Environment Agency

enhancing... improving... cleaning... restoring...
changing... tackling... protecting... reducing...
creating a better place... influencing...
inspiring... advising... managing... adapting...

Annual Report and Accounts 2009-2010

Environment Agency
Annual Report and Accounts 2009-2010

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

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

Ordered by the House of Commons to be printed 27 July 2010

HC 247 London: The Stationery Office £19.75

ISBN: 9780102967135

Printed in the UK by The Stationery Office Limited
on behalf of the Controller of Her Majesty's Stationery Office

ID P002372875 07/10

Printed on paper containing 75% recycled fibre content minimum.

ANNUAL REPORT and ACCOUNTS

for the year ended

31 March 2010

CONTENTS

FOREWORD

This has been a challenging year for us in many ways. It is always going to be a testing time when people experience the devastating effects of flooding, when they are having to be rescued from their homes as water levels rise and, of course, when there is the tragedy of the loss of human life.

The floods in Cumbria last November tested our response to a major incident more severely than at any time since the widespread floods in the summer of 2007. When I visited the affected area while the floods were at their height, I was proud of the way our staff pulled together and worked with our local partners to protect people, homes and businesses. Our temporary defences saved more than 800 homes and businesses from flooding. And the Carlisle flood defences held despite not yet being finished; showing the value of the investment that we had prioritised after the floods there in January 2005. We are still working with our partners, local groups and affected communities in Cumbria to support the recovery.

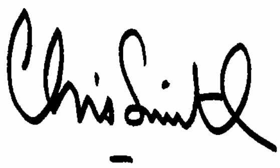
The events in Cumbria put us in the national spotlight. Most of our work is less high-profile but equally important. We work with communities, businesses, and other organisations to improve the environment. We also work to prevent pollution, manage and reduce waste and to protect and improve water, land and air quality. And we work with industry and water companies to ensure that water resources are protected.

Approximately two thirds of our income comes from the Government and we are conscious of the challenges that the sharp reductions in public spending will bring over the next few years. We remain committed to doing the most we can for people and the environment for every pound that we receive from the taxpayer and our customers. We have already identified things we can do to be more efficient. In 2009-2010 we made £45 million of efficiency savings and we're currently looking at making changes in several areas of the organisation that will help us increase value for money in the future.

As well as rising to these unavoidable challenges, we are also challenging ourselves. This year, we published our new corporate strategy which sets out our goals until 2015. The strategy requires us to work differently. It sets out how we will work with others to achieve our shared goals for the environment – on climate change, on protecting water, land and air, and on helping businesses to use resources wisely. We will be a trusted partner, working for communities and the environment.

Our new corporate strategy will allow us to build on the achievements we have made this year – 500,000 more properties now receive flood warnings from us, and thanks to the work we have done to reduce red tape businesses we regulate now get permits more quickly.

This Annual Report shows what we have achieved over the last year. But we know we can do more. As we face the challenges of the next few years, we will continue to protect and improve the places where people live and work.



RT HON LORD SMITH OF FINSBURY
CHAIRMAN
20 July 2010

MANAGEMENT COMMENTARY

Introduction
The Environment Agency is the leading public body for protecting and improving the environment in England and Wales. Our vision is to create a better place for people and wildlife. We work with communities, local authorities, industry and government to do this.

We have 13,181 members of staff as at 31 March 2010 and an annual budget of £1.25 billion. We are responsible to the Department for Environment, Food and Rural Affairs (Defra) in England and the Department for Environment, Sustainability and Housing of the Welsh Assembly Government (WAG) in Wales. Around 60 per cent of our funding comes from the UK Government and WAG, and most of the rest comes from various charging schemes.

We have teams based in England and Wales. Staff in our local offices work closely with other organisations including local authorities and communities to develop the right solutions for the local environment, and Environment Agency Wales works closely with organisations in Wales.

Our new Corporate Strategy
In November 2009 we launched our new Corporate Strategy, *Creating a Better Place 2010-2015*.

The strategy outlines our vision of a better place for people and wildlife and what we will do to achieve this. It sets out our aims in five main areas:

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

We will start working to this strategy on 1 April 2010. Throughout 2009-2010 we have been working to our previous corporate strategy. Below is a report of our major achievements and the challenges we have faced this year.

Managing the risk of flooding
Extreme floods hit Cumbria in November 2009, affecting Cockermouth particularly badly. The incident response and initial recovery lasted from 18 to 25 November, and our incident rooms were open throughout. None of our flood defence assets failed. We acted, with our contractors, to install promptly temporary defences to protect the unfinished part of the new Carlisle flood defences. This saved 800 properties from flooding. We worked with other agencies to respond to the emergency and continue to support the recovery effort which includes re-building communities and their infrastructure. Our response proved that we have made real improvements since the last floods in the area in 2005 and the widespread summer floods in 2007.

In 2008, we took on the strategic overview role for all sources of flooding in England. This year we have supported local authorities as they began to manage the risk of flooding from surface and ground water. 77 local authorities are producing surface water management plans and others are forming local flood risk partnerships.

On behalf of Defra we allocated £5 million to 47 local authorities to help them address surface and ground water flood risk and produce additional surface water management plans. This funding will help to protect more than 77,000 properties from surface water and groundwater flooding by producing 61 surface water flood risk management schemes and 15 surface water management plans.

Overall, since July 2007 flood defence grant-in-aid money from Defra and money from WAG has funded 116 schemes in England and Wales. Since April 2008, these schemes have protected 85,800 households (56,600 in 2009-2010). Local authority and Internal Drainage Board schemes have protected 18,700 households (10,800 in 2009-2010). Local Levy Schemes contributed 1,200 to this total (878 in 2009-2010) and in Wales 1,000 households (300 in 2009-2010) are now at reduced risk of flooding. The total for all schemes currently stands at 106,700 (68,600 in 2009-2010). This includes the £9 million Silk Stream Flood Alleviation Scheme, which opened in September and has reduced the risk of flooding to over 1,100 homes and businesses in the London Boroughs of Harrow and Barnet, and the £24 million Caldew and Carlisle City Flood Alleviation Scheme.

We continue to ensure that flood defences are in the best possible condition to protect people and property. 97.4 per cent of assets in High Consequence Flood Risk Management Systems are at or above the target condition compared with 96.3 per cent the previous year. We are continuing with our planned programme of maintenance work to make sure these assets do not deteriorate.

In March 2010 around 500,000 additional properties at risk of flooding were automatically signed up to receive flood warnings from us. We can now directly warn more than 900,000 homes and businesses across England and Wales.

We are improving the Floodline service (0845 988 1188) by combining advice on river and coastal flooding with information from local authorities about flooding from local and surface water drainage. A number of pilot schemes are underway with local authorities and people in those areas can now use a single telephone number for all flooding enquiries. We also introduced the Flood Warnings for Infrastructure (FWFI) service which gives infrastructure operators, such as utility companies and transport organisations, individually tailored warnings so they can take action earlier to protect crucial assets.

This year, we also published the summaries of 68 catchment flood management plans for England and Wales. We plan to publish the remaining nine plans in 2010-2011. These set out a long-term view of how best to manage flood risk in a catchment. They will help us to work with others to secure sustainable flood risk management for catchments over the next 50 to 100 years.

We continue to advise local planning authorities on development and flood risk areas, as well as giving consent for works in or next to rivers and flood defences. We assessed and issued over 7,000 flood defence consents and responded to over 35,000 planning applications. This year our advice and support to local planning authorities ensured the majority of new development in the floodplain was appropriate and safe. While we are still collating figures for 2009-2010, during 2008-2009 we advised on flood risk issues for around 70,000 new homes. By ensuring new development is appropriate, safe and sustainable, our advice to local authorities has avoided future potential flood damages of over £500 million.

Preventing and adapting to climate change
An important part of our work is helping to reduce climate change and its impacts as much as possible.

We are the lead UK administrator for the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme, and we will also participate in the scheme. This is an emissions trading scheme which affects large public and private sector organisations. We run the CRC online registry and will maintain accounts and manage sales of allowances. We audit and enforce the scheme in England and Wales. We have produced guidance to help organisations understand the scheme and what they need to do to comply. We also have a dedicated helpdesk team to support organisations registering for the scheme.

The EU Emissions Trading System (EUETS) has been extended to include the aviation industry. We established an online system for operators to submit information. More than 350 operators, representing over 99 per cent of the aviation emissions attributed to the UK, have registered with us under the EUETS.

We granted a licence for the UK's largest biomass power plant in late 2009. The £400 million plant in Port Talbot, South Wales, expected to be operating early in 2011, will use sustainable sources to produce 350 Megawatts (Mw) of electricity, enough to power four out of every ten homes in Wales. The plant will also produce up to 80 per cent less carbon dioxide emissions than gas or coal fired power stations.

In Wales we worked with a local landowner to put a combined hydropower facility and fish pass on the River Monnow. This partnership is the first of its kind in the UK. The hydropower station will harness around 670,000 kilowatt hours (KwH) of electricity per year – enough to power 152 homes. The new fish pass means that salmon and other fish can migrate upstream for the first time.

Improving and protecting inland and coastal waters
In September 2009, we published our annual General Quality Assessment (GQA) which showed that water quality in England and Wales has improved for the nineteenth year in a row. Seven out of ten English rivers and nine out of ten Welsh rivers achieved 'very good' or 'good' status in terms of chemical and biological water quality in 2008.

The Water Framework Directive (WFD) sets higher quality standards for rivers than the GQA and uses a wider range of measures. Under the WFD, only 26 per cent of rivers in England and Wales are now described as having ‘good’ or ‘high’ ecological status. More needs to be done to meet these new water quality standards.

In December 2009, we published the first cycle of river basin management plans for England and Wales jointly with Defra and WAG. The plans set out what we – and other organisations – need to do to meet the requirements of the European Water Framework Directive between now and 2015.

In 2009-2010, 98.6 per cent of bathing waters around England and Wales passed ‘imperative’ European Commission (EC) water quality standards, up two per cent from 2008. 82.2 per cent of sites met the more stringent EC ‘guideline’ standard – up from 71.7 per cent in 2008.

Every five years the economic regulator for the water industry, Ofwat, reviews the prices that water companies can charge their customers. This determines how much water companies can spend on improving their services and the environment. We worked closely with Ofwat and the water companies throughout the Periodic Review 2009 process. The final price limits include agreed actions and schemes to improve the environment and secure water supplies.

The £22 billion PR09 settlement includes £4.4 billion which will be spent on environmental improvements. This includes measures to improve water quality, address supply and demand for water, and promote renewable energy technologies. £13 billion has been allocated for capital maintenance, including £6 billion for sewage services. 99 per cent of the targets we set out in the National Environmental Programme were included in the final plans.

This year, we have been analysing water companies’ final water resource management plans and reporting back to Government. Fifteen English companies have published their final plans and we have been comparing these against what the companies said they were going to do in their statement of responses. Three more English companies have yet to publish their plans. The government has called three companies – South East Water, Thames Water and Portsmouth Water – to a public inquiry. In Wales, two out of the of the three water companies have published their draft plans and their statements of response. We have analysed these and have submitted our advice to WAG.

Water resources
We continued our Restoring Sustainable Abstraction (RSA) programme, investigating the environmental impact of abstractions and addressing damaging abstractions.

In July we served notice on a licence holder for the first RSA scheme involving compensation. We advised United Utilities in North West Region that we are proposing to change two of their licences to fix the damage that their abstractions have caused to rivers in the Forest of Bowland. The proposal has now been referred to the Secretary of State and we await direction on what should be done with the licences. In March 2010 we served notice on two abstractors on the Ouse Washes in our Anglian Region proposing to add a condition to four abstraction licences used for irrigation which have the potential to damage a Habitats Directive site. The proposed conditions would mean that the abstractors would have to stop taking water when the river dropped to a certain level or flow rate. Both abstractors objected to the proposal and we will be passing the details to the Secretary of State for a decision.

Improving the environment for people and wildlife
In 2005, we established a target to reduce ‘big, bad and nasty’ illegal waste dumping incidents and have seen a steady decrease in these incidents since then. During 2009-2010, the number of ‘nasty’ incidents where drums of hazardous waste have been dumped continued to fall. However, this year there has been an increase in the number of ‘big’ incidents where more than a tipper load of waste has been dumped.

We stopped illegal waste operations at 955 sites in 2009-2010. We also reduced the number of higher-risk waste sites during the course of the year, from 227 to 166. We are making greater use of injunctions to tackle illegal waste sites. In 2009-2010, we issued three injunctions against the operators of illegal waste sites in Thames and North West Regions.

We continue to act decisively against those who damage the environment. In 2009-2010, we prosecuted in 33 out of the 34 cases relating to the most serious (category one) pollution incidents. In one case, the incident was an accidental spillage so prosecution was not in the public interest.

In December 2009, we served the first 'liability notice' under the Environmental Damage Regulations 2009, on a water company following a discharge of sewage effluent which caused the death of over 6,000 fish. These regulations came into effect in March 2009 and implement the requirements of the EU

Environmental Liability Directive. The operator is co-operating with us to ensure that the damage is remedied, including restocking the affected river with fish.

This year, we have planned and completed 627 out of 630 actions as part of our salmon, sea trout and eel management plans. We have removed a number of barriers to fish migration and have installed 37 fish passes and 50 eel passes across England and Wales.

There has been an increase in the number of people fishing, with rod licence sales at record levels. We sold 1,377,094 rod licences in 2009-2010 compared with 1,356,822 in 2008-2009, an increase of more than 20,000.

Business and the environment

Better regulation

In October 2009, a team from the Better Regulation Executive reviewed our regulatory work as part of the Hampton Progress Review. The team concluded that we have made significant progress in continuing our better regulation approach and recognised the strategic approach we are taking, driven by environmental outcomes, to build better relationships with responsible businesses.

We have been given access to new civil sanctions powers and are currently considering how we will implement these.

We have introduced a Generic Operator Returns IT system. It will allow our customers to send us monitoring returns data, for example on water quality, water resources and waste, via our website. We have also introduced several other IT systems to make regulation easier and more efficient for us and our customers, including waste carriers and brokers.

The number of businesses we regulate with higher risk Operator Pollution Risk Appraisal (OPRA) scores has reduced by 15 per cent to 82. The number of companies we regulate that have an internal environmental management system has risen by 12.6 per cent to 4,922.

We are working with businesses to make sure they comply with permit conditions. In 2009-2010, there were 1,032 permit breaches, fewer than the 1,242 in 2008-2009.

The Government asked all departments and agencies to make a 25 per cent reduction in the administrative burden they posed on business by May 2010. We responded to this by seeking new ways of working with our customers and introducing innovative procedures. This helped us to make total administrative savings of £32 million, well above the target of £22 million.

Developing our organisation

Our workforce is more diverse

In November 2009, we maintained our Investors in People status following a formal review by external assessors.

We were included in the 2009 Times Top 50 places where women want to work – one of only a few public sector organisations on the list.

We also featured in the Times Top 100 graduate employers for 2009 and were short listed for the most popular public sector graduate recruiter in both 2009 and 2010. In a recent graduate employer survey, we were ranked at number 32 out of 300 employers and at number seven in the public sector category.

We marginally increased our proportion of Black and Minority Ethnic staff, despite severe restrictions on recruitment.

We take part in the benchmarking exercise carried out by the Employer's Forum on Disability every two years. We have achieved a notable improvement with our disability standard rising from bronze in 2007 to gold in 2009.

We were ranked eleventh in the Stonewall Workplace Equality Index 2010 as a preferred employer for lesbian, gay and bisexual people (up from thirty-ninth position last year). We also ranked as the top employer in Wales for the second year running. 352 organisations across England and Wales took part.

A safer place to work
We aim to ensure people at work are as safe as possible and that the number of incidents is as low as possible. This year we set ourselves a target of no more than 40 health and safety lost time incidents (LTIs) and the actual number that occurred was 34. For comparison, there were 55 LTIs in 2008-2009. The number of LTIs is now less than one sixth of the number we had in 2000-2001.

Using our resources more efficiently
We have awarded Capgemini the contract for providing our day-to-day IT services. The contract will help us to save money on IT, and reduce the carbon emissions from our IT equipment by 50 per cent over the next few years. It is intended to be the greenest IT contract in government.

Our new Head Office building in Bristol, Horizon House, was awarded the highest Building Research Establishment Environmental Assessment Method (BREEAM) rating ever for a city centre development.

We won the Leadership in Fleet award from the Energy Savings Trust for the work we have done to reduce emissions and boost efficiency in our transport fleet over the least three years.

Our active pension fund was named the best investor in environmental and social governance (ESG) at the Investment and Pensions Europe ESG Leaders Awards for the third year in a row. We received the award for our approach to financially and environmentally responsible investment.

We won both the UK and European Eco-Management Audit Scheme (EMAS) Awards in recognition of the way we address sustainability in our procurement contracts.

We have introduced a new online service to make it easier to share our data with our customers. We used this service to share Ordinance Survey based mapping data with Internal Drainage Boards.

We made efficiency savings of £44.9 million last year. This is £19.9 million above the £25 million target we agreed with Defra and WAG. These savings have been reinvested into the business to achieve even more benefits to the environment. For example, efficiency savings in flood risk management planning, purchasing and process improvements have enabled more properties to be protected from the risk of flooding.

Engagement with Local Communities
Our new flood awareness campaign, working directly with local communities to help them understand and act upon the risks they face from potential flooding, has reached over 350,000 people, including vulnerable 'at risk' individuals. We have developed 76 community flood plans with another 188 in progress.

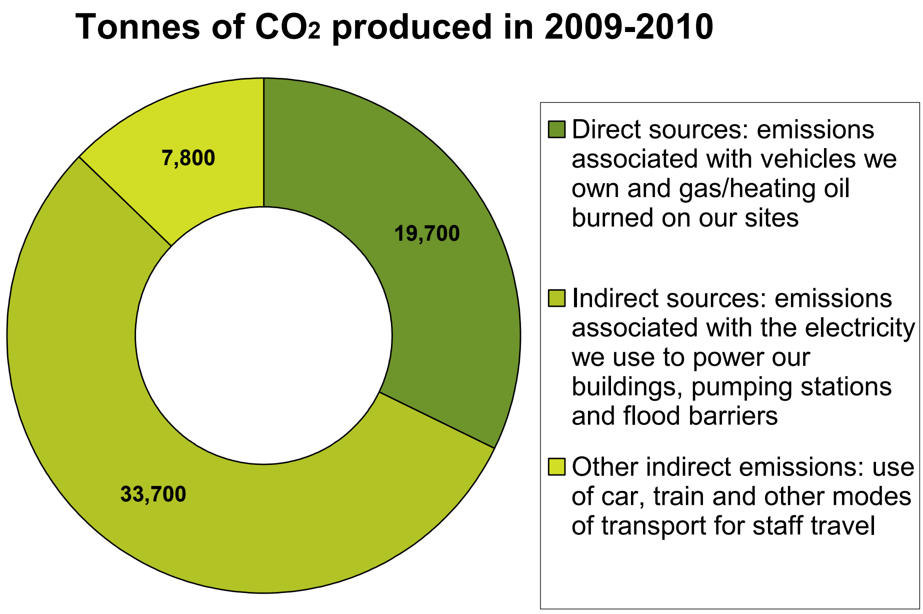
We have strengthened our engagement with local communities affected by our (and others') activities. Our Working With Others programme, based upon open and early dialogue with communities, is now seen as best practice across the public sector.

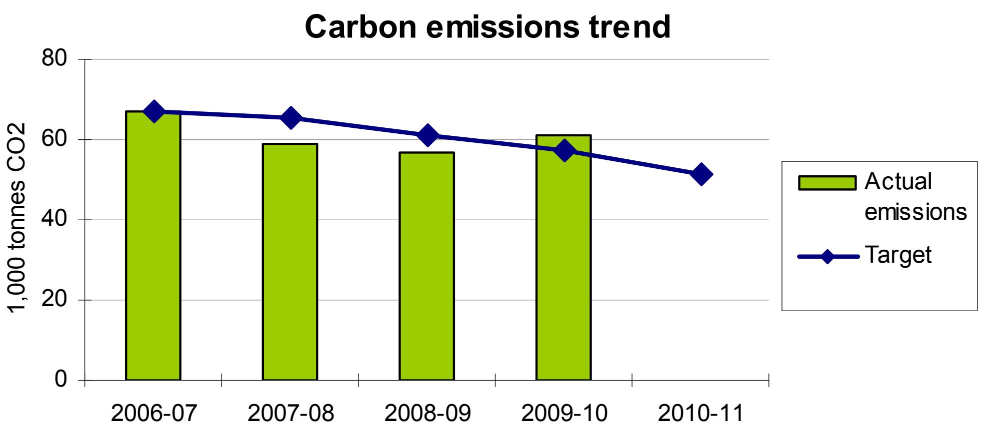
Partnership working, and the opportunities for external funding that come with it, have played an important part in *"Creating a Better Place"* this year. Our external funding teams supported projects to the value of £109 million, of which £89 million was raised through third party sources.

