

# **Department for Environment, Food and Rural Affairs**

## **Resource Accounts 2001–02**

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**Department for Environment,  
Food and Rural Affairs  
Resource Accounts  
2001–02**

**(For the year ended 31 March 2002)**

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**Contents**

	Page
Annual Report	3
Operating and Financial Review	6
Statement of Accounting Officer's Responsibilities	13
Statement on Internal Control	14
Certificate of the Comptroller and Auditor General	16
Report of the Comptroller and Auditor General	18
The Accounting Schedules:	
Schedule 1—Summary of Resource Outturn	23
Schedule 2—Operating Cost Statement	25
Schedule 3—Balance Sheet	27
Schedule 4—Cash Flow Statement	29
Schedule 5—Resources by Departmental Aim and Objectives	31
Notes to the Accounts	32

## Annual Report

### For the year ended 31 March 2002

#### General

The Department for Environment, Food and Rural Affairs (Defra) was created on 8 June 2001 by merging a number of Government departments. This included the greater part of the former Ministry of Agriculture, Fisheries and Food (MAFF), the environmental work of the former Department of the Environment, Transport and the Regions (DETR) and related work previously undertaken within the Home Office. It was created to bring together economic, social and environmental concerns in the pursuit of sustainable development.

#### Basis of Accounts

These accounts have been prepared to comply with the Government Resources and Accounts Act 2000, and the requirements of HM Treasury. Merger accounting principles have been adopted to show the Department as if it had existed for the whole of the financial year.

#### Entities within the Departmental Accounting Boundary

The entities within the Departmental accounting boundary during 2001–02 comprise the Core-Department, its Executive Agencies and Non-Departmental Public Bodies as shown in Note 30 to the Accounts.

#### Bodies outside the Departmental Accounting Boundary

These comprise public sector bodies which have not been consolidated in these accounts, but for which the Department had lead responsibility during the year. They are listed in Note 31 to the Accounts.

#### Aim and Objectives of Defra

Defra's aim is sustainable development, which means a better quality of life for everyone, now and for generations to come, including:

- A better environment at home and internationally, and sustainable use of natural resources;
- Economic prosperity through sustainable farming, fishing, food, water and other industries that meet consumers' requirements;
- Thriving economies and communities in rural areas and a countryside for all to enjoy.

The aim is underpinned by seven objectives covering the span of the Department's responsibilities:

Objective 1: To protect and improve the rural, urban, marine and global environment and conserve and enhance biodiversity, and to lead integration of these with other policies across Government and internationally;

Objective 2: To enhance opportunity and tackle social exclusion through promoting sustainable rural areas with a dynamic and inclusive economy, strong rural communities and fair access to services;

Objective 3: To promote a sustainable, competitive and safe food supply chain which meets consumers' requirements;

- Objective 4: To improve enjoyment of an attractive and well-managed countryside for all;
- Objective 5: To promote sustainable, diverse, modern and adaptable farming through domestic and international actions and further ambitious Common Agricultural Policy (CAP) reform;
- Objective 6: To promote sustainable management and prudent use of natural resources domestically and internationally;
- Objective 7: To promote the public's interest in relation to environmental impacts and health, including in relation to diseases which can be transmitted through food, water and animals, and to ensure high standards of animal health and welfare.

Although the Department did not exist during the first few weeks of the financial year, the Treasury subsequently advised that merger accounting principles should be applied to 2001–02. Consequently, it is inappropriate to refer to the objectives that previously existed for component parts of those former departments brought together with the creation of Defra.

### **Principal activities**

Delivery of a wide variety of services and support to:

- Produce a better environment for all;
- Ensure wise use of resources;
- Create the right conditions for a thriving and sustainable food and farming industry;
- Make possible strong rural communities, and;
- Help create an enjoyable countryside for all.

These responsibilities include negotiating with the European Union (EU), and liaising with the devolved administrations, on the implementation of the Common Agricultural and Common Fisheries Policies in the UK.

In accordance with best practice laid down for Government departments, Defra consults as widely as possible with people, organisations and businesses on proposed policies and on the services provided.

### **Departmental Report**

The Departmental Report 2002 was published in spring 2002. This provides an overview of Defra's achievements since its creation, and sets out expenditure plans through to 2003–04.

### **Important events which have occurred since the financial year end**

The Department's objectives for 2003–04 to 2005–06 have been updated as part of the Spending Review 2002 settlement. The existing Objective 4 has been omitted and the remaining objectives amended as follows:

- Objective 1: Protect and improve the rural, urban, marine and global environment, and lead integration of these with other policies across Government and internationally;
- Objective 2: Enhance opportunity and tackle social exclusion in rural areas;
- Objective 3: Promote a sustainable, competitive and safe food supply chain which meets consumers' requirements;
- Objective 4: Promote sustainable, diverse, modern and adaptable farming through domestic and international actions;
- Objective 5: Promote sustainable management and prudent use of natural resources domestically and internationally;
- Objective 6: Protect the public's interest in relation to environmental impacts and health, and ensure high standards of animal health and welfare.

**Pension Liabilities**

Present and former employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS) which is non-contributory and unfunded. Although the PCSPS is defined as a final benefit scheme, liability for payment of future benefits is a charge on the Civil Superannuation Vote. The Core-Department and its agencies meet the cost of pension cover provided for the staff they employ by payment of charges on an accruing basis at rates determined by the Government Actuary and advised by the Treasury. There is a separate Scheme Statement for the PCSPS as a whole.

The Department is required to meet the cost of paying the pensions of former MAFF employees who retired early, from the date of their retirement until they reach normal pensionable age. These liabilities are provided for in full. In certain circumstances some or all of the liability may be settled in advance by making payment to the Paymaster General's account for the credit of the Civil Superannuation Vote. The amount provided is shown net of any such payments. The total pensions liability outstanding was charged as a provision in 1998-99, with funds being released from the provision annually to fund pensions and related benefits payments. The facility to prefund future liabilities ceased from 1 April 2000.

**Impact of Financial Instruments**

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. Further details are provided in Note 28 of the Accounts.

## Operating and Financial Review

### Major events during the year

#### Machinery of Government changes

The Annual Report has already highlighted the creation of Defra on 8 June 2001 by combining the greater part of the former MAFF with the environmental work of the former DETR, together with minor transfers of related work areas from the Home Office.

The new Department has lead responsibility for promoting sustainable development across Government, within the UK and internationally. Sustainable development is described by the Government as 'a better quality of life for everyone, now and for generations to come'. Achieving it requires four objectives to be met at the same time, in the UK and the world as a whole:

- social progress which recognises the needs of everyone;
- effective protection of the environment;
- prudent use of natural resources, and;
- maintenance of high and stable levels of economic growth and employment.

#### Creation of the Rural Payments Agency

The Rural Payments Agency (RPA) is Defra's largest executive agency. It was established on 16 October 2001 as the single accredited EU paying agency. It is the paying agency responsible for the EU CAP schemes in England and for certain schemes throughout the UK. RPA is also the recognised Funding Body responsible for receiving and accounting for all CAP Guarantee Funds.

Creation of the RPA involved the merger of the CAP payment functions of the former Ministry of Agriculture, Fisheries and Food (MAFF) with those of the former Intervention Board (IB). This allows greater use to be made of modern technology to provide a top quality service to farmers and traders while providing significant cost savings in administering payments. It further strengthened the Department's contribution to the wider rural economy through greater integration of strategic and policy activities in the regions with Government Offices and creation of the Rural Development Service (RDS) primarily to deliver the England Rural Development Programme (ERDP).

From 1 April 2001, the CAP payment work of the IB and the former Regional Service Centres (RSCs) was drawn together within one management structure. At the same time the RDS was created by merging the former Farming and Rural Conservation Agency (FRCA) and the ERDP and non-CAP payment work of the RSCs.

#### Foot and Mouth Disease (FMD)

The foot and mouth outbreak of 2001 was unparalleled and was possibly the most serious epidemic to affect a FMD-free country anywhere in the world. There had never been an outbreak of this scale in sheep (FMD in sheep is harder to detect, even for professional vets and cross-country sheep movements were widespread in the period when the disease took hold). By the time the case considered to be the first in the series of outbreaks in Northumberland was identified the virus was already present, mainly as a result of these movements, in at least 57 premises, and probably many more. Each acted as a centre for a major outbreak.

The epidemic differed significantly to the last major outbreak in 1967–68. It was a national epidemic, predominantly in sheep, whereas the 1967–68 outbreak was mainly a disease of cattle in the dairy farms of the Cheshire Plain. In the 2001 outbreak over four million animals were culled with half a million in one week at the peak. This compares with 434,000 in the whole of the earlier outbreak. But despite this, the two epidemics were brought under control in almost exactly the same time (32 weeks from first to last case).



**Joint Strategic Review**

A strategic review, jointly carried out with the Prime Minister's Office of Public Services Reform (OPSR), has identified a conceptual framework for developing the Department known as the 'golden threads' of delivery. These 'golden threads' refer to the crucial lines of connection that should run right through any delivery organisation to ensure it achieves its desired outcomes – from its strategy and leadership, through its staff, processes and structures, and on to its customers and the outcomes it is working to deliver. The implementation of this framework will be taken forward during 2002–03 and beyond.

**Significant Variances against Estimate**

The creation of both the new Department and the RPA, together with the unusual operating circumstances created by the foot and mouth disease outbreak, made it difficult to accurately plan financial expenditure in advance. This is clearly illustrated by problems encountered with the Machinery of Government changes. The Estimate for the year had to be finalised ahead of the formal accounting treatment for handling the changes being agreed and promulgated across central Government.

Although substantial funding was made available to the Department to deal with the foot and mouth outbreak, not all of this was required to meet claims settled in 2001–02. However the Department continues to retain a provision to deal with outstanding claims.

The EU Commission has agreed to reimburse the UK Government a proportion of the expenditure incurred on compensation for animals slaughtered during the foot and mouth disease outbreak. An advance of £217 million was received in March 2002. Further reimbursement is probable, although the amount is dependent upon recommendations to be made by EU auditors following completion of their work. There was an underspend of planned EU expenditure against receipts received as Appropriations in Aid, in respect of the Common Agricultural Policy.

Further analysis of significant variances against the Estimate is given in Schedule 1.

**Management****Ministers**

The Ministers who have had responsibility for the Department since its creation are:

Secretary of State: The Rt Hon Margaret Beckett MP

The Secretary of State has overall responsibility for all Departmental issues and represents the UK at the EU Agriculture Council

Minister of State (Environment): The Rt Hon Michael Meacher MP

Responsible for sustainable development, climate change, environment protection, water issues, wildlife and conservation. Also for Sites of Special Scientific Interest (SSSIs) and areas of Outstanding Natural Beauty. Represents the UK in the EU Environment Council.

Minister of State (Rural Affairs): The Rt Hon Alun Michael MP

Responsible for rural affairs, countryside issues, partnerships with voluntary and community groups in rural areas, and oversight of the delivery of the Rural White Paper. Also for hunting with hounds, regional issues, the overall lead on England Rural Development Programme (ERDP) and the Department's e-business strategy.

Parliamentary Under Secretary (Commons): Elliot Morley MP

Responsible for animal health, including Transmissible Spongiform Encephalopathies (TSEs) and the follow up to the Phillips Inquiry Report, animal welfare, fisheries (represents the UK at the EU Fisheries Council), whaling, forestry, agri-environmental schemes, flood and coastal defence and departmental administrative issues.

Parliamentary Under Secretary (Lords): The Lord Whitty of Camberwell

Responsible for food, farming, horticulture, plant health, Rural Payments Agency and inland waterways. Also has general oversight of departmental science and research and development.

**Permanent Head of the Department and Management Board**

The following members of staff comprised the Management Board following the creation of Defra:

Brian Bender	Permanent Secretary
Dinah Nichols (from 8/6/01)	Director General: Environmental Protection
Andy Lebrecht (from 16/9/01)	Director General: Food, Farming & Fisheries
Anna Walker (from 8/11/01)	Director General: Land Use & Rural Affairs
Kathryn Morton	Solicitor and Director General, Legal Services
Mark Addison (from 16/7/01)	Director General: Operations & Service Delivery
Dr David Shannon (to 1/2/02)	Chief Scientist and Head of Science Directorate
Professor Howard Dalton (from 14/2/02)	
Jim Scudamore	Chief Veterinary Officer and Director General of Animal Health and Welfare Directorate
Paul Elliott (to 14/10/01)	Finance Director
Andrew Burchell (from 15/10/01)	
Brian Harding	Director: Policy & Corporate Strategy Unit and Secretary to Management Board
Robert Lowson (to 7/10/01)	Communications Director
Lucian Hudson (from 8/10/01)	

Other Management Board members prior to re-structuring of the Department during the year:

Kate Timms (until 1/7/01)	Head of Agriculture & Food Industry Directorate
Jenny Bacon (until 28/9/01)	Head of Animal Health & Environment Directorate
Roger Saunderson (until 5/9/01)	Director of Establishments
David Rossington (until 15/7/01)	e-Business Director

Non-Executive Members of the Management Board:

Alison Huxtable

Elizabeth Ransom

Richard Wakeford  
(from 27/9/01)

The Agency Chief Executives are not technically members of the Management Board but receive all papers and are invited to attend Board meetings as appropriate:

Professor Peter Stanley (until 1/5/01)	Central Science Laboratory (CSL)
Professor Michael Roberts (from 24/5/01)	
Dr Peter Greig-Smith	Centre for Environment, Fisheries & Aquaculture Science (CEFAS)
Dr Kerr Wilson	Pesticides Safety Directorate (PSD)
Johnston McNeill	Rural Payments Agency (RPA)
Professor Stephen Edwards	Veterinary Laboratories Agency (VLA)
Dr Mike Rutter	Veterinary Medicines Directorate (VMD)

**Ministers and Senior Officials prior to the creation of Defra**

Ministers and Management Board members of those former departments that were incorporated in part within the newly created Defra are given below. They were in post from 1 April 2001 until 7 June 2001. Full details are provided rather than particular areas of work responsibility that were split as part of the Machinery of Government changes.

**Former Department for Environment, Transport and the Regions**

**Ministers**

The Rt Hon John Prescott MP	Deputy Prime Minister
The Rt Hon the Lord MacDonald of Tradeston	Minister of State (Transport)
The Rt Hon Hilary Armstrong MP	Minister of State (Local Government & Regions)
The Rt Hon Michael Meacher MP	Minister of State (Environment)
Nick Raynsford MP	Minister of State (Housing, Planning and Construction)
Keith Hill MP	Parliamentary Under Secretary (Commons)
Beverley Hughes MP	Parliamentary Under Secretary (Commons)
Bob Ainsworth MP	Parliamentary Under Secretary (Commons)
The Lord Whitty of Camberwell	Parliamentary Under Secretary (Lords)
The Baroness Farrington of Ribbleton	Baroness in Waiting and provided support on all DETR issues in the House of Lords

**Officials**

Sir Richard Mottram	Permanent Secretary
Philip Ward	Principal Finance Officer
Richard Dudding	Director General
Alun Evans	Director General
David Hogg	Director General
Joe Montgomery	Director General
Dinah Nichols	Director General
Willy Rickett	Director General
David Rowlands	Director General
Rob Smith	Director General
Genie Turton	Director General
Philip Wood	Director General

**Former Ministry of Agriculture, Fisheries and Food****Ministers**

The Rt Hon Nick Brown MP	Secretary of State
The Rt Hon Joyce Quin MP	Minister of State
Elliot Morley MP	Parliamentary Under Secretary (Commons)
The Baroness Hayman	Parliamentary Under Secretary (Lords)

**Officials**

Brian Bender	Permanent Secretary
Jenny Bacon	Director General
Kate Timms	Director General
Kathryn Morton	Director General
Stephen Wentworth	Fisheries Secretary
David Shannon	Chief Scientist
Roger Saunderson	Director of Establishments
Paul Elliott	Principal Finance Officer
Robert Lowson	Director of Communications
David Thompson	Group Head Economics and Statistics
David Rossington	e-Business Director

**Former Intervention Board**

The Intervention Board, although a department in its own right, was an Executive Agency responsible to the Agriculture Ministers. The Agency Chief Executive was George Trevelyan. It was agreed with HM Treasury that a separate account be prepared for the final six months of its existence. The financial affairs of the former Intervention Board are also included in the accounts for the Rural Payments Agency, which have been consolidated into these accounts.

**Home Office**

Details of Home Office senior management are not shown given the Department's contribution to the Machinery of Government changes was not material.

