Annual report and accounts for the financial year 2013 to 2014

Environment Agency

Annual Report and Accounts for the financial year 2013 to 2014

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 25 June 2014

HC 357

Any enquiries related to this publication should be sent to enquiries@environment-agency.gov.uk

This publication is available at www.gov.uk/government/publications

Print ISBN 9781474106832

Web ISBN 9781474106849

Printed in the UK by the Williams Lea Group on behalf of the Controller of Her Majesty's Stationery Office

ID 12061403 41276 06/14

Printed on paper containing 75% recycled fibre content minimum

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

We operate at the place where environmental change has its greatest impact on people's lives. We reduce the risks to people and properties from flooding; make sure there is enough water for people and wildlife; protect and improve air, land and water quality and apply the environmental standards within which industry can operate.

Acting to reduce climate change and helping people and wildlife adapt to its consequences are at the heart of all that we do.

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

Foreword

The past year has been one of change and challenge for the Environment Agency. The closing weeks of 2013 and start of 2014 saw us in the forefront of the news as we responded to the most extreme series of weather events we've ever experienced.

In early December, the biggest tidal surge since 1953 hit the east coast of England. We then experienced the stormiest period of weather in 20 years, as 12 major storms hit the UK over Christmas and the New Year. Gales and record-breaking waves battered the south and south-west coasts. It was the wettest winter in England since records began and some areas received 3 times their average monthly rainfall in January alone.

We worked alongside the Met Office and emergency services to warn and inform people and businesses at risk of flooding. Last year we issued 155 severe flood warnings, the highest number we have ever issued in a 12-month period.

The persistent rainfall resulted in serious flooding to over 7,000 properties in many different parts of the country. My heart goes out to those people whose homes, businesses and land flooded during this time. At the same time, Environment Agency defences, and the dedicated work of our staff, protected some 1.4 million homes and 2,500 square kilometres of farmland that would have otherwise flooded. Even on Christmas Day, 600 staff were working to protect properties.

In addition to the permanent flood defences that we’ve put in place over the past 20 years, we put up temporary defences to protect communities up and down the country. At Winchester, we diverted the river flow into flood meadows to protect the town. In Somerset, we brought in large pumps from Holland to remove millions of tonnes of water from the Levels and Moors. We also started dredging on the Rivers Parrett and Tone as part of a range of measures to help reduce flood risk in future. In Romsey, Hampshire, we worked with local councils, the police, fire and rescue services, and the military to use 40,000 sandbags to bolster the flood defences. We also redirected water flow away from Fishlake stream, where it was overflowing and flooding homes and businesses, into a larger channel of the River Test further downstream. In February, the cumulative effects of weeks of heavy rainfall caused flooding from the Thames in south-west London, Berkshire and Oxfordshire. We reduced the floodwater by closing the Thames Barrier 28 times during the month, which was more than the previous record for a whole winter. Of course, there's always more that we can do. Climate change science shows that the severe weather we have experienced in recent months is likely to become more common. We have to be prepared for this in the future and continue to work with our partners to help people and businesses adapt to the risks.

We welcome the extra £270 million of funding from the government for our flood risk management assets. Over the next 2 years, this money will help us to repair the damage that the winter storms caused. With the help of the military we have already inspected over 150,000 flood defences. Our task now is to continue to check for damage and carry out urgent repairs.

But our work isn't all about flooding. We continue to take a tough approach to waste crime and this year we have closed down or brought into regulation more illegal waste sites than ever before. Between October 2011 and December 2013 we ran an illegal waste site task force project. Our specialists investigated, disrupted and prevented illegal waste activity, helping to stop or bring into regulation over 2,000 illegal waste sites.

This year we have responded to people's concerns about shale gas exploration by advising the government about how to control the industry's environmental risks. Our onshore oil and gas unit has set out a clear regulatory framework to ensure that the industry can develop without harming people or the environment.

Good water quality is essential for people and wildlife, and to support agriculture. It is also important for local economic growth. We continue to work with partners to help maintain high standards and improve bathing water quality. In 2013, bathing water quality was significantly higher than in 2012: 99% of bathing waters met the mandatory standard of the current European directive and 90% met the more stringent revised Bathing Water Directive standard, which will be used after 2014. We are also working with many organisations to improve water quality in inland waters including rivers and lakes. Following our successful pilot of the catchment-based approach to managing river quality, this year we have launched it as a nationwide approach. It will take time to see the improvements in water quality, but we are confident that we can achieve them by working in partnerships and with local people.

We said a fond farewell to colleagues in Wales with the launch of Natural Resources Wales on 1 April 2013. We are now the Environment Agency for England, although we continue to provide over 30 services for Natural Resources Wales in areas including fishing rod licence sales and IT.

Last year the government completed an exhaustive examination of our work and Natural England's work in their Triennial Review. The review concluded that both organisations should remain independent, but that we should work more closely together. We are already achieving this in many areas. We are working with Natural England to combine our farm inspections and give a 'Single Voice' in our responses to local council planning applications. And we are saving money by co-locating staff wherever possible. We will publish a progress report in summer 2014.