Our sustainability performance
We measure and report on our impact on the environment so we can assess where we need to improve. As already highlighted in this Management Commentary, we have protected and improved the environment and our work has benefited people and wildlife in many ways.

However, we know that the activities associated with achieving our objectives have environmental impacts and we are working hard to minimise them. The graph below shows the amount of carbon dioxide (CO_2) we produced in 2009-2010 while carrying out these activities.

We are currently unable to include the full impacts of our construction activities as much of this work is carried out by third parties working on our behalf. We are working with our suppliers to address this, and we have developed a 'carbon calculator' to help with analysing emissions over the life of a project and to improve performance. This is a lengthy process and we hope to include this information in future reports when we have more complete data.

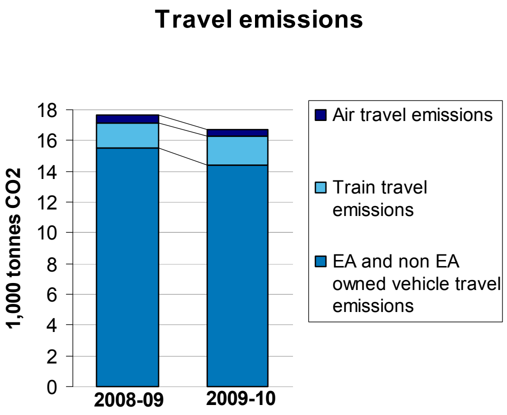


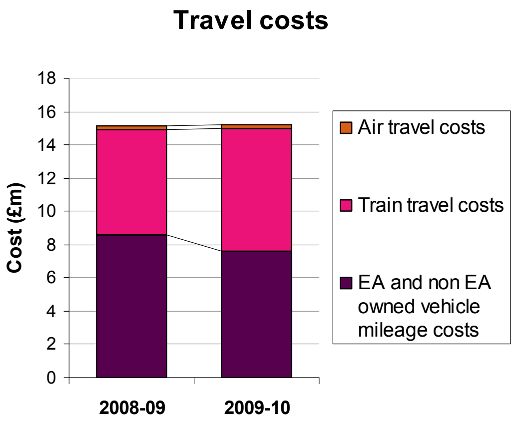


The first graph above shows a detailed breakdown of our carbon emissions for 2009-2010, the bar chart illustrates the trend in our carbon emissions since 2006-2007. We have a target to reduce our carbon emissions by 33 per cent (to 45.7 thousand tonnes) by March 2015 from our 2006-2007 baseline levels. In 2009-2010 we achieved an overall nine per cent reduction from our baseline year, slightly below our target reduction for this year. The year on year increase in carbon emissions was due almost entirely to energy required for our operational pumping activities and the cold winter weather in 2009-2010.

Reducing the impact of our travel
Our staff often need to travel to carry out their work. We have introduced a travel hierarchy to help us reduce the amount of travel that we do. Staff use this to consider alternatives to travel, for example holding a meeting by telephone or online. Where travel is unavoidable, we encourage our staff to travel in a way that minimises their impact on the environment, using trains rather than cars whenever possible.

New technologies will provide more ways for us to minimise our carbon impacts. For example, we have recently completed a two-year biodiesel trial. We are planning to increase the use of this fuel to reduce further the carbon impacts of the vehicles we use for our operational work.





Our travel emissions form elements of the tonnes of carbon we produce, illustrated by the graph on the previous page. As the travel emissions graph above shows, our efforts have resulted in a year on year reduction of our vehicle travel emissions. In 2009-2010 we saved nearly 1,100 tonnes of CO_2 in our vehicle emissions compared to 2008-2009. We won the Green Van Fleet of the Year 2009 and Leadership in Fleet awards.

The travel costs graph shows that our year to year costs have stayed nearly the same at around £15 million. While travel costs associated with vehicles have reduced by nearly £1 million, costs for train travel have risen by just over £1 million, and air travel costs have decreased. Overall this balance in costs is a positive achievement given our increasing use of train travel, and the rising costs of train fares.

Our energy use
We exceeded our energy targets for the year. This was due to extreme winter weather conditions. The cold weather meant we had to heat our office buildings more than in previous years. We are continuing to work on reducing the CO_2 emissions associated with our offices, buildings and operations by running staff engagement programmes, installing voltage optimisation systems, and improving the efficiency of our flood defence and water management infrastructure. However our energy use will always be affected by weather conditions, in particular floods and water shortages that require us to pump water for long periods of time.

This is just a summary of our environmental impacts for 2009-2010. For full details, see Appendix A (page 61). Our sustainability reporting follows the latest guidance published by HM Treasury's Financial Reporting Advisory Board's (FRAB) Sustainability Working Group. We have been involved in developing this guidance. We support it being mandatory for all public sector organisations to include clear and concise information on their sustainability performance in their annual financial statements.

Financial highlights

Funding
Our total funding in the year was £1,252 million, an increase of £72 million on the previous financial year. Of our total funding, £834 million (66 per cent) was provided in the form of grant-in-aid from Defra and WAG. £383 million (31 per cent) was raised through our charging schemes and local flood defence levies (in England), and £35 million (3 per cent) came from other miscellaneous sources.

£775 million of our grant-in-aid came from Defra to fund our work in England and £59 million from WAG to fund our work in Wales.

The way we report income in our accounts
Income raised from our charging schemes and other miscellaneous income received is included within the Net Expenditure Account. Grant-in-aid is treated as a contribution from a controlling party giving rise to a residual financial interest and therefore is accounted for as a financing transaction, credited directly to the net expenditure reserve. This means that the deficit after reserve transfers that is reported in the Net Expenditure Account is largely covered by grant-in-aid funding.

Expenditure
Our expenditure in the Net Expenditure Account is £1,276 million in 2009-2010. Of this, £715 million (56 per cent) was spent on flood and coastal erosion risk management; £359 million (28 per cent) on environment protection (protecting and improving air, land and water quality); £133 million (11 per cent) on safeguarding the availability of water resources and £69 million (5 per cent) on our other water management functions, mainly fisheries and navigation.

Overall results
We had a net expenditure for the year of £858 million. The offsetting of income from the sale of assets and interest receivable of £4 million, financing expenditure on pension scheme assets and liabilities of £27 million and transfers of £21 million to capital reserve and £66 million from pensions reserve, resulted in a retained deficit of £836 million transferred to the net expenditure reserve.

Grant-in-aid received in year was £834 million. If the grant-in-aid received was included in the Net Expenditure Account, it would show that we spent £2 million more than our total funding.

Future developments – spending review
Government decisions on funding for the environment, which determine the level of our grant-in-aid provision, are made through the HM Treasury’s Spending Review process. This sets expenditure budgets for government departments. Following the Chancellor's decision to conduct a comprehensive spending review in 2007 (CSR2007) we supported Defra in preparing submissions to HM Treasury. CSR2007 set spending plans for the period 2008-2009 to 2010-2011 in England. A similar spending review was undertaken in Wales through the Resource Assessment Exercise.

We received additional grant-in-aid funding from Defra of £58 million for 2009-2010 for our work in England. This included an increase of £47 million in grant-in-aid funding for flood defence activities. Of the remainder, the majority relates to additional capital funding provided in-year for flood defence projects and other services. We were provided with £64 million of funding for flood defence schemes promoted by Local Authorities and Internal Drainage Boards (total allocation of £64 million for 2008-2009 also). The responsibility for administering these grants was transferred from Defra to the Environment Agency on 1 April 2008. We were due to receive a further increase of £47 million in 2010-2011 for our flood defence activities but this has recently been reduced by £30m. Our grant-in-aid funding allocation for our other services was reduced by £9 million in 2010-2011 and has recently been reduced by a further £7.6m. We aim to deliver all of our work in a way that demonstrates value for money.

In Wales we will be receiving £1 million more grant-in-aid funding in 2010-2011 compared with 2009-2010, because of an increase in flood defence funding. In addition there is a further £3 million funding available to Environment Agency Wales from European Structural Funds.

In July 2010 it was announced that the Welsh Assembly Government will be conducting a feasibility study to look at the merging of a number of bodies to provide a separate environment organisation for Wales. This study will include Environment Agency Wales (EAW), the Countryside Council for Wales (CCW) and the Forestry Commission for Wales. The study will look at the costs and benefits of restructuring and will report in Autumn 2010.

External funding
Our spend on partnership projects in 2009-2010, to deliver benefits for people and the environment, in which we led or had a stake was £109 million. This consisted of £14.2 million of funding awards to the Environment Agency, £42.7 million of awards to our project partners and £32 million of matched funding invested by partners. For all of this investment we have provided £20 million of our own funding, leading to a ratio of approximately £4.43 of investment for every £1 of our own funding.

In 2010-2011 we will focus on the priorities of the new Corporate Strategy.

Financial management
During 2008-2009, the Finance Directorate underwent a significant change programme. Improvements in financial systems and a reorganisation of the workload allowed our Finance Directorate to handle transaction processing more efficiently, saving approximately £1.8 million per year. Our Finance Services Centre for England in Peterborough has taken on further activities, freeing up our Regional and Head Office Finance staff to provide more value adding services to business managers.

During 2009-2010, Finance staff have made considerable progress in business partnering, supporting and challenging the business to manage budgets more effectively. The Finance teams have put in place the fundamental frameworks needed to deliver and progress further efficiencies.

In preparation for 2010-2011, Finance business partners and budget managers have worked together to develop budgets that link costs to the strategic outcomes detailed in business plans. This work will continue to ensure that costs can be linked to outcomes throughout the Environment Agency.

Income and debt management has been improved during the year. Many businesses have faced difficulty in paying charges in the economic downturn. While there has been a small increase in the bad debt provision, debt queries have been reduced.

Other statutory information

How we have prepared these accounts
We have prepared the annual accounts in accordance with the Accounts Direction issued by the Secretary of State for Environment, Food and Rural Affairs and Welsh Ministers. The Accounts Direction also received the consent of HM Treasury, under section 45 of the Environment Act 1995.

History of the Environment Agency
The Environment Agency was established on 8 August 1995 following Royal Assent for the Environment Act 1995. We took up our statutory powers and duties on 1 April 1996, when the functions of the National Rivers Authority (NRA), Her Majesty's Inspectorate of Pollution (HMIP), the Waste Regulation Authorities (WRA) and several smaller units of the Department of the Environment were transferred to us. Our powers and duties primarily relate to flood and coastal erosion risk management, environment protection, fisheries, conservation, navigation and water resources.

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

During 2009-2010, our principal sponsor in government remained Defra. Defra oversees the environmental policy framework within which the Environment Agency operates in England. In Wales, we are an Assembly Government Sponsored Body. WAG is responsible for the policy and oversight of all of the Environment Agency's functions in Wales. We operate under a Financial Memorandum issued by Defra and WAG.

The Board agreed to adjust the existing boundaries of Environment Agency Wales, North West and Midlands from being catchment based, to ones aligned with the administrative boundary between England and Wales. This came in to effect from 1 April 2010.

The Department of Energy and Climate Change (DECC) was formed in 2008-2009. We received £4.5 million of funding from DECC in 2009-2010 to deliver duties that were previously funded by Defra. We have also received funding in 2009-2010 of £1.0 million and £0.1 million from the Department for Business Innovation and Skills (BIS) and the Department for Transport (DfT) respectively.

Our principal activities

Managing flood risk
Funding comes principally in the form of Defra grant-in-aid for our work in England. Additional funding comes from levies on local authorities, who are represented on Regional Flood Defence Committees. We carry forward any unspent levy balances at the end of the year as deferred income. In Wales, we receive grant-in-aid from WAG to fund the costs of our work in Wales.

Environment Protection, Navigation, Conservation and Fisheries
The principal financial duty for each of these functions that are partly funded by charges to customers, is to balance income raised from these charges with relevant expenditure in each financial year. We have to ensure that, taking one year with another, income from applicants for and holders of consents, licences and authorisations equals expenditure incurred in connection with the granting and subsistence of these consents, licences and authorisations. As with Water Resources, any remaining balances at year end relating to our Environmental Protection charges are carried forward. In the case of Navigation, Conservation and Fisheries any in-year deficit balances are funded through grant-in-aid.

Water Resources
Our Water Resources function is funded entirely through abstraction charges. Abstractors pay a charge for the right to take water out of rivers and other water sources for business use. We are required to ensure that, taking one year with another, income from abstraction charges equals expenditure. Remaining balances at the year-end can be carried forward to be used or recovered in future years.

Since 2008-2009, abstractors have also been charged an environmental improvement unit charge. This enables us to pay compensation when we vary or revoke abstraction licences to reduce the risk of environmental damage due to abstractors taking too much water from certain water bodies. We use the money raised from this charge only to make compensation payments. Any remaining balances at year end are carried forward to meet future compensation payments. The balances arise because we have to collect sufficient funds to pay the compensation before revoking or varying a licence.

Cost allocation and charging requirements
We have complied with the cost allocation and charging requirements as set out in HM Treasury and Office of Public Sector Information guidance. We will continue to work with HM Treasury, with support from Defra, to ensure the basis of future charging schemes remain sound.

How we are managed

Board and Executive Directors
The Environment Agency is governed by a Board. On 31 March 2010, the Board comprised twelve non-executive members, the Chairman and Chief Executive. The Secretary of State for Environment, Food and Rural Affairs and Welsh Ministers appoint members of the Board, except for the Chief Executive who is appointed by the Board with the approval of the Minister. A list of Board members is available on our website and is set out on page 18. The normal term of office for a non-executive Board member is three years, although this is usually extended for a further three year period. Length of appointments may be varied to ensure continuity of Board membership.

Defra's Accounting Officer has designated the Chief Executive as the Environment Agency's Accounting Officer. The Environment Agency had eight other Executive Directors at 31 March 2010, who are not members of the Board. They are listed on page 19.

Board committees
The Audit and Risk Committee comprises five Board members and is currently chaired by Suzanne Warner who took over from Peter Bye with effect from 1 June 2009. It meets quarterly and its principal aims are to ensure the standards of internal management and financial control are appropriate and to consider our Annual Report and Accounts and the pension fund accounts. The Committee considers and advises the Board and Accounting Officer on the scale and programme of Internal Audit, and the results of the work of both Internal and External Audit.

The Pensions Committee comprises four non-executive Board members, four senior executive managers, and seven pension fund nominees. The Committee is chaired by Larry Whitty who took over from John Edmonds with effect from 1 June 2009. The Environment Agency is responsible for administering two Local Government Pension Funds, an Active Fund for its employees and a Closed Fund for ex-employees of the former water authorities and associated bodies. The Pensions Committee has been delegated by the Board to manage all aspects of the management of both pension funds and to advise the Board on all pension related matters.

A separate report of the Remuneration Committee is included in the Remuneration Report on page 17.

Employees
It is our policy to support all employees actively to enable them to produce the best work they can to enable us to meet our aims. This involves attracting staff from all sectors of the community, valuing their different skills and abilities and responding flexibly to their needs in achieving our goals. People with disabilities are given the same consideration as other staff and enjoy the same training and development opportunities and career prospects. Staff who become disabled during their employment with the Environment Agency will be retained wherever possible and encouraged to develop their careers.

We make sure that our employment terms are fair. Employment procedures set out formal policies on key issues such as equal opportunities, disciplinary and grievance procedures, and sexual and racial harassment. We have national and regional joint committees for consultation and negotiation with employees. The committees also keep employees' representatives informed of developments affecting employment within the Environment Agency.

In December 2009, we were re-accredited with Investors in People, which is a national standard of good practice for employers in leading, managing and developing employees.

The average number of days lost for sickness per employee during 2009-2010 was 6.5 days. This is a slight increase from 6.1 days during 2008-2009. The main causes of sickness absence are muscle, neck, back and joint disorders, but this has reduced from 22 per cent of all sickness absences in 2008-2009 to 20 per cent in 2009-2010. The swine flu pandemic in 2009 has had an impact on these figures.

Health and safety policy
We are committed to protecting the health, safety and well-being of our employees, contractors and the public. As well as complying strictly with the health and safety measures required by legislation, it is our policy to promote and take all reasonable steps to safeguard the health, safety and welfare of staff and others who may be affected by our actions.

We consult with health and safety representatives on matters relevant to this policy. We discuss and exchange ideas on health and safety with employees on a local basis. We regularly act on health and safety concerns and suggestions for improvements. Prime responsibility for health and safety lies with individual employees. All managerial and supervisory staff also have responsibility for matters within their control. The Board takes a close interest in health and safety performance.

Other issues

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

Creditor payment policy and statistics
We seek to meet the level of performance on payment of creditors set out in British Standard 7890, *Method for achieving good payment performance in commercial transactions*, and relevant HM Treasury guidance. During the year we paid over 96 per cent of invoices from suppliers within 30 days of receipt and registration. Creditor days, calculated on an average basis for the year, according to the formula in the Companies Act 2006 (Directors Report) were 4.9 days for 2009-2010 (9.8 days for 2008-2009). The reduction is a consequence of our response to the HM Treasury led initiative where, like other government bodies, we are currently required to pay supplier invoices within ten days. This is to help ease businesses' cash flow as the country seeks to address the challenges of the current economic environment.

Environmental policy and social community statement
We seek to adopt best environmental practice in everything we do and use our environmental management system to pursue sustainable outcomes. Whenever possible, in accordance with our need to provide value for money, social benefits will be provided to local communities through our work. This includes aspects related directly to our work such as flood and coastal erosion risk management, water resources, pollution prevention, navigation and fisheries, as well as associated recreation and leisure benefits.

We actively seek to:
- reduce energy and resource consumption through reduction methods consistent with best practice;
- develop and implement green transport plans for business and commuter travel and use renewable energy to minimise the release of greenhouse gases;
- minimise the use of hazardous materials and waste generated and prevent pollution;
- influence our suppliers and contractors to ensure that goods and services we buy support our environmental policy and, in turn, encourage suppliers and contractors to improve their own environmental performance; and
- monitor and report on our environmental impacts and related expenditure in the Annual Report and Accounts, including a report on our sustainability performance included in Appendix A.

Our employees continue to support WaterAid which aims to provide clean water, sanitation and hygiene education to some of the world's poorest people. We encourage and help our staff to get involved in fundraising activities while still complying with public sector protocols. WaterAid benefits from the funds we raise. During 2009-2010, our employees gave £275,000 raised through various fundraising events.

Pensions
The Environment Agency is a statutory member of the Local Government Pension Scheme (LGPS) and is the administering and employing authority for the Environment Agency's Active Fund which provides final salary pension benefits to 22,000 people who are either current employees, ex-employees or who transferred into the Environment Agency when it was established in 1996. It is also the statutory administering authority for a Closed Fund which provides final salary pension benefits for 22,000 employees from predecessor water industry bodies. The Environment Agency is responsible for administering both funds in accordance with the LGPS regulations.

The Active Fund receives contributions from Environment Agency employees (between 5.5 per cent and 7.5 per cent of pay) and from the Environment Agency (16 per cent of pay) and income from investments from the Active Fund's assets of £1.6 billion. The assets of the fund have increased in value by around 45 per cent during 2009-2010, after allowing for contribution income and benefits paid out over the period. However the future liabilities of the fund are also rising due to increased inflation expectations. The Environment Agency has agreed to increase the employer contribution to 16.5 per cent in 2010-2011. Future employer contributions rates and the Active Fund funding strategy for the period 2011-2014 will be determined by the 2010 triennial valuation of the Active Fund, a review of the Active Fund investment strategy, the introduction of statutory employee-employer cost sharing in 2011-2012, and by other reforms of the LGPS by the Government.

The Closed Fund receives no contributions from the Environment Agency and the Secretary of State for Environment, Food and Rural Affairs has a duty under section 173(3) of the Water Act 1989 to ensure the Fund can meet and fully discharge its liabilities including future annual indexation awards. The Environment Agency has continued to receive on-going cash funding from Defra for the Closed Pension Fund to pay the pension liabilities. Separate financial statements are maintained for the Closed Fund and Active Fund.

Managing risk
As noted in the Statement on Internal Control on page 23, we have a structured and dynamic risk management strategy to help us achieve our objectives. Each key risk is owned and actively managed by a risk champion at Director level. Our risk management plans and reviews of performance against the plans help to ensure that risks are mitigated towards the target level.

Personal data
In 2009-2010, there were no reportable incidents of lost personal data that required us to report them to the Information Commissioner's Office. We will continue to monitor and assess our information risks, to identify and address any weaknesses, and improve our systems. Further information is contained in the Statement on Internal Control.

Information requests
For any information requests, please use the following email address: enquiries@environment-agency.gov.uk. Alternatively written communications can be sent by post to The Environment Agency, National Customer Contact Centre, PO Box 544, Rotherham, S60 1BY. Telephone contact can be made using 08708 506 506 (Monday to Friday, 8am to 6pm).

Managing our buildings
We occupy 187,000 square metres of office space in our offices and depots. 100,000 square metres are freehold and 87,000 square metres leasehold. The majority of our offices and depots were inherited from predecessor organisations. We carried out a major review of our administrative estate (offices and depots) in 2008-2009 and have now started our National Accommodation Strategy which will deliver a reduction of 30 per cent in our office space and a reduction in the number of offices and depots. In the first year of our 10 year strategy we have completed 16 disposals, acquired six leasehold replacement properties and reduced property running costs by £400,000 per annum.