**Appointment of the Permanent Secretary and members of the Management Board**

The permanent head of a department is appointed by the Prime Minister on the recommendation of the Head of the Home Civil Service and with the agreement of the Ministerial Head of the department. The appointment is for an indefinite period under the terms of the Senior Civil Service contract. The rules for termination are set out in Chapter 11 of the Civil Service Management Code. Brian Bender was previously the Permanent Secretary of MAFF and transferred to head Defra at the time it was created.

The Permanent Secretary appointed other members of the Management Board. Again, these appointments are for an indefinite period under the terms of the Senior Civil Service Management Contract, with the rules for termination being set out in Chapter 11 of the Civil Service Management Code.

## **Ministers' and Board Members' Remuneration**

Ministers' remuneration is set by the Ministerial and Other Salaries Act 1975 (as amended by the Ministerial and Other Salaries Order 1996) and the Ministerial and Other Pensions and Salaries Act 1991.

The Permanent Secretary's pay is set by the Prime Minister on the recommendation of the Permanent Secretaries Remuneration Committee. The Committee's membership and terms of reference were announced by the then Prime Minister on 9 February 1995 (Hansard, ls. 245–247).

For other members of the Management Board pay is determined by the Permanent Secretary in accordance with the rules set out in Chapter 7.1, Annex A of the Civil Service Management Code.

Further details on remuneration are set out in Note 2 to these accounts.

## **Employment of Disabled Persons**

Defra follows the Civil Service Code of Practice on the Employment of Disabled people which aims to ensure that there is no discrimination on the grounds of disability, and that access to employment and career advancement with the Department is based solely on ability, qualifications and suitability for the work.

## **Equal Opportunities**

The Department encourages staff involvement in the day to day running of its activities through normal line management contacts. Both the Intranet and regular Office Notices are used to disseminate information. Defra encourages personal development, and follows an equal opportunities policy for fair and open recruitment of permanent staff regardless of sex or ethnic origin. Staff have access to welfare facilities and Trade Union membership and representation. There are formal communication channels through the Whitley Council between management and trade union representatives.

It is Departmental policy that there shall be no discrimination against staff on grounds of colour, race, ethnic or (subject to Civil Service rules) national origins, religion, sex, sexual orientation, marital status, age or disability. Employment and promotion is solely on merit. Precisely the same standards apply in the assessment of women and men regardless of marital status, domestic responsibilities, ethnic or national origin. Staff who work reduced hours are assessed on exactly the same basis as those working full-time, and without regard to part-time status, subsequent availability, or availability of posts. A Departmental Equal Opportunity Officer has been appointed and a network of Equal Opportunity Officers set-up throughout Defra.

## **Payment of Suppliers**

Standard contractual terms of payment require that valid invoices are paid within 30 days of satisfactory receipt of goods and services, or an agreed invoice, if that is later. Where determined by supplier contract, the contractual terms will take precedence. Defra has signed up to the CBI Prompt Payment Code and the British Standard on Prompt Payment (BS 7890) and is determined to honour these commitments. The current payment performance target for Defra is 100% for all valid payments to be made by the due date. Defra's performance for the year was severely impacted by the Foot and Mouth emergency which increased supplier invoice payments by over 90% to in excess of 309,000 payments in 2002. Many staff were seconded to FMD related duties and this was reflected in the reduced overall performance of 87% for the year. Excluding supplier payments made specifically for FMD activities the performance was 92%. Further details are contained in the Departmental Report.

## **Auditor**

The Comptroller and Auditor General is the auditor for the Department's accounts.

**Brian Bender**

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

**11 December 2002**

**Statement of Accounting Officer's Responsibilities**

The Department has prepared Resource Accounts for the year ended 31 March 2002 in accordance with the Resource Accounting Manual detailing the resources acquired, held, or disposed of during the year and the use of resources by the Department during the year.

The Resource Accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the Department, the net resource outturn, resources applied to objectives, recognised gains and losses and cash flows for the financial year.

The Treasury has appointed the Permanent Head of the Department for Environment, Food and Rural Affairs as Principal Accounting Officer for the Department with responsibility for preparing the Department's Accounts and for transmitting them to the Comptroller and Auditor General. The Chief Executive of the Rural Payments Agency is an Additional Accounting Officer in respect of Request for Resources 2, whilst other agency Chief Executives are Agency Accounting Officers.

In preparing the Accounts, the Accounting Officer is required to comply with the Resource Accounting Manual prepared by the Treasury, and in particular to:

- observe 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 Resource Accounting Manual, have been followed and disclose and explain any material departures in the Accounts;
- prepare the financial Accounts on the going concern basis.

The responsibilities of the 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 the Accounting Officer Memorandum, issued by the Treasury and published in Government Accounting.

Provision for Non-Operating Appropriations in Aid was increased by the Winter and Spring Supplementary Estimates, Cm5273 and Cm5357 of session 2001-02. This increase should have been, but was not, included in the Appropriation Act 2002 that authorised those Supplementary Estimates. By agreement with the Treasury these Accounts have nonetheless been prepared to reflect the changed provision on the basis that statutory authority is in the process of being sought.

## Statement on Internal Control

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of Departmental policies, aims and objectives, set by the Department's Ministers, whilst safeguarding the public funds and Departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting. My responsibility also incorporates the Department's agencies and the other bodies sponsored by the Department. My responsibilities changed in June 2001 due to the creation of Defra from a merger of the former MAFF with parts of the former DETR and the Home Office. In October 2001 the RPA was created from the former Intervention Board and parts of Defra.

The system of internal control is designed to manage rather than eliminate the 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 the principal risks to the achievement of Departmental policies, aims and objectives, to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically. I expect to have the procedures in place in March 2004 necessary to implement Treasury guidance. This takes account of the time needed to fully embed the relevant processes, which the Department has agreed should be established, and improve their robustness; we also have a strategy for continuing improvements in the longer term.

As Accounting Officer, I also have responsibility for reviewing the effectiveness of the system of internal control. The Department has established the following processes:

- the Defra Management Board which meets regularly to consider the plans and strategic direction of the Department. The Board comprises the senior members of the Department and three external members;
- the implementation of Defra's change programme through the Developing Defra project. Following a joint review with the Office of Public Services Reform, Stage II of Developing Defra commenced in July 2002;
- an Audit and Risk Committee which is a sub-committee of the Board. It considers the adequacy of audit arrangements (internal and external) and the implications of assurances provided in respect of risk and control in the organisation;
- regular reports by internal audit, to Government Internal Audit Standards, which include the Head of Internal Audit's independent opinion on the adequacy and effectiveness of the Department's system of internal control together with recommendations for improvement;
- the application of formal project management disciplines including use of the OGC Gateway process for Defra's IT Outsourcing and ERDP projects;

The Department has also taken steps towards implementing Treasury and other central Government guidance on risk management. We have prepared an initial Defra baseline risk register and each Directorate and Agency has put local risk registers in place. The Department held a stakeholder seminar which outlined the main principles of Defra's strategy and obtained feedback on future risks. The Defra risk management strategy was launched in April 2002 and is available to staff on the Risk Management website on Defra's Intranet. The website also contains the implementation plan for the strategy and copies of risk registers. Copies of the strategy have been sent to 150 key risk stakeholders. The Department's Management Board and Ministers have agreed Defra's top threats and individual Board Members are preparing action plans to address them. Under the Risk Management Strategy the Management Board will consider reports on risk management progress on a regular basis. The first update of the Department's risk registers was commissioned in June 2002. The Management Board will also receive reports from the Audit and Risk Committee concerning risk management and internal control.



During the coming months the Department plans to:

- prepare action plans to address the top risks;
- complete revision of Directorate risk registers and update the Departmental risk register;
- arrange regular risk forums to consider lessons learned and disseminate good practice;
- amend implementation plans in the light of the Strategy Unit's Risk and Uncertainty Report, and the FMD inquiries;
- take further steps to embed awareness and responsibility for managing risks throughout the Department (for example through better integration of risk management with Business Planning);
- commence an annual review of the risk management strategy.

My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the Department who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports.

The Chief Executive of each of the Department's agencies and the sponsored bodies is responsible for the maintenance and operation of the system of internal control in that body, and is required to sign a statement relating to that system which is reproduced in the accounts of the body. The Department's internal auditors have reviewed implementation of DAO 13/00 Corporate Governance guidance by the agencies and the other bodies, and will continue to do so in 2002–03. In addition I have received assurance from the Department for Transport, Local Government and the Regions (DTLR) on systems which supported aspects of Defra work during the period from Defra's creation to the end of the financial year.

The following significant control issues have been brought to my attention:

The Foot and Mouth Disease outbreak, which started at the end of the 2000–01 financial year, put a very substantial strain on the Department's systems. This was due to the need for urgent action to combat the disease, the scale and volume of operations and transactions involved, and intense pressure on staff and other resources. The emergency required the employment of temporary staff unfamiliar with the Department's financial and other systems. These factors created substantial operational challenges and there was uneven implementation of certain financial and other controls. A dedicated central finance unit was put in place to re-establish and improve controls. The Department has also been implementing recommendations from reviews of systems involved in managing the outbreak.

In-year, there were some problems with budgetary control. Following a Better Quality Services review, responsibilities in central finance functions have been re-allocated to achieve greater clarity in resource budgeting arrangements, business planning, in-year budgetary control and accounting. Delivery of financial guidance to the Department is being revised and updated. An improved training strategy for Resource Accounting and Budgeting is being implemented.

Progress has been made in addressing weaknesses in controls over fixed assets, accounting policies for the treatment of programme expenditure reflected in the debtors and creditors figures and the identification of certain debtor and creditor accruals data. Action is being taken to further improve these controls.

We are continuing to develop our processes in relation to fraud prevention and whistleblowing.

**Brian Bender**

**Accounting Officer for the Department for Environment, Food and Rural Affairs 11 December 2002**

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

I certify that I have audited the financial statements on pages 23 to 61 under the Government Resources and Accounts Act 2000. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 32 to 36.

**Respective responsibilities of the Accounting Officer and Auditor**

As described on page 13, the Accounting Officer is responsible for the preparation of the financial statements in accordance with Government Resources and Accounts Act 2000 and for ensuring the regularity of financial transactions. The Accounting Officer is also responsible for the preparation of the other contents of the Accounts. My responsibilities, as independent auditor, are established by statute and guided by the Auditing Practices Board and the auditing profession's ethical guidance.

I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Government Resources and Accounts Act 2000 and Treasury directions made thereunder, and whether 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. I also report if, in my opinion, the Annual Report is not consistent with the financial statements, if the Department has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I read the other information contained in the Accounts, and consider whether it is consistent with the audited financial statements. I consider the implications for my certificate if I become aware of any apparent misstatements or material inconsistencies with the financial statements.

I review whether the statement on pages 14 and 15 reflects the Department's compliance with Treasury's guidance Corporate Governance: Statement on Internal Control. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements.

**Basis of audit opinion**

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board, except that the scope of my work was limited as explained below. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Department in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Department's circumstances, consistently applied and adequately disclosed.

I planned my audit so as to obtain all the information and explanations which I considered necessary to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by error or by fraud or other irregularity and that, in all material respects expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In this connection I have noted and taken account of paragraph 6 in the Statement of Accounting Officer's Responsibilities on page 13. Statutory authority has since been enacted. However, the evidence available to me was limited in respect of certain types of expenditure on the eradication of the outbreak of Foot and Mouth Disease. There were no other satisfactory procedures I could perform to confirm that charges to the Operating Cost Statement in these areas were accurate, complete or regular.

In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

**Qualified Audit Opinion arising from Limitation in Scope and Disagreement**

The financial statements do not fully comply with Accounting Standards or instructions issued by the Treasury, as prior year comparative figures are not included in the following areas: Schedule 1: Consolidated Summary of Resources Outturn, Schedule 4: the Cashflow Statement, Schedule 5: Resources by Departmental Aim and Objective, Note 7: Administration Costs Limit, Note 8: Analysis of Net Resource Outturn and Net Operating Cost by Objective and Note 12: Movements in Working Capital other than Cash. In addition the Analysis of Net Resource Outturn is not on a basis comparable to the amounts provided for in the Department's Supply Estimate.

Except for the failure to comply with disclosure requirements, and except for any adjustments that might have been found to be necessary had I been able to obtain sufficient evidence concerning certain types of expenditure incurred in the eradication of Foot and Mouth Disease, in my opinion:

- the financial statements give a true and fair view of the state of affairs of the Department at 31 March 2002 and of the net resource outturn, resources applied to objectives, recognised gains and losses and cash flows for the year then ended, and have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by Treasury; and
- 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.

In respect alone of the limitation on my work relating to payments for the eradication of Foot and Mouth Disease:

- I have not obtained all the information and explanations that I considered necessary for the purpose of my audit, and
- I have not been able to determine whether proper accounting records have been maintained.

Details of these matters are set out in my report on pages 18 to 22.

**John Bourn**  
Comptroller and Auditor General

24 January 2003

National Audit Office  
157-197 Buckingham Palace Road  
Victoria  
London SW1W 9SP

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

### Summary

1. Government departments have been required to produce and publish resource accounts since 1999-2000 and have been producing 'dry run' resource accounts since 1998-99. Resource accounts are drawn up on an accruals basis in accordance with the Treasury's Resource Accounting Manual (RAM) and should give a true and fair view of the state of affairs of the department and of its net operating costs, recognised gains and losses and cashflows for the year. The Department for Environment, Food and Rural Affairs ("Defra" or "the Department"), which was created on 8th June 2001 from the former Ministry of Agriculture, Fisheries and Food (MAFF) and the Environment Protection and Wildlife and Countryside Directorates of the former Department for Environment, Transport and the Regions (DETR), inherited many of the systems and processes for producing resource accounts from MAFF.

2. I was unable to provide an opinion on the Department's 2000-2001 resource accounts due to fundamental errors in the preparation of those accounts. My report on the 2000-2001 Accounts (Cm5447) highlighted weaknesses in the:

- management of financial accounting responsibilities throughout MAFF and in the processes for compiling the accounts; and in
- financial controls over activities undertaken to eradicate Foot and Mouth Disease (FMD), and in the estimation of the provision for the total costs of eradication.

Pressures resulting from the creation of Defra, including significant re-organisation within the Department, and the Foot and Mouth disease (FMD) crisis further delayed the production of the 2000-2001 accounts, and the accounts were not certified until February 2002.

3. Following the creation of Defra, the new Management Board introduced a change management programme to improve systems, communications and delivery of the Department's targets. However given the delay in finalising the previous year's accounts, processes impacting on financial reporting could not be implemented early enough to enable the Department to produce proper accounts on a timely basis for 2001-02. I did not receive accounts approved by the Accounting Officer until 11th December 2002.

4. I have qualified my audit opinion on the 2001-2002 Resource Accounts due to:

- failure to comply fully with the disclosure requirements of the RAM, including complete comparative figures; and
- insufficient underlying evidence to support certain expenditure on the eradication of Foot and Mouth Disease.

5. Paragraphs 7-13 report the progress the Department has made towards implementing resource accounting and budgeting and its impact on in year financial management and on the preparation and delivery of the annual accounts. Paragraphs 14-29 set out why, in my opinion, the Department's resource accounts for 2001-02 are not robust enough to support an unqualified audit opinion, and the impact on the accounts of the Machinery of Government changes and the 2001 outbreak of Foot and Mouth Disease.

6. The Department has nevertheless improved the overall quality of its financial accounts, and brought forward their production. Further, I have not qualified my opinion on the balance sheet at 31 March 2002. The Department has therefore, a robust basis for taking forward its financial reporting but must make further progress to embed resource accounting and budgeting if its in year financial monitoring and production of annual accounts are to meet required standards. My staff will continue to work closely with the Department in this task.

**Progress since my last report in implementing Resource Accounting and Budgeting**

7. In my report last year I concluded that to implement full resource accounting and budgeting the Department needed to :

- make sure that staff, especially senior managers, understood accruals accounting and budgeting to enable them to manage effectively their activities in resource terms;
- exercise strong leadership through senior management to reinforce the financial accounting responsibilities of officials; and
- link the estimating and accounting processes effectively to co-ordinate resource accounting and budgeting, thereby encouraging corporate ownership of financial management and reporting.

8. Following the creation of Defra, the Management Board introduced 'Developing Defra' a change management programme to improve systems, communications and delivery of the Department's targets. Within this programme there are plans for developing the systems for implementing resource accounting and budgeting and delivering the associated training across the Department. These are, however, long term plans and, as I have already noted, many of them could not be implemented in time to have an impact on the production of the 2001-02 financial statements. Instead the Department had to rely on interim measures to handle the requirements of resource accounting and budgeting. These measures delivered accounts for 2001-02, but the Department was unable to meet the statutory timetable to produce accounts approved by the Accounting Officer by 30 November 2002. It was also unable to address fully the financial management issues highlighted in my last report, and which are summarised above.

