entitlements have been transferred. The NAO is assisting in the scoping and planning of this project.
The Agency paid out over 96% of funds for the 2008 scheme nearly seven weeks ahead of the European Commission deadline, but this is still a long way short of their targets and the standards achieved by other countries. The progress has also been at the expense of improvements in efficiency or accuracy. We recommend that the Department and Agency agree more challenging targets for any new systems they introduce, but in the interim the focus should now be on reducing the costs and improving the accuracy of the payments made.	The Agency has delivered year on year improvements in the SPS payment timetable, and met the scheme payment targets from the 2006 SPS year onwards. This progress continued for the 2009 scheme with 86,500 farmers (80%) receiving £1.31 billion (70%) of the estimated funds within two days of the payment window opening on 1 December 2009. By the end of that month, 78% of the funds had been paid (compared to 59% in 2008) which was within the range achieved by the devolved authorities in 2008. This year on year improvement in delivering services has been reflected in the broader range of more challenging targets for 2010/11, published on 30 March 2010.
The £350 million IT systems are cumbersome, overly complex and continue to soak up large sums of money. The work required to keep the systems operational have moved above and beyond what was originally specified in the Agency's Recovery Campaign and, with £84 million expenditure on Accenture in the last two financial years, the high spending looks set to continue. The Department should prepare a business case to establish whether it would be better to invest in a new IT system instead.	The *2013 RPA Review IT Workstream* has specifically considered the options for IT, providing evidenced recommendations on how to proceed (including assessments of costs and benefits). The Department and the Agency are deciding how the recommendations should be taken forward, taking into account value for money considerations. The Department recognises the need to take a holistic view across all the Agency's systems to ensure that any IT improvements are not undermined by problems in other systems or databases. The European Commission proposals on the EU budget negotiations as well as those on the future of the CAP and will dictate to some extent the IT requirements for the scheme: the scope of the IT workstream of the *2013 RPA Review* included consideration of these issues. However, given the relative timescales of the EU negotiations on the substance of future reforms, the process of remedying the IT systems and preparing them for 2013 is likely to run for some time.
Neither the Department nor the Agency were able to give the Committee a satisfactory explanation of the costs of employing Accenture consultants to maintain the Agency's IT system, though they had paid Accenture £84 million in total over the last two financial years. We therefore asked them to write to us to provide details of the number of consultants involved in Scheme work, the role they play, and their costs over the last 6 years. We expect the Department to provide this analysis in the action plan and progress report they have promised to send us by the end of January 2010.	In its supplementary memorandum sent to the Committee on 7 December 2009, the Department provided the Committee with the requested information about the role of consultants in administering the SPS. That memorandum was reproduced in the Committee's report (see Ev17–Ev18.)

Many of the IT software and hardware packages used to process claims have already fallen out of support, thereby increasing the risk of a system failure. Earlier action would have allowed the Agency to avoid this situation arising but now that it has, the Department and Agency should prepare a risk assessment so that critical systems can be supported but further expenditure can be minimized until we know whether an alternative system would be more appropriate.	The Department accepts that the risks around the existing RPA systems should be carefully assessed. The Agency's IT function and suppliers are providing the support necessary to ensure the continued functionality of the existing IT systems. Looking ahead, there are several pieces of work underway to determine whether the existing systems are fit for purpose, and what the options are (and costs associated) for any changes. The *2013 RPA Review* has assessed where the weaknesses in the current systems lie, so that a clear course of action is agreed to provide assurance about the quality of the systems and value for money. The *SPS debt and data project* will also consider the role of the existing systems in creating payment errors, and how this can be remedied in the short and longer term.
Inaccurate data in the Agency's systems, weak management information and poor record keeping hinder effective administration. The Department's commissioning of an external organisation to develop an action plan to tidy up claimants' data does not go far enough. The Department should commission an external organisation to tidy up and clean each claim in readiness for any new system, thereby freeing up the Agency to process 2009 claims.	On a variety of grounds (e.g. value for money, uncertainties about the effectiveness of creating a dummy claim processing system for the exercise, and the impact this could have on processing claims in future years) the Department does not accept that an external organisation should be employed to tidy up and clean each claim. The Department recognises the importance of accurate data to underpin future payments. In response to concerns about the robustness and efficiency of those efforts, as evidenced by a number of claimants having had their entitlement records amended multiple times, the Agency took a number of steps between August and November 2009 (involving system changes costing £700,000) to improve control and efficiency of the process. It is expected that implementation of these measures will provide enhanced confidence in the Agency's effectiveness in managing the entitlement database and, where necessary, making corrections . However, in recognition of the urgent need to ensure the accuracy of the SPS entitlement data (and associated issues on over and under payments) the Department has established a project (the *SPS debt and data project)* overseen by a senior Defra official to identify and drive through necessary additional actions.