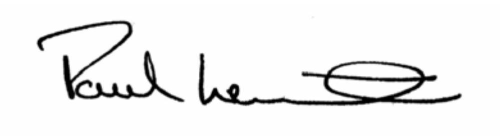
Our National Accommodation Strategy recognises that as an operational organisation, many of our staff do not spend the majority of their time working from offices. This means that by using office space more flexibly, we can reduce the total amount of office space we need. We have a target of 7.7 square metres office space per full time employee and an 80 per cent occupancy rate.

Our National Office relocation project is progressing well. We are on course to start moving staff into Horizon House in December 2010. Between December 2010 and March 2011 we will move up to 1,000 staff from three offices in Bristol and Bath into the new build office in Bristol city centre. Our new building has been awarded the BREEAM 2010 office award, after achieving the highest rating of 'excellent' from the BREEAM assessment.

We are working increasingly with other government organisations and particularly Defra to identify collaborative opportunities to deliver our Accommodation Strategy, either by sharing our existing surplus space or by moving to share with other organisations. As an example, during 2009 we moved into Dragonfly House in Norwich which is a multi-occupancy Defra leased office.

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

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



PAUL LEINSTER
ACCOUNTING OFFICER
20 July 2010

REMUNERATION REPORT

Terms of Reference
The Remuneration Committee comprises four Board members and is chaired by the Chairman of the Environment Agency. Its terms of reference, which are derived from the Greenbury Code of Best Practice on Directors' Remuneration and adapted to the circumstances of the Environment Agency as a NDPB, are as follows:

1. The Remuneration Committee is appointed as a Statutory Committee of the Environment Agency Board to consider on behalf of the Environment Agency the matters relating to the remuneration of Environment Agency employees set out in paragraph 2 and, in so doing, shall have regard to the provisions of the Financial Memorandum and other relevant requirements of Defra.

2. The Remuneration Committee's role is to:

   (a) consider, from time to time, the overall remuneration strategy of the Environment Agency;

   (b) consider, in general, periodic pay reviews for Environment Agency employees;

   (c) consider any significant policy issues involving terms and conditions other than pay;

   (d) decide in conjunction with Defra as appropriate, all aspects of the remuneration of the Chief Executive;

   (e) agree, upon the recommendation of the Chief Executive, any performance related pay for Directors;

   (f) review the broad policy of remuneration for other senior executives, and the framework for succession planning for key posts; and

   (g) receive an annual statement of expenses incurred by Board members.

Business Conducted in Year
The Remuneration Committee met three times during the year ended 31 March 2010. It agreed the performance related pay of the Executive Directors for 2008-2009 and the Chief Executive's appraisal for 2008-2009, and objectives for 2009-2010.

During the year, the Committee also:

- reviewed progress on the reward strategy;
- endorsed the Environment Agency's approach to the pay award; and
- reviewed pay in the light of public sector spending constraints.

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

Board Members' Remunerations (audited)
The following table provides details of the appointment and emoluments of Board members who have received emoluments in the last two financial years:

Board Member	Date of Appointment or Re-appointment effective from	Period of appointment (years)	Time commitment (days per month)	Remuneration in 2009-2010 £	Remuneration in 2008-2009 £
The Rt Hon Lord Smith of Finsbury (Chairman) (i) **	14 July 2008	3	3 per week	106,119	75,092
Sir John Harman (ex Chairman) (i)	01 Jan 2004	4	-	-	40,316
Mr James Brathwaite CBE (ii) **	01 July 2008	3	4½	18,902	18,622
Dr Andrew Brown (vii) * **	10 Oct 2009	3	5	24,151	20,691
Mr Peter Bye (vi)	01 Sept 2006	3	6	5,431	24,829
Mr Edward Cantle CBE (iii)	16 May 2008	(iii)	7	-	22,401
Mr John Edmonds (vi)	01 June 2008	1	6½	4,483	26,898
Dr Ruth Hall CB (ii) *	01 July 2008	3	6	26,867	24,829
Ms Julie Hill (vi)	01 July 2009	3	5	15,752	-
Ms Emma Howard Boyd (vi) *	01 July 2009	3	1 per week	13,651	-
Mr Robert Light (vi) ***	01 July 2009	3	4	12,602	-
Mr Richard Percy (vi)	01 Nov 2006	3	6	14,701	24,829
Dr Malcolm Smith (iv) *	01 Sept 2008	2	7	29,403	28,968
Dr Lyndon Stanton (vi)	01 June 2008	1	6	4,138	24,832
Councillor Kay Twitchen OBE ** (viii)	01 April 2010	3	6	25,202	24,829
Mr John Varley (vi) ***	01 Oct 2009	3	4	8,401	-
Mr Jeremy Walker (vi)	22 June 2009	3	6	19,137	-
Lady Suzanne Warner (vii) * ***	18 Sep 2009	3	6½	25,901	22,760
Lord Larry Whitty (vii) ** ***	18 Sep 2009	3	4½	18,902	18,622
Baroness Barbara Young (ex Chief Executive) (v)	01 July 2005	8	-	-	35,157
Dr Paul Leinster (Chief Executive) (vi)	01 Nov 2008	-	Full Time	205,477	202,967
			Total	**579,220**	**636,642**

Note: Non-executive Board members have no entitlement to performance related pay and only the Chief Executive is eligible for pension contributions or other benefits.

* Member of Audit and Risk Committee.

** Member of Remuneration Committee

*** Member of Pensions Committee.

i) Sir John Harman retired on 30 June 2008. The Rt Hon Lord Smith of Finsbury was appointed as Chairman of the Board to replace Sir John Harman with effect from 14 July 2008.

ii) James Brathwaite and Ruth Hall were re-appointed for a further 3 years from 01 July 2008.

iii) Edward Cantle retired from the Board on 16 November 2008.

iv) Malcolm Smith was re-appointed to the Board for 1 year with effect from 1 September 2007 and subsequently a further 2 years with effect from 1 September 2008.

v) The Chief Executive sits on the Board as an ex-officio member, for which he/she does not receive any additional remuneration. The total emoluments for the year are disclosed in the Executive Directors' table. Barbara Young left the Environment Agency on 31 May 2008, Paul Leinster was appointed as Acting Chief Executive from 1 June 2008 and was subsequently appointed permanently as Chief Executive of the Environment Agency from 1 November 2008.

vi) Julie Hill, Emma Howard Boyd and Robert Light joined the board on 1 July 2009. John Varley was appointed on 1 October 2009. Jeremy Walker joined the board on 22 June 2009. The appointments were made to replace four Board members; John Edmonds and Lyndon Stanton who retired on 30 May 2009, Peter Bye who retired on 19 June 2009 and Richard Percy who retired on 31 October 2009.

vii) Andrew Brown, Larry Whitty and Suzanne Warner were all re-appointed in 2009. Andrew Brown was appointed Deputy Chair on 01 July 2009.

viii) Kay Twitchen was re-appointed to the Board for 6 months with effect from 1 April 2010.

Executive Directors' Emoluments (audited)

The Environment Agency employs eight Executive Directors in addition to the Chief Executive.
The following table provides details of their appointments, total emoluments and benefits in kind:

Executive Director	Date of Appointment	Total Emoluments 2009-2010 (Range £'000)	Total Emoluments 2008-2009 (Range £'000)	Benefits in Kind 2009-2010 (£)	Benefits in Kind 2008-2009 (£)
Dr Paul Leinster, Chief Executive	01 Nov 2008	205 – 210	200 – 205	3,400	4,205
Baroness Barbara Young, Chief Executive	27 Nov 2000	–	35 – 40	–	–
Ms Patricia Henton, (vi) Director of Environment & Business	07 Mar 2005	155 – 160	145 – 150	–	–
Mr David Jordan, (i) Director of Operations	01 Jun 2008	170 – 175	140 – 145	3,500	2,879
Ms Miranda Kavanagh, (v) Director of Evidence	29 Apr 2009	135 – 140	–	2,000	–
Dr David King, (iii) Director of Water Management	08 Jul 2002	–	155 – 160	–	391
Mr Graham Ledward, Director of Resources	03 Jan 2006	160 – 165	150 – 155	2,800	2,837
Mr Adrian Long, Director of Communications	25 Feb 2008	125 – 130	120 – 125	2,100	2,136
Mr Mark McLaughlin, (iv) Director of Finance	22 Jun 2009	120 – 125	–	300	–
Mr Ric Navarro, (ii) Director of Legal Services	08 Aug 1995	25 – 30	100 – 105	100	631
Mr Nigel Reader, (iv) Director of Finance	08 Aug 1995	90 – 95	150 – 155	1,200	2,102
Mr Jonathan Robinson, (ii) Director of Legal Services	05 May 2009	115 – 120	–	–	–
Mr Robert Runcie, (iii) Director of Flood Risk Management	01 Apr 2009	145 – 150	–	1,400	–

Note: Total emoluments include gross salaries and performance related pay. The level of performance related pay, other than for those Directors who retired during the year or are due to retire in 2010-2011, is consistent with the levels for Senior Civil Servants. The notice period for Directors is three months.

(i) David Jordan was appointed acting Director of Operations on 1 June 2008 and was subsequently appointed to the position permanently from 1 April 2009.
(ii) Ric Navarro, Director of Legal Services retired on 30 June 2009. His replacement, Jonathan Robinson was appointed on 5 May 2009 and his whole year equivalent final pay as at 31 March 2010 was £127,708.
(iii) David King retired on 31 Mar 2009. Robert Runcie was appointed as Director of Flood Risk Management on 1 April 2009.
(iv) Nigel Reader retired on 31 October 2009. His replacement, Mark McLaughlin was appointed on 22 June 2009 and his whole year equivalent final pay as at 31 March 2010 was £157,772.
(v) Miranda Kavanagh was appointed Director of Evidence on 29 April 2009 and her whole year equivalent final pay as at 31 March 2010 was £147,733.
(vi) Patricia Henton is due to retire on 31 October 2010. Her replacement, Edward Mitchell was appointed on 1 April 2010.

Executive Directors' Emoluments (audited)

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

Executive Director	Accrued Pension at 31/03/2010 (Range £'000)	(Decrease) / Increase in Accrued Pension During the Year (Range £'000)	Accrued Lump Sum at 31/03/2010 (Range £'000)	Increase in Lump Sum During the Year (Range £'000)	CETV at 31/03/2009 £'000	CETV at 31/03/2010 £'000	Real increase in CETV £'000
Dr Paul Leinster, Chief Executive	50 – 55	2.5 – 5.0	125 – 130	2.5 – 5.0	1,073	1,221	86
Baroness Barbara Young, Chief Executive	–	–	–	–	2,010	–	–
Ms Patricia Henton, Director of Environment & Business	50 – 55	5.0 – 7.5	140 – 145	10.0 – 12.5	1,137	1,312	154
Mr David Jordan, Director of Operations	60 – 65	12.5 – 15.0	165 – 170	30.0 – 32.5	1,021	1,359	284
Ms Miranda Kavanagh, Director of Evidence	0 – 5	0 – 2.5	–	–	–	30	20
Dr David King, Director of Water Management	–	–	–	–	1,285	–	–
Mr Graham Ledward, (i) Director of Resources	15 – 20	10.0 – 12.5	10 – 15	0.0 – 2.5	87	237	133
Mr Adrian Long, Director of Communications	10 – 15	0 – 2.5	20 – 25	0.0 – 2.5	142	180	22
Mr Mark McLaughlin, (ii) Director of Finance	70 – 75	72.5 – 75.0	–	–	–	901	164
Mr Ric Navarro, Director of Legal Services	45 – 50	0 – 2.5	135 – 140	2.5 – 5.0	1,120	1,168	39
Mr Nigel Reader, Director of Finance	50 – 55	(7.5 – 10.0)	365 – 370	177.5 – 180.0	1,569	1,628	7
Mr Jonathan Robinson, (ii) Director of Legal Services	35 – 40	37.5 – 40.0	–	–	–	416	168
Mr Robert Runcie, Director of Flood Risk Management	45 – 50	5.0 – 7.5	120 – 125	12.5 – 15.0	768	934	123

(i) Graham Ledward was awarded additional years by the Environment Agency of three years and 122 days during this accounting period, in accordance with an agreement which was made in May 2008. The impact of this award has been included in the table above. In October 2009 it was agreed in principle to award up to six months additional membership between April 2009 and March 2014 based on his performance each previous year. An award for 2009-2010 has been approved but calculations regarding this award are still being completed and therefore the award has not been included in the table above.

(ii) Mark McLaughlin and Jonathan Robinson made transfers into the scheme during the period. The amount brought in is deducted from the 'Real increase in CETV as funded by employer (nearest £k)'. The transfers are included in the pension figures quoted and mean there is a large 'Real increase in pension'.

The Chief Executive's performance related pay is calculated by reference to the extent to which pre-determined objectives have been achieved, with a maximum value of 20 per cent of basic pay. The Chief Executive is an ordinary member of the Environment Agency's Active Fund pension scheme, and the Environment Agency paid employer's pension contributions into the Active Fund at the same rate as for other ordinary participants. At the end of the year, his accrued pension entitlement from the Environment Agency's pension scheme was £52,589.

The Executive Directors' total pay includes an element of performance related pay which is calculated by reference to the extent to which pre-determined objectives have been achieved, with a maximum value of 20 per cent of basic pay. They are also ordinary members of the Environment Agency's Active Fund pension scheme.

The assessment of the Corporate Performance of the Environment Agency is agreed with the Remuneration Committee. Directors' performance is approved by the Chief Executive. The Chief Executive's performance and objectives are determined by the Chairman and Remuneration Committee.

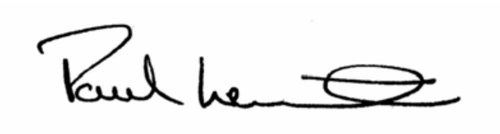
The Chief Executive and Directors have standard contracts of employment with three months termination notice. Apart from the standard redundancy entitlement that is in place for all staff within the Environment Agency, there are no other provisions for termination payments.

Cash Equivalent Transfer Value (CETV)

This is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. It is a payment made by a pension scheme or arrangement when the member leaves a scheme and chooses to transfer the pension benefits they have accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their membership of the pension scheme, not just their current appointment as an Executive Director or Senior Manager. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost or awarded by the Environment Agency. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

Real increase in CETV

This reflects the increase in CETV effectively funded by the employer. It takes account of the increase in accrued pension due to inflation and contributions paid by the member or by the Environment Agency. It uses common market valuations for the start and end of the year.



PAUL LEINSTER
ACCOUNTING OFFICER
20 July 2010

STATEMENT OF ACCOUNTING OFFICER'S RESPONSIBILITIES

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

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

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

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

PAUL LEINSTER
ACCOUNTING OFFICER
20 July 2010

ACCOUNTING OFFICER'S STATEMENT ON INTERNAL CONTROL (SIC)

Scope of responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the Environment Agency's policies, aims and objectives, whilst safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Managing Public Money. I am personally accountable to the Board, Parliament and WAG and the Board is accountable to central Government and Welsh Ministers.

We have recently published our corporate strategy, *"Creating a Better Place"* that sets out our aims for the period from 2010 to 2015. Through the publication of the Corporate Plan and the Annual Report and Accounts, the Environment Agency reports on progress made and sets out how we have allocated the resources made available to us. Defra and WAG approve the Corporate Strategy and each Corporate Plan. As part of this process, we will communicate our policies, aims and objectives and those areas we perceive represent the greatest risk to the achievement of them.

The Environment Agency's aims and objectives in the delivery of central Government and Welsh Ministers' policies and key issues related to them are discussed as appropriate at regular meetings of officials, including my meetings with Defra's Accounting Officer, as well as at meetings of the Environment Agency's Chairman and myself with Ministers.

The purpose of the system of internal control

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

Capacity to handle risk

The Environment Agency has a statement setting out our strategic approach to risk management that has been agreed with our Board and Directors. The Directors' Team assesses and prioritises the Environment Agency's key corporate risks throughout the year with individual Directors taking on the role of risk champions. These risks are actively managed and discussed monthly at meetings of the Directors' Team. The Audit and Risk Committee receive quarterly reports on how key corporate risks are being managed and report back to the Board after each meeting. Over time this has developed into a more dynamic and integrated approach to risk management.

The Environment Agency's management development training programmes incorporate risk management principles and techniques. Regional and Head Office management teams identify and manage their own major business risks in a similar way to the corporate risk process. Any significant risks identified at this level are escalated to the Directors' Team and considered for inclusion as corporate risks. Staff have access to guidance on the application of risk assessment. The Environment Agency has post-project appraisal and lessons learned processes in place. This is designed to improve knowledge sharing across the organisation. Staff are regularly reminded of the importance of complying with these requirements.

The risk and control framework

The Environment Agency's risk management strategy recognises that effective risk management is a key component required for the delivery of our objectives. The strategy promotes the taking of well-managed risks when necessary to meet the needs of stakeholders. The strategy recognises the importance of prioritising how the Environment Agency responds to risk and that the response must be to reduce the residual risk to an acceptable and justifiable level. Clear accountability for risk ownership and the regular monitoring and reporting of progress to management teams are in place to ensure risk management plans are delivered.

All key management teams undertake an annual business-risk assessment process. These prioritised assessments are used to compile an Environment Agency wide risk register. The register informs the Directors' corporate risk assessment. At management team and Director level, risk mitigation plans are developed and routinely monitored and reported on and it is through this process that the on-going maintenance and improvement of the Environment Agency's risk management process occurs.

To manage corporate risks, the Directors use a dynamic process to discuss and update their risk register. The current risks include management of the Environment Agency's reputation, funding challenges, embedding a better regulation culture, asset and information security, restoring sustainable abstractions and managing organisational change including the outsourcing of information technology services. The Board takes an active part in considering and monitoring the management of business risks. The overall risk rating for this area has reduced as a result.

The security of assets and information has been given greater focus over recent years. Cabinet Office guidance has been implemented under the leadership of the Director of Operations and the Head of Corporate Security.

The Environment Agency is responsible for managing a diverse range of environmental hazards that have the potential to pose risks to the public and the natural environment. The Environment Agency is committed to engaging effectively with our customers including the public to ensure that their views are known and, within the constraints imposed by statute, to take these opinions into account in our decision-making. We continue to work to enhance our ability to communicate effectively on environmental risk and engage with stakeholders.

Key elements of the system of internal control

1. Governance
The Environment Agency is an NDPB sponsored by Defra and WAG. The work of the Environment Agency is overseen by the Environment Agency Board. The Chief Executive is a member of the Board. The Board has a number of sub-committees including the Audit and Risk Committee providing oversight on matters of corporate governance and internal control.

The Chief Executive is the Accounting Officer and has a team of Directors that provide leadership and direction to the organisation. Within the organisation, they are responsible for establishing an effective system of internal control. Additional assurance is obtained through established programmes of external certification including Investors in People and International Standards Organisation (ISO) certification in environmental and quality management.

2. Strategy and Planning
The Environment Agency has a long established vision for the environment and works to achieve this through implementing our Corporate Strategy *Creating a better place*. Each year a Corporate Plan is agreed with sponsor departments that sets out organisational targets and resources for up to a three-year period. The Corporate Plan is built up from and then cascades down into the local business plans and objectives of each operating unit.

3. Programme and Project Management
The Environment Agency undertakes programme and project management in accordance with Office of Government Commerce (OGC) guidelines. Projects are initiated through the approval of business cases that contain appraisals based on Defra, WAG and Treasury requirements. All programmes and projects have clear accountability frameworks and when appropriate make use of OGC Gateway Review methodologies to manage risk and focus on the successful delivery of benefits.

4. Change Management
There are established protocols for managing any changes that impact on staff roles and responsibilities that incorporate active engagement with the Trade Unions.

5. Performance Management
The Environment Agency has an organisation-wide performance management framework designed to align strategic targets to each individual's performance objectives. The Directors' Team uses a corporate scorecard to monitor achievement of key organisational objectives. Regional and Head Office management teams also maintain and monitor scorecards to assist in delivering and accounting for performance.

6. Fraud Risk Management
Fraud risk is actively managed with the support and advice of Deloitte. We have a risk management plan that is updated annually, to identify the risks of fraud and to ensure that these risks are mitigated to an acceptable level.

7. Legislative Compliance
In April 2010, a legislative compliance policy was finalised and this will be embedded into the organisation during the next financial year. This will formalise and clarify the existing approaches and accountabilities to assist the Environment Agency to comply with legislation.

Review of effectiveness
As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. 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 Environment Agency 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. I have been advised on the results of my review of the effectiveness of the system of internal control by the Board and the Audit and Risk Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

The process that has been applied in maintaining and reviewing the effectiveness of the system of internal control includes:

1. The operation of the Environment Agency Board comprising non-Executive Directors and the Chief Executive that sets strategic direction, approves the corporate strategy and corporate plans and reviews performance. The Board receives regular reports from the Audit and Risk Committee that set out the standards of corporate governance and internal control operating in the Environment Agency.