9. My staff did not receive a complete draft of the 2001-02 accounts until 4th November. The draft accounts contained material errors and did not comply fully with the requirements of resource accounting as set out in the RAM and Accounting Standards. Correcting these errors delayed the approval of the accounts by the Accounting Officer until 11 December 2002.

10. The quality and timeliness of the accounts were also affected by:

- internal reorganisation and machinery of government changes , and
- the outbreak of Foot and Mouth Disease.

11. The Department's problems with budgetary control are highlighted in the Statement on Internal Control. Underpinning Parliament's approval of departments' requests for resources is an assumption that departments have adequate systems for monitoring expenditure in sufficient detail both in resource and cash terms to be able to control it, to demonstrate that it is allocated to approved purposes and to report subsequently to Parliament through resource accounts. My staff found weaknesses in year budgeting and monitoring in Defra:

- financial processes were not joined up so that the estimating process by which the department requested resources, was not understood fully by the staff who were responsible for monitoring and reporting on the actual expenditure, and vice versa;
- though the estimates were requested on a resource basis staff at some of the directorates continued to monitor outturn on a cash basis;
- the budgets used for in year monitoring were not fully set in resource terms;
- the management accounting systems, used for in year monitoring did not always hold accurate or timely information on outturn expenditure; and
- the Department was not able to reconcile in year monitoring information to the annual financial statements produced by the financial accounting system until well after the year end.

12. Consequently the Department had difficulty in monitoring expenditure in resource terms. This has had implications on the effectiveness of the management of operations. For example:

- due to a lack of confidence in the available financial data directorates were reluctant to release unspent budgets during the year to enable the funds to be spent on other priority areas. This lack of confidence contributed to the significant underspending against budget by the department as a whole;
- departments are required to keep within an Administration Cost Limit agreed with the Treasury to focus spending on front line service rather than central administration. While Defra recognised that it was at risk of exceeding its Administration Cost Limit the Department was unable to calculate outturn accurately in resource terms until seven months after the year end.

13. More positively, the Department has strengthened year end data validation procedures at directorate level, and demonstrated more robust control procedures in utilising this data in the final accounts, compared to the previous year.

### **Machinery of Government Changes**

14. As already noted, Defra combined the responsibilities and activities of the former Ministry of Agriculture, Fisheries and Food (MAFF) with those of the Environment Protection Group and the Wildlife and Countryside Directorate of the former Department for Environment, Transport and the Regions (DETR), which was then renamed the Department for Transport, Local Government and the Regions (DTLR). A small number of Home Office activities were also transferred to the new Department. The Winter Supplementary Estimates transferred Parliamentary authority for expenditure from DTLR and the Home Office to Defra. Until 31 March 2002 however, the actual transactions continued to be processed by the original departments.

15. The Rural Payments Agency, the largest of Defra's six executive agencies, was created through the merger of the Intervention Board with the Common Agricultural Policy (CAP) payment functions of Defra's Regional Service Centres. The process of establishing a single management structure for this new agency began on 1 April 2001, and the agency was formally launched on 16 October 2001.

16. These Machinery of Government changes had a significant impact on the timeliness and the quality of the accounts because Defra:

- was unable to agree the amounts to be transferred with DTLR until October 2002;
- had difficulty in applying the principles of merger accounting as set out in the RAM and Financial Reporting Standard 6: Acquisitions and Mergers, to reflect the new department, and
- had problems in finalising the amounts to be transferred to the newly created Rural Payments Agency.

17. Merger accounting requires the results and cashflows of all the combining entities to be brought into the financial statements from the beginning of the financial year regardless of when in the reporting period the entities came together. The corresponding figures for the prior year should also be restated to include the results of all the combining entities.

18. The Department was unable to provide prior year figures on a merged basis for:

- Schedule 1, which compares the outturn against the estimate for both resource expenditure and overall cash requirement and the related Note 8;
- Core and consolidated Schedule 4, which provide a reconciliation of all cashflows during the year to the accounts and the related Note 12; and
- Schedule 5, which reports resource consumption against the Department's objectives.

19. Following the creation of Defra new objectives, detailed in the foreword to the Accounts were agreed with the Secretary of State. The Department has taken advantage of a dispensation within the Resource Accounting Manual not to restate prior year figures according to the new objectives and to explain the changes in a note to the accounts, on the basis that this could only be done at a disproportionate cost. The Department has however, been unable to comply with the alternative requirement to show current and prior year figures on the basis of the previous aims and objectives, due to the difficulty in obtaining information on a merged basis for all the combining entities.

## **Accountability to Parliament**

### **Note 8 - Analysis of net resource outturn and reconciliation to the operating cost statement**

20. The Government seeks from Parliament sufficient funds and Parliamentary authority for the bulk of its own expenditure via the Supply Estimates ("the Estimates"). Requests for resources by each department are detailed in the Estimates and departments have to account for the expenditure through the resource accounts. Schedule 1 of the resource accounts compares the overall consumption of resources, the use of income and the cash spent with the overall amounts voted in the Estimates. The notes to the accounts provide further detail. In particular, Note 8 to the accounts should enable a detailed comparison to be made between outturn expenditure and income and that estimated.

21. Note 8 in Defra's 2001-2002 accounts cannot, however, be compared to the final (Spring) Supplementary Estimates for that year because the income and expenditure in Note 8 is summarised by the Department's new objectives while the Estimates were compiled partly in line with the old MAFF objectives and partly by function. The Department could not reconcile the Estimates and Note 8. Nor were they able to provide figures for the prior year.

### **Expenditure incurred on the eradication of Foot and Mouth Disease**

22. The first case of Foot and Mouth Disease was confirmed on 20 February 2001. The last case was confirmed on 30 September 2001 and on 15th January 2002 the United Kingdom was declared free of Foot and Mouth Disease. In line with European directives and the Animal Health Act, the government followed a policy of eradicating the disease. The policy involved the culling of animals, with compensation being paid for animals slaughtered. In addition, non-compensation costs were incurred, primarily for cleansing and disinfecting farms, and for disposal and haulage of carcasses. In my June 2002 report *The 2001 Outbreak of Foot and Mouth Disease (HC 939 2001-02)*, I commented in detail on the Department's financial management in eradicating the disease and on the wider issues of contingency planning, the handling of the crisis and the cost effectiveness of the actions taken.

23. My report on the 2000-2001 Resource Accounts of the Ministry of Agriculture, Fisheries and Food identified weaknesses in the controls over expenditure, particularly in the first four months of the response to the outbreak. The Department were unable to provide adequate evidence to support certain payments, in particular payments to contractors for services, such as haulage, cleansing and disinfecting of farms, and compensation payments for animals slaughtered. Nor was the Department able to provide sufficient evidence that the provision for costs included in the 2000-01 accounts represented a reliable estimate of total expenditure.

### **Controls over Compensation Payments - Retention of documentary evidence of slaughter**

24. The Department is authorised to compensate farmers for animals slaughtered as having or suspected of having or having been exposed to Foot and Mouth Disease. Last year, for a significant number of compensation payments sampled by my staff, the documentary evidence of slaughter was not available. To confirm that compensation was only paid when due the Department undertook an exercise to update retrospectively and reconcile their compensation and disease control databases. Compensation payments were made on the basis of the valuation forms which were available for all the claims paid. However, the numbers of animals noted on the valuation form does not necessarily verify the number of animals slaughtered as in many instances there were delays between valuation and slaughter.

25. The exercise to reconcile the number of animals for which compensation was paid, to the numbers slaughtered, as recorded on the disease control database, was only partially successful for the following reasons:

- there was no consistent method of recording animals on the two databases. Generally the valuation/compensation database did not record the number of lambs/calves whereas the disease control database usually did;
- in a significant number of cases, the data on the valuation forms was used to enter the numbers on both databases, and as a consequence the reconciliation exercise was meaningless.

26. Whilst Defra provided adequate evidence to demonstrate that each group of animals valued had been slaughtered, the Department was unable to demonstrate for a significant proportion of cases that the numbers slaughtered equalled the numbers for which compensation was paid. As a result the scope of my audit of this expenditure was limited.

#### **Controls over Non-Compensation Payments - Evidence of hours worked**

27. My report last year highlighted that a significant proportion of invoices did not have appropriate evidence to confirm that the service was performed for the hours stated on the invoice or in supporting documentation. Defra is reviewing in detail invoices from 107 of the largest contractors, generally those who charged over £1 million, in order to verify the amounts invoiced. Invoices from these contractors amounted to £586.7 million out of total invoices of £917 million.

28. The Department informed me that by 31 December 2002 they had completed investigations on 26 contractors' accounts with a combined total invoicing of £264.5 million; was in the processing of investigating a further 39 suppliers with a combined total invoicing of £248.5 million; and had yet to start work on 42 suppliers with a combined total invoicing of £73.7 million. Other accounts are being examined in those cases where there is evidence of invoicing, accounting and other regularities. The work undertaken was detailed and thorough, and covered evidential, accounting and quantum issues. The Department has informed me that the examination of contractor accounts has enabled it to realise savings of around £36.5 million from the amounts invoiced or claimed. The forensic examination work is on-going.

29. In some cases however, the review has highlighted the absence of, or limited, supporting evidence, particularly for invoices relating to cleansing and disinfecting, where there was considerable difficulty for staff in monitoring hours-based contracts in operation at multiple sites. The lack of full supporting evidence and the incomplete state of the review have limited the scope of my audit of this expenditure.

**John Bourn**  
Comptroller and Auditor General

24 January 2003

National Audit Office  
157-197 Buckingham Palace Road  
Victoria  
London SW1W 9SP



## SCHEDULE 1

**Consolidated Summary of Resources Outturn**  
 for the year ended 31 March 2002

	Estimate			Outturn			Net Total Outturn compared with Estimate saving/ (excess)
	Gross expenditure	A-in-A	Net Total	Gross expenditure	A-in-A	Net Total	
	1	2	3	4	5	6	
	£000	£000	£000	£000	£000	£000	£000
Request for Resources 1 (Notes 5 & 8)	2,092,469	834,482	1,257,987	1,899,634	834,482	1,065,152	192,835
Request for Resources 2 (Notes 5 & 8)	3,304,644	2,751,878	552,766	2,834,515	2,522,437	312,078	240,688
<b>Total Resources</b>	<b>5,397,113</b>	<b>3,586,360</b>	<b>1,810,753</b>	<b>4,734,149</b>	<b>3,356,919</b>	<b>1,377,230</b>	<b>433,523</b>
<b>Non-Operating Cost A-in-A (Note 9)</b>	—	—	24,917	—	—	19,568	5,349
<b>Net Cash Requirement (Schedule 4)</b>	—	—	4,065,002	—	—	2,992,242	1,072,760
<b>Reconciliation of Resources to Cash Requirement</b>							
	<b>Note</b>		<b>£000</b>			<b>£000</b>	<b>£000</b>
<b>Net Total Resources<sup>1</sup></b>	7		<b>1,810,753</b>			<b>1,377,230</b>	<b>433,523</b>
<b>Capital:</b>							
Acquisition of fixed assets							
Cash purchase	9 & 11		149,910			64,377	85,533
Investments	11		—			1,537	(1,537)
Other Financing	9		—			17	(17)
<b>Non-Operating Cost A-in-A</b>	9		<b>(24,917)</b>			<b>(19,568)</b>	<b>(5,349)</b>
<b>Accruals Adjustments:</b>							
Non-cash items <sup>2</sup>			(643,188)			(280,657)	(362,531)
Changes in working capital other than cash	12		693,637			351,704	341,933
Use of provisions	17		2,078,807			1,909,378	169,429
<b>Transfer of functions – difference between resource and cash transfers<sup>3</sup></b>							
DTLR			—			5,297	(5,297)
Intervention Board			—			(417,073)	417,073
<b>Net Cash Requirement (Schedule 4)<sup>4</sup></b>			<b>4,065,002</b>			<b>2,992,242</b>	<b>1,072,760</b>

**Explanation of the variation between Estimate and Outturn (Net total resources)**

<sup>1</sup> Budgetary provision for dealing with Foot and Mouth Disease (FMD) was some £160m greater than was actually utilised in the year. Grants paid for Flood and Coastal Defence and the Home Energy Efficiency Schemes were delayed, in part because of the need to deploy staff on FMD related work.

The underspend on Request for Resources 2 is partly attributable to the suspension of the Over Thirty Months Slaughter Scheme (OTMS) during the Foot and Mouth epidemic (£60m) together with a general slow-down in EC funded scheme payments (e.g. for Export Refunds), also due to FMD. In addition 2001–02 saw the cessation of Dairy Agrimonetary Compensation payments. These had totalled £78m in 2000–01.

Capital charges and Depreciation on Net Assets employed was some £30m less than originally estimated, attributable for the most part to a reduction in debtors and the retention of significant provisions to meet the outstanding costs of FMD.

The Notes on pages 32 to 61 form part of these accounts.

**Explanation of the variation between Estimate and Outturn (Net cash requirement)**

The comments relating to the variation on Net resource outturn form part of the explanation for Net cash requirement variance. In addition the following comments are applicable;

<sup>2</sup> See Schedule 4 non-cash transactions, adjusted for £1,960,000 profit on disposal of fixed assets.

<sup>3</sup> See Note 1.3 for the explanation of the difference between resource and cash transfers for the transfer of functions.

<sup>4</sup> Lower than expected cash requirement to meet the cost of FMD claims settled during 2001–02.

**Actual outturn – Resources:**

Request for Resources 1: Actual amount net resources Outturn £1,065,152,004.98. Actual amount of savings in resources over Estimate £192,834,995.02.

Request for Resources 2: Actual amount net resources outturn £312,078,000.00. Actual amount of savings in resources over Estimate £240,688,000.00.

**Actual outturn – Cash:**

Net cash requirement: Outturn net requirement £2,992,241,786.70, which is £1,072,760,213.30 less than the Estimate.

The Machinery of Government changes, together with the adoption of distinct objectives for the newly created Department, makes it impractical to display meaningful prior year figures.

Departmental resources are classified as:

**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, and to contribute to the well-being of rural and coastal communities;

**Request for Resources 2:** Funding, co-ordination and implementation of aspects of the Common Agricultural Policy’s Guarantee Section as economically, efficiently and effectively as possible.

**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 are shown in italics)

	2001–02 Forecast		2001–02 Outturn	
	<u>Income</u>	<u>Receipts</u>	<u>Income</u>	<u>Receipts</u>
	£000	£000	£000	£000
Operating income and receipts – excess A-in-A	—	—	1,147	<i>1,147</i>
Other operating income and receipts not classified as A-in-A *	—	—	216,905	<i>216,905</i>
Other non-operating income and receipts not classified as A-in-A	40,445	<i>41,413</i>	40,021	<i>41,821</i>
<b>Total</b>	<b>40,445</b>	<b><i>41,413</i></b>	<b>258,073</b>	<b><i>259,873</i></b>

\* EU Commission reimbursement to the UK Government in respect of the FMD Control process, see Note 22.2.

The actual cash surrenderable to the Consolidated Fund is £259,872,727.01.

The Notes on pages 32 to 61 form part of these accounts.

## SCHEDULE 2

**Consolidated Operating Cost Statement**  
 for the year ended 31 March 2002

	Note	2001-02		Restated 2000-01	
		£000	£000	£000	£000
<b>Administration Costs</b>					
Staff Costs	2	321,318		378,819	
Other Administration Costs	3	363,879		438,792	
<b>Gross Administration Costs</b>			<b>685,197</b>		<b>817,611</b>
Operating Income	5		(45,161)		(39,031)
<b>Net Administration Costs</b>			<b>640,036</b>		<b>778,580</b>
<b>Programme Costs</b>					
<b>Request for Resources 1</b>					
Expenditure	4	1,352,101		2,629,337	
Less Income	5	(243,692)		(32,079)	
			<b>1,108,409</b>		<b>2,597,258</b>
<b>Request for Resources 2</b>					
Expenditure	4	2,696,851		3,366,265	
Less Income <sup>1</sup>	5	(2,336,882)		(2,703,942)	
			<b>359,969</b>		<b>662,323</b>
<b>Net Programme Costs</b>	4		<b>1,468,378</b>		<b>3,259,581</b>
<b>Net Operating Cost<sup>2</sup></b>	7		<b>2,108,414</b>		<b>4,038,161</b>
<b>Net Resource Outturn</b>	7 & 8		<b>1,377,230</b>		<b>3,499,054</b>

of which:

<sup>1</sup> £2,325,250,000 – relates to payments for which Defra acts as an agent for the EU in making payments to third parties.