Rather than put their energies into tackling the high processing costs, the Department and its Agency have muddied the issue by looking for ways to understate the true figures. This Committee takes a dim view of such 'smoke screen' tactics, which seem designed to play down the seriousness of a situation by questioning the facts of a National Audit Office report when there are no strong grounds to do so. The Department and the Agency should acknowledge the full scale of their processing costs, including the annual costs of the bespoke IT system. The Treasury should reiterate to all public bodies the need to be transparent about the full costs of their processes and systems and to measure performance on the basis of all relevant costs elements.	Different methodologies measure different sets of costs but, whichever are used, there is no disagreement that the existing figures are too high. The Department has undertaken a lessons learned study to identify how the Department and the Agency could better interact with the NAO on future engagements and so ensure similar misunderstanding are avoided. The Treasury notes the Committee's suggestion that it should reiterate the need to be transparent about full costs. The Treasury's document, "Appraisal and Evaluation in Central Government", commonly known as 'The Green Book' provides substantial guidance on costing and evaluating the outcome of programmes and projects. All departments should already be versed in the techniques on the option and appraisal process. The Treasury always encourages departments to take account of this guidance when appraising and evaluating programmes and projects.
The average cost of administering each claim by the Agency in 2008–09 (£1,743) is around six times the amount in Scotland. This difference is partly explained by the decision to introduce a more complex scheme in England but, even taking that into account, the administration costs are unacceptably high. The time is right for a much more fundamental re–think of how much is being spent on administering claims by the Agency. The Department should draw up clear plans of how it will reduce IT, staff and other administrative costs in the Agency and should set firm budgets and improvement targets for each of these three cost elements. In drawing up its plans, it should consider how to reduce overheads and whether to develop alternative IT systems or to contract out some functions.	The cost of the Agency has reduced since 2008–09, when the budget allocation to cover the its running and capital costs was £231 million. This reduced by 9% by 2009–10 (total allocation of £210 million) and by a further 11% for 2010–11 (total (indicative) allocation of £187 million). This is against a backdrop of improving payment accuracy and speed. The outputs of the 2013 RPA Review have informed the formulation of revised ministerial targets for the agency.
The Agency's overpayment recovery has been woefully slow, haphazard and ineffective, with only around £25 million recovered compared with around £90 million overpaid. Farmers have received letters out of the blue with baffling calculations to ask for repayment. Recoveries are typically made by offsetting the sums for subsequent payments but there is a high risk of inequitable treatment. Systematic recovery depends on tidying up the data and we recommend that the Department tasks an external organisation with recovering overpayments where it is cost effective to do so.	The Department and the Agency have initiated a joint project to address the problems with the base data (see above for more detail). The Department and the Agency are also considering how to tackle the debt that has been identified and not recovered. Options being considered include outsourcing recovery of debts to an external organisation, subject to practical, customer and value for money considerations. Under the terms of changes to the governing EU legislation agreed under the CAP Health Check some entitlements established incorrectly will be deemed legally correct from 1 January 2010 and this should reduce the volume of correction activity and related debt recovery in future years.

Poor leadership at the top of the Agency combined with the frequent turnover of senior managers in recent years have contributed significantly to the Agency's administrative problems. The Department should assess the Agency's management capability, reduce the demands on the organisation by considering the transfer or other responsibilities elsewhere and, if necessary, appoint someone with experience in turning around failing organisations.	A comprehensive assessment of the Agency's management capability will be an essential first step before any decisions can be made about changes to the Agency's management structure and responsibilities. Such an assessment has been undertaken in the context of the *2013 RPA Review.* While the SPS may be the main scheme delivered by the Agency, it also delivers a range of other activities, including administering non–SPS CAP schemes. The Agency delivers a good service in these areas, and it would not automatically follow that alternative methods of delivery would produce results of at least an equivalent standard or improve the Agency's delivery of the SPS.
Despite the ongoing problems with this scheme, the Department assessed the Agency's performance positively in 2008–09 which enabled the Chief Executive to receive a performance bonus. Remuneration of senior management should be more closely aligned with the organisation's operational performance, including its success in addressing this Committee's concerns.	The Department notes that the performance bonuses paid to date resulted from success in meeting specific performance based objectives. The Department has now put in place new targets for RPA which should present a broader picture of the Agency's performance in the key areas and the objectives set for senior management will be aligned with those targets.
The Department failed to scrutinise the Agency's governance rigorously, assessed the Agency's performance over–optimistically, and failed to hold the Agency to account for key areas of performance, such as overpayment recovery and IT operational risk. The Department should introduce a new target regime which focuses on all the Scheme's key risks, and uses a new and comprehensive set of metrics to aid proper monitoring of performance. A clear and robust service level agreement should be introduced between the Department and Agency based on the new targets to formalise their respective responsibilities.	The new target regime put in place for the Agency has been developed to enable improved oversight of the Agency's problem areas and of shared priorities. The Department is revising its requirements for management information from the Agency, so future performance discussions can be better informed on a more rounded set of measures of the Agency's performance. The Department is also looking at governance of its delivery landscape as a whole, and as part of this (and informed by the findings of the *2013 RPA Review*) will be deciding how the structures in place within the Department to oversee the Agency should be enhanced.

Complaints to the Parliamentary Ombudsman

	Complaints reported on	Complaints accepted for investigation	Complaints fully upheld	Complaints partly upheld	Complaints not upheld
TOTAL Defra	**7**	**14**	**14%**	**43%**	**43%**
Core Defra	3	2	33%	33%	33%
Rural Payments Agency	3	1	0%	33%	67%
Environment Agency	1	-	0%	100%	0%

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