2. The operation of the Audit and Risk Committee, a subcommittee of the Board, which meets quarterly. The principal aims of the Committee are to consider the Annual Accounts of the Environment Agency and to ensure the standards of internal management and financial control are appropriate. It also considers and advises the Board and Chief Executive on the Environment Agency's approach to risk management and corporate governance arrangements.

3. The Head of Internal Audit submitting an annual formal opinion to the Accounting Officer on the adequacy and effectiveness of the Environment Agency's risk management, internal control and governance processes in accordance with Government Internal Audit Standards.

4. An annual review of the effectiveness of the internal review procedures across the control framework. The Audit and Risk Committee and the Accounting Officer receive from the Director of Finance and Director of Operations an annual assurance report on internal control that is based upon a wide range of control processes and enables an overall summary assessment of internal control procedures to be considered.

5. Acting on the recommendations made by external auditors in their interim and final management letters and other reports.

Specific areas that have caused concern during 2009-2010 are set out in the paragraphs below. Management action has been taken or put into place across the business to mitigate these risks and ensure that they are managed appropriately.

Progress continues to be made in securing our assets and information. A full review of the physical security of all our premises is underway, in accordance with Cabinet Office guidance. Upgrades will be prioritised on the basis of the level of security and the importance of the assets kept there. Compliance with the government mandatory data handling measures is significantly improved and good progress has been made with compliance with the mandatory requirements of the new Security Policy Framework (SPF). Internal review of the SPF has shown some issues still exist around protective marking, security awareness and physical security of buildings. These issues will be addressed in 2010-2011.

The Environment Agency has signed a major outsourcing contract with Capgemini to provide information and communications technology for up to ten years. The contract was signed in November 2009. This project required and obtained approval from Defra and HM Treasury and has undertaken OGC Gateway reviews at appropriate stages. This is a high risk project, requiring Director and senior management oversight. Appropriate management controls have been put in place to ensure that issues, once identified, are resolved as soon as possible.

Security of IT has improved during the year following the roll out of a full disk encryption system for laptops, improvements to network access controls, the introduction of wireless guest access and improved patching and anti-virus up-dates. The process to control the IT access for staff that have made internal job moves and for leavers has been substantially improved and redundant accounts have been removed. However some IT security issues still remain and these are being addressed both internally and with the new outsource supplier.

Employees have greater awareness of the importance of security following participation of more than 99 per cent on the mandatory on-line security training package.

There are established policies and procedures to help programme and project managers manage the delivery and finances of their projects effectively. Some improvement is required to ensure that these procedures are applied consistently across the organisation and that defined roles and responsibilities are fully understood. ‘Lessons learned’ exercises for each significant project should be completed and made available for future projects. A new Corporate Portfolio Group has been established. The purpose of the group is to support Directors’ Team in ensuring change programmes are prioritised and managed well and effectively control programmes and projects to maximise delivery of our corporate strategy.

A visit in September 2009 from the Lloyds Register Quality Assurance (LRQA) auditors was undertaken to review compliance with the requirements of international quality and environmental management system standards ISO9001 and ISO14001. The visit highlighted a weakness that there was no formal corporate policy on how the Environment Agency ensures it is compliant with all legislation. We produced a legislative compliance policy which has been approved by Directors and it will continue to be embedded during 2010-2011.

We have continued to improve our controls in the use of Environment Agency procurement cards, with considerable levels of monitoring and checking being undertaken internally. The use of audit software to check procurement card receipts has gone live from 1 April 2010, making a previously labour-intensive process more efficient and enabling significantly enhanced analysis to identify unusual transactions and trends on a more timely basis. It should be noted that the Environment Agency is reimbursed for any losses arising from fraudulent encashment or cloning of charge cards.

A new rail booking process has been implemented which will enable the removal of a significant number of procurement cards currently in circulation.

The Environment Agency’s Financial Scheme of Delegation (FSoD), sets out our delegated authority levels for our staff to commit the Environment Agency to financial decisions. It has been revised in 2009-2010 to align levels of approval with other Defra non-departmental government bodies. A training package to ensure staff understand their responsibilities under the FSoD will be rolled out in 2010-2011.

PAUL LEINSTER
ACCOUNTING OFFICER
20 July 2010

THE CERTIFICATE AND REPORT OF THE COMPTROLLER AND AUDITOR GENERAL

THE CERTIFICATE AND REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSES OF PARLIAMENT, THE BOARD OF THE ENVIRONMENT AGENCY, THE SECRETARY OF STATE FOR ENVIRONMENT, FOOD AND RURAL AFFAIRS AND WELSH MINISTERS.

I certify that I have audited the financial statements of the Environment Agency for the year ended 31 March 2010 under the Environment Act 1995 as amended by the Government Resources and Accounts Act 2000 (Audit of Public Bodies) Order 2003. These comprise the Net Expenditure Account, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Taxpayers' Equity and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

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

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

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

Opinion on Regularity
In my opinion, 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.

Opinion on financial statements
In my opinion:

- the financial statements give a true and fair view of the state of the Environment Agency's affairs as at 31 March 2010 and of its deficit, changes in taxpayers' equity and cash flows for the year then ended; and

- the financial statements have been properly prepared in accordance with the Environment Act 1995 and Secretary of State directions issued there under.

Opinion on other matters
In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with Secretary of State and Welsh Ministers' directions issued under the Environment Act 1995; and

- information given in the management commentary included within the Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

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

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

Report

I have no observations to make on these financial statements.

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

22 July 2010

Net Expenditure Account

for the period ended 31 March 2010

	Note	31 March 2010 £'m	31 March 2009 £'m
Expenditure			
Staff costs	4	*512.2*	*553.6*
Capital works expensed in year	6	*282.1*	*247.8*
Depreciation and amortisation	9 & 10	*97.8*	*94.2*
Other expenditure	7	*374.6*	*384.4*
Impairment of non-current assets	9e	*9.4*	-
		1,276.1	*1,280.0*
Income			
Income from activities	8	*408.6*	*398.7*
Other income	8	*9.4*	*4.9*
		418.0	*403.6*
Net expenditure	3	*(858.1)*	*(876.4)*
Sale of assets		*3.5*	*2.1*
Notional cost of capital	5	*(70.9)*	*(78.4)*
Interest receivable		*0.3*	*3.8*
Financing (expenditure)/ income on pension scheme assets and liabilities		*(26.9)*	*14.2*
Net expenditure after cost of capital charge and interest		(952.1)	(934.7)
Reversal of notional cost of capital		*70.9*	*78.4*
Deficit for the year before reserve transfers		*(881.2)*	*(856.3)*
Transfers to reserves			
Capital reserve	17(a)	*(20.9)*	*(6.9)*
Pension reserve	17(b)	*65.7*	*70.1*
Retained deficit after reserve transfers		*(836.4)*	*(793.1)*

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

The notes on pages 33 to 60 form part of these accounts.

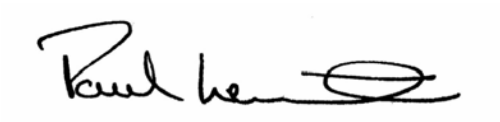
Statement of Financial Position

as at 31 March 2010

	Note	31 March 2010 £'m		31 March 2009 £'m		1 April 2008 £'m	
Non-current assets:							
Property, plant and equipment	9	*2,340.6*		*2,527.1*		*2485.6*	
Intangible assets	10	*105.1*		*81.4*		*70.2*	
Total non-current assets			*2,445.7*		*2,608.5*		*2,555.8*
Current assets:							
Assets classified as held for resale	11	*4.4*		*3.8*		-	
Trade and other receivables	12	*88.3*		*85.9*		*72.4*	
Cash and cash equivalents	13	*85.3*		*78.0*		*128.7*	
Total current assets			*178.0*		*167.7*		*201.1*
Total assets			*2,623.7*		*2,776.2*		*2,756.9*
Current liabilities							
Trade and other payables	14	*251.1*		*240.7*		*250.2*	
Total current liabilities			*251.1*		*240.7*		*250.2*
Non-current assets less net current liabilities			*2,372.6*		*2,535.5*		*2,506.7*
Non-current liabilities							
Provisions	15	*18.6*		*17.9*		*22.8*	
Pension liabilities	22	*488.2*		*317.4*		*195.8*	
Other payables	14	*5.1*		*4.3*		*4.3*	
Total non-current liabilities			*511.9*		*339.6*		*222.9*
Assets less liabilities			*1,860.7*		*2,195.9*		*2,283.8*
Reserves							
Deferred grants and contributions	16	*70.4*		*67.0*		*59.9*	
Capital reserve	17(a)	*815.6*		*746.1*		*697.8*	
Revaluation reserve	17(a)	*1,564.2*		*1,799.2*		*1,798.1*	
Pensions reserve	17(b)	*(488.2)*		*(317.4)*		*(195.8)*	
Net Expenditure reserve	17(c)	*(101.3)*		*(99.0)*		*(76.2)*	
			1,860.7		*2,195.9*		*2,283.8*

The notes on pages 33 to 60 form part of these accounts.

The financial statements on pages 29 to 60 were approved by the Board on 6 July 2010 and were signed on its behalf by:



ACCOUNTING OFFICER
20 July 2010

Statement of Cash Flows
for the period ended 31 March 2010

	Notes	31 March 2010 £'m	31 March 2010 £'m	31 March 2009 £'m	31 March 2009 £'m
Cash flows from operating activities					
Net deficit after cost of capital and interest		(952.1)		(934.7)	
Depreciation	9 & 10	97.8		94.2	
Impairment of non-current assets	9e	9.4		-	
Amortisation of grants received	16	(2.2)		(2.2)	
Profit on disposal of assets		(1.8)		(0.7)	
Adjustment for cost of capital charge		70.9		78.4	
Increase in trade and other receivables	12	(2.4)		(13.5)	
Increase / (decrease) in trade and other payables	14	13.0		(6.7)	
Transfer to pensions reserve	22	65.7		70.1	
Increase/(decrease) in provisions	15	0.7		(4.9)	
Net cash outflow from operating activities			**(701.0)**		**(720.0)**
Cash flows from investing activities					
Purchase of property, plant and equipment	9	(100.2)		(109.6)	
Purchase of intangible assets	10	(33.1)		-	
Proceeds of disposal of property, plant and equipment		3.5		2.1	
Capital grants and contributions for the purchase of property, plant and equipment	16	5.8		9.3	
Net cash outflow from investing activities			**(124.0)**		**(98.2)**
Cash flows from financing activities					
Grants from parent department	17c	834.1		770.3	
Net financing			**834.1**		**770.3**
Net increase in cash and cash equivalents in the period			**9.1**		**(47.9)**
Cash and cash equivalents at the beginning of the period					
Short term investments	13	74.0		126.0	
Bank balance / overdraft	13 & 14	(12.3)		(16.4)	
			61.7		**109.6**
Cash and cash equivalents at the end of the period					
Short term investments	13	79.1		74.0	
Bank balance / overdraft	13 & 14	(8.3)		(12.3)	
			70.8		**61.7**
			9.1		**(47.9)**

Statement of Changes in Taxpayers' Equity

for the year ended 31 March 2010

	Notes	Deferred grants and contri-butions £'m	Capital Reserve £'m	Revaluation Reserve £'m	Net Expen-diture Reserve £'m	Pension Reserve £'m	Total Reserves £'m
Balance at 1 April 2008		59.9	697.8	1,798.1	(76.2)	(195.8)	2,283.8
Changes in taxpayers' equity for 2008/2009							
Net gain on revaluation of property, plant and equipment				42.5			42.5
Release of reserves to the Net Expenditure Account		7.1					7.1
Actuarial loss						(109.1)	(109.1)
Employer contributions						57.6	57.6
Transfers between reserves	17		48.3	(41.4)	63.2	(70.1)	-
Retained deficit					(856.3)		(856.3)
Total recognised income and expense for 2008/2009		67.0	746.1	1,799.2	(869.3)	(317.4)	1,425.6
Grant from parent	17				770.3		770.3
Balance at 31 March 2009		67.0	746.1	1,799.2	(99.0)	(317.4)	2,195.9
Balance at 1 April 2009		67.0	746.1	1,799.2	(99.0)	(317.4)	2,195.9
Changes in taxpayers' equity for 2009/2010							
Net gain on revaluation of property, plant and equipment				(186.4)			(186.4)
Release of reserves to the Net Expenditure Account		3.4					3.4
Actuarial loss						(164.3)	(164.3)
Employer contributions						59.2	59.2
Transfers between reserves	17		69.5	(48.6)	44.8	(65.7)	-
Retained deficit					(881.2)		(881.2)
Total recognised income and expense for 2009/2010		70.4	815.6	1,564.2	(935.4)	(488.2)	1,026.6
Grant from parent	17				834.1		834.1
Balance at 31 March 2010		70.4	815.6	1,564.2	(101.3)	(488.2)	1,860.7

Deferred grants and contributions reserve – reflects capital grants received which are being amortised over the useful life of relevant assets.

Capital reserve – reflects the net book value of the historical cost of non current assets to date.

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

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

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

The notes on pages 33 to 60 form part of these accounts.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2010

1. Statement of accounting policies

The financial statements have been prepared in accordance with the Direction on the Annual Accounts made by the Secretary of State for Environment, Food and Rural Affairs, and Welsh Ministers under section 45 of the Environment Act 1995. These financial statements have been prepared in accordance with the *Government Financial Reporting Manual* (FReM) issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. These financial statements are the first to be prepared in accordance with IFRS and accordingly IFRS 1 First Time Adoption of International Financial Reporting Standards has been applied in preparing these financial statements. Reconciliations disclosing the effect of the transition from UK GAAP to IFRS on the Environment Agency's financial statements are shown in Note 2. Comparative figures in respect of 2008-2009 have been restated to reflect these adjustments. Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of the Environment Agency for the purpose of giving a true and fair view has been selected. The particular policies adopted by the Environment Agency are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

1.1 Accounting Convention

(a) Income

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

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

(b) Expenditure

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

(c) Capital Grants and Contributions

Grants that relate to specific capital expenditure are treated as deferred grants and contributions, which are credited to the net expenditure account over the asset's useful life.

(d) Grant-in-aid Receipts

Grant-in-aid receipts from Defra and WAG are treated as income received from a controlling party, giving rise to a residual financial interest. The receipts are treated as a financing transaction and credited directly to the net expenditure reserve.

With effect from 1 April 2008, the Environment Agency took on responsibility for administering and issuing grants to Local Authorities and Internal Drainage Boards for flood and coastal erosion risk management capital schemes. The grant was received from Defra and distributed for appropriate projects undertaken during the year.

(e) Capital Works Expensed in Year

Capital works which are expensed in year, comprise earth work on river banks; channel and related works; piling and stoning which are of no realisable value to the Environment Agency and other works on structures and properties belonging to third parties where the risk and rewards of ownership of the works undertaken does not vest in the Environment Agency.

(f) Property, Plant and Equipment

Administrative land and buildings are valued on the basis of open market value for existing use and are subject to independent professional revaluation in accordance with the RICS Appraisal and Valuation Manual every five years. Other tangible non current assets are valued at net current replacement cost. Their values are revised annually through the use of suitable indices. Depreciation is calculated so as to write off the value of tangible non current assets on a straight line basis over the expected useful economic lives of the assets concerned.

The principal economic lives used for depreciation purposes are:

Operational Assets	15-100 years
Freehold Buildings	10-60 years
Plant and Machinery	3-20 years
Vehicles	3-20 years
Fixtures and Fittings	3-15 years
IT Equipment	3-15 years

Freehold land is not depreciated, unless it forms an essential element of an operational asset and significantly changes its nature. There are only a small number of land assets that fall into this category. These assets are being depreciated to net realisable value over the life of the operational asset in which the land is being used.

Tangible non current assets are reviewed and a reduction in value made for impairment if events or changes in circumstances indicate that the carrying amount needs to be reduced to reflect current replacement cost.

Any physical assets identified as a result of the Environment Agency's continuous programme of asset verification, which are not included in the asset register, are treated as revaluation adjustments in the year in which they are identified.

(g) Intangible Assets

Intangible assets are initially recorded at cost and are then revised annually through the use of suitable indices to fair value. Amortisation is calculated so as to write off the value of intangible assets on a straight line basis over the expected useful economic lives of the assets concerned.

The principal economic lives used for depreciation purposes are:

Information Technology	3-10 years
Software Licences	5-25 years

(h) Accrued and Deferred Income

Accumulated surpluses/deficits relating to water resources charges, flood risk management local levies, and environmental protection charges are treated as deferred income/accrued income. Surpluses are credited to the net expenditure account as costs exceed income from charges or local authority levy contributions. Deficits are debited to the net expenditure account as income exceeds costs.

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

(i) Leases

Finance leases are recognised where the Environment Agency bears substantially the risks and benefits of owning the leased item for the majority of its remaining useful life. The leased assets are capitalised at the start of the lease term at their fair value or, if lower, the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and the lease liability to achieve a consistent rate of interest on the remaining balance of the liability.

Capitalised leased assets are depreciated over the shorter of the lease term or the estimated useful life of the asset.

Costs in respect of operating leases are charged to the net expenditure account on a straight-line basis over the lease term.

(j) Research and Development

Expenditure on research is not capitalised. Development expenditure is capitalised and written off over the useful life of the asset if it meets the criteria specified in the FReM which has been adapted from IAS 38 to take account of the not-for-profit context. Expenditure which does not meet the criteria for capitalisation is charged to the net expenditure account in the year in which it is incurred. Non current assets required for research and development are depreciated over the life of the associated project or over the life of the asset if the asset is to be used for subsequent research and development work.

(k) Foreign Currency

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

(l) Short Term Deposits

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

(m) Provisions

Provisions are recognised when the Environment Agency has a present legal or constructive obligation as a result of a past event, when it is probable that an outflow of resources will be required to settle the obligation and when a reliable estimate can be made of the amount of the obligation. The Environment Agency makes all appropriate provisions including redundancy and early retirement costs, where these meet the definition within IAS 37.

(n) Public Private Partnership Contracts

The Environment Agency has two PPP contracts (see note 21) for the provision of services and capital works expensed in the year. Therefore there are no tangible non current assets recognised in the statement of financial position. Expenditure incurred during the year on both contracts is charged to the net expenditure account.

(o) Financial Instruments

Financial instruments do not play a significant medium or long term role in the financial risk profile of the Environment Agency.

The Environment Agency classifies its non derivative financial assets as loans and receivables. Financial assets and liabilities are recognised at fair value (the transaction price plus any directly attributable transaction costs).

(p) Value Added Tax

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

(q) Employee Benefits

The Environment Agency has incorporated a change in accounting policy as required by IAS 19, as set out in note 2. Accrued holiday pay is now calculated and provided for in each year. This cost was not recognised under previous GAAP. This change has been incorporated from 1 April 2008. The adjustment increases the charge to the net expenditure account and increases the other current liabilities in note 14.

(r) Assets Held for Resale

Non-current assets are treated as held for sale if the carrying amount will be recovered principally through a sale transaction rather than through continuing use.

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

1.2(a) Capital Charge

A charge, reflecting the cost of capital utilised by the Environment Agency, is included in the Net Expenditure Account. The charge is calculated at the real rate set by HM Treasury (currently 3.5 per cent) of the average carrying amount of all assets less liabilities.

1.2(b) Pensions

The Environment Agency makes regular contributions to the Environment Agency's Pension Fund (known as the 'Active Fund') to fund the current and future pension liabilities. Contributions are charged to the net expenditure account taking account of the expected pension costs over the service lives of the employees and are set at a level sufficient to ensure the scheme is fully funded following formal actuarial valuations of the fund. Following the 1 April 2007 triennial valuation of the Active Fund the Board approved the Environment Agency's consulting actuary recommendation that the contribution rate should increase from 15.0 per cent by 0.5 per cent per annum for the next 3 years commencing 1 April 2008 to 16.5 per cent by 31 March 2011. The next triennial valuation of the Active Fund will be as at 31 March 2011. It will inform the setting by the Environment Agency Board of future employers contribution rates from 1 April 2011 to 31 March 2014. Liabilities for enhancements to employees' pension arrangements under the Environment Agency's voluntary severance scheme are accounted for in the year in which applications for severance are approved.

The Environment Agency also effects payment of certain unfunded pensions to former, pre-privatisation water industry employees on behalf of the Government. Such pension payments are met entirely from Defra provided grant-in-aid.

1.3 Effective for Future Financial Years

The following IFRSs, IFRIC Interpretations and Amendments applicable to the Environment Agency, have been issued but are not yet effective and have not been early adopted by the Environment Agency:

1.3(a) Trust Statements for Consolidated Fund

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

1.3(b) Notional Cost of Capital

In line with HM Treasury guidance and accounting alignment from 1 April 2010 there will no longer be a requirement to calculate the notional cost of capital thus the 2010-2011 Financial Statement will exclude the notional cost of capital.