<sup>2</sup> £2,682,000 – relates to EU receipts, which are treated as negative public expenditure and reduce the burden on the UK Exchequer.

Included in the above is exceptional income and expenditure relating to FMD. See Note 17 for details.

All income and expenditure derived from continuing operations.

**Consolidated Statement of Recognised Gains and Losses**  
 for the year ended 31 March 2002

	2001-02	Restated 2000-01
	£000	£000
Net gain/(loss) on revaluation of tangible fixed assets	8,427	7,504
Net gain/(loss) on revaluation of investments	101	(737)
Prior period adjustments	(43,808)	—
<b>Total recognised gains and losses for the financial year</b>	<b>(35,280)</b>	<b>6,767</b>

The prior year adjustment totalling £43.8m is made up of two corrections for fundamental errors in the 2000-01 Accounts: a gain of £5m related to the transfer of property to the Veterinary Laboratories Agency and an adjustment of £48.8m to the cost of capital charge.

The Notes on pages 32 to 61 form part of these accounts.

**SCHEDULE 2**

**Core-Department Operating Cost Statement**  
for the year ended 31 March 2002

	Note	2001–02		Restated 2000–01	
		£000	£000	£000	£000
<b>Administration Costs</b>					
Staff Costs	2	184,866		251,349	
Other Administration Costs	3	201,719		281,027	
<b>Gross Administration Costs</b>			<b>386,585</b>		<b>532,376</b>
Operating Income	5		(33,950)		(41,643)
<b>Net Administration Costs</b>			<b>352,635</b>		<b>490,733</b>
<b>Programme Costs</b>					
<b>Request for Resources 1</b>					
Expenditure	4	1,501,375		2,772,706	
Less Income	5	(243,692)		(30,261)	
			<b>1,257,683</b>		<b>2,742,445</b>
<b>Request for Resources 2</b>					
Expenditure	4	—		—	
Less Income	5	—		—	
<b>Net Programme Costs</b>	4		<b>1,257,683</b>		<b>2,742,445</b>
<b>Net Operating Cost<sup>1</sup></b>	7		<b>1,610,318</b>		<b>3,233,178</b>
<b>Net Resource Outturn</b>	7 & 8		<b>1,064,217</b>		<b>2,694,071</b>

of which:

<sup>1</sup> £2,682,000 – relates to EU receipts, which are treated as negative public expenditure and reduce the burden on the UK Exchequer.

Included in the above is exceptional income and expenditure relating to FMD. See Note 17 for details.

All income and expenditure derived from continuing operations.

**Core-Department Statement of Recognised Gains and Losses**  
for the year ended 31 March 2002

	2001–02	Restated 2000–01
	£000	£000
Net gain/(loss) on revaluation of tangible fixed assets	59	5,021
Net gain/(loss) on revaluation of investments	101	(737)
Prior period adjustments	(43,808)	—
<b>Total recognised gains and losses for the financial year</b>	<b>(43,648)</b>	<b>4,284</b>

The prior year adjustment totalling £43.8m is made up of two corrections for fundamental errors in the 2000–01 Accounts: a gain of £5m related to the transfer of property to the Veterinary Laboratories Agency and an adjustment of £48.8m to the cost of capital charge.

The Notes on pages 32 to 61 form part of these accounts.

## SCHEDULE 3

Consolidated Balance Sheet  
as at 31 March 2002

	Note	31 March 2002		Restated 31 March 2001	
		£000	£000	£000	£000
<b>Fixed Assets</b>					
Tangible Assets	10	519,984		509,014	
Intangible Assets	10	4,508		3,249	
Investments	11	2,198		560	
			<b>526,690</b>		<b>512,823</b>
<b>Debtors falling due after more than one year</b>	14		<b>11,506</b>		<b>5,802</b>
<b>Current Assets:</b>					
Stocks	13	21,162		10,700	
Debtors	14	615,395		694,818	
Cash at Bank and in Hand	15	406,016		172,822	
		<b>1,042,573</b>		<b>878,340</b>	
<b>Creditors (amounts falling due within one year)</b>	16	<b>(910,766)</b>		<b>(965,356)</b>	
<b>Net Current Assets/(Liabilities)</b>			<b>131,807</b>		<b>(87,016)</b>
<b>Total Assets less Current Liabilities</b>			<b>670,003</b>		<b>431,609</b>
<b>Creditors (amounts due after one year)</b>	16	<b>(18,727)</b>		<b>(13,805)</b>	
<b>Provisions for Liabilities and Charges</b>	17	<b>(359,472)</b>		<b>(2,058,135)</b>	
			<b>(378,199)</b>		<b>(2,071,940)</b>
			<b>291,804</b>		<b>(1,640,331)</b>
<b>Taxpayers' Equity:</b>					
General Fund	23	217,415		(1,708,721)	
Revaluation Reserve	18	74,389		68,390	
			<b>291,804</b>		<b>(1,640,331)</b>

**Brian Bender**

Accounting Officer for the Department for Environment, Food and Rural Affairs 11 December 2002

The Notes on pages 32 to 61 form part of these accounts.

## SCHEDULE 3

Core-Department Balance Sheet  
as at 31 March 2002

	Note	31 March 2002		Restated 31 March 2001	
		£000	£000	£000	£000
<b>Fixed Assets</b>					
Tangible Assets	10	197,080		201,019	
Intangible Assets	10	3,385		2,228	
Investments	11	2,048		560	
			202,513		203,807
<b>Debtors falling due after more than one year</b>	14		514		16
<b>Current Assets:</b>					
Stocks	13	—		—	
Debtors	14	258,754		54,386	
Cash at Bank and in Hand	15	318,296		16,528	
		577,050		70,914	
<b>Creditors (amounts falling due within one year)</b>	16	(594,893)		(535,792)	
<b>Net Current Liabilities</b>			(17,843)		(464,878)
<b>Total Assets less Current Liabilities</b>			185,184		(261,055)
<b>Creditors (amounts due after one year)</b>	16	—		—	
<b>Provisions for Liabilities and Charges</b>	17	(283,777)		(1,675,485)	
			(283,777)		(1,675,485)
			(98,593)		(1,936,540)
<b>Taxpayers' Equity:</b>					
General Fund	23	(137,724)		(1,975,611)	
Revaluation Reserve	18	39,131		39,071	
			(98,593)		(1,936,540)

**Brian Bender**

Accounting Officer for the Department for Environment, Food and Rural Affairs 11 December 2002

The Notes on pages 32 to 61 form part of these accounts.

**SCHEDULE 4****Consolidated Cash Flow Statement**  
for year ended 31 March 2002

	<u>2001–02</u>
	£000
Net cash outflow from operating activities <i>(Note i)</i>	(4,090,799)
Capital expenditure & financial investment <i>(Note ii)</i>	(47,778)
Receipts due to the Consolidated Fund which are outside the scope of the Department's activities	744
Payments of amounts due to the Consolidated Fund	(134,443)
Financing <i>(Note iii)</i>	<u>4,505,470</u>
Increase in Cash in the period	<u>233,194</u>

**Notes to the cash flow statement****Note i: Reconciliation of operating cost to operating cash flows**

Net Operating Cost	2,108,414
Adjust for non-cash transactions	(278,697)
Adjust for movements in working capital other than cash (see Note 12)	351,704
Use of provisions (see Note 17)	<u>1,909,378</u>
<b>Net Cash outflow from operating activities</b>	<b><u>4,090,799</u></b>

**Note ii: Analysis of capital expenditure and financial investment**

Intangible fixed asset additions	1,724
Tangible fixed asset additions	62,653
Proceeds of disposal of fixed assets	(18,153)
Loans to other bodies and other investments	<u>1,554</u>
<b>Net cash outflow from investing activities</b>	<b><u>47,778</u></b>

**Note iii: Analysis of financing and reconciliation to the net cash requirement**

From Consolidated Fund (Supply): current year <sup>#</sup>	3,134,440
Movement in agency prior year surplus	—
Transfer to Defra from Intervention Board in respect of transfer of functions	603,675
Transfer to Defra from DTLR in respect of transfer of functions	<u>767,355</u>
<b>Net Financing</b>	<b><u>4,505,470</u></b>
Increase in Cash	(233,194)
<b>Net cash flows other than financing</b>	<b><u>4,272,276</u></b>

**Adjust for payments and receipts not related to Supply**

Amounts due to the Consolidated Fund received in prior year and paid over	(620)
Repayment of Intervention Board prior year surplus	(133,823)
Amounts due to the Consolidated Fund received and not paid over	218,795
<b>Transfer from Intervention Board in respect of transfer of functions</b>	<b>(603,675)</b>
<b>Transfer from DTLR in respect of transfer of functions</b>	<b>(767,355)</b>
<b>Balance due to DTLR</b>	<b><u>6,644</u></b>

**Net Cash Requirement for the year (Schedule 1)** **2,992,242**

<sup>#</sup> Amount of grant actually issued to support the net cash requirement was £3,134,439,652.96.

The Machinery of Government changes, together with the adoption of distinct objectives for the newly created Department, makes it impractical to display meaningful prior year figures.

The Notes on pages 32 to 61 form part of these accounts.

**SCHEDULE 4****Core-Department Cash Flow Statement**  
for year ended 31 March 2002

	2001-02
	£000
<b>Net cash outflow from operating activities (Note i)</b>	<b>(3,580,427)</b>
<b>Capital expenditure &amp; financial investment (Note ii)</b>	<b>(22,800)</b>
<b>Receipts due to the Consolidated Fund which are outside the scope of the Department's activities</b>	<b>743</b>
<b>Payments of amounts due to the Consolidated Fund</b>	<b>(620)</b>
<b>Financing (Note iii)</b>	<b>3,904,872</b>
<b>Increase in Cash in the period</b>	<b>301,768</b>

**Notes to the cash flow statement****Note i: Reconciliation of operating cost to operating cash flows**

Net Operating Cost	1,610,318
Adjust for non-cash transactions	(142,232)
Adjust for movements in working capital other than cash (see Note 12)	532,161
Use of provisions (see Note 17)	1,580,180
<b>Net Cash outflow from operating activities</b>	<b>3,580,427</b>

**Note ii: Analysis of capital expenditure and financial investment**

Intangible fixed asset additions	1,323
Tangible fixed asset additions	38,114
Proceeds of disposal of fixed assets	(18,024)
Loans to other bodies and other investments	1,387
<b>Net cash outflow from investing activities</b>	<b>22,800</b>

**Note iii: Analysis of financing and reconciliation to the net cash requirement**

From Consolidated Fund (Supply): current year <sup>#</sup>	3,134,440
Movement in agency prior year surplus	3,077
Transfer to Defra from DTLR in respect of transfer of functions	767,355
<b>Net Financing</b>	<b>3,904,872</b>
Increase in Cash	(301,768)
<b>Net cash flows other than financing</b>	<b>3,603,104</b>

**Adjust for payments and receipts not related to Supply**

Amounts due to the Consolidated Fund received in prior year and paid over	(620)
Amounts due to the Consolidated Fund received and not paid over	218,795
<b>Transfer from DTLR in respect of transfer of functions</b>	<b>(767,355)</b>
<b>Balance due to DTLR</b>	<b>6,644</b>
<b>Net Cash Requirement for the year</b>	<b>3,060,568</b>

<sup>#</sup> Amount of grant actually issued to support the net cash requirement was £3,134,439,652.96.

The Machinery of Government changes, together with the adoption of distinct objectives for the newly created Department, makes it impractical to display meaningful prior year figures.

The Notes on pages 32 to 61 form part of these accounts.



## SCHEDULE 5

**Resources by Departmental Aim and Objectives**

for the year ended 31 March 2002

Defra's aim is sustainable development, which means a better quality of life for everyone, now and for generations to come, including:

- A better environment at home and internationally, and sustainable use of natural resources;
- Economic prosperity through sustainable farming, fishing, food, water and other industries that meet consumers' requirements;
- Thriving economies and communities in rural areas and a countryside for all to enjoy.

The aim is underpinned by seven objectives covering the span of the Department's responsibilities:

	<b>Gross</b>	<b>2001–02</b>	<b>Net</b>
	<u>£000</u>	<u>Income</u>	<u>£000</u>
		<u>£000</u>	<u>£000</u>
Protect & improve environment	737,105	(286,671)	450,434
Enhance opportunity & sustainable rural areas	146,048	(39,756)	106,292
Sustainable food supply	763,681	(628,344)	135,337
Attractive & well managed countryside	196,946	(78,875)	118,071
Sustainable & adaptable modern farming	1,346,665	(1,078,391)	268,274
Sustainable management & prudent use of resources	412,266	(75,419)	336,847
Protect public health & animal welfare	1,131,438	(438,279)	693,159
<b>Net Operating Costs</b>	<u><b>4,734,149</b></u>	<u><b>(2,625,735)</b></u>	<u><b>2,108,414</b></u>

The Machinery of Government changes, together with the adoption of distinct objectives for the newly created Department, makes it impractical to display meaningful prior year figures in Schedule 5.

These figures include FMD related costs. Further details are provided in Note 17.

For further information on Schedule 5, please refer to Notes 1.3 and 1.21.

The Notes on pages 32 to 61 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 2001–02 Resource Accounting Manual (RAM) issued by HM Treasury. The accounting policies contained in the RAM follow UK generally accepted accounting practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector. Where the RAM permits a choice of accounting policy, the accounting policy that has been judged to be most appropriate to the particular circumstances of the Department, for the purpose of giving a true and fair view, has been selected. The Department's accounting policies have been applied consistently in dealing with items which are considered material in relation to the accounts.

#### 1.1. Accounting Convention

These accounts have been prepared under the historical cost convention, modified to account for the revaluation of fixed assets at their value to the Department by reference to their current costs.

#### 1.2. Basis of Consolidation

These accounts comprise a consolidation of the non-agency parts of the Department (including its non-executive NDPBs accounted for on-Vote, where applicable) and those entities that fall within the Departmental boundary as defined in the Resource Accounting Manual issued by HM Treasury. Transactions between entities included in the consolidation have been eliminated. A list of those entities within the Departmental boundary is given at Note 30.

#### 1.3. Machinery of Government changes

HM Treasury guidance required the Department to apply merger accounting principles to the Machinery of Government changes. The accounts therefore reflect the Department's financial activities as if it had existed for the whole of the financial year. Financial information covering relevant activities in the former departments (i.e. MAFF, DETR, Home Office) during the period 1 April to 7 June 2001 has accordingly been combined with information from Defra for the remainder of the year. The merger has created a new department comprised in general terms of the environmental side of the former DETR together with the majority of the former MAFF.

Parliamentary convention requires such changes (or the transfer of functions) to be cost neutral overall. The department taking on the new functions receives additional resources and cash through A-in-A to offset gross spending. The receiving department also becomes accountable for any underspend or overspend incurred against the Estimate provision transferred to it. Given the changeover occurred mid-year, it was agreed that DTLR would continue to capture transaction data through their existing systems for those functions transferred, with transaction data being provided to Defra at the year end. The resource Estimate was increased to cover the transfer in of functions from the former DETR. The resource outturn incurred for transferred DETR functions was £787m. Request for Resources 1 included a transfer of estimate of £764.1m resource Appropriations in Aid, £1.9m non-operating Appropriations in Aid and £760.7m cash from DTLR. The resulting difference between cash and resource estimates is disclosed in Schedule 1 as £5.3m.

All comparative figures shown follow merger accounting principles. The complexity of the Machinery of Government changes (including the adoption of a completely new set of objectives) have, however, made it impractical to provide such comparatives in all instances. Consequently, no comparatives are shown in Schedule 1, Schedule 4, Schedule 5, Note 6, Note 8 and Note 12.

The figures shown in Schedule 5 are radically different from previous accounts because of the creation of Defra with a completely new set of objectives. In the circumstances dispensation has been given to omit prior year figures based on these new objectives. There is also a requirement to restate new and previous year's figures against the original objectives to allow comparison. This has not been undertaken, as the changes are such that the costs cannot meaningfully be analysed in this way.

In addition, the creation of the RPA involved the merger of the CAP payment functions of the former MAFF with those of the Intervention Board on 16 October 2001. Request for Resources 2 shows the total funding allocated to the RPA. This includes a transfer of estimates of £185.1m resource Appropriations in Aid, £1.5m non-operating Appropriations in Aid and £603.7m cash from the Intervention Board for operations. The resulting difference between the cash and resource estimates is disclosed in Schedule 1 as £417.1m. Both the Parliamentary convention and merger accounting principles were again applied to the preparation of these accounts. Further background is provided in the Operating and Financial Review.

#### 1.4. Grants and Subsidies

Expenditure on grants and subsidies, partly or fully, funded by the EU are accrued where the claims have met all the conditions appertaining to the particular scheme but have not been paid. The element of the expenditure that is reimbursable by the EU is taken as accrued income. The Treasury Resource Accounting Manual requires that the expenditure should be recognised as close as possible to the underlying event or activity that gives rise to a liability. In respect of the livestock schemes the underlying event or activity is deemed to be the completion of the livestock retention period and for the arable schemes the delivery of the harvest. The underlying event for other schemes is date of receipt of the claim. By the very nature of the size of the Common Agricultural Policy this will lead to a large creditor for money owed to the farming community and debtor for money owed by the EU. Other grants, for example Government Grant in Aid and Government grants paid or payable, are recorded as expenditures on an annual basis.

#### 1.5. Tangible Fixed Assets

Freehold land and buildings are stated at current cost and are professionally revalued by the Valuation Office every five years, at open market value in accordance with guidance issued by the Royal Institute of Chartered Surveyors. The last revaluation took place in June 2000; this resulted in a net upward revaluation of £28m. Non specialised properties are revised annually by means of a desk top review, undertaken by external professionals, where every valuation is reviewed having regard to local as well as 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. Other tangible assets have been stated at current cost using appropriate indices. The minimum level of capitalisation in the Core-Department and entities within the Departmental boundary is as follows:

	£
Core-Department	2,000
CSL	2,000
CEFAS	2,000
PSD	2,000
RPA	2,000
VLA	2,000
VMD	500

Internally developed computer software has been capitalised in accordance with Treasury instructions as a tangible asset and included with IT equipment. This includes capitalisation of internal IT staff work on projects costing in excess of £50,000 (known as Delta rate software capitalisation). Such projects are capitalised on the basis of planned staff day input, by grade at standard salary rates. Following the completion of a project the actual staff input is reviewed. Any material differences to the original plan are reflected in revisions to the original capitalisation figures.

#### 1.6. Intangible Fixed Assets

The Department holds a number of licences and copyrights but the income from these is of a minor nature and they have not been capitalised. Should the income from these licences or copyrights increase to be of a material amount then capitalisation will be reconsidered. In addition the Department holds various software licences which were capitalised at purchase cost. Such assets are

## Notes to the Departmental Resource Accounts *(continued)*

re-valued 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 balance sheet above their recoverable amounts.

### 1.7. Depreciation

Depreciation is provided at rates calculated to write-off the valuation of freehold buildings and other tangible fixed assets 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. Depreciation is not charged on assets declared surplus and for sale, freehold land and assets under the course of construction. Lives are normally in the following ranges.

Freehold Buildings	4 to 60 years
Property on Historic Lease	Remaining life of Lease
Scientific Equipment	5 to 15 years
IT	2 to 10 years
Furniture and Fittings	5 to 15 years
Vehicles, Plant & Machinery	4 to 15 years
Office Equipment	5 to 11 years
Intangible assets	5 to 20 years

### 1.8. Investments

The Department holds a small quantity of shares in four companies and also holds Permanent Milk Quota. A number of properties are held on a short-term basis following the Foot and Mouth disease outbreak. All investments are shown at market value. On 28 June 2001, CEFAS purchased the entire share capital of CEFAS Technology Limited for £150,000. Further details are provided in Note 11.

### 1.9. Stocks and Work-in-Progress

- a. CEFAS, CSL, RPA and VLA hold stock levels material to their business and are brought into the consolidated accounts at the lower of cost, current replacement cost where materially different, or net realisable value.
- b. Work-in-progress is valued at the lower of cost (including appropriate overheads) or net realisable value.

### 1.10. Research and Development

Research and development expenditure is capitalised under the following conditions:

- (a) the product or service is supplied on a full cost recovery basis;
- (b) development expenditure meets all of the following criteria;
  - there is a clearly defined project;
  - related expenditure is separately identifiable;
  - outcome of the project has been assessed with reasonable certainty as to its technical feasibility, and will result in a product or service which will eventually be brought into use;
  - adequate resources exist, or are reasonably expected to be available, to enable the project to be completed and to provide any consequential increase in working capital.

Otherwise, development expenditure is written off in the year in which it is incurred. Fixed assets acquired for use in research and development are depreciated over the life of the associated research project, or according to the asset category if the asset is to be used for subsequent production work. There are no projects that currently meet the criteria for capitalisation.

### 1.11. Operating Income

Operating income is income which relates directly to the operating activities of the Department. It principally comprises fees and charges for services provided on a full-cost basis to external customers, as well as public repayment work, but it also includes other income such as that from investments. It includes both income appropriated-in-aid and income to the Consolidated Fund which HM Treasury has agreed should be treated as operating income, and receipts from the European Union.

### 1.12. Administration and Programme Expenditure and Income

The Operating Cost Statement is analysed between administration and programme costs. 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, under the regime, is allowed to be offset against gross administrative costs in determining the outturn against administration cost limit, and that operating income which is not. Programme costs reflect non-administration costs, including payments of grants, subsidies and other disbursements by the Department.

### 1.13. Capital Charge

A charge, reflecting the cost of capital utilised by the Department is included in operating costs. The charge is calculated at the government's standard rate of 6 per cent on all assets less liabilities, except for donated assets, and cash balances with the Office of the Paymaster General. It has not been possible to completely analyse the cost of capital between administration and programme so the unallocated cost has been charged to administration as the more significant of the two. The Capital Charge for the RPA has, however, been allocated to both administration and programme capital.

### 1.14. Foreign Exchange

Transactions which are denominated in a foreign currency are translated into sterling at the exchange rate ruling at the date of each transaction, except where rates do not fluctuate significantly, in which case an average rate for the period is used. Balances held in foreign currencies are translated at the rate of exchange ruling at the balance sheet date.

### 1.15. Pensions

Present and past employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS) which is non-contributory and unfunded. Although the Scheme is a defined benefit scheme, liability for payment of future benefits is a charge to the PCSPS. Departments, agencies and other bodies covered by the PCSPS meet the cost of pension cover provided for the staff they employ by payment of charges calculated on an accruing basis. There is a separate statement for the PCSPS as a whole. Further information is provided in Note 2.

Defra has inherited a statutory obligation placed on the Secretary of State in the Water Act 1989 to meet pension liabilities arising under a closed pension fund operated by the Environment Agency. The Treasury have agreed to the transfer of the scheme onto a 'pay-as-you-go' basis with annual funding being added to the Department's Departmental Expenditure Limit (DEL), in return for the existing balance on the pension fund being surrendered to the Exchequer at the start of 2003–04.

### 1.16. Early Departure 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. (See Note 17)

## Notes to the Departmental Resource Accounts (*continued*)

### 1.17 Provisions

The Department provides for obligations arising from past events where it is probable that it will be required to settle the obligation and a reliable estimate can be made. Where material, the future costs have been discounted using the rate of 6% per annum as directed by HM Treasury. (See Note 17).

### 1.18. Leases

A finance lease is one which transfers substantially all the risks and rewards of ownership to the lessee. If the present value of the minimum lease payments amount to 90% or more of the fair value of the assets, then the lease is assumed to carry all of the risk. An operating lease is a lease other than a finance lease.

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 re-valued and depreciated. The Department does not have material finance lease commitments.

All payments under operating leases are charged to the Operating Cost Statement as they are incurred.

### 1.19 Value Added Tax

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. 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.

### 1.20 Comparative figures

Under Resource Accounting, where merger accounting is adopted prior year comparatives should be restated.

The Machinery of Government changes, together with the adoption of distinct objectives for the newly created Department, makes it impractical to display meaningful prior year figures at some places in these Accounts. Consequently, no comparatives are shown in Schedule 1, Schedule 4, Schedule 5, Note 6, Note 8 and Note 12.

Those comparative figures shown take into account for the Core-Department the merger of the Farming and Rural Conservation Agency into the Department to form the Rural Development Services on 1 April 2001 and the revaluation of land and buildings on 30 September 2001 (see Note 10).

### 1.21 Schedule 5 Estimation Techniques

With the Machinery of Government changes mid-year, followed by agreement of new objectives thereafter, it was only practical to use snap shot surveys to obtain information on the distribution of work across objectives. These provided a set of apportionments used in the Core-Departmental Accounts for spreading both expenditure and income against the seven objectives. The creation of RPA after the mid-year stage has resulted in similar issues of estimation. Core-Department apportionments were again matched to relevant areas of expenditure to derive appropriate figures. The resources consumed by the remaining agencies are mainly administrative costs. Consequently, the results obtained from a survey of staff use by objective were used to spread these additional costs to derive a consolidated Schedule 5 for the whole Department.

For the Core-Department and RPA the administrative costs have been attributed to the objectives in accordance with Defra's normal management accounting practices, wherever possible, or have been allocated in the same proportions as programme expenditure. The Department's capital is mainly employed for administrative purposes. Its distribution between objectives is therefore not markedly different from the proportion of the related gross administrative cost.

**2. Staff Numbers and Costs**

**A. Staff costs consist of:**

Consolidated				2001–02	Restated 2000–01
	Officials	Ministers	Special Advisors	Total	Total
	£000	£000	£000	£000	£000
Salaries and Wages	261,694	380	70	262,144	329,513
Social Security Costs	22,921	27	—	22,948	17,652
Other Pension Costs	36,226	—	—	36,226	31,654
<b>TOTAL</b>	<b>320,841</b>	<b>407</b>	<b>70</b>	<b>321,318</b>	<b>378,819</b>

  

Core-Department				2001–02	2000–01
	Officials	Ministers	Special Advisors	Total	Total
	£000	£000	£000	£000	£000
Salaries and Wages	146,872	380	70	147,322	222,538
Social Security Costs	15,024	27	—	15,051	10,146
Other Pension Costs	22,493	—	—	22,493	18,665
<b>TOTAL</b>	<b>184,389</b>	<b>407</b>	<b>70</b>	<b>184,866</b>	<b>251,349</b>

The Staff Costs for 2001–02, excluding Foot and Mouth Disease Control Staff Costs, is broadly similar to the costs of the prior year. The difference is due to over-estimating the staff element of FMD Control provision in the prior year and the consequent write back of £16,588,965 in 2001–02.

**B. The average number of whole-time equivalent persons employed, including senior management, during the year was as follows:**

OBJECTIVE	2001–02 Number
Protect and improve environment	1,317
Enhance opportunity and sustainable rural areas	336
Sustainable food supply	1,372
Attractive and well managed countryside	568
Sustainable and adaptable modern farming	2,496
Sustainable management and prudent use of resources	532
Protect public health	9,399
<b>Total</b>	<b>16,020</b>

The Machinery of Government changes, together with the adoption of distinct objectives for the newly created Department, makes it impractical to display meaningful prior year figures for staff numbers by objective. The average number of employees restated for 2000–01 was 16,336.

**Notes to the Departmental Resource Accounts (continued)**

C. Ministers and Senior Officials with responsibility for major areas of work between 1 April and 7 June 2001 that transferred into Defra, generally moved with the work. As the salary and pension entitlements of other Ministers and Senior Staff who had some related work during these few weeks is not material, they have been omitted from this Note. However, a full listing of relevant individuals can be found in the Annual Report covering these Accounts.

The salary and pension entitlements of those Ministers and Senior Officials following the creation of Defra were:

Name and Title	Age	Salary as	Real increase	Total accrued
		defined below	in pension	pension at
		£000	at age 60	age 60 as at
			£000	31 March 02
				£000
<b>Current Ministers</b>				
<b>The Rt Hon Margaret Beckett MP</b>	59	65–70	0.0–2.5	5.0–7.5
<b>The Rt Hon Michael Meacher MP*</b>	62	35–40	N/A	N/A
<b>The Rt Hon Alun Michael MP</b>	58	35–40	0.0–2.5	2.5–5.0
<b>Elliot Morley MP</b>	49	25–30	0.0–2.5	2.5–5.0
<b>The Lord Whitty of Camberwell</b>	58	85–90	0.0–2.5	5.0–7.5
* Michael Meacher has opted out of the supplementary pension scheme				
<b>Current Management Board</b>				
<b>Brian Bender</b> Permanent Secretary	53	125–130	2.5–5.0	45–50
<b>Dinah Nichols</b> Director General, Environment Protection	58	110–115	5.0–7.5	50–55
<b>Andy Lebrecht</b> Director General, Food, Farming & Fisheries	50	90–95	5.0–7.5	25–30
<b>Anna Walker</b> Director General, Land Use and Rural Affairs	50	100–105	0.0–2.5	0–5
<b>Kathryn Morton</b> Solicitor & Director General, Legal Services	55	105–110	2.5–5.0	25–30
<b>Mark Addison</b> Director General, Operations and Service Delivery	50	110–115	0.0–2.5	30–35
<b>Jim Scudamore</b> Chief Veterinary Officer and Director General of Animal Health & Welfare	58	100–105	5.0–7.5	35–40
<b>Andrew Burchell</b> Finance Director	47	80–85	0.0–2.5	25–30
<b>Brian Harding</b> Director of Policy and Corporate Strategy and Secretary to Management Board	49	80–85	0.0–2.5	25–30
<b>Lucian Hudson</b> Communications Director	41	80–85	2.5–5.0	10–15

NB. Professor Howard Dalton (Chief Scientist and Head of Science Directorate from 14 February 2002) has withheld his consent to disclosure of his age, salary and pension details.

Salaries include gross salaries, performance bonuses payable, reserved rights to London Weighting or London allowances, recruitment and retention allowances and private office allowances. It does not include the estimated monetary value of benefits in kind.



Pension benefits are provided through the Principal Civil Service Pension Scheme (PCSPS). The PCSPS is an unfunded multi-employer defined scheme but Defra is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out at 31 March 1999. Details can be found in the resource accounts of the Cabinet Office under Civil Superannuation ([www.civilservice-pensions.gov.uk](http://www.civilservice-pensions.gov.uk)). For 2001–02, employer’s contributions of £36,226,000 (2000–01 £31,654,000) were payable to the PCSPS at one of four rates in the range 12% to 18.5% of pensionable pay, based on salary bands. Rates will remain the same for the next two years, subject to revalorisation of the salary bands. Employer contributions are to be reviewed every four years following a full scheme valuation by the Government Actuary. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

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

**D. Staff Loans**

Loans are made to staff to cover season ticket advances and house purchase on relocation and the outstanding balance as at 31 March 2002 was £1,367,026.54. Included in this total were 119 balances of more than £2,500.

**3. Other Administration Costs**

	Consolidated		Core-Department	
	2001–02	Restated 2000–01	2001–02	Restated 2000–01
	£000	£000	£000	£000
<b>Rentals under Operating Leases:</b>				
Hire of plant and machinery	13,124	2,116	12,896	1,856
Other operating leases	19,958	19,470	14,410	14,334
<b>PFI service charges:</b>				
Off-balance sheet contracts	188	186	188	186
<b>Research and development expenditure</b>	–	3,466	–	–
<b>Travel and Subsistence &amp; Hospitality</b>	42,665	35,140	36,862	30,131
<b>Non Cash Items:</b>				
Depreciation and amortisation of fixed assets:				
Civil Estate	17,523	4,833	11,160	(432)
Other tangible fixed assets	41,674	48,055	26,457	32,942
Intangible assets	465	149	166	63
(Profit)/Loss on the disposal of fixed assets	(1,960)	(3,776)	(3,003)	(4,932)
Cost of Capital charge:				
Civil Estate	16,578	15,031	7,500	7,164
Other items	(28,340)	(5,425)	(37,455)	(14,131)
Auditor’s remuneration and expenses	826	693	262	241
Provisions:				
Provided in year	14,133	1,564	(1,430)	970
Other Non-Cash Items	911	12,528	93	755
<b>Other expenditure</b>	226,134	304,762	133,613	211,880
<b>TOTAL</b>	<b>363,879</b>	<b>438,792</b>	<b>201,719</b>	<b>281,027</b>

The auditor’s remuneration shown is for audit work undertaken only.

These figures include FMD related costs. Further details are provided in Note 17.

Notes to the Departmental Resource Accounts (*continued*)

## 4. Net Programme Costs

	Consolidated		Core-Department	
	2001-02	Restated 2000-01	2001-02	Restated 2000-01
	£000	£000	£000	£000
<b>Current Grants and other current Expenditure</b>				
EU Funded	2,348,551	2,713,793	10,872	(977)
Exchequer Funded	1,462,082	3,104,877	1,252,184	2,596,751
Capital Grants	238,319	176,932	238,319	176,932
<b>Total Programme Expenditure</b>	<b>4,048,952</b>	<b>5,995,602</b>	<b>1,501,375</b>	<b>2,772,706</b>
<i>Less programme Income (Note 5)</i>				
EU Current	(2,554,398)	(2,599,369)	(229,148)	(1,683)
Exchequer Current	(25,132)	(136,474)	(13,500)	(28,400)
Capital Grants	(1,044)	(178)	(1,044)	(178)
<b>Total Programme Income</b>	<b>(2,580,574)</b>	<b>(2,736,021)</b>	<b>(243,692)</b>	<b>(30,261)</b>
<b>TOTAL</b>	<b>1,468,378</b>	<b>3,259,581</b>	<b>1,257,683</b>	<b>2,742,445</b>

Included in the above expenditure is £158,222,700 spent on Research and Development (2000-01 £121,323,000).