1.4 Areas of Judgement

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenditure. These are based on historic and other factors that are believed to be reasonable, the results of which form the basis for making judgements. The estimates and underlying assumptions are reviewed on an ongoing basis. Specific areas of judgement include depreciation and amortisation periods, provisions, impairments and classification of capital expenditure as capital works expensed in year.

2 First-time adoption of IFRS

	Net Expenditure Reserve £'m
Taxpayers equity brought forward at 31 March 2009 under UK GAAP	(88.3)
Adjustments for:	
Holiday pay accrual not previously recognised under previous GAAP	(10.7)
Taxpayers equity carried forward at 1 April 2009 under IFRS	**(99.0)**

	Net Expenditure £'m
Net Expenditure for the year to 31 March 2009 under UK GAAP	(882.7)
Reverse holiday pay accrual for prior period	17.0
Holiday pay accrual not previously recognised under previous GAAP	(10.7)
Net Expenditure for the year to 31 March 2009 under IFRS	**(876.4)**

A holiday pay accrual was not previously recognised under previous UK GAAP but is required to be provided by IAS 19. The provision represents the cost of earned holiday at 31 March which had not been taken by the relevant employees.

The change from reporting under previous UK GAAP to reporting under IFRS has not affected the net cash flows of the entity.

3 Analysis of Net Expenditure by Segment

	FCRM £'m	WR £'m	EP £'m	Fish £'m	Rec & Con £'m	Nav £'m	Total 31 March 2010 £'m	Total 31 March 2009 £'m
Expenditure								
Staff Costs	237.0	54.0	194.5	17.1	4.5	5.1	**512.2**	553.6
Depreciation and CWEIY	338.8	12.7	18.8	1.6	0.6	7.4	**379.9**	342.0
Other Operating Costs	139.1	66.3	145.4	21.4	4.1	7.7	**384.0**	384.4
Gross Expenditure	**714.9**	**133.0**	**358.7**	**40.1**	**9.2**	**20.2**	**1,276.1**	1,280.0
Income	**57.6**	**136.2**	**189.5**	**27.1**	**0.5**	**7.1**	**418.0**	403.6
Net Expenditure	**(657.3)**	**3.2**	**(169.2)**	**(13.0)**	**(8.7)**	**(13.1)**	**(858.1)**	(876.4)

Abbreviations:
FCRM – Flood and Coastal erosion Risk Management ; WR – Water Resources; EP – Environment Protection; Fish – Fisheries; Rec & Con – Recreation & Conservation; Nav – Navigation.

4 Staff numbers and related costs

	31 March 2010 £'m	31 March 2009 £'m
Wages and salaries	365.5	338.9
Social security costs	30.0	27.7
Contributions to pension scheme (defined benefit scheme)	51.0	76.6
Amounts payable under the voluntary early release scheme	0.2	0.9
	446.7	444.1
Other staff related costs:		
Agency staff wages and salaries	42.5	38.9
Secondments wages and salaries	-	0.2
Early retirement and redundancy costs	0.3	0.1
Other staff related costs	31.7	27.4
IAS 19 Pension charge	38.8	84.4
	560.0	595.1
Less amounts charged to capital projects	(48.4)	(42.1)
	511.6	553.0
Amounts payable to Board members	0.6	0.6
Total	**512.2**	**553.6**

Other staff related costs have been re-analysed to show more clearly the nature of the costs.

Agency staff wages and salaries include £27 million (£24 million 2008-2009) for external IT contractor costs which were previously analysed under Hired and Contracted services in note 7.

Details of the Environment Agency's pension arrangements can be found in note 22.

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

	31 March 2010			31 March 2009		
	Permanent Staff	Other	Total	Permanent Staff	Other	Total
	Number	Number	Number	Number	Number	Number
Directly Employed	10,619	501	11,120	10,580	462	11,042
Other	-	1,145	1,145	-	1,141	1,141
Staff Engaged on Capital Projects	1,318	-	1,318	904	-	904
Totals	11,937	1,646	13,583	11,484	1,603	13,087

The average number of Executive Managers increased from 162 to 172, mainly due to the appointment of eight Flood and Coastal Erosion Risk Managers required to manage the increased capital programme during the year. This increased programme also led to the higher number of staff engaged on capital projects.

5 Notional Cost of Capital

As required by the FReM, a notional cost of capital is required to be calculated for each class of business. The charge for each class of business is calculated using the real rate set by HM Treasury (currently 3.5 per cent) on the annual average value of assets and liabilities in the Statement of Financial Position. The charge to 31 March 2010 amounted to £70.9 million (31 March 2009: £78.4 million).

6 Capital Works Expensed in Year (CWEIY)	31 March 2010 £'m	31 March 2009 £'m	31 March 2010 £'m	31 March 2009 £'m
	Actual Expenditure	Actual Expenditure	Committed Expenditure	Committed Expenditure
Embankments	64.0	37.9	40.3	20.4
Repair & refurbishment	62.7	54.6	36.2	33.6
Culverts & channel improvements	29.0	26.6	20.6	9.6
Rock groynes & sea walls	18.1	18.7	28.3	33.0
Piling	15.4	18.8	6.0	10.7
Flood risk management strategies	25.7	33.7	15.1	18.2
Beach recharge	11.9	29.9	7.0	16.0
Flood mapping	7.8	7.7	2.0	2.9
Other	47.5	19.9	10.5	8.0
Total	**282.1**	**247.8**	**166.0**	**152.4**

The committed expenditure as at 31 March 2010 excludes capital commitments on the two Public Private Partnership (PPP) contracts detailed in note 21.

The cost categories included above involve the following areas of work:

Beach Recharge
This involves shingle replacement on beaches to retain the integrity of a sea defence.

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

Embankments
A significant proportion of projects involve the creation, improvement or heightening of embankments along the watercourses to encourage the water to stay within the river channel.

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

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

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

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

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

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

7 Other Expenditure

Other operating costs is arrived at after charging the following categories of costs:	Note	31 March 2010 £'m	31 March 2009 £'m
Fees and commissions		65.2	67.4
Grants awarded to Local Authorities and Internal Drainage Boards		55.8	54.4
Hired and contracted services		25.6	27.6
Transport and plant		22.7	24.6
Reservoir operating agreements		23.9	24.5
Information technology		29.4	23.6
Utilities		20.0	21.0
Building		19.7	19.6
Operating lease rentals:			
Plant & Machinery		18.3	15.2
Other		11.8	11.6
Training		15.0	14.8
Travel and subsistence		10.8	14.6
Public Private Partnership costs	21	14.0	14.1
Administration		8.6	12.0
Research and development costs incurred in year		4.5	7.2
External Auditor's remuneration:		0.3	0.3
Other		24.3	28.9
Non-cash items			
Disposal of tangible non current assets at book value	9	1.8	1.4
Provision for bad and doubtful debts		1.9	0.9
Bad debt write-offs		1.0	0.6
Foreign exchange losses		-	0.1
Total		**374.6**	**384.4**

External Auditor's remuneration includes the audit fee for the statutory audit of £225,000, £15,000 for the IFRS audit and £33,042 for work on the certification of EU funded grant claims (2008-2009 External Auditor's remuneration includes the audit fee for the statutory audit of £225,000, £15,500 for the IFRS audit and £48,000 for work on the certification of EU funded grant claims). No payment was made to the External Auditor for non-audit work.

Hired and contracted services excludes £27 million (£24 million 2008-2009) for external IT contractor costs which is now analysed under Agency Staff Wages in Note 4.

Training costs have increased due to health and safety and other technical training that is necessary for frontline staff to undertake their work as effectively as possible.

7a Losses and Special Payments

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

Category / Type	Number	Value £'m
Write-off of sundry debts	717	1.2
Loss of assets	207	0.1
Other (cash losses; fruitless payments; unenforceable claims; special payments and gifts)	46	0.9
Total	**970**	**2.2**

Included in other losses is a payment of £750,000 on an IT project. This loss has occurred due to unforeseen time delays in delivering key products to the supplier in accordance with the agreed project timetable and in settling a dispute over charges.

8 Income

	FCRM £'m	WR £'m	EP £'m	Fish £'m	Rec & Con £'m	Nav £'m	Total 31 March 2010 £'m	Total 31 March 2009 £'m
Abstraction charges	-	134.8			-	-	**134.8**	134.2
Navigation licence income	-		-	-	-	6.1	**6.1**	5.8
Fishing licence duties	-	-	-	25.8	-	-	**25.8**	23.1
EP charges	-	-	171.1	-	-	-	**171.1**	170.0
Flood risk levies	45.4	-	-	-	-	-	**45.4**	40.5
Recreation & conservation	-	-	-	-	0.1	-	**0.1**	0.1
Grants:								
European Union	0.1	-	0.8	-	0.1	-	**1.0**	1.0
Other	0.3	0.2	8.7	0.1	0.1	-	**9.4**	8.0
Other income	3.7	1.2	8.0	1.1	0.2	0.7	**14.9**	16.0
Income from activities	**49.5**	**136.2**	**188.6**	**27.0**	**0.5**	**6.8**	**408.6**	**398.7**
Capital grants & contributions:								
Capital works expensed in year	6.3	-	0.8	0.1	-	-	**7.2**	2.7
Amortisation	1.8	-	0.1	-	-	0.3	**2.2**	2.2
Total income	**57.6**	**136.2**	**189.5**	**27.1**	**0.5**	**7.1**	**418.0**	**403.6**

Abbreviations:
FCRM – Flood and Coastal Erosion Risk Management; WR – Water Resources; EP – Environment Protection; Fish – Fisheries; Rec & Con – Recreation & Conservation; NAV – Navigation.

8(a) Analysis of fees and charges

	WR £m	WQ £m	PIR £m	RSR £m	PPC £m	WM £m	Fish £m	Nav £m	Total 31 March 2010 £m	Total 31 March 2009 £m
Income	134.8	65.8	4.0	12.8	30.9	57.6	25.8	6.1	**337.8**	333.1
Expenditure	133.1	65.4	4.0	12.5	30.7	58.1	38.6	19.7	**362.1**	358.9
(Under) / over recovery	1.7	0.4	-	0.3	0.2	(0.5)	(12.8)	(13.6)	**(24.3)**	**(25.8)**
Sale of assets	0.2	-	-	-	-	-	0.2	-	**0.4**	-
Capital grants	1.6	-	-	-	-	-	1.5	1.0	**4.1**	3.5
Surplus / (deficit) for the year	3.5	0.4	-	0.3	0.2	(0.5)	(11.1)	(12.6)	**(19.8)**	**(22.3)**

The above table is for Fees and Charges purposes. Costs funded by grant-in-aid have been excluded from the table above, except for Fisheries and Navigation where it is not possible to separate these costs and the excess is funded by grant-in-aid, but are included in the table within note 8. Income from Flood and Coastal erosion Risk Management, Recreation and Conservation functions is excluded from the table and therefore it is not intended to fully meet the requirements of IFRS 8 *Operating Segments*.

The financial objectives for the above Environment Protection and Water Resources charging schemes is full cost recovery taking one year with another, based on all costs including current cost depreciation and a rate of return on relevant assets (currently 3.5 per cent) and other notional costs where appropriate.

Abbreviations used in the table are as follows:

Function	**Key**	**Fees and Charges Schemes within each (sub) function**
WATER RESOURCES	WR	Abstraction charges for businesses using water abstraction from rivers and the ground
ENVIRONMENT PROTECTION		
Water Quality	WQ	Charging for Discharges (CFD) from businesses into the environment
Process Industry Regulation	PIR	Regulation of businesses under such schemes as: Control of Major Accident Hazards (COMAH) EU Emissions Trading Standards (ETS)
Radioactive Substances Regulation	RSR	Regulation of Nuclear Sites RAS 1 and 2 Regulation of Non- Nuclear Sites RAS 3 and 4
Integrated Pollution Prevention and Control	PPC	Regulation of businesses under Integrated Pollution Prevention and Control (PPC)
Waste Regulation	WM	Licensing for Registration of Carriers and Brokers (ROCAS) Transfrontier Shipments (TFS) Hazardous Waste Producer Responsibility Producer Responsibility – Waste Electronic and Electrical Equipment (PR WEEE) Producer Responsibility – End of Life Vehicles (PR ELV) Polychlorinated Biphenyls (PCBs) Waste Management Licensing Waste Management Licensing - Exemptions
FISHERIES	Fish	Fishing Licences
NAVIGATION	Nav	Boat Licences

9 Property, plant and equipment

(a) Analysis by type

		At Valuation							At Cost
	Total £'m	Operational Assets £'m	Freehold Land £'m	Freehold Buildings £'m	Plant and Machinery £'m	Vehicles £'m	Furniture and Fittings £'m	IT Equipment £'m	Assets Under Construction £'m
Cost or Valuation									
At 1 April 2009	4,454.3	3,716.7	32.1	56.7	414.7	39.4	56.8	41.6	96.3
Capital Expenditure	100.2	-	-	-	-	-	-	-	100.2
Assets commissioned in year	-	42.8	0.8	2.8	7.9	4.6	4.0	8.7	(71.6)
Disposals	(10.5)	(2.8)	(0.1)	(0.8)	(2.5)	(2.9)	(1.3)	(0.1)	-
Indexation	(369.3)	(386.8)	(0.1)	(0.4)	13.5	1.3	1.8	1.4	-
Reclassification and revaluation	(12.2)	3.9	(0.2)	(3.9)	(1.6)	(0.2)	(4.7)	(5.5)	-
At 31 March 2010	4,162.5	3,373.8	32.5	54.4	432.0	42.2	56.6	46.1	124.9
Depreciation									
At 1 April 2009	1,927.2	1,525.6	-	6.1	325.8	21.8	30.3	17.6	-
Provided during the period	83.7	49.9	-	1.6	11.1	5.2	5.6	10.3	-
Disposals	(8.6)	(2.5)	-	(0.1)	(2.3)	(2.4)	(1.2)	(0.1)	-
Indexation	(150.1)	(163.3)	-	-	10.8	0.8	0.9	0.7	-
Reclassification and revaluation	(30.3)	(15.6)	-	(0.1)	(1.9)	(0.2)	(5.4)	(7.1)	-
At 31 March 2010	1,821.9	1,394.1	-	7.5	343.5	25.2	30.2	21.4	-
Net Book Value at 31 March 2010	**2,340.6**	**1,979.7**	**32.5**	**46.9**	**88.5**	**17.0**	**26.4**	**24.7**	**124.9**

(b) Details of Valuation:
All of the Environment Agency's administrative land and buildings except assets under construction were re-valued at 1 April 2006 by external Chartered Surveyors on the basis of open market value for existing use. The valuers were Lambert Smith Hampton, Carter Jonas & Co. UK, Smith Gore & Co. UK, Dixon Webb LLP, Stratton & Holborrow, Savills, JH Walter, Gwynfor Williams and Llewellyn Humphreys. These assets have been revalued internally at 31 March 2010 using suitable indices. Plant and machinery, fixtures and fittings and operational assets were valued internally at 1 April 1996 based upon replacement costs and were revalued internally at 31 March 2010 using suitable indices. The impacts are shown in the indexation, reclassification and revaluation adjustment lines above.

(c) Dwellings are included at a net book value of £1.5 million and £7.0 million for Land and Buildings respectively.

(d) Operational assets include £17.7 million for land that forms an essential element of an operational asset and has significantly changed its nature as a result. The land is being written down to net realisable value over the life of the operational asset in which it is being used.

(e) Impairment charges in excess of the credit in the revaluation reserve for individual non current assets, have led to a reduction in value to below the depreciated historical cost of £9.4 million and have been charged to the net expenditure account.

(f) The tranches of operational assets within the Non Current Asset Register which comprise the Thames Barrier at £1,041.3 million are held at net book value reflecting their Depreciated Replacement Cost.

(g) Analysis by type – comparative information

	Total £'m	Operational Assets £'m	Freehold Land £'m	Freehold Buildings £'m	Plant and Machinery £'m	Vehicles £'m	Fixtures and Fittings £'m	IT £'m	Work in Progress £'m
Cost/Valuation									
At 1 April 2008	4,378.4	3,691.0	42.9	70.2	384.4	34.4	49.2	35.6	70.7
Capital Expenditure	86.2	-	-	-	-	-	-	-	86.2
Assets commissioned in year	-	33.5	-	2.1	7.4	6.0	5.3	6.3	(60.6)
Disposals	(13.4)	(3.4)	-	(0.1)	(7.3)	(1.9)	(0.3)	(0.4)	-
Indexation	(72.9)	(73.3)	(8.3)	(13.8)	16.3	1.5	2.4	2.3	-
Revaluation Adjustments	76.0	68.9	(2.5)	(1.7)	13.9	(0.6)	0.2	(2.2)	-
At 31 March 2009	4,454.3	3,716.7	32.1	56.7	414.7	39.4	56.8	41.6	96.3
Depreciation									
At 1 April 2008	1,892.8	1,521.7	-	5.9	309.8	18.4	24.9	12.1	-
Provided during the year	82.1	52.6	-	2.0	10.1	4.4	5.1	7.9	-
Disposals	(12.2)	(2.7)	-	-	(7.0)	(1.7)	(0.3)	(0.5)	-
Indexation	(11.5)	(26.2)	-	(1.4)	13.3	0.9	1.0	0.9	-
Revaluation	(24.0)	(19.8)	-	(0.4)	(0.4)	(0.2)	(0.4)	(2.8)	-
At 31 March 2009	1,927.2	1,525.6	-	6.1	325.8	21.8	30.3	17.6	-
Net Book Value at 31 March 2009	2,527.1	2,191.1	32.1	50.6	88.9	17.6	26.5	24.0	96.3

10 Intangible assets

ANALYSIS BY TYPE	31 March 2010 Total	31 March 2010 IT	31 March 2010 Software Licences	31 March 2010 IT Assets Under Construction	31 March 2009 Total	31 March 2009 IT	31 March 2009 Software Licences	31 March 2009 IT Assets Under Construction
Cost/Valuation	**£'m**	**£'m**	**£'m**	**£'m**	**£'m**	**£'m**	**£'m**	**£'m**
At 1 April	111.8	12.7	47.0	52.1	95.9	12.4	45.4	38.1
Capital Expenditure	33.1	-	-	33.1	23.4	-	-	23.4
Assets commissioned in year	-	5.5	25.8	(31.3)	-	0.1	9.3	(9.4)
Disposals	(0.9)	(0.9)	-	-	(7.6)	-	(7.6)	-
Indexation	2.1	0.1	2.0	-	1.9	0.2	1.7	-
Reclassification and revaluation	(8.8)	(0.2)	(8.6)	-	(1.8)	-	(1.8)	-
At 31 March 2010	137.3	17.2	66.2	53.9	111.8	12.7	47.0	52.1
Depreciation								
At 1 April	30.4	11.0	19.4	-	25.7	10.2	15.5	-
Provided during the year	14.1	0.8	13.3	-	12.1	0.7	11.4	-
Disposals	(0.9)	(0.9)	-	-	(7.4)	-	(7.4)	-
Indexation	1.0	0.1	0.9	-	1.1	0.1	1.0	-
Reclassification and revaluation	(12.4)	(0.2)	(12.2)	-	(1.1)	-	(1.1)	-
At 31 March 2010	32.2	10.8	21.4	-	30.4	11.0	19.4	-
NET BOOK VALUE AT 31 March 2010	105.1	6.4	44.8	53.9	81.4	1.7	27.6	52.1

Under previous UK GAAP the non current assets shown above had been included as part of the tangible non current asset note. Intangible assets are now shown separately in accordance with IAS 38.

11 Assets classified as held for resale

	Total £'m	Operational Assets £'m	Freehold Land £'m	Freehold Buildings £'m
Cost or valuation at 31 March 2010	**4.4**	**0.2**	**2.7**	**1.5**
Cost or valuation at 31 March 2009	**3.8**	**0.1**	**2.3**	**1.4**
Cost or valuation at 1 April 2008	-	-	-	-

All of the properties included above were being actively marketed at 31 March 2010 and a plan to sell them had been agreed by management as part of the Environment Agency's accommodation strategy. It is anticipated that all transactions will be completed within one year. The accumulated depreciation on the relevant assets was too small to be reflected in the financial statements.

12 Trade receivables and other current assets

Within one year:	**31 March 2010 £'m**	**31 March 2009 £'m**	**1 April 2008 £'m**
Trade receivables	27.8	25.1	15.7
Bad debt provision	(9.1)	(7.2)	(6.3)
	18.7	17.9	9.4
Other receivables:			
Grants	-	0.2	0.1
VAT	26.2	23.8	25.0
Employee loans	0.1	0.2	0.1
Other	9.2	7.1	6.4
Prepayments	21.7	21.7	15.9
Accrued income:			
Water resources	3.4	3.8	3.0
Environment protection	6.4	7.9	7.4
Other	2.4	3.1	4.9
	88.1	85.7	72.2
More than one year:			
Employee loans	0.2	0.2	0.2
Total	**88.3**	**85.9**	**72.4**

At 31 March 2010 there were 563 employee loans.