In 2001-02 a number of extra statutory contributions totalling £12,483,000 were made in connection with flood management. These comprised £11,505,000 to the Environment Agency, with the balance being paid to the Internal Drainage Boards.

The above expenditure includes cost of capital charges totalling £14,059,000 relating to the Rural Payments Agency.

**5. Income and Appropriations-in-Aid (See also Note 1.11)**
**A. Operating income analysed by classification and activity**
**Consolidated**

	Appropriated in Aid	Payable to Consolidated Fund	Income included in Operating Cost Statement	Netted – off Gross expenditure in Net Sub head
	£000	£000	£000	£000
<b>2001–02</b>				
<b>Administration Income</b>				
Allowable within admin. cost limit	1,122	—	1,122	867
Other fees and charges to external customers	32,236	—	32,236	—
Other fees and charges to other departments	11,803	—	11,803	—
	<u>45,161</u>	<u>—</u>	<u>45,161</u>	<u>867</u>
<b>Programme Income</b>				
EU Funding	2,337,493	216,905	2,554,398	2,682
Other	25,029	1,147	26,176	18
	<u>2,362,522</u>	<u>218,052</u>	<u>2,580,574</u>	<u>2,700</u>
<b>Total</b>	<u>2,407,683</u>	<u>218,052</u>	<u>2,625,735</u>	<u>3,567</u>
<b>Restated 2000–01</b>				
<b>Administration Income</b>				
Allowable within admin. cost limit	1,192	—	1,192	654
Other fees and charges to external customers	27,350	—	27,350	1,668
Other fees and charges to other departments	10,489	—	10,489	—
	<u>39,031</u>	<u>—</u>	<u>39,031</u>	<u>2,322</u>
<b>Programme Income</b>				
EU Funding	2,599,369	—	2,599,369	1,308
Other	136,652	—	136,652	4,482
	<u>2,736,021</u>	<u>—</u>	<u>2,736,021</u>	<u>5,790</u>
<b>Total</b>	<u>2,775,052</u>	<u>—</u>	<u>2,775,052</u>	<u>8,112</u>

See Note 8 for further information relating to A-in-A, including a reconciliation to the total A-in-A disclosed in Schedule 1.

Notes to the Departmental Resource Accounts (*continued*)

Core-Department	Appropriated in Aid	Payable to Consolidated Fund	Income included in Operating Cost Statement	Netted – off Gross expenditure in Net Sub head
	£000	£000	£000	£000
<b>2001–02</b>				
<b>Administration Income</b>				
Allowable within admin. cost limit	1,094	—	1,094	867
Other fees and charges to external customers	8,302	—	8,302	—
Other fees and charges to other departments	501	—	501	—
Other fees and charges to agencies	24,053	—	24,053	—
	<u>33,950</u>	<u>—</u>	<u>33,950</u>	<u>867</u>
<b>Programme Income</b>				
EU Funding	12,243	216,905	229,148	2,682
Other	13,397	1,147	14,544	18
	<u>25,640</u>	<u>218,052</u>	<u>243,692</u>	<u>2,700</u>
<b>Total</b>	<u>59,590</u>	<u>218,052</u>	<u>277,642</u>	<u>3,567</u>
<b>Restated 2000–01</b>				
<b>Administration Income</b>				
Allowable within admin. cost limit	780	—	780	654
Other fees and charges to external customers	13,620	—	13,620	1,668
Other fees and charges to other departments	4,252	—	4,252	—
Other fees and charges to agencies	22,991	—	22,991	—
	<u>41,643</u>	<u>—</u>	<u>41,643</u>	<u>2,322</u>
<b>Programme Income</b>				
EU Funding	1,683	—	1,683	1,308
Other	28,578	—	28,578	4,482
	<u>30,261</u>	<u>—</u>	<u>30,261</u>	<u>5,790</u>
<b>Total</b>	<u>71,904</u>	<u>—</u>	<u>71,904</u>	<u>8,112</u>

The Core-Department netted-off gross expenditure in net sub-head is excluded from the income reported in Schedule 2, Schedule 5, Note 4 and Note 8.

**B. Miscellaneous Core-Department Income**Information required by HM Treasury in *The Fees and Charges Guide*:

Service	2001–02			2000–01		
	Income	Full Cost	Surplus/ Deficit	Income	Full Cost	Surplus/ Deficit
	£000	£000	£000	£000	£000	£000
Beef Assurance Scheme	6	28	(22)	9	37	(28)
Date Based Export Scheme	—	47	(47)	23	387	(364)
Artificial breeding of livestock	133	281	(148)	173	310	(137)
AHVG: Approval of Premises	—	—	—	7	4	3
Export of Birds, Poultry & Hatching Eggs	2	4	(2)	8	5	3
Animal Import Services	73	141	(68)	57	164	(107)
Veterinary Checks at VFS controlled BIPs	2	2	—	10	7	3
Animal Export Services	8	17	(9)	19	39	(20)
IFMVB	10	10	—	10	10	—
Cattle Tracing System	109	23,278	(23,169)	93	22,180	(22,087)
Superannuation & Welfare Services	1	1	—	2	2	—
Fisheries—External Statistical Requests	3	2	1	2	2	—
NEAFC	—	—	—	7	7	—
Inspections of Fruit/Vegetables/Citrus	63	68	(5)	62	62	—
LIFFE Potato Inspections & external training	57	56	1	40	43	(3)
Legal Services	177	174	3	168	168	—
Egg Sampling	17	12	5	16	15	1
Milk and Dairies Inspections(Dairy Hygiene Charges)	—	—	—	65	77	(12)
Plant Health Propagation Scheme	—	70	(70)	—	61	(61)
Seed Potato Classification Scheme	225	256	(31)	246	252	(6)
Plant Passport Scheme	145	153	(8)	—	118	(118)
Plant Health Import Licensing	22	25	(3)	21	40	(19)
Plant Export Certification	—	387	(387)	—	313	(313)
Brown Rot testing of Imported Seed Potatoes	3	3	—	4	4	—
Plant Breeders' Rights	650	837	(187)	573	855	(282)
National Listing of Seed Varieties	1,388	2,140	(752)	1,328	2,138	(810)
Seed Certification	1,565	1,820	(255)	1,569	1,984	(415)
Mink & Coypu Licensing	6	10	(4)	9	9	—
UKROFS Secretariat Services	40	39	1	33	33	—
FEPA 1985—Receipts from Licensing	1,078	1,008	70	815	870	(55)
Regional Services to IBEA	—	—	—	492	489	3
National Food Survey: Extraction of Statistics	2	—	2	2	—	2
Agricultural Census: Extraction of Statistics	5	3	2	11	11	—
Agricultural Market Report	2	26	(24)	2	40	(38)
Approval of Disinfectants	35	44	(9)	24	30	(6)
Animal Health Schemes	30	32	(2)	38	44	(6)
Poultry Health Scheme	47	42	5	47	43	4
Poultry Breeding Flocks, Hatcheries & Processed Animal (Fees) Order	6	9	(3)	13	16	(3)
Other Services	174	1,766	(1,592)	183	177	6
	<u>6,084</u>	<u>32,791</u>	<u>(26,707)</u>	<u>6,181</u>	<u>31,046</u>	<u>(24,865)</u>

The above income forms part of the *Other Fees and Charges Administration Income* shown in Note 5.A.

Notes to the Departmental Resource Accounts (*continued*)

## 6. Administration Cost Limits (See also Note 1.12)

The outturn within the administration costs control regime shown against individual administration cost limits is as follows:

2001–02	Consolidated		Core-Department	
	Outturn	Limit	Outturn	Limit
	£000	£000	£000	£000
Request for Resources 1	523,482	527,263	516,861	521,449
Request for Resources 2	120,509	126,384	–	–
	<b>643,991</b>	<b>653,647</b>	<b>516,861</b>	<b>521,449</b>

The Machinery of Government changes makes it impractical to display meaningful prior year figures.

## 7. Reconciliation of net operating cost to control total and net resource outturn

	Consolidated		Core-Department	
	2001–02	Restated 2000–01	2001–02	Restated 2000–01
	£000	£000	£000	£000
<b>Net Operating Cost (Note a)</b>	<b>2,108,414</b>	<b>4,038,161</b>	<b>1,610,318</b>	<b>3,233,178</b>
Remove non-supply expenditure (-) and income (+), including income scored as Consolidated Fund Extra Receipts (CFERs):	218,052	—	218,052	—
Adjust for the effects of prior year Machinery of Government changes	—	(539,107)	—	(539,107)
Adjust for transfer of Estimate cover in respect of transfer of functions from DTLR	(764,153)	—	(764,153)	—
Adjust for transfer of Estimate cover in respect of transfer of functions from Intervention Board	(185,083)	—	—	—
<b>Net Resource Outturn (Note a)</b>	<b>1,377,230</b>	<b>3,499,054</b>	<b>1,064,217</b>	<b>2,694,071</b>

Note a: Net operating cost is the total of expenditure and income appearing in the Operating Cost Statement (Schedule 2). 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 Summary of Resource Outturn (Schedule 1).

8. Analysis of net resource outturn by Objective and reconciliation to Operating Cost Statement

2001–2002	Admin	Other Current	Grants	Gross resource expenditure	A-in-A	Net Total	Estimate	Net Total Outturn compared with Estimate
	£000	£000	£000	£000	£000	£000	£000	£000
<b>Request for Resources 1</b>								
Protect & improve environment	66,018	85,497	253,976	405,491	(342,175)	63,316	104,369	41,053
Enhance opportunity & sustainable rural areas	10,246	2,269	95,214	107,729	(44,992)	62,737	60,919	(1,818)
Sustainable food supply	28,841	63,178	9,559	101,578	(14,521)	87,057	118,851	31,794
Attractive & well managed countryside	20,571	6,031	56,918	83,520	(77,549)	5,971	15,586	9,615
Sustainable & adaptable modern farming	41,124	53,593	49,821	144,538	(17,702)	126,836	152,348	25,512
Sustainable management & prudent use of resources	34,238	125,146	173,467	332,851	(313,807)	19,044	45,346	26,302
Protect public health & animal welfare	346,494	432,960	(55,527)	723,927	(23,736)	700,191	760,568	60,377
<b>Total</b>	<b>547,532</b>	<b>768,674</b>	<b>583,428</b>	<b>1,899,634</b>	<b>(834,482)</b>	<b>1,065,152</b>	<b>1,257,987</b>	<b>192,835</b>
<b>Request for Resources 2</b>								
Protect & improve environment	16,106	—	315,508	331,614	(299,583)	32,031	103,320	71,289
Enhance opportunity & sustainable rural areas	1,861	—	36,458	38,319	(34,949)	3,370	1,667	(1,703)
Sustainable food supply	32,156	—	629,947	662,103	(631,759)	30,344	5,006	(25,338)
Attractive & well managed countryside	5,509	—	107,917	113,426	(90,999)	22,427	27,199	4,772
Sustainable & adaptable modern farming	58,384	2,871	1,140,872	1,202,127	(1,113,288)	88,839	215,554	126,715
Sustainable management & prudent use of resources	3,857	—	75,558	79,415	(71,748)	7,667	18,105	10,438
Protect public health & animal welfare	19,792	171,002	216,717	407,511	(280,111)	127,400	181,915	54,515
<b>Total</b>	<b>137,665</b>	<b>173,873</b>	<b>2,522,977</b>	<b>2,834,515</b>	<b>(2,522,437)</b>	<b>312,078</b>	<b>552,766</b>	<b>240,688</b>
<b>Resource Outturn</b>	<b>685,197</b>	<b>942,547</b>	<b>3,106,405</b>	<b>4,734,149</b>	<b>(3,356,919)</b>	<b>1,377,230</b>	<b>1,810,753</b>	<b>433,523</b>

Reconciliation to Operating Cost Statement

Non A-in-A operating income	—	(216,905)	(216,905)
Operating income excess A-in-A	—	(1,147)	(1,147)
Estimate transfer in respect of A-in-A for transfer of functions:			
DTLR	—	764,153	764,153
Intervention Board	—	185,083	185,083
<b>Gross Operating expenditure (Schedule 2)</b>		<b>4,734,149</b>	
<b>Operating Income (Schedule 2)</b>		<b>(2,625,735)</b>	
<b>Net Operating Cost (Schedule 2)</b>		<b>2,108,414</b>	

The Machinery of Government changes, together with the adoption of distinct objectives for the newly created Department, makes it impractical to display meaningful prior year figures.

Notes to the Departmental Resource Accounts (*continued*)

## 9. Analysis of Capital Expenditure, Financial Investment and Associated A-in-A

## Consolidated

	2001–02				Restated 2000–01			
	Capital expenditure	Loans etc	A-in-A	Net Total	Capital expenditure	Loans etc	A-in-A	Net Total
	£000	£000	£000	£000	£000	£000	£000	£000
Request for Resources 1	65,914	17	—	65,931	66,244	(72)	—	66,172
<b>Total</b>	<b>65,914</b>	<b>17</b>	<b>—</b>	<b>65,931</b>	<b>66,244</b>	<b>(72)</b>	<b>—</b>	<b>66,172</b>
Non-operating A-in-A income (16,193) from disposal of fixed assets		—	—	(16,193)	(8,661)	—	—	(8,661)
Profit from sale of fixed assets (1,960)		—	—	(1,960)	(3,776)	—	—	(3,776)
<b>Net</b>				<b>47,778</b>				<b>53,735</b>

## Core-Department

	2001–02				2000–01			
	Capital expenditure	Loans etc	A-in-A	Net Total	Capital expenditure	Loans etc	A-in-A	Net Total
	£000	£000	£000	£000	£000	£000	£000	£000
Request for Resources 1	40,824	—	—	40,824	37,785	—	—	37,785
<b>Total</b>	<b>40,824</b>	<b>—</b>	<b>—</b>	<b>40,824</b>	<b>37,785</b>	<b>—</b>	<b>—</b>	<b>37,785</b>
Non-operating A-in-A income (15,021) from disposal of fixed assets		—	—	(15,021)	(7,471)	—	—	(7,471)
Profit from sale of fixed assets (3,003)		—	—	(3,003)	(4,932)	—	—	(4,932)
<b>Net</b>				<b>22,800</b>				<b>25,382</b>

The £19,568,000 appearing as Non-Operating Cost A-in-A in Schedule 1 is made up of the Non-Operating A-in-A income from disposal of fixed assets of £16,193,000 (above) plus £1,520,000 from the Intervention Board and £1,855,000 from DTLR in respect of the transfer of functions.



**10. Fixed Assets****A. Tangible Assets****Consolidated**

	Freehold Land & Buildings	Long Leasehold Land & buildings	Scientific Eqpt	IT	Furniture & Fittings	Vehicles Plant & Machinery	Office Eqpt	CIP	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Cost or Valuation</b>									
At 1 April 2001	356,685	50,642	52,426	112,205	21,869	14,851	9,501	19,469	637,648
Additions	1,231	4,387	4,492	10,326	963	1,716	961	46,108	70,184
Transfers	6,348	26	—	—	—	3	(3)	(6,374)	—
Disposals	(4,645)	—	(1,832)	(6,765)	(68)	(780)	(307)	(2,040)	(16,437)
Revaluations	4,682	(2,217)	108	7,437	1,146	(4,718)	437	—	6,875
<b>31 March 2002</b>	<b>364,301</b>	<b>52,838</b>	<b>55,194</b>	<b>123,203</b>	<b>23,910</b>	<b>11,072</b>	<b>10,589</b>	<b>57,163</b>	<b>698,270</b>
<b>Depreciation</b>									
At 1 April 2001	19,487	4,790	24,781	64,513	3,615	6,036	5,412	—	128,634
Charged in Year	11,153	11,202	4,901	23,280	1,265	1,613	1,095	—	54,509
Disposals	(2,864)	—	(1,590)	(5,557)	(68)	(691)	(288)	—	(11,058)
Revaluations	(1,624)	980	253	7,192	267	(1,394)	527	—	6,201
<b>31 March 2002</b>	<b>26,152</b>	<b>16,972</b>	<b>28,345</b>	<b>89,428</b>	<b>5,079</b>	<b>5,564</b>	<b>6,746</b>	<b>—</b>	<b>178,286</b>
<b>Net Book Value at</b>									
<b>31 March 2002</b>	<b>338,149</b>	<b>35,866</b>	<b>26,849</b>	<b>33,775</b>	<b>18,831</b>	<b>5,508</b>	<b>3,843</b>	<b>57,163</b>	<b>519,984</b>
<b>31 March 2001</b>	<b>337,198</b>	<b>45,852</b>	<b>27,645</b>	<b>47,692</b>	<b>18,254</b>	<b>8,815</b>	<b>4,089</b>	<b>19,469</b>	<b>509,014</b>
<b>Utilisation at</b>									
<b>31 March 2002</b>									
<b>Assets in current use</b>									
Owned	338,149	8,167	26,849	33,775	18,831	5,508	3,843	—	435,122
Finance lease	—	27,699	—	—	—	—	—	—	27,699
<b>Assets not in current use</b>									
Assets under course of construction	16,639	—	5	25,912	—	14,607	—	—	57,163
<b>Net Book Value at</b>									
<b>31 March 2002</b>	<b>354,788</b>	<b>35,866</b>	<b>26,854</b>	<b>59,687</b>	<b>18,831</b>	<b>20,115</b>	<b>3,843</b>	<b>—</b>	<b>519,984</b>

The values brought forward as at 1 April 2001 have been restated to reflect the creation of Defra from elements of other Government departments.

Notes to the Departmental Resource Accounts (*continued*)

## Core-Department

	Freehold Land & Buildings	Long Leasehold Land & buildings	Scientific Eqpt	IT	Furniture & Fittings	Vehicles, Plant & Machinery	Office Eqpt	CIP	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Cost or Valuation</b>									
At 1 April 2001	96,620	41,665	14,154	29,521	20,361	5,023	4,599	10,163	222,106
Additions	1,248	4,156	1,374	2,663	963	967	411	27,643	39,425
Transfers	—	—	—	—	—	—	—	—	—
Disposals	(4,410)	—	(20)	(1,950)	(3)	(643)	(238)	(2,040)	(9,304)
Revaluations	(7,180)	(2,446)	(6)	6,936	1,124	(501)	498	—	(1,575)
<b>31 March 2002</b>	<b>86,278</b>	<b>43,375</b>	<b>15,502</b>	<b>37,170</b>	<b>22,445</b>	<b>4,846</b>	<b>5,270</b>	<b>35,766</b>	<b>250,652</b>
<b>Depreciation</b>									
At 1 April 2001	6,277	4,032	59	3,473	2,842	2,158	2,246	—	21,087
Charged in Year	2,306	10,679	1,954	15,295	1,145	865	547	—	32,791
Transfers	—	—	—	—	—	—	—	—	—
Disposals	(2,637)	—	(38)	(1,650)	(3)	(576)	(228)	—	(5,132)
Revaluations	(2,790)	965	(1)	6,258	259	(426)	561	—	4,826
<b>31 March 2002</b>	<b>3,156</b>	<b>15,676</b>	<b>1,974</b>	<b>23,376</b>	<b>4,243</b>	<b>2,021</b>	<b>3,126</b>	<b>—</b>	<b>53,572</b>
<b>Net Book Value at</b>									
<b>31 March 2002</b>	<b>83,122</b>	<b>27,699</b>	<b>13,528</b>	<b>13,794</b>	<b>18,202</b>	<b>2,825</b>	<b>2,144</b>	<b>35,766</b>	<b>197,080</b>
<b>31 March 2001</b>	<b>90,343</b>	<b>37,633</b>	<b>14,095</b>	<b>26,048</b>	<b>17,519</b>	<b>2,865</b>	<b>2,353</b>	<b>10,163</b>	<b>201,019</b>
<b>Utilisation at</b>									
<b>31 March 2002</b>									
<b>Assets in current use</b>									
Owned	83,122	—	13,528	13,794	18,202	2,825	2,144	—	133,615
Finance lease	—	27,699	—	—	—	—	—	—	27,699
<b>Assets not in current use</b>									
Assets under course of construction	10,130	—	—	25,636	—	—	—	—	35,766
<b>Net Book Value at</b>									
<b>31 March 2002</b>	<b>93,252</b>	<b>27,699</b>	<b>13,528</b>	<b>39,430</b>	<b>18,202</b>	<b>2,825</b>	<b>2,144</b>	<b>—</b>	<b>197,080</b>

The values brought forward as at 1 April 2001 have been restated to reflect the creation of Defra from elements of other Government departments and the creation of RPA.

The difference between Note 10 additions and the additions per the cash flow statement is due to assets purchased in year by DETR on behalf of Defra. Depreciation of £10,679,000 was charged to the operating cost statement in respect of finance leased assets.

Included in the cost revaluations are adjustments made for errors in prior years to the valuation of certain fixed assets. Their effect is to distort this year's movement on valuations, however the closing values are materially correct. This has a similar impact on the movement on the revaluation reserve in Note 18. It has not been possible to accurately separate the prior year adjustments from the movements this year; however, with the exception of IT Equipment where there was a significant impairment due to the change in the revaluation indices, there was an upward movement in revaluation of all asset categories. Land and buildings include properties with a value of £6,073,000 (Core-Department) which are surplus to requirements. Vehicles, Plant & Machinery include vessels owned by CEFAS valued at £899,000. There are no leaseholds under 50 years, therefore no short leaseholds have been separately disclosed.

The Department's premises in London, York, Guildford and other places are Civil Estate property on which the Department pays a capital charge in its capacity as major occupier. The Minister holds certain agricultural properties referred to as 'The Minister's Estate' and are included in the above. IT includes equipment and internally developed software.

## 10.B. Intangible Assets

	Consolidated	Core- Department
	£000	£000
<b>Cost or Valuation</b>		
At 1 April 2001	4,141	2,496
Additions	1,724	1,323
Revaluations	—	—
Disposals	(80)	—
<b>31 March 2002</b>	<b>5,785</b>	<b>3,819</b>
<b>Amortisation</b>		
At 1 April 2001	892	268
Charged in Year	465	166
Revaluations	—	—
Disposals	(80)	—
<b>31 March 2002</b>	<b>1,277</b>	<b>434</b>
<b>Net Book Value at 31 March 2002</b>	<b>4,508</b>	<b>3,385</b>
Net Book Value at 31 March 2001	3,249	2,228

The values brought forward as at 1 April 2001 have been restated to reflect the creation of Defra from elements of other Government departments.

## 11. Investments

	Balance at 1 April 2001	Additions	Disposals	Revaluations	Balance at 1 April 2002
	£000	£000	£000	£000	£000
<b>Consolidated</b>					
<b>Property Investments</b>	—	1,387	—	—	1,387
<b>Stocks and Shares</b>					
Genus plc	3	—	—	3	6
Dairy Crest plc	30	—	—	32	62
National Milk Records plc	1	—	—	—	1
Permanent Milk Quota	526	—	—	66	592
CEFAS Technology Ltd	—	150	—	—	150
<b>Total Consolidated Investments</b>	<b>560</b>	<b>1,537</b>	<b>—</b>	<b>101</b>	<b>2,198</b>
<b>Core-Department</b>					
<b>Property Investments</b>	—	1,387	—	—	1,387
<b>Stocks and Shares</b>					
Genus plc	3	—	—	3	6
Dairy Crest plc	30	—	—	32	62
National Milk Records plc	1	—	—	—	1
Permanent Milk Quota	526	—	—	66	592
<b>Total Core-Department Investments</b>	<b>560</b>	<b>1,387</b>	<b>—</b>	<b>101</b>	<b>2,048</b>

Notes to the Departmental Resource Accounts (*continued*)

## 12. Movements in Working Capital other than Cash

2001-02	Consolidated	Core-Department
	£000	£000
(Increase)/Decrease in stocks/ work-in-progress	(10,462)	—
(Increase)/Decrease in Debtors	73,729	(225,959)
Increase/(Decrease) in Creditors	(414,971)	(306,202)
<b>Net Increase/(Decrease) in working capital other than cash</b>	<b>(351,704)</b>	<b>(532,161)</b>

## 13. Stocks and Work-in-Progress

	Consolidated		Core-Department	
	2001-02	Restated 2000-01	2001-02	Restated 2000-01
	£000	£000	£000	£000
Stocks	19,325	8,756	—	—
Work-in-progress	1,837	1,944	—	—
	<b>21,162</b>	<b>10,700</b>	—	—

## 14. Debtors

	Consolidated		Core-Department	
	2001-02	Restated 2000-01	2001-02	Restated 2000-01
	£000	£000	£000	£000
<b>Amounts falling due within one year</b>				
Trade Debtors	61,894	58,929	7,048	4,881
Deposits and Advances	1,065	1,099	1,045	2,415
VAT	10,763	9,379	10,057	8,787
Other Debtors	45,626	9,321	39,285	1,304
Agency Debtor	—	—	182,429	—
Prepayments/Accrued income				
EU	506,704	615,929	—	—
Other	26,660	40,591	17,475	15,264
	<b>652,712</b>	<b>735,248</b>	<b>257,339</b>	<b>32,651</b>
Less Provisions	(37,470)	(40,573)	(489)	(1,262)
	<b>615,242</b>	<b>694,675</b>	<b>256,850</b>	<b>31,389</b>
Agency surplus prior year	153	143	1,904	22,997
<b>Total due within one year</b>	<b>615,395</b>	<b>694,818</b>	<b>258,754</b>	<b>54,386</b>
<b>Amounts falling due after more than one year</b>				
Deposits and Advances	514	16	514	16
Other Debtors	—	153	—	—
Prepayments/Accrued income				
EU	10,897	5,633	—	—
Other	95	—	—	—
<b>Total due after more than one year</b>	<b>11,506</b>	<b>5,802</b>	<b>514</b>	<b>16</b>
<b>Total Debtors</b>	<b>626,901</b>	<b>700,620</b>	<b>259,268</b>	<b>54,402</b>

15. Cash at Bank and in Hand

	Consolidated		Core-Department	
	2001–02	Restated 2000–01	2001–02	Restated 2000–01
	£000	£000	£000	£000
<b>Balance at 1 April</b>	172,822	—	16,528	—
Net Cash Inflow	233,194	—	301,768	—
<b>Balance at 31 March</b>	<b>406,016</b>	<b>172,822</b>	<b>318,296</b>	<b>16,528</b>
<b>The following balances at 31 March are held at:</b>				
Office of HM Paymaster General	403,866	171,682	317,691	16,400
Commercial banks & Cash-in-Hand	2,150	1,140	605	128
	<b>406,016</b>	<b>172,822</b>	<b>318,296</b>	<b>16,528</b>
<b>The balance at 31 March comprises:</b>				
Amounts issued from the Consolidated Fund for supply but not spent at year end	187,208	170,007	99,501	13,726
Consolidated Fund Extra Receipts received and due to be paid to the Consolidated Fund	756	2,815	743	2,802
Other payments due to be paid to the Consolidated Fund	218,052	—	218,052	—
	<b>406,016</b>	<b>172,822</b>	<b>318,296</b>	<b>16,528</b>

16. Creditors

	Consolidated		Core-Department	
	2001–02	Restated 2000–01	2001–02	Restated 2000–01
	£000	£000	£000	£000
<b>Amounts falling due within one year</b>				
Trade Creditors	28,528	59,952	8,489	2,870
Other Creditors:				
EU	10,480	20,927	10,480	20,927
Other	12,718	29,240	7,860	9,066
Accruals and deferred income	465,429	826,929	174,466	454,368
Agency Creditor	—	—	—	20,266
	<b>517,155</b>	<b>937,048</b>	<b>201,295</b>	<b>507,497</b>
Balance due to DTLR in respect of transferred functions	6,644	—	6,644	—
Consolidated Creditor to HM Treasury	168,006	25,808	168,006	25,808
Consolidated fund extra receipts	218,961	2,500	218,948	2,487
<b>Total due within one year</b>	<b>910,766</b>	<b>965,356</b>	<b>594,893</b>	<b>535,792</b>
<b>Amounts falling due after more than one year</b>				
Finance Leases	78	—	—	—
Others	18,649	13,805	—	—
<b>Total due after more than one year</b>	<b>18,727</b>	<b>13,805</b>	<b>—</b>	<b>—</b>
<b>Total Creditors</b>	<b>929,493</b>	<b>979,161</b>	<b>594,893</b>	<b>535,792</b>

These figures include FMD related costs. Further details are provided in Note 17.

Notes to the Departmental Resource Accounts (*continued*)

## 17. Provisions for Liabilities and Charges (See also Notes 1.16, 1.17 and 4)

Consolidated	Balance at	Provided	Provisions Not	Provisions	Unwinding	Balance at
	1 April 2001	in year	Required Written Back	Utilised in year	of Discount	31 March 2002
	£000	£000	£000	£000	£000	£000
<b>Provision:</b>						
Foot & Mouth	1,603,027	192,160	(16,589)	(1,563,985)	1,347	215,960
Factortame	18,320	—	(3,170)	—	—	15,150
Flood & Coastal Defence Provision	—	5,901	—	—	—	5,901
Admin Provisions	24,992	21,798	(7,665)	(15,183)	—	23,942
Programme Provisions	411,796	16,933	—	(330,210)	—	98,519
	<b>2,058,135</b>	<b>236,792</b>	<b>(27,424)</b>	<b>(1,909,378)</b>	<b>1,347</b>	<b>359,472</b>
<b>Core-Department</b>						
	Balance at	Provided	Provisions Not	Provisions	Unwinding	Balance at
	1 April 2001	in year	Required Written Back	Utilised in year	of Discount	31 March 2002
	£000	£000	£000	£000	£000	£000
<b>Provision:</b>						
Foot & Mouth	1,603,027	192,160	(16,589)	(1,563,985)	1,347	215,960
Factortame	18,320	—	(3,170)	—	—	15,150
Flood & Coastal Defence Provision	—	5,901	—	—	—	5,901
Admin Provisions	9,461	6,235	(7,665)	(3,040)	—	4,991
Programme Provisions	44,677	10,253	—	(13,155)	—	41,775
	<b>1,675,485</b>	<b>214,549</b>	<b>(27,424)</b>	<b>(1,580,180)</b>	<b>1,347</b>	<b>283,777</b>

The administrative provision includes Early Departure Pension Costs and impending Veterinary Pay Awards. The programme provision includes programmes such as the Contaminated Land, Fur Farming, Classical Swine Fever and MLC Lamb Provision Scheme.

## 17.1. Provision for expenditure on controlling Foot &amp; Mouth Disease

Although the outbreak of Foot & Mouth Disease occurred in February 2001, it was not eradicated until the September of that year. Most expenditure was therefore met during 2001–02 from the provision of £1,603m brought forward.

Included in Schedule 2 are the following amounts relating to Foot & Mouth Disease control:

	2001–02			2000–01
	Gross Operating Costs	Income	Net Operating Costs	Net Operating Costs
	£000	£000	£000	£000
Staff costs	(16,589)	—	(16,589)	81,393
Other operating costs	66,143	(34)	66,109	116,064
Programme expenditure	325,742	(217,060)	108,682	1,862,078
	<b>375,296</b>	<b>(217,094)</b>	<b>158,202</b>	<b>2,059,535</b>

Staff Costs were offset by the use of the provision as disclosed in Note 17, above.

There are a number of disputed claims still under investigation. The likely outcome, timing or cost of such claims to the Department cannot be estimated at this time (see Note 22).

The EU Commission has agreed to reimburse the UK Government a proportion of the expenditure on compensation for animals slaughtered during the Foot and Mouth Disease control process. An advance of £217m was received in March 2002 and is shown as operating income payable to the Consolidated Fund. Further reimbursement is probable, although the amount is dependent upon recommendations to be made by EU auditors following completion of their work.

**18. Reserves**

	Revaluation Reserve	
	Consolidated	Core-Department
	£000	£000
Restated balance at 1 April 2001	68,390	39,071
Arising on revaluation during the year (net)	8,711	160
Transferred from General Fund in respect of realised element of Revaluation reserve	(2,712)	(100)
<b>Balance at 31 March 2002</b>	<b>74,389</b>	<b>39,131</b>

**19. Capital Commitments**

	Consolidated		Core-Department	
	2001-02	Restated 2000-01	2001-02	Restated 2000-01
	£000	£000	£000	£000
Capital commitments at 31 March 2002 for which no provision has been made:				
Authorised and contracted	30,822	40,675	13,126	11,422
Authorised but not contracted	57,192	—	—	—

Notes to the Departmental Resource Accounts (*continued*)**20. Commitments under Operating Leases**

Commitments under leases to pay rentals during the years following the year of these Accounts are given in the table below, analysed according to the period in which the lease expires.