Details of related party receivables are shown in note 24(b)

13 Cash and cash equivalents

	31 March 2010 £'m	**31 March 2009 £'m**
At 1 April	78.0	128.7
Net change in cash and cash equivalent balances	7.3	(50.7)
At 31 March	**85.3**	**78.0**

	31 March 2010 £'m	**31 March 2009 £'m**	**1 April 2008 £'m**
The following balances were held as:			
Commercial banks and cash in hand	6.2	4.0	2.7
Short term investments	79.1	74.0	126.0
Total	**85.3**	**78.0**	**128.7**

14 Trade payables and other current liabilities	**31 March 2010 £'m**	**31 March 2009 £'m**	**1 April 2008 £'m**
Within one year:			
Bank overdraft	14.5	16.3	19.1
Other taxation and social security	8.9	8.4	7.8
Trade payables	12.3	9.5	32.8
Trade payables accrual	61.7	63.9	66.8
Holiday pay accrual	11.1	10.7	17.0
Other payables	2.0	0.9	4.1
Capital payables	2.5	1.2	7.0
Capital payables accrual	17.2	9.9	3.4
Deferred income:			
Flood risk management	15.1	19.6	21.5
Water resources	15.5	9.1	6.1
Environment protection	5.1	6.2	5.1
Customer deposits and receipts in advance	19.5	14.9	14.8
IAS 19 – Pension costs	65.7	70.1	44.7
	251.1	**240.7**	**250.2**
More than one year:			
Capital payables and accruals	1.3	0.6	0.7
Other payables and accruals	3.8	3.7	3.6
Total	**5.1**	**4.3**	**4.3**

Details of related party payables are shown in note 24(b).

15 Provisions for liabilities and charges	**Redundancy £'m**	**Other Claims £'m**	**31 March 2010 £'m**	**31 March 2009 £'m**
At 1 April	0.7	17.2	17.9	22.8
Increase charged to the net expenditure account	0.3	8.4	8.7	6.3
Provisions not required written back	-	(1.4)	(1.4)	(2.8)
Utilised during the year	(0.7)	(5.9)	(6.6)	(8.4)
At 31 March	**0.3**	**18.3**	**18.6**	**17.9**

Redundancy provisions relate to voluntary early release costs where agreement has been reached with the staff member. It is anticipated the expenditure required to settle these obligations will be incurred within 12 months of the agreement date.

The other provisions (insurance claims, dilapidations and operational provisions) relate to claims of uncertain timing or amount for which reliable estimates have been made and for which a transfer of economic benefit is anticipated. The figures reflect the best current estimate of the expenditure required to settle the anticipated obligations. At the time of estimation it is anticipated that the related expenditure is likely to be incurred within five years.

16 Deferred Grants and Contributions	**31 March 2010 £'m**	**31 March 2009 £'m**
At 1 April	67.0	59.9
Amounts receivable in the year	5.8	9.3
Disposals	(0.2)	-
Amortisation in year	(2.2)	(2.2)
At 31 March	**70.4**	**67.0**

In addition to the deferred grants and contributions received in respect of non current assets, there were grants and contributions receivable of £7.2 million relating to capital works expensed in the year.

17 Reserves

	Capital £'m	Revaluation £'m	31 March 2010 Total £'m	31 March 2009 Total £'m
(a) Capital and Revaluation Reserves				
At 1 April	746.1	1,799.2	2,545.3	2,495.9
Transfer to net expenditure account reserve	20.9	-	20.9	6.9
Revaluation deficit on tangible non current assets	-	(218.0)	(218.0)	(60.7)
Revaluation adjustment	-	31.6	31.6	103.2
Transfer of realised revalued depreciation and disposals	48.6	(48.6)	-	-
At 31 March	**815.6**	**1,564.2**	**2,379.8**	**2,545.3**

The opening balance has been adjusted by £41.4 million for transfer of the realised revalued depreciation and disposals for 2008-2009.

The transfer to net expenditure account reserve is calculated as follows:	31 March 2010 £'m	31 March 2009 £'m
Purchase of non current assets	133.3	109.6
Grants and contributions (net)	(3.6)	(7.1)
Depreciation	(97.8)	(94.2)
Disposals	(1.6)	(1.4)
Impairment	(9.4)	-
	20.9	6.9

(b) Pensions Reserve	31 March 2010 £'m	31 March 2009 £'m
At 1 April	(317.4)	(195.8)
Actuarial costs charged to net expenditure account	(65.7)	(70.1)
Employer contributions	59.2	57.6
Actuarial losses	(164.3)	(109.1)
At 31 March	**(488.2)**	**(317.4)**

(c) Net Expenditure Account	31 March 2010 Total £'m	31 March 2009 Total £'m
At 1 April	(99.0)	(76.2)
Grant-in-aid received in year	834.1	770.3
Deficit for the year before transfers to reserves	(881.2)	(856.3)
Transferred from capital reserve	(20.9)	(6.9)
Transferred from pensions reserve	65.7	70.1
At 31 March (See note 2)	**(101.3)**	**(99.0)**

	Total £'m	Defra (GIA) £'m	Defra (FDGIA) £'m	WAG £'m
Grant-in-aid received in year	821.8	145.0	617.7	59.1
To cover unfunded pensions	12.3	12.3	-	-
Transferred to net expenditure account reserve	**834.1**	**157.3**	**617.7**	**59.1**

18 Contingent liabilities	31 March 2010 £'m	31 March 2009 £'m	1 April 2008 £'m
The Environment Agency has the following contingent liabilities:			
(a) Contaminated assets	6.0	4.1	4.1
(b) Contractors' claims	0.5	0.6	0.6
(c) Insurance claims	4.1	4.5	4.0
(d) Repayment of grants from the European Union	0.3	2.0	4.4
(e) Other	1.9	0.6	1.1
	12.8	11.8	14.2

Where appropriate, liabilities that only have a possible chance of crystallising and do not meet the provisions criteria have been classified as contingent liabilities. These include possible obligations for remedial works on contaminated assets should the Environment Agency dispose of them and legal claims by third parties.

19 Capital commitments	31 March 2010 £'m	31 March 2009 £'m	1 April 2008 £'m
Contracted for but not provided in the financial statements	65.0	43.3	26.3

Commitments in respect of capital works expensed in year are disclosed in note 6.

20 Commitments under leases

Total future minimum lease payments under operating leases are given in the table below, analysed according to the period in which the lease expires:

Leases expiring:	31 March 2010 Land & Buildings £'m	31 March 2010 Other £'m	31 March 2009 Land & Buildings £'m	31 March 2009 Other £'m	1 April 2008 Land & Buildings £'m	1 April 2008 Other £'m
Not later than one year	12.4	15.7	11.9	13.3	11.3	13.7
Later than one year and not later than five years	43.5	22.7	39.4	16.7	40.2	15.3
Later than five years	64.7	-	47.1	-	45.4	-
	120.6	38.4	98.4	30.0	96.9	29.0

Within the operating lease commitment the disclosure of future costs includes costs that related to the proportion of the occupation of Defra leasehold properties. These arrangements between the Environment Agency and Defra reflect a future commitment to reimburse Defra for the underlying rentals paid to landlords for the provision of leasehold accommodation.

21 Commitments under Public Private Partnership (PPP) Contracts

The Environment Agency has entered into the following PPP contracts:

(a) Broadland Flood Alleviation Project

The Broadland PPP contract commenced in February 2001 following a detailed negotiated tendering process with the private sector. It is a contract costing in excess of £120 million over a 20 year period, to restore flood defences to at least the levels measured in a 1995 topographical survey of the area. The improvement works are to be completed by 2013 with a seven year remaining life on the works before they erode below the 1995 condition.

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

The contract features target price incentives within the bounds of an overall fixed budget. The first nine years have seen the completion of a large number of maintenance projects, valued at £9.2 million. New defences at five locations in the project area and 19 major improvement works schemes costing £54.9 million have been completed. Site works are underway at a further seven locations.

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

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

Charge for the period:	**31 March 2010**	**31 March 2009**	**1 April 2008**
	£'m	**£'m**	**£'m**
Maintenance work, emergency response, strategy development	1.6	1.5	1.6
Planning Approvals	1.3	0.9	0.5
Improvement Works	9.0	9.7	19.0
Total	11.9	12.1	21.1

Payments committed for the future:			
	£'m	**£'m**	**£'m**
Within one year	11.4	12.1	13.5
Within two to five years	37.0	45.4	52.5
Within six to ten years	8.8	12.1	17.9
Within eleven to fifteen years	1.5	3.4	5.8

The contract end date is May 2021.

Financial derivative disclosure:

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

At 31 March 2010, the amount owing for completed Improvement Works (including accrued interest) amounted to £6.9 million. Interest incurred during the year amounted to £0.1 million and was paid at rates between 2.344 per cent and 7.48 per cent. Fixed rates apply to borrowings of £3.8 million. The rate used is 1.5 per cent plus the "ask" fixed interest swap rate for Sterling as at the date that the Improved Service Level Certificate is signed and for the period that is the remaining length of the contract.

Variable rate, currently 2.344 per cent, uses the most recent offer price of six month Interbank Sterling LIBOR plus 1.5 per cent. This is applied to borrowings at 31 March 2010 of £3.1 million.

(b) Pevensey Bay Sea Defences

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

The contract is for 25 years and PCDL, a consortium of Westminster Dredging Co Ltd, Dean & Dyball Construction, Mackley Construction and Mouchel Consulting will carry out improvement works and maintain the sea defences, in return for a monthly fee, with yearly indexing to the Retail Price Index (RPI). In May 2003 the contract was varied to include the Sovereign Harbour frontage. The current contract value with a January 2010 price base, is £37.2 million.

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

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

Expenditure incurred during the period is charged to the net expenditure account, on an accruals basis in accordance with the payments schedule.

Charge for the period	**31 March 2010 £'m**	**31 March 2009 £'m**	**1 April 2008 £'m**
Maintenance work – shingle recharge, recycling, reprofiling and emergency response	2.1	2.0	2.0

Payments committed in the future	**£'m**	**£'m**	**£'m**
Commitments within 1 year	2.2	2.1	2.1
Commitments within 2-5 years	5.0	5.9	6.8
Commitments within 6-10 years	6.1	6.1	6.1
Commitments within 11-15 years	6.1	6.1	6.1
Commitments within 16-20 years	0.2	1.4	2.6

The contract end date is 31 May 2025.

22 Pension Obligations

The Environment Agency operates a defined benefit pension scheme for employees and transferees from the former Defra, NRA, HMIP, London Waste Regulation Authority (LWRA) and other local waste regulation authorities. It is a statutory scheme, administered in accordance with the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007, the Local Government Pension Scheme (Administration) Regulations 2008 and the Local Government Pension Scheme (Transitional Provisions) Regulations 2008. It is contracted out of the State Second Pension.

In 2009-2010, the total pension cost for the Environment Agency was £65.7 million (2008-2009 £70.1 million). The pension cost relating to the scheme was assessed in accordance with the advice of an independent qualified actuary using the projected unit method of valuation to calculate the service costs.

The latest formal triennial actuarial valuation of the scheme was at 31 March 2007. The assumptions having the most significant effect on the valuation of the liabilities were those relating to the future rate of return on investments and the rate of increases in salaries and pensions. It was assumed that the future investment return would be 6.1 per cent per annum, that salary increases will average 4.7 per cent per annum and that present and future pensions will increase at the rate of 3.2 per cent per annum.

At the date of the last actuarial valuation, the market value of the assets of the pension scheme was £1,521.0 million. The assets taken at market value were sufficient to cover 103 per cent of the value of liabilities in respect of past service benefits which had accrued to members. The Environment Agency has accepted the independent actuary's recommendation in respect of future employer contributions.

The estimated contribution payable by the Environment Agency for the year to 31 March 2011 will be approximately £58 million.

Changes in market conditions that result in changes in the net discount rate (essentially the difference between the discount rate and the assumed rates of increase of salaries, deferred pension revaluation or pensions in payment) can have a significant effect on the value of the liabilities reported.

A reduction in the net discount rate will increase the assessed value of liabilities as a higher value is placed on benefits paid in the future. A rise in the net discount rate will have an opposite effect of similar magnitude. The overall effect of a change in the net discount rate for the Active Fund of 0.1 per cent would be to adjust liabilities by around 2 per cent or £51 million. There is also uncertainty around life expectancy of the UK population. The value of current and future pension benefits will depend on how long they are assumed to be in payment. The effect of changing the assumption regarding life expectancy by one year longer than the disclosed table, would be to increase the assessed value of Active Fund liabilities by around 3 per cent or £76 million.

International Accounting Standard IAS 19 Disclosure

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

All calculations have been made by a qualified independent actuary based on the most recent full actuarial valuation of the fund at 31 March 2007 updated to 31 March 2008, 31 March 2009 and 31 March 2010.

(a) Financial Assumptions

The main financial assumptions used at 31 March 2010 for this purpose are as follows:

	31 March 2010 % Per Annum	31 March 2009 % Per Annum	31 March 2008 % Per Annum
Inflation / Pension Increase Rate	3.50	3.10	2.75
Salary Increase Rate	4.50	4.60	4.25
Expected Return on Assets	6.90	6.40	7.00
Discount Rate	5.50	6.90	5.32

(b) Breakdown of the expected return on assets by category

Asset Class	31 March 2010 % Per Annum	31 March 2009 % Per Annum	31 March 2008 % Per Annum
Equities	7.8	7.0	7.7
Bonds	5.0	5.4	5.7
Property	5.8	4.9	5.7
Cash	4.8	4.0	4.8

(c) Assets and Liabilities of the Fund at 31 March 2010

Fair value of employer assets

Year Ended:	31 March 2010	31 March 2009	31 March 2008
	£'m	£'m	£'m
Equities	1,128.5	761.9	968.9
Bonds	392.5	292.7	387.6
Property	49.1	35.0	74.5
Cash	65.4	34.0	59.6
Total	**1,635.5**	**1,123.6**	**1,490.6**

The above asset values as at 31 March 2010 and 31 March 2009 are at the bid value as required under IAS 19. The asset values as at 31 March 2008 are at mid market value.
The bid value of the assets has been estimated by applying an adjustment of -0.3 per cent to the employer's mid market value asset share as at 31 March 2010.

Statement of Financial Position

Year Ended:	31 March 2010	31 March 2009	31 March 2008
	£'m	£'m	£'m
Fair Value of plan assets	1,635.5	1,123.6	1,490.6
Present Value of Funded Obligations[1]	(2,099.0)	(1,419.5)	(1,662.6)
Net (Under)/ Overfunding in Funded Plans	(463.5)	(295.9)	(172.0)
Present Value of Unfunded Obligations[2]	(24.7)	(21.5)	(23.8)
Net Liability	**(488.2)**	**(317.4)**	**(195.8)**
Amounts in the Statement of Financial Position:			
Liabilities	488.2	317.4	195.8
Assets	-	-	-
Net Liability	**(488.2)**	**(317.4)**	**(195.8)**

Note: the liabilities as at 31 March 2010 are based on the current benefit structure of the LGPS.

[1] This liability comprises of approximately £1,485.2 million, £171.3 million and £442.5 million in respect of employee members, deferred pensioners and pensioners respectively as at 31 March 2010. The approximation involved in the roll forward model means that the split of scheme liabilities between the three classes of members may not be reliable for certain types of employer. The actuary is satisfied that the approach used leads to reasonable estimates for the aggregate liability figure.

[2] For the unfunded liabilities as at 31 March 2010, it is assumed that all unfunded pensions are payable for the remainder of the member's life. It is further assumed that 90 per cent of pensioners are married (or cohabiting) at death and that their spouse (cohabitee) will receive a pension of 50 per cent of the member's pension at the date of the member's death.

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

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

The 'Net Liability' represents the gap between the money held by the scheme and the total present value of the funded and unfunded obligations. It is worth noting that the assumptions underlying the calculation of the Net Liability are only used for accounting purposes as prescribed under IAS19. In particular, IAS19 has no impact at all on the level of cash contributions paid by the Environment Agency and there is no requirement for Net Liability to be met as lump sum or otherwise. Cash contributions will continue to be set by reference to assumptions agreed at each triennial actuarial valuation of the scheme.

(d) Notes to the Net Expenditure Account

Year Ended:	**31 March 2010**		**31 March 2009**		**31 March 2008**	
	£'m	**% of pay**	**£'m**	**% of pay**	**£'m**	**% of pay**
Current Service Cost *	36.4	10.8%	54.0	16.4%	60.8	21.2%
Interest on Obligation	100.00	29.6%	91.4	27.8%	82.1	28.6%
Expected Return on Employer Assets	(73.1)	(21.6%)	(105.6)	(32.2%)	(106.3)	(37.1%)
Past Service Cost /(Gain)	1.9	0.6%	27.3	8.3%	6.5	1.5%
Losses on Curtailments and Settlements	0.5	0.2%	3.0	0.9%	1.6	0.6%
Total Included in "Member Costs"	**65.7**	**19.6%**	**70.1**	**21.2%**	**44.7**	**14.8%**
Actual Return on Plan Assets	475.0		(406.3)		(54.8)	

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

The figures shown reflect the expected annual charge to the Environment Agency, based on IAS19 assumptions at the start of the accounting year, of providing pension benefits to its staff. Allowance is made for expected charges only; unexpected items that arose during the year (e.g. caused by changes to the values of investments held by the pension scheme) are covered under table (e).

The items that make up this charge are:

- Current Service Cost: this is the Environment Agency's share of the cost of the benefits earned by its current employees during the accounting year. Employees also pay towards the cost of these benefits via contributions although this element is excluded from the calculation.
- Interest on Obligation: the Present Values (of Funded and Unfunded Obligations) from table (c) above are expected to increase over time as the members age and get closer to retirement. The amount of this increase is referred to as interest.
- Expected Return on Employer Assets: this represents the additional cash that the money held by the pension scheme is expected to generate over the year in line with the assumptions at table (b) above. The result is shown as a negative and acts as a credit against other charges in table (d). Note that the actual amount of extra money generated is shown at the foot of table (d).
- Past Service Cost and Losses on Curtailments and Settlements: these represent the cost of paying pensions to members who retire early on enhanced terms e.g. due to early release arrangements.

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

	31 March 2010	31 March 2009	31 March 2008
Year Ended:	**£'m**	**£'m**	**£'m**
Actuarial Gains/(Losses) on Plan Assets	402.0	(511.2)	(161.1)
Actuarial (Losses) /Gains on Obligation	(566.3)	402.1	200.8
Actuarial (Loss) / Gain recognised in the SCTE	**(164.3)**	**(109.1)**	**39.7**
Cumulative Actuarial Loss Recognised in the SCTE	**(443.2)**	**(278.9)**	**(169.8)**

Note: The Cumulative Actuarial Gains and Losses are based on the full available history of Actuarial Gains and Losses for the employer.

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

The Actuarial Gain/(Loss) on Plan Assets is the difference between the actual extra money generated by the pension scheme over the year and the Expected Return on Employer Assets from table (d) above. If the money held by the pension scheme has increased during the year by more than expected, an actuarial gain arises. Conversely, an actuarial loss occurs if the money held by the scheme increases by less than expected, or indeed if it reduces.

The Actuarial (Loss)/Gain on Obligation is the difference between the actual Present Values (of Funded and Unfunded Obligations) from table (c) above at the year end and what these present values were expected to be based on the assumptions at the start of the year. There are two reasons why a difference can arise:

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

2. If the membership data on which the present values are based changes unexpectedly during the year. The data on which the Present Value of Funded Obligations is based is refreshed every three years following each formal actuarial valuation of the pension scheme. The data on which the Present Value of Unfunded Obligations is based is refreshed on an annual basis.

The sum of the Actuarial Gains/(Losses) on Plan Assets and Actuarial (Losses)/Gains on Obligation gives the total actuarial gain or loss that is recognised in the Statement of Changes in Taxpayers' Equity. IAS19 also requires the running total of these annual actuarial losses or gains to be disclosed and this is shown as the Cumulative Actuarial Gain/(Loss) in the table.

(f) Reconciliation of defined benefit obligation

Year Ended:	31 March 2010	31 March 2009	31 March 2008
	£'m	£'m	£'m
Opening Defined Benefit Obligation	1,441.0	1,686.4	1,765.0
Current Service Cost	36.4	54.0	60.8
Interest on Obligation	100.0	91.4	82.1
Contributions by Members	23.4	21.5	17.4
Actuarial Losses /(Gains)	566.3	(402.1)	(200.8)
Past Service Cost	1.9	27.3	6.6
Losses on Curtailments	0.5	3.0	1.6
Estimated Unfunded Benefits Paid	(1.4)	(1.4)	(1.4)
Estimated Benefits Paid	(44.4)	(39.1)	(44.9)
Closing Defined Benefit Obligation	**2,123.7**	**1,441.0**	**1,686.4**

This table explains the change to the Present Values of Funded and Unfunded Obligations that appear in table (c) (and referred to as the Defined Benefit Obligation in this table) from one year to the next. The majority of the items are covered in tables (d) and (e) above. The additional items are:

- Contributions by Members: as mentioned under table (d), the Current Service Cost only covers the Environment Agency's share of the cost of the benefits earned by its current employees during the accounting year. The remainder of the cost of meeting these benefits is met by the employees themselves.
- Estimated Benefits Paid: both funded and unfunded benefits are shown. These are benefits paid out to members and as such act to reduce the Defined Benefit Obligation.

(g) Reconciliation of fair value of employer assets

Year Ended:	31 March 2010	31 March 2009	31 March 2008
	£'m	£'m	£'m
Opening Fair Value of Employer Assets	**1,123.6**	**1,490.6**	**1,520.4**
Expected Return on Assets	73.1	105.7	106.3
Contributions by Members	23.4	21.5	17.4
Contributions by Employer	57.8	56.1	52.5
Contributions in respect of Unfunded Benefits	1.4	1.4	1.4
Actuarial Gains / (Losses)	402.0	(511.2)	(161.1)
Unfunded Benefits Paid	(1.4)	(1.4)	(1.4)
Benefits Paid	(44.4)	(39.1)	(44.9)
Closing Fair Value of Employer Assets	**1,635.5**	**1,123.6**	**1,490.6**

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

- Contributions by Members: employees pay contributions to the scheme to cover part of the cost of the benefits earned by them during the accounting year.
- Contributions by Employer: the Environment Agency pays contributions to meet the balance of the cost of meeting benefits earned by its employees.
- Contributions in respect of Unfunded Benefits & Unfunded Benefits Paid: these items cancel each other out. This is because the scheme holds no money up front to pay for unfunded benefits. The

benefits are instead met directly by the Environment Agency as and when they fall due for payment.

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

(h) History of Experience of Gains and Losses

Amounts for the current and previous accounting periods

Year Ended:	31 March 2010	31 March 2009	31 March 2008	31 March 2007	31 March 2006	31 March 2005
	£'m	£'m	£'m	£'m	£'m	£'m
Fair Value of Employer Assets	1,635.5	1,123.6	1,490.6	1,520.4	1,389.1	1,111.7
Present Value of Defined Benefit Obligation	(2,123.7)	(1,441.0)	(1,686.4)	(1,765.0)	(1,362.7)	(1,093.6)
(Deficit) / Surplus	(488.2)	(317.4)	(195.8)	(244.6)	26.4	18.1
Experience Gains/ (Losses) on Assets	402.0	(511.2)	(161.1)	12.3	177.4	43.0
Experience (Losses) / Gains on Liabilities	(0.3)	-	(8.0)	(1.1)	0.7	(1.1)
Actuarial Gains/ (Losses) on Employer Assets	402.0	(511.2)	(161.1)	12.3	177.4	43.0
Actuarial (Losses) / Gains on Obligation	(566.3)	402.1	200.8	(282.3)	(158.9)	(1.1)
Actuarial (Losses) / Gains recognised in SRIE	(164.3)	(109.1)	39.7	(270.0)	18.5	41.9

The figures in the first box are a summary of those in the Statement of Financial Position under table (c).

The figures in the second box show how much of the change in the money held by the scheme (the assets) and the value placed on benefits that are due to be paid out in future (the liabilities) is due to experience only. On the asset side, the experience gain/(loss) represents the difference between the actual extra money generated by the pension scheme over the year and the amount of money that, at the start of the year, was expected to be generated. This is identical to the Actuarial Gain/(Loss) on Plan Assets that appears in table (e). On the liability side, an experience (loss)/gain can arise if the membership data on which the liabilities are based changes unexpectedly during the year. This tends to be a relatively small item. As mentioned under table (e) above, the more significant item that affects the liabilities is where the assumptions change.

The figures in the third box reflect those in the Statement of Changes in Taxpayers' Equity under table (e).

23 Corporation Tax

On 6 July 1995, the Inland Revenue confirmed that the Environment Agency qualified for income and corporation tax exemption on the basis that it inherited the precepting powers of the National Rivers Authority. Accordingly no amounts for corporation tax have been provided in the financial statements.

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

24 Related Party Disclosures and Whole of Government Accounting

(a) Related Party Disclosures

International Accounting Standard 24, 'Related Party Disclosures', requires the Environment Agency to provide information on its transactions with related parties, and further guidance has also been given by HM Treasury.

The aggregate value of the relevant transactions in 2009-2010 was:

	31 March 2010 £'m	31 March 2009 £'m
Controlling parties:		
Defra environmental protection grant-in-aid	157.3	149.0
WAG environmental protection grant-in-aid	25.1	23.4
WAG flood defence grant-in-aid	34.0	29.7
Defra flood defence grant-in-aid	561.9	504.2
Defra IDB/LA grant-in-aid	55.8	64.0
Other related parties:		
Levies on local authorities	28.8	27.4
Charges to the British Waterways Board	2.2	2.6

The Environment Agency had no other material related party transactions with organisations in which other Board members, Executive Directors or senior managers have declared an interest.

(b) Whole of Government Accounting

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

The Environment Agency is committed to disclose balances between itself and other bodies within the public sector. The closing balances as at 31 March were:

	Note	31 March 2010 £'m	31 March 2009 £'m	1 April 2008 £'m
Receivable balances				
Other Government Departments		28.5	26.4	26.0
Local Authorities		1.6	0.7	0.4
Public Corporations and Trading Funds		-	0.5	0.2
Bodies external to Government		58.2	58.3	45.8
Total	**12**	**88.3**	**85.9**	**72.4**
Payable balances				
Other Government Departments		9.7	8.6	7.9
Local Authorities		5.3	5.4	3.5
Public Corporations and Trading Funds		-	-	1.3
Bodies external to Government		236.1	226.7	237.5
Total	**14**	**251.1**	**240.7**	**250.2**

25 Financial Instruments

As the cash requirements of the Environment Agency are met through grant-in-aid provided by Defra, financial instruments play a more limited role in creating and managing risk than would apply to a non-public sector body. The majority of financial instruments relate to contracts to buy non-financial items in line with the Environment Agency's expected purchase and usage requirements and the Environment Agency is therefore exposed to little credit, liquidity or market risk.

26 Events after the reporting date

The Environment Agency's financial statements are laid before the Houses of Parliament by the Secretary of State for Defra. IAS 10 requires the Environment Agency to disclose the date on which the financial statements are authorised for issue. The authorised for issue date is 22 July 2010.

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

APPENDIX A

Sustainability Accounting and Reporting

This section presents our environmental data and associated financial costs in more detail, and builds on the information provided on our environmental performance on page 8.

The Government's sustainability strategy encourages both private companies and public bodies to disclose their sustainability and environmental performance information in their statutory public reports. In 2006, 98 per cent of FTSE All-Share companies were making some kind of environmental disclosure in their financial statements, but only 35 per cent included their disclosures in auditable sections of their annual reports. 42 per cent of FSTE All-Share companies included quantitative figures in their report and accounts – we hope to see an increase in this in our 2010 review of FTSE companies' disclosures in their annual reports.

To help companies know what is expected of them in terms of sustainability reporting, we believe a standardised approach to reporting means that for example customers, analysts and shareholders can compare relative behaviour amongst FTSE listed companies, and also amongst the public sector on a consistent basis. This template is based on our work as a member of HM Treasury's Financial Reporting Advisory Board (FRAB) sustainability working group. The working group produced a pilot template in 2008-2009 for reporting on sustainability in annual reports and accounts. We will continue to work with the group on further developments. This guidance follows the latest standards issued by Defra for companies to use when reporting on their environmental impacts.

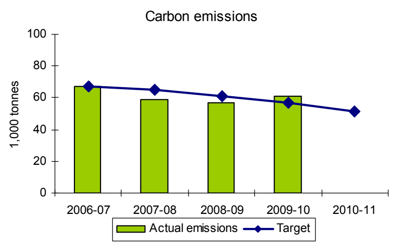
In November 2009, the European Commission gave us a European Eco-Management and Audit Scheme (EMAS) Award for excellence in environmental management, focussing on our supply chain and green procurement process. We were the only UK organisation recognised. We are able to demonstrate that we buy goods and services that are value for money and have a lower environmental impact than others that provide a similar function. Our data shows that environmentally aware business practices can benefit both the environment and the economy.

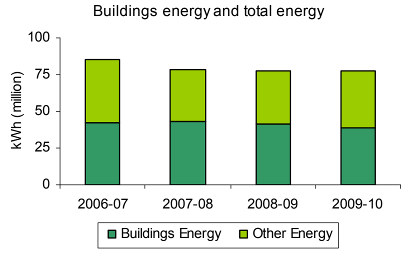
Our Environmental Accounting System (EAS) helps us to manage both the costs and impacts of our activities in five core areas: carbon emissions, waste, water, energy and additional finite resources (timber and building aggregates). Over the past four years we have steadily reduced the volumes of residual waste from our offices, and in doing this have cut our overall waste disposal costs. Investing in energy saving measures allows us to reduce our use of and expenditure on energy.

Our performance summary:

Area	**Figure**	**Target performance**
Carbon dioxide emissions	61,200 tonnes	107% of target
Residual office waste	81 tonnes	On target
Total waste expenditure	£2.1 million	No target currently
Water consumption	57,200 m^3	On target
Water expenditure	£270,000	No target currently
Total energy consumption	73 million kWh	No target currently
Buildings energy consumption	38 million kWh	105% of target
Total energy expenditure	£7.2 million	No target currently

Greenhouse gas emissions and energy		2007-2008	2008-2009	2009-2010
Non-Financial Indicators (1,000 tonnes CO_2e)	Total Gross Emissions	58.8	56.7	61.2
	Total Net Emissions	58.8	56.7	61.2
	Gross emissions scope 1 (direct impacts)	-	-	19.7
	Gross emissions scope 2 and 3 (indirect impacts)	-	-	41.5
Related energy consumption (million kWh)	Electricity: Non-Renewable	-	-	-
	Electricity: Renewable	57.7	56.8	61.9
	Gas	10.3	12.0	11.4
	LPG	-	-	-
	Other	3.3	-	
Financial Indicators (£k)	Expenditure on energy	5,028	6,667	7,239
	CRC Gross Expenditure (2010 onwards)	-	-	-
	Expenditure on accredited offsets (e.g. GCOF)	0	0	0
	Expenditure on official business travel	11,986	15,160	15,220





TARGETS AND COMMENTARY

We have a target to reduce our carbon emissions by 33 per cent (to 45.7 thousand tonnes) by March 2015 from our 2006-2007 baseline levels. In 2009-2010 we achieved an overall nine per cent reduction from our baseline year. The year on year increase in carbon emissions was due almost entirely to energy required for our operational pumping and the very cold winter weather.

DIRECT IMPACTS COMMENTARY

The main impacts in this area are carbon emissions from our electricity consumption and vehicle use. We have efficiency programmes in place to reduce the level of our direct impacts. However our consumption of these resources is always vulnerable to extreme weather (such as flooding and our need to pump water).

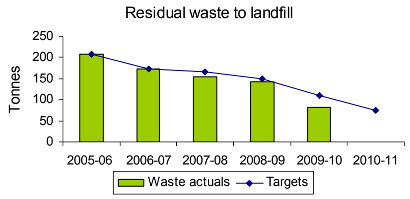
For the first time this year we have sought to report our emissions in line with the scope defined by the Greenhouse Gas Protocol and set out in the Defra guidance on greenhouse gas emissions reporting.

INDIRECT IMPACTS COMMENTARY

We are the Competent Authority in England and Wales for the existing EU Emissions Trading scheme, and the CRC Energy Efficiency Scheme.

We have an action plan in place with our suppliers on future contracts and our expectations with regards to how they can make emission reductions. For our major capital projects we use a tool to calculate carbon emissions at the project assessment stage to identify the emissions associated with these projects, and how they can be reduced.

Waste			2007-2008	2008-2009	2009-2010
Non-Financial Indicators (t)	Total volume of waste (not inc. construction)		-	913	590
	Hazardous waste	Total	-	14	3
	Non hazardous waste	Landfill (residual)	166	143	81
		Reused/Recycled	348	707	448
		Incinerated/energy from waste	-	49	59
		Construction landfill	-	-	43,915
		Construction recycled	-	-	27,682
Financial Indicators (£k)	Total waste disposal cost		1,894	1,927	2,139
	Hazardous waste - Total disposal cost		853	395	590
	Non hazardous waste - Total disposal cost	Landfill	629	934	1,043
		Reused/Recycled	412	598	506
		Incinerated/energy from waste	-	-	-



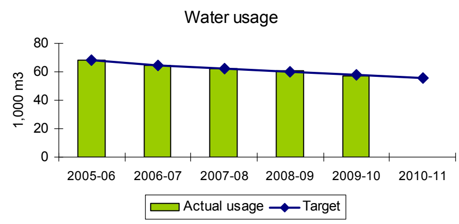
TARGETS AND COMMENTARY

We have a target of sending zero waste to landfill and reducing our total waste by 20 per cent from our baseline of 913 tonnes by March 2015. We are on target for both types of waste. In 2009-2010 we generated 81 tonnes of residual office waste. This is a significant reduction from 2008-2009 when we generated 143 tonnes.

For the first year we have included details on the waste from our construction projects. Our target for 2009-2010 is 20 per cent or less construction waste to go to landfill. This year we sent 61 per cent to landfill, this was largely a result of two major projects where local recycling of the construction waste was not possible.

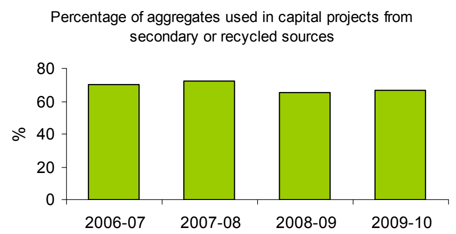
DIRECT IMPACTS COMMENTARY
We undertake regular waste audits as well as providing opportunities to recycle up to 20 different waste streams from our offices. We also implemented a range of additional local initiatives that include a “waste to energy” scheme for our food waste across a number of sites which has helped in the 43 per cent reduction we have achieved of the waste from our offices and depots going to landfill. Our financial indicators cover both office and construction waste.
INDIRECT IMPACTS COMMENTARY
We are able to place certain requirements on our suppliers in terms of their waste disposal performance. We hope to reduce the amount of waste generated by our supply chain by working with our suppliers both during the procurement process and on an ongoing basis.

Water			2007-2008	2008-2009	2009-2010
Non-Financial Indicators (m^3)	Water Consumption	Supplied	62,000	61,000	57,000
		Abstracted	-	-	-
Financial Indicators (£k)	Water Supply Costs		205	245	270



TARGETS AND COMMENTARY
We have set a 2015 target to reduce water consumption by 25 per cent from a 2005-2006 baseline of 68,000 m^3 to 51,000m^3. This year we met our target for a reduction in water consumption. At the end of the third year, we have reduced consumption by 16 per cent from our baseline.
DIRECT IMPACTS COMMENTARY
Our largest source of water consumption is our offices and depots. As a result of improving leak detection and rainwater harvesting in 2008-2009, this year we were able to meet our water consumption targets.
INDIRECT IMPACTS COMMENTARY
We have a significant indirect impact on the environment through our input to the setting of water supply policy for new communities' development. Negotiations with water companies are in place to ensure that a fully sustainable supply is considered, and we have a publicly stated position statement on sustainable communities that includes full consideration of the environmental pressures this places on water supplies. Ofwat's Periodic Review 2009 set prices that water companies will charge their customers between 2010 and 2015 and has been a significant area of work for us. We were required to advise Ministers on the water resource management plans submitted by the water companies and the likely environmental impacts of these.

Other impacts		2007-2008	2008-2009	2009-2010
Environmental Incidents	Category 1	2	1	0
	Category 2	1	3	5
	Category 3	32	50	58
	Near Miss	13	25	47
	Not classified	0	0	0
	Total	48	79	110



TARGETS AND COMMENTARY
We continue to monitor and report all Environmental Incidents. We actively encourage our staff to report all near misses to enable us to apply preventative measures to minimise the number of incidents. We are currently using 66 per cent recycled or secondary aggregates against our target of least 70 per cent. Through our capital projects in 2009-2010 we used around 1,200 tonnes of timber, 99 per cent of this was obtained from certified sustainable sources.
DIRECT IMPACTS COMMENTARY
We use a range of tools to reduce the impact of our capital programmes work, including a carbon calculator for modelling carbon emissions which is used in the project assessment phase to review options and reduce the carbon impact of the construction work.
INDIRECT IMPACTS COMMENTARY
Our sustainable procurement programme ensures that we work with our suppliers to reduce material use and waste. As a significant developer of flood defence infrastructure and other construction activities we have considerable influence on ensuring that this work is carried out in a sustainable way, with minimum impact on the environment. We have recently taken part in a Government initiative to review the greenhouse gas emissions of our top suppliers, and are currently investigating options for assessing the overall environmental impact of our supply chain, and engaging with suppliers to reduce this.

APPENDIX B

Our Performance in 2009-2010

How we performed against key targets in our Corporate Plan

We report on how we performed in 2009-2010 against key targets in our Corporate Plan. These targets are the main measures we use to track our progress.

We divide our work into nine environmental themes, which correspond to the headings in this section. Towards the end of this section we report on the progress we have made in our change programme *More for the environment*, which sets out key areas for developing our organisation and improving the way we work.

A better quality of life		
Success measure / Key target for 2009-2010	**Progress**	**Performance report**
We are working with local government to improve the local quality of life	**Target achieved**	There are two key work streams to report performance against, as explained below. a) Influencing a prioritised set of Sustainable Community Strategies (SCSs) in England and Community Strategies (CSs) in Wales. For 2009-2010, Areas identified 12 SCSs/CSs across England and Wales as priorities to influence. Out of the 12 strategies that were due to be revised, 11 have been published within this period and in our view now reflect the environmental priorities for those localities. b) In England we are supporting the delivery of all 70 Local Area Agreement (LAA) targets we have 'signed up to'. LAAs cover a range of environmental issues including flood risk and coastal erosion, waste crime, biodiversity and more widely adapting to the impacts of climate change. Examples of our activities include supporting the delivery of Catchment and Shoreline Management Plans, raising public awareness of water efficiency measures and running joint workshops such as those aimed at targeting commercial waste carriers.
We reduce 'big', 'bad' or 'nasty' illegal waste dumping incidents	**Target not achieved**	Our target was to reduce the Big (bigger than a tipper load) and Nasty (drummed hazardous waste) illegal dumping incidents that occur by 5% on last year's total (239). The target for 2009-2010 was for less than 227 incidents. By the end of the year we had tackled 295 Big or Nasty incidents, an increase of nearly a quarter on the previous year. For context, the number of Big or Nasty incidents reported by local authorities continues to fall significantly - there have been approximately 10,500 incidents for the period March 2009 to February 2010, compared to over 17,000 for 2008-2009. We will continue to monitor these trends and we have targeted more effort to work with local authorities to tackle this crime.

A better quality of life		
Success measure / Key target for 2009-2010	**Progress**	**Performance report**
More of our navigation assets are in working order	**Target achieved**	At the end of 2009-2010 we have exceeded our target of ensuring 635 (93%) of our navigation assets are in good working order. A total of 642 (94%) out of 682 of our navigation assets are in good working order. 40 assets remain below normal serviceable condition but are being maintained in a safe and operable state.

An enhanced environment for wildlife		
Success measure / Key target for 2009-2010	**Progress**	**Performance report**
We deliver our programme of actions to improve the condition of SSSIs	**Target achieved**	At the end of 2009-2010 our programme (2007-2008 to 2009-2010) is ahead of target. We have delivered 73,500 hectares (ha) against a cumulative target of 49,500ha. During 2009-2010, we have remedied a total of 25,338ha (of which 13,093ha were delivered through our FCRM programme) against our annual target of 32,160ha. The reason for this shortfall has been down to large areas of work relating to diffuse water pollution which we have been unable to complete. This work has been re-programmed for delivery by December 2010.
More rivers are progressing towards sustainable salmon stocks	**Target achieved**	At the end of 2009, 42 (66%) of our 64 main salmon rivers were categorised as being outside the “at risk" category. There are now fewer salmon rivers considered to be "at risk" than in the previous five years. However, the number of salmon rivers "not at risk" has decreased from 12 rivers at the end of 2008, to seven rivers at the end of 2009. Rod catches of both grilse and multi sea winter salmon were well below the previous five-year average. The grilse rod catch in 2009 was 12,900 compared with a five year mean of 19,300 – a drop of 33%. The multi sea winter salmon catch dropped by 29% to 3,770. While populations naturally fluctuate, it is difficult to identify clear reasons for change, although the biggest problem seems to be linked to a changing climate at sea. To mitigate impacts on wild salmon populations we will: through targeted and risk-based actions, control fishing and improve the environment through our River Basin Management Plans and our Sea Trout and Salmon Catchment plans.