	Consolidated		Core-Department	
	2001–02	Restated 2000–01	2001–02	Restated 2000–01
	£000	£000	£000	£000
<b>Obligations under operating leases comprise:</b>				
<b>Land &amp; Buildings</b>				
Expiry within one year	336	147	335	120
Expiry within two to five years	1,106	535	1,055	412
Expiry thereafter	20,861	14,744	16,950	10,834
	<b>22,303</b>	<b>15,426</b>	<b>18,340</b>	<b>11,366</b>
<b>Other</b>				
Expiry within one year	4,216	78	4,103	50
Expiry within two to five years	7,284	9,699	6,878	9,693
Expiry thereafter	23	—	20	—
	<b>11,523</b>	<b>9,777</b>	<b>11,001</b>	<b>9,743</b>
<b>Obligations under finance leases comprise:</b>				
Rentals due within one year	—	—	—	—
Rentals due within two to five years	—	—	—	—
Rentals due thereafter	21	21	21	21
Less interest element	—	—	—	—
	<b>21</b>	<b>21</b>	<b>21</b>	<b>21</b>

**21. Other financial commitments**

Under various schemes the Department is committed to making payments for up to 10 years as long as the claimants abide by the rules of the scheme under which they have claimed. Operating Commitments at 31 March 2002 for which no provision has been made in these accounts were as follows:

	Consolidated		Core-Department	
	2001–02	Restated 2000–01	2001–02	Restated 2000–01
	£000	£000	£000	£000
Expiry within one year	75,480	58,005	75,480	58,005
Expiry within two to five years	55,185	143,700	55,185	143,700
Expiry thereafter	66,000	97,507	66,000	97,507
	<b>196,665</b>	<b>299,212</b>	<b>196,665</b>	<b>299,212</b>



## 22. Contingent Liabilities and Assets

### 22.1 Contingent Liabilities

There are a number of future events with an uncertain outcome that could lead to potential liabilities for the Department. Given such uncertainties, these items have not been accrued in the Accounts, but are instead listed separately as contingent liabilities. At 31 March 2002 the main items under this heading were:

- legal action for £245m damages by importers of seed potatoes alleging that the potatoes were diseased on arrival in Argentina. The Argentinean authorities destroyed the potatoes;
- potential disallowance in respect of non-compliance with EU regulations in respect of bovine cross checks and payments (£21.9m), and
- various legal claims connected with the FMD outbreak (unquantifiable).

Apart from these, other items include

- potential liability in respect of a bank guarantee and letter of comfort amounting to £17.75m;
- tallow, produced as a by-product of the rendering process, may prove to be unsaleable - cost of disposal £10m;
- steps required to regularise non-statutory collection of certain seed certification and plant health schemes (£1.8m);
- potential liabilities arising from Livestock Welfare Disposal and Animal Slaughter Schemes (£5m);
- potential liabilities in connection with the Organic Farming Scheme, amounting to £7m.

A large number of NDPBs and public corporations have been transferred to Defra following the Machinery of Government changes (see Note 31). Although these sponsored bodies lie outside the accounting boundary, the Department is still required to meet any liabilities they are unable to absorb themselves.

The Environment Agency has responsibility for a closed pension fund for former employees of the water authorities prior to privatisation. There is a requirement for the Secretary of State to meet future benefit entitlements. Whilst there are adequate scheme funds to meet immediate liabilities, a provision will need to be created to cover remaining liabilities once the requirements of FRS17 become obligatory. The Treasury has agreed to move the outstanding scheme liability on to a 'pay as you go' arrangement with annual liabilities of up to £100m being covered by the Estimate.

### 22.2 Contingent Asset: Future Income arising from Foot and Mouth Disease control process

The EU Commission has agreed to reimburse the UK Government a proportion of the expenditure on compensation for animals slaughtered during the Foot and Mouth Disease control process. An advance of £217m was received in March 2002 and is shown as operating income payable to the Consolidated Fund. Further reimbursement is probable, although the amount is dependent upon recommendations to be made by EU auditors following completion of their work.

**Notes to the Departmental Resource Accounts (continued)****23. Reconciliation of Net Operating Cost to changes in the General Fund**

Consolidated	2001-02	Restated 2000-01
	£000	£000
<b>Net Operating Cost for the Year (Schedule 2)</b>	<b>(2,108,414)</b>	<b>(4,038,161)</b>
Income not appropriated in aid payable to the Consolidated Fund	(218,052)	—
	<b>(2,326,466)</b>	<b>(4,038,161)</b>
<b>Net Parliamentary Funding</b>	<b>4,371,647</b>	<b>1,643,303</b>
Funds brought forward	25,808	81,145
Transfer to General Fund of realised element of Revaluation Reserve (Note 18)	2,712	(294)
Transfer to General Fund - Asset Transfers	—	(24)
Non-operating A-in-A	9,053	—
Consolidated Fund debtor/(creditor)	(168,006)	(25,808)
Non-cash charges		
Cost of capital	2,297	30,200
Early Departure	585	315
Auditors remuneration	826	693
Other	14,338	(159,451)
Balance due to DTLR in respect of transferred functions	(6,644)	—
Prior Period Adjustments	(14)	—
<b>Net Increase in General Fund</b>	<b>1,926,136</b>	<b>(2,468,082)</b>
General Fund at 1 April	(1,708,721)	759,361
<b>General Fund at 31 March (Schedule 3)</b>	<b>217,415</b>	<b>(1,708,721)</b>
<b>Core-Department</b>	<b>2001-02</b>	<b>2000-01</b>
	£000	£000
<b>Net Operating Cost for the Year (Schedule 2)</b>	<b>(1,610,318)</b>	<b>(3,233,178)</b>
Income not appropriated in aid payable to the Consolidated Fund	(218,052)	—
	<b>(1,828,370)</b>	<b>(3,233,178)</b>
<b>Net Parliamentary Funding</b>	<b>3,901,795</b>	<b>1,374,171</b>
Funds brought forward	25,808	81,145
Transfer to General Fund of realised element of Revaluation Reserve (Note 18)	100	90
Transfer to General Fund - Asset Transfers	(6,257)	(11,759)
Non-operating A-in-A	9,053	—
Consolidated Fund debtor/(creditor)	(168,006)	(25,808)
Non-cash charges		
Cost of capital	(29,955)	(6,967)
Early Departure	128	142
Auditors remuneration	262	241
Other	(60,027)	(179,882)
Balance due to DTLR in respect of transferred functions	(6,644)	—
Prior Period Adjustments	—	—
<b>Net Increase in General Fund</b>	<b>1,837,887</b>	<b>(2,001,805)</b>
General Fund at 1 April	(1,975,611)	26,194
<b>General Fund at 31 March (Schedule 3)</b>	<b>(137,724)</b>	<b>(1,975,611)</b>

**24. Analysis of Net Operating Cost by spending body**

This note analyses funding by the Department to the relevant spending body.

<b>Consolidated</b>	<b>2001–02 Budget</b>	<b>2001–02 Outturn</b>	<b>Restated 2000–01 Outturn</b>
<b>Spending Body</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Department	1,533,206	1,229,946	3,053,844
Non-departmental public bodies	346,934	61,522	41,291
Other central government	(193,347)	(180,345)	326,007
Local authorities	66,115	39,296	26,008
Other bodies	57,845	8,759	51,904
	<b>1,810,753</b>	<b>1,159,178</b>	<b>3,499,054</b>
Transfer of functions		949,236	539,107
<b>Net Operating Cost</b>		<b>2,108,414</b>	<b>4,038,161</b>
<b>Core-Department</b>	<b>2001–02 Budget</b>	<b>2001–02 Outturn</b>	<b>2000–01 Outturn</b>
<b>Spending Body</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Core-Department	1,479,951	1,225,773	2,921,608
Executive Agencies	94,673	164,140	128,473
Non-departmental public bodies	346,934	49,831	41,175
Other central government	(769,669)	(641,634)	(475,097)
Local authorities	56,932	39,296	26,008
Other bodies	57,845	8,759	51,904
	<b>1,266,666</b>	<b>846,165</b>	<b>2,694,071</b>
Transfer of functions		764,153	539,107
<b>Net Operating Cost</b>		<b>1,610,318</b>	<b>3,233,178</b>

**25. Losses and Special Payments**

	<b>2001–02</b>		<b>2000–01</b>	
	<b>No. of cases</b>	<b>Value</b>	<b>No. of cases</b>	<b>Value</b>
		<b>£000</b>		<b>£000</b>
Cash Losses	1,406	307	502	441
Stores Losses	28	611	15	38
Fruitless payments and constructive losses	17	13	23	6,629
Claims waived or abandoned	144	132	84	95
Special payments	1,773	13,369	4,673	13,773
	<b>3,368</b>	<b>14,432</b>	<b>5,297</b>	<b>20,976</b>

Included in the above were four cases totalling £12,482,562.82 of Extra-Statutory contributions to the Environment Agency for Flood Warning Improvements, one case totalling £120,937.75 of Ex-Gratia payment regarding a compensation claim and two cases totalling £535,310.42 of a stores loss of IT equipment.

In addition to the above a debt due to the RPA of £427,000 has been provided for and subsequently written off.

**Notes to the Departmental Resource Accounts (continued)****26. Commitments under PFI contracts**

The majority of Private Finance Initiative (PFI) contracts associated with Defra are funded by NDPBs 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 is £18.21m, of which a £250,000 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 is due to be completed in March 2003, when £8.73m will be paid to Defra, with a final payment of £4.23m expected in November 2006.

At present Defra own the site and the building contractor is operating under a licence. Defra will formally give vacant possession of the site at occupation of the new building.

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**27. Related party transactions**

The Department is the parent of the agencies shown in Note 30. The Department's Non-Departmental Public Bodies within the Departmental accounting boundary are also shown in Note 30, and those outside the boundary are shown in Note 31. In addition the Department has had a number of transactions with Other Government Departments (e.g. Regional Development Agency Funding provided through DTI, the Devolved Administrations, Government Offices within the Cabinet Office) and other central Government bodies (e.g. Environment Agency in respect of Flood Defence grants). None of the board members, key managerial staff or other related parties has undertaken any material transactions with the Department for Environment, Food and Rural Affairs during the year.

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**28. Financial Instruments**

28.1 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 no powers to borrow or invest surplus funds, and 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.

28.2 As allowed by FRS13 the Department has elected to exclude from disclosure all debtors and creditors which mature or become payable within 12 months from the balance sheet date.

28.3 With the exception of the Rural Payments Agency (RPA), the Department's exposure to risk can be summarised:

Liquidity risk: no significant exposure given the Department's net resource requirement is financed through resources voted annually by Parliament;

Interest rate risk: no exposure as the Department's main financial assets and liabilities carry nil or fixed rates of interest;

Foreign currency risk: not significant as foreign currency income and expenditure is negligible. Although no active hedging is utilised the accounting treatment adopted avoids gains and losses arising (see below).

28.4 Liquidity risk does, however, arise with Rural Payments Agency operations. The main driver is the successful recovery from the EU of funds paid to claimants under the Common Agricultural Policy (CAP). As these funds are financed by HM Treasury in the first instance, there is no exposure to interest rate risks. The vast majority of CAP claims are settled in Sterling and where claims are paid in Euros all payments are reimbursed by the EU at the conversion rate achieved by the RPA in purchasing the currency. Consequently, there is no foreign currency risk.

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28.5 Securities and Guarantees – Traders wishing to undertake certain transactions under EC Regulations are required to guarantee completion of the transaction in question by lodging a security with the RPA. The security could be either in the form of cash or guarantee by a bank or an insurance company acceptable to the RPA. The security may be forfeited (in whole or in part) if the undertaking is not completely fulfilled. Bank and other guarantees totalling £326.6m and cash totalling £2,352,000 were held at 31 March 2002 by the RPA.

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### 29. Post Balance Sheet events

There were no reportable post balance sheet events.

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### 30. Entities within the Departmental Accounting Boundary

The entities within the Departmental accounting boundary during 2001-02 comprise the Core-Department, its Executive Agencies and Non-Departmental Public Bodies as follows:

#### On-Vote Agencies

##### **Veterinary Laboratories Agency (VLA)**

Specialist scientific and technical expertise and advice to Defra on animal and public health, including diagnostic, research and advisory services and products.

##### **Veterinary Medicines Directorate (VMD)**

Responsible to Ministers for the licensing of veterinary medicines; surveillance of veterinary medicine residues; servicing, developing and implementing new policy / legislation.

##### **Central Science Laboratory (CSL)**

Policy advice, technical support and enforcement underpinned by research and development to meet Defra's objectives.

##### **Pesticides Safety Directorate (PSD)**

Controlling the sale, supply, storage, advertisement and use of pesticides; implementing post approval controls over pesticides; provide policy advice to Defra.

##### **Rural Payments Agency (RPA)**

Payment of EAGGF and Exchequer grants and subsidies to the rural and farming community; implementation with the UK of the guarantee functions of the Common Agricultural Policy.

##### **Centre for Environment, Fisheries and Aquaculture Science (CEFAS)**

Specialist scientific, technical support and consultancy to Defra in fisheries science and management, aquaculture and fish health and environmental assessment.

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

#### Executive NDPBs (Defra funded)

Agricultural Wages Board for England and Wales (AWB)

Agricultural Wages Committees for England (AWC)

Regional Flood Defence Committees (*Although Defra sponsored, the Secretariat and all funding is supplied and accounted for by the Environment Agency*)

United Kingdom Register of Organic Food Standards (UKROFS)

**Notes to the Departmental Resource Accounts (continued)****Advisory NDPBs (Defra funded)**

Advisory Committee on Business and the Environment (ACBE)  
Advisory Committee on Consumer Products and the Environment (ACCPE)  
Advisory Committee on Hazardous Substances (ACHS)  
Advisory Committee on Packaging  
Advisory Committee on Pesticides (ACP)  
Advisory Committee on Releases to the Environment (ACRE)  
Agricultural Dwelling House Advisory Committees (ADHACS)  
Air Quality Expert Group (replaces former Airborne Particles Expert Group)  
Air Quality Forum  
Committee of Investigation for Great Britain  
Committee on Agricultural Valuation  
Committee on Products and Processes for Use in Public Water Supply & Swimming Pools  
Consumers' Committee for Great Britain under the Agricultural Marketing Act 1958  
Darwin Advisory Committee (the Darwin Initiative)  
Expert Group on Cryptosporidium in Water Supplies  
Expert Panel on Air Quality Standards  
Expert Panel on Sustainable Development Education  
Farm Animal Welfare Council (FAWC)  
Hill Farming Advisory Committee for England, Wales and Northern Ireland  
Independent Scientific Group on Cattle TB (ISG)  
Inland Waterways Amenity Advisory Council  
National Expert Group on Transboundary Air Pollution  
Pesticide Residues Committee  
Radioactive Waste Management Advisory Committee  
Regional Environment Protection Advisory Committee  
Royal Commission on Environmental Pollution  
Sustainable Development Commission  
Veterinary Products Committee  
Water Regulations Advisory Committee (WRAC)  
Zoos Forum

**Advisory NDPBs (jointly funded with Department of Health)**

Spongiform Encephalopathy Advisory Committee

**Tribunal NDPBs (Defra funded)**

Agricultural Land Tribunals  
Dairy Produce Quota Tribunal  
Plant Varieties and Seed Tribunals  
Commons Commissioners

**31. Bodies outside the Departmental Accounting Boundary**

These comprise public sector bodies which have not been consolidated in these accounts, but for which the Department had lead responsibility during the year. They were:

**Executive NDPBs**

Apple & Pear Research Council (APRC)  
British Potato Council (BPC)  
Countryside Agency (CA)  
English Nature (EN)  
Environment Agency (EA)  
Food from Britain (FFB)  
Home Grown Cereals Authority (HGCA)  
Horticulture Development Council (HDC)  
Horticulture Research International (HRI)  
Joint Nature Conservation Committee (JNCC)  
*(Joint venture whose accounts are maintained by English Nature)*  
Meat and Livestock Commission (MLC)  
Milk Development Council (MDC)  
National Forest Company  
Regional Flood Defence Committees  
Royal Botanical Gardens, Kew (RBG KEW)  
Sea Fisheries Industry Authority (SFIA)  
Wine Standards Board of the Vintners' Company (WSB)

**Advisory NDPBs**

Sugar Beet Research & Education Committee *(formally wound up 31/3/99, but White Paper Accounts will be produced until funds raised by statutory levy dispersed)*

**Public Corporations**

British Waterways Board  
Covent Garden Market Authority







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