An enhanced environment for wildlife		
Success measure / Key target for 2009-2010	**Progress**	**Performance report**
More river habitat is improved	**Target achieved**	During 2009-2010 we improved 185 km of river for wildlife, equivalent to over half of the total length of the River Thames and exceeding our target of 150km. A total of 30km of this river habitat improvement was delivered in Wales and 155 km in England. Examples of schemes that contributed are: i) The Esk Pearl Mussel and Salmon Recovery Project carried out in partnership with the North York Moors National Park Authority in Yorkshire and North East region, which established buffer zones, controlled invasive riparian plant species and undertook extensive riparian tree-planting along 17km of watercourse. (ii) Extensive gravel works on the River Wyre in North West region to create good gravel spawning habitat for fish along 7km of watercourse in reaches deprived of naturally-occurring river gravels by the on-line Abbeystead Reservoir and dam immediately upstream. (iii) Gravel cleaning on the Rivers Frome and Avon in South West region to provide improved salmonid spawning habitat along 5km of river.
Actions are completed to improve the status of salmon, sea trout and eel fisheries	**Target achieved**	At the end of 2009-2010 we have delivered 627 (99.5%) of our annual target of 630 actions. We were unable to deliver a small number of actions due to the inaccessibility of some sites during poor weather over the winter period. As this achievement is so close to our target and the remaining actions undeliverable, we have concluded that this target has been achieved. Examples of our work include: - installation of over 37 fish passes and 50 eel passes, which help overcome barriers to fish migration. - we have pooled our resources, working in partnership with others to improve river habitats and worked with anglers, angling clubs and associations and others to help monitor our rivers. Specifically we have focussed our attention on engaging third parties to contribute to maintaining fisheries in good condition, and preventing deterioration in biodiversity. Examples of activities we engage in with others relate to illegal fishing, poaching, pollution incidents, catch and release logs, ecology observations and signs of non-native invasive species. Examples of outcomes we have seen include: - seeing salmon and sea trout return to the River Yarrow in Lancashire after a 100-year absence; the River Taff in Wales being cleaner than it has been in generations; and rivers previously too polluted or inaccessible now show signs of salmon and other migratory fish reaching spawning grounds.

Cleaner air for everyone		
Success measure / Key target for 2009-2010	**Progress**	**Performance report**
Site air quality improvement conditions are on track	**Target achieved**	Over the course of 2009-2010 further improvement conditions have been completed, resulting in significant improvements to local air quality. In total, all 23 listed sites requiring improvement conditions in place had them, and all of these sites are on track to deliver their plans on time. 19 listed sites have completed improvement conditions (against our target of 18 sites). Under the Environmental Permitting Regulation, we will continue to require operators to implement cost effective techniques that will deliver further air quality improvements.

Improved and protected inland and coastal waters		
Success measure / Key target for 2009-2010	**Progress**	**Performance report**
We will protect the high quality of rivers	**Target achieved**	Water quality in 2008-2009 was similar to the previous year. In England there was an increase of 0.7% in river length that had good chemical water quality and a small decrease of 0.3% in river length for good biological water quality. In Wales there was a decrease of 0.6% for good chemical quality and an increase of 1.1% for good biological quality. These results are within the expected variation of the monitoring network. We are confident that our programmes of work and the investment secured by the water industry for the coming years will continue to protect and improve the quality of rivers.
The quality of bathing water is getting better	**Target partially achieved**	98.6% of bathing waters around England and Wales passed imperative EC (European Community) water quality standards this year (against a target of 98%), up 2% from 2008. 82.2% of sites met the more stringent EC guideline standard (against a target of 85%) - up from 71.7% in 2008. In 2009, we monitored 495 bathing waters around England and Wales and conducted a total of 29,700 tests on water samples.

Improved and protected inland and coastal waters		
Success measure / Key target for 2009-2010	**Progress**	**Performance report**
We complete our planned Restoring Sustainable Abstractions (RSA) investigations and options appraisals	**Target partially achieved**	We achieved our 2009-2010 target for investigations into the environmental impact of abstractions. We successfully completed 305 investigations against a target of 304. We carried out 155 options' appraisals of damaging abstractions against our target of 174. Reasons for this include delays in the delivery of required information from third parties. We have rescheduled the work we could not complete for delivery in 2010-2011. We will continue to monitor our programme closely throughout the coming year and maintain our positive working relationships with water companies, consultants, and Natural England to resolve outstanding issues as they occur. In 2009-2010 we made good progress towards implementing the licence changes necessary to deliver environmental improvements by restoring sustainable abstraction to rivers and wetlands. Section 52 (WR Act) licence change notices were served on six licences for Brennand and Whitendale and the Ouse Washes. We also made 19 voluntary licence changes (using Section 51 of the WR Act) that included Lymington Coast, Langstone and Chichester Harbours, Llynfi and North Pembrokeshire Woodlands.

Restored, protected land with healthier soils		
Success measure / Key target for 2009-2010	**Progress**	**Performance report**
More contaminated land is brought back into use	**Target achieved**	At the end of the year we had facilitated 4,756 ha of land being brought back into beneficial use, against our target of 4,065 ha.

A 'greener' business world		
Success measure / Key target for 2009-2010	**Progress**	**Performance report**
More companies we regulate have environmental management systems	**Target achieved**	In 2009-2010 the number of companies with Environmental Management Systems (EMS) was 4,922. This is a 12.6% increase on the previous year, against our target of 5%. This includes both externally accredited and internal systems.
We reduce the number of businesses with higher risk OPRA scores	**Target achieved**	There has been a 15% reduction in sites falling within Bands D and E for Operator Performance. In 2009-2010 82 sites were within Bands D and E. However, changes in legislation means that Inert Landfill sites are no longer included in our figures for installations and a number of these sites featured amongst last year's list of Band D and E performers. Taking Inert Landfills out, the reduction in Band D and E sites is much more modest.

A 'greener' business world		
Success measure / Key target for 2009-2010	**Progress**	**Performance report**
There are fewer serious and significant pollution incidents	**Target largely achieved**	We have narrowly missed our target this year, 654 incidents occurred against a 'no more than' target of 644.
We stop illegal waste activity at high risk sites	**Target largely achieved**	In 2009-2010 we stopped illegal waste operations at 955 sites, while a further 881 new illegal waste sites came to our attention over the same period. We have passed our target of a 10% reduction in risk score but failed our target on high risk sites. At the beginning of 2009-2010 we were aware of 864 illegal waste sites. By the end of Quarter 4 (Q4) this had been reduced by 15% to 738 sites. The risk score reduced by 14%. At the beginning of the year the total number of higher risk sites accounted for 227 sites. By the end of Q4 the number of higher risk sites had reduced by 61 sites (27%) to 166. The risk score was reduced by 867 points against our target reduction of 6020 points.

Wiser, sustainable use of natural resources		
Success measure / Key target for 2009-2010	**Progress**	**Performance report**
Water supply and demand balance is properly managed by the water companies	**Target not achieved**	Annual water company returns indicate there are 14 million people living in zones with a supply deficit, against our target of 3.6 million. The number of resource zones in deficit has decreased from 18 to nine in previous years, and only seven zones were expected to be in deficit in 2008-2009. Nine zones remained in deficit in 2008-2009. The three zones with the largest populations are still in deficit this year, and represent 10.5m people (75% of the total). The three zones are Thames (London zone) Severn Trent (Severn zone) and Anglian Water (Ruthamford zone). Most zones are in deficit due to delays, sometimes minor, in the implementation of options. For example, the delays in the implementation of the desalination plant in the London Resource Zone (Thames Water) resulted in an unplanned deficit accounting for over two-thirds of the total deficit in England and Wales. This desalination plant went online before the end of this financial year, meaning it was only delayed by a few months. Of the nine zones remaining in deficit, six were classed as 'no risk' or 'low risk': • Ruthamford (Anglian water); • North Eryri/Ynys Mon Zone (Welsh Water) ; • Birmingham (Severn Trent) ; • Forest and Stroud (Severn Trent) ; • Colliford (South West Water) and • London (Thames Water) (unless there is a 1 in 100 years drought before March 2010).

Limiting and adapting to climate change		
Success measure / Key target for 2009-2010	**Progress**	**Performance report**
Our policies and processes are adapted to take account of climate change	**Target largely achieved**	We are committed to developing an integrated cross-organisation adaptation programme. Our target was to build on existing risk assessments and action plans developed for each function and implement the programme by the end of the year. This has been overtaken by the preparation of our response to a formal direction from Defra and WAG (under the Reporting Power of the Climate Change Act) to report on the Environment Agency's assessment of its risks from climate change and our plans to address them. The direction was issued in March 2010 and the deadline for our report is September 2010. The adaptation programme will be implemented towards the end of 2010, based on our report to Defra and WAG. In the meantime we continue to implement our existing action plans.

Managing flood risk		
Success measure / Key target for 2009-2010	**Progress**	**Performance report**
We successfully influence flood plain development planning decisions	**Target achieved**	At the end of 2009-2010 we out-performed our target of 92% of planning decisions being made in line with our advice. 95% of the objections raised on flood risk grounds were 'sustained' (refused or amended) by local authorities.
More households are protected from flooding	**Target achieved**	In 2009-2010 68,600 households in England and Wales were moved to a lower flood probability category across both flood and coastal erosion schemes. 878 of these households were protected by Local Levy Schemes. In Wales 307 households were moved to a lower flood probability category. Of the 68,600 households, 13,800 moved from 'very significant' or 'significant' probability categories to a lower one. The completion of the Deptford Creek Frontage Package scheme in Thames Region protected 25,800 households. In Southern Region the Warren Dam scheme improved protection for 90 deprived households. To date a total of 106,700 households have moved to a lower flood probability (against the 2009-2010 target of 67,600) since the three year programme started at the beginning of 2008-2009.

Managing flood risk		
Success measure / Key target for 2009-2010	**Progress**	**Performance report**
More BAP habitats are created	**Target achieved**	Biodiversity Action Plans identify actions needed to protect and enhance natural environments across England and Wales. At the end of 2009-2010 we have created 695 hectares (ha) of BAP habitat. A total of 500 ha was created through our FCRM works against our annual target of 225ha. 577ha were created in England and 118 ha in Wales. Key projects contributing to these figures included: (i) The Cumbrian Wetlands Project run in partnership with the RSPB which created 53 ha of lowland meadow habitat of particular benefit to breeding wading birds. (ii) Several schemes in the Anglian Regional Habitat Creation Programme which created large areas of floodplain grazing marsh, including Burnham Deepdale (79 ha), Bank Farm, Welney (38 ha) and Upton Marshes (35 ha). (iii) The River Till Floodplain Restoration Project in Northumberland which created 32 ha of floodplain grazing marsh and lowland meadow BAP habitat. (iv) The Keystone Project in Dorset carried out with many partners, which involved designing and implementing raised water level management schemes. It also involved working with farmers in the Frome Valley to bring land into Higher Level Stewardship, to attract back breeding waders and wintering wildfowl. This has resulted in the creation of 112 ha of floodplain grazing marsh habitat in formerly heavily drained pastures. While we are on target to achieve the overall CSR07 BAP habitat creation target of 800ha (by 2010-2011), the requirement for at least 300ha of this to be inter-tidal habitat is proving much more challenging. We have delivered 50ha at the end of April 2010, with a current maximum delivery forecast of 268ha at the end of 2010-2011.
We deliver our flood and coastal risk management programme	**Target achieved**	During 2009-2010 we have managed our capital and revenue expenditure to within 0.7 per cent of budget. We also raised additional income enabling us to begin work in advance of our planned programme. We have invested £54 million more on reducing flood risk than in 2008-2009.

Managing flood risk		
Success measure / Key target for 2009-2010	**Progress**	**Performance report**
More households and businesses in the floodplain receive flood warnings	**Target achieved**	The total number of Flood Warnings Direct (FWD) customers (high and low risk) now stands at 940,000, of which 453,000 are pre-registered and 487,000 we will contact through the new opt-out (EDW) system In England and Wales, we can now send FWD warnings to 828,000 of the 1,778,000 at highest risk. This is 46.5% of those at highest risk and meets our 2009-2010 46% target.
Condition of flood defences	**Target achieved**	We have made good progress in 2009-2010, achieving the stretching target. At the end of 2009-2010 97.4% of assets (Environment Agency and third party) in High Consequence Flood Risk Management Systems are at or above target condition.

Changing the way we work:
More for the environment, Better, Faster, with Less

Modernising regulation		
Success measure / Key target for 2009-2010	**Progress**	**Performance report**
We reduce the administrative burden that we place on business	**Target achieved**	By the end of 2009-2010 we have contributed a total of £55.5 million savings in administrative burden against a target of £22 million. The Government Simplification Programme 2005-2010 asked all departments to deliver a net 25% reduction in the administrative burden on business by May 2010. We set out to reduce burdens by £22 million from our baseline of £88 million. The two work activities with the greatest savings are the Environmental Permitting Regulations and NetRegs. Following the latest independent review of NetRegs the total administrative savings have increased to £32 million. This meant we exceeded our predicted target for the savings that we would deliver.

Sharpening efficiency		
Success measure / Key target for 2009-2010	**Progress**	**Performance report**
We are more efficient	**Target achieved**	At the end of 2009-2010 we were able to report a total of £44.9 million in efficiency savings. This matches our forecast and exceeds our target of £25 million.

Communicating and influencing		
Success measure / Key target for 2009-2010	**Progress**	**Performance report**
Our customers say we are providing a good service	**Target achieved**	In 2009-2010 we achieved a score of 6.9 out of 10 (against a target of 6.9), for our customer satisfaction rating. This represents a significant improvement from last year. We have seen notable improvements in the percentage of customers who give us positive ratings. There is also a greater consistency across the different licence types, with major improvements in the positive scores given to us by Pollution, Prevention and Control (PPC) and Consent to Discharge customers, to bring them closer to our Radioactive Substances (RAS) customers. Certain Waste and PPC customers still have negative views of our service. The research also provides areas where we need to improve: 1. The way that we communicate about new regulations and what they mean for businesses. 2. Targeting those organisations that can, or do, harm the environment. 3. Our hotline is well received but awareness levels need to be increased. Customers report that our staff are doing a good job.
We receive positive media coverage and are seen at the forefront of environmental debate	**Target achieved**	Over 2009-2010 an average of 94% of articles were beneficial or factual, exceeding our target of 85%. Our approach of identifying proactive stories and focussing on key issues has resulted in a consistently high proportion of beneficial and factual articles, at the same time as increasing our coverage.
Key stakeholders agree we are good at working with them towards shared goals	**Target achieved**	84% of stakeholders agree we are good at working towards shared goals, against a target of 70%. This is a significant improvement compared to the previous survey in 2007, when the result was 65%. 86% of our stakeholders agree that working with the Environment Agency has resulted in improved environmental outcomes. However, only 31% of our stakeholders say that we are good at letting them know what we do and 33% of our stakeholders say we are not good at letting them know what we do.

Developing people		
Success measure / Key target for 2009-2010	**Progress**	**Performance report**
We provide a safe place to work	**Target achieved**	This year there were 34 health and safety lost time incidents (LTIs). The ceiling for the year was 40. For comparison there were 55 LTIs last year. This is not due to any specific activities but confirms that the overall approach we have taken for the last few years continues to improve our performance.

Developing people		
Success measure / Key target for 2009-2010	**Progress**	**Performance report**
Our workforce is more diverse	**Target partially achieved**	3.5% of our staff are Black and Minority Ethnic (BAME) against our target of 3.8%. The current economic climate has impacted on our ability to achieve our BAME employee percentage with only one of the Positive Action Trainees (PATs) currently having secured employment with us. We have interviewed staff leaving the Environment Agency and are confident that none of the reasons were a result of ethnicity or culture.
We achieve the right balance of resources	**Target partially achieved**	External staff turnover was 5.4% during 2009-2010. Turnover has reduced by 2.7% when compared with the March 2009 turnover rate of 8.1% and continues to reflect the current economic climate.

Efficient Operator		
Success measure / Key target for 2009-2010	**Progress**	**Performance report**
Our funding is in accordance with our plans	**Target achieved**	The full year outturn on income was a surplus of £2.4 million (0.2%) above the agreed target.
Our expenditure is in accordance with our plans	**Target achieved**	The full year outturn on expenditure was in line with the agreed target.
External funding helps us achieve our priority environmental outcomes	**Target achieved**	The Environment Agency was involved in partnership projects in 2009-2010, to deliver benefits for people and the environment. The value of those projects in which we led or had a stake was £109 million. This consists of £14.2 million of awards to the Environment Agency, £42.7 million of awards to our project partners and £32 million of match funding from our project partners. For all of this investment we have provided £20 million of our own funding, leading to a ratio of approximately £4.43 of investment for every £1 of our own funding. In 2010-2011 we will increasingly focus our partnerships on the priorities of the new Corporate Strategy.

Champion of the Environment		
Success measure / Key target for 2009-2010	**Progress**	**Performance report**
We reduce our environmental footprint	**Target partially achieved**	We achieved three out of five Internal Environment Management targets at a national level in 2009-2010. Residual waste to landfill was 74% of the ceiling, business mileage 95% of the ceiling and mains water was 100% of the allocated ceiling. Due to extreme weather conditions in December and January, we exceeded our buildings energy use by 5% of the target. In addition our performance has been affected by the significant increase in power consumption at our host data centres where energy use has doubled since the baseline year (2005-2006). Despite this, our energy consumption since our baseline year has reduced overall by 12%, around 5,000 MWh. We emitted 7% more carbon dioxide than the profiled target for the year. This was primarily due to increases in pumping energy usage. We have made reductions in nearly all other areas of CO_2 emissions. We are continuing to work on achieving these targets through staff engagement programmes, installing additional voltage optimisation systems in many of our sites and improving the efficiency of flood defence and water management pumping activities.

Modern Regulator		
Success measure / Key target for 2009-2010	**Progress**	**Performance report**
We deliver permits more quickly	**Target achieved**	By the end of 2009-2010, nine out of 10 permit regimes met their target for delivering permits on time. Targets for these measures have tightened during the year so there have been improvements in all activities.
More businesses comply with permit conditions	**Target achieved**	In 2009-2010 there were 1,032 permit breaches, against a ceiling of 1,900. The number has decreased from 1,242 last year.
We are successful in taking action against those who damage the environment	**Target achieved**	At the end of 2009-2010 there were 34 incidents that could have been dealt with by prosecution or caution, of which 33 incidents went to prosecution. The one incident that did not go to prosecution was an accidental spillage and therefore prosecution was not considered to be in the public interest.

Influential advisor and active communicator		
Success measure / Key target for 2009-2010	**Progress**	**Performance report**
We successfully influence key audiences around priority communication programmes	**Target partially achieved**	In 2009-2010 we achieved four out of five success criteria for key communications. Highlights are as follows: - Evaluation of Common Ground workshops (where we work with people who work with and advise farmers) confirmed that 87% of participants are willing to engage further - Page impressions for the Carbon Reduction Commitment “What’s New” web page has seen an increase of over 400% - Fisheries research has provided customer insight to inform future communications. - The levels of awareness of risk of flooding fell by 2% to 53%. However, of those people 83% have taken action to prepare in advance (a significant increase from last year). - Awareness and preparedness to act on flood risk amongst ‘vulnerable’ groups increased .

APPENDIX C

Water Resources Income

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

	SUC balance	EIUC balance water companies	EIUC balance non water companies	As at 31 March 2010 Total	As at 31 March 2009 Total
	£'m	£'m	£'m	**£'m**	**£'m**
Anglian	2.4	(1.9)	(0.8)	**(0.3)**	**1.0**
Midlands	(0.1)	(1.2)	(0.6)	**(1.9)**	**(0.7)**
Yorkshire	0.4	-	(0.2)	**0.2**	**0.5**
Northumbria	0.1	-	-	**0.1**	**0.9**
North West	(0.9)	(1.3)	(0.2)	**(2.4)**	**(1.2)**
Southern	0.6	(1.2)	(0.5)	**(1.1)**	**(1.2)**
South West	(2.2)	(1.3)	(0.2)	**(3.7)**	**(3.5)**
Thames	(0.1)	(2.4)	(0.1)	**(2.6)**	**(1.0)**
Wales	(0.3)	-	(0.1)	**(0.4)**	**(0.1)**
Total	**(0.1)**	**(9.3)**	**(2.7)**	**(12.1)**	**(5.3)**

Key:
Balances in surplus shown as negative ()
Balances in deficit shown as positive.

From 2008-2009, abstractors were charged an Environmental Improvement Unit Charge (EIUC) in addition to the Standard Unit Charge (SUC). This will enable us to pay compensation when we vary or revoke abstraction licences to reduce the risk of environmental damage due to taking too much water from certain water bodies. As at 31 March 2010 we have not yet received Secretary of State approval from Defra to vary or revoke an abstraction license. We use the money raised from this charge exclusively to make compensation payments. Any remaining balances at year end are carried forward to meet future compensation payments. The balances arise because we have to collect sufficient funds to pay the compensation before revoking or varying a licence.

GEHO0710BSVK-E-E

information & publishing solutions

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

Online
www.tsoshop.co.uk

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

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

TSO@Blackwell and other accredited agents

Customers can also order publications from:
TSO Ireland
16 Arthur Street, Belfast BT1 4GD
Telephone orders/general enquiries: 028 9023 8451
Fax orders: 028 9023 5401

ISBN 978-0-10-296713-5