I feel immensely privileged and honoured to have been the Chairman of the Environment Agency for the last 6 years. I have seen at first hand the commitment, expertise and professionalism of staff who are all working hard to achieve the most we can for people and the environment. Staff responded magnificently to the emergencies we faced over the winter and the recovery work, as well as the wide range of other activities we carry out. In future the Environment Agency will be a smaller organisation, but its ambitions will remain high in creating a better place for all of us.

RT HON LORD SMITH OF FINSBURY

CHAIRMAN

17 June 2014

Contents

Strategic report

About the Environment Agency

The Environment Agency is the leading public body for protecting and improving the environment in England. Our vision is to create a better place for people and wildlife. We:

- reduce the risks to people and properties from flooding
- make sure there is enough water for people and wildlife
- protect and improve water, land and air quality
- apply the environmental standards which industries must comply with

Acting to reduce climate change and helping people and wildlife adapt to its consequences are at the heart of everything we do.

We cannot do this alone. We work closely with a wide range of partners including government, businesses, local councils, other agencies, charities and communities. Staff in our local offices work closely with organisations and communities to improve the local environment and encourage sustainable development. Appendix A provides more information about the history of the Environment Agency.

On 31 March 2014 we had around 10,600 permanent employees. Our annual expenditure for the financial year ending 31 March 2014 was £1.2 billion. The Department for Environment, Food and Rural Affairs (Defra) is the government department that is responsible for our activities and provides most of our funding.

What we do

Our corporate plan for 2011 to 2015 outlined our vision for people and wildlife and how we would achieve it. It showed how we would support sustainable development and adapting to climate change. The plan set out our aims in 5 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

Our plans for 2014 to 2016

This year we have developed a new corporate plan for 2014 to 2016 responding to environmental challenges and in line with new government priorities. The plan ensures that our organisation is fit for the future. It recognises how important it is that we continue to work with our partners to create better local environments that enhance people's lives and support sustainable growth. The plan sets out our priorities for the next 2 years, reflecting our expected funding position to the end of March 2016, and it also recognises longer-term objectives. Our corporate scorecard shows our progress against the objectives. You can see our corporate plan and our corporate plan measures and targets on GOV.UK.

About the strategic report

This strategic report outlines our performance against our priorities for the financial year from 1 April 2013 to 31 March 2014. It gives examples of how we are achieving our aims and highlights important events from the year. It follows the structure of our corporate plan for 2011 to 2015, to show how we are meeting our objectives.

Please see Appendix B for the details of our performance against the measures that we have agreed with Defra.

Act to reduce climate change and its consequences

Implement regulatory schemes

One of our responsibilities is to run 3 schemes to encourage reductions in greenhouse gas emissions from industry and businesses in the UK. The schemes are:

- the EU Emissions Trading System (EU ETS), which allows businesses from energy-intensive sectors to buy and sell greenhouse gas emission allowances to help them reduce their environmental impact
- the CRC Energy Efficiency Scheme, which encourages large public and private sector organisations to improve their energy efficiency and cut emissions
- Climate Change Agreements (CCAs), which are voluntary agreements that organisations can sign up to, setting targets for energy efficiency or carbon reductions

This year we have continued to implement phase 3 of the EU ETS scheme, including introducing exclusions for small emitters and hospitals. We have also put in place the government's simplifications to the CRC Energy Efficiency Scheme and amended our guidance and IT system to reflect these changes. In addition we have taken on administration of CCAs from the Department of Energy and Climate Change and entered into agreements covering some 10,000 industrial facilities.

Help organisations adapt to a changing climate

Our Climate Ready support service provides advice and support to businesses, the public sector and other organisations to enable them to adapt to the changing climate. We have worked with customers and stakeholders to shape and design the service to ensure that it provides products and approaches that meet their needs. The service helps organisations build their own capacity to adapt to climate change by incorporating climate risk management into their plans and decision-making processes.

This year we have helped the government to develop the first ever National Adaptation Programme. The programme sets out what we need to do to make sure that business, the environment and communities are resilient to a changing climate.

As part of the Living With Environmental Change partnership we produced climate change impacts report cards. The cards explain the impacts of climate change on water and biodiversity and the scale of possible changes. They help anyone who works with or has an interest in water and biodiversity in the UK make informed decisions about how to manage these in a changing climate.

Support alternative energy sources

We use our evidence and regulatory work to ensure that low-carbon technologies, including renewable energy and nuclear power, meet high standards of safety and do not harm the environment.

Regulate nuclear power

We and the Office for Nuclear Regulation are undertaking generic design assessment (GDA) for Hitachi-GE Nuclear Energy Ltd's new UK Advanced Boiling Water Reactor (UK ABWR).

The GDA is an approach which allows us to assess the environmental aspects at the early stages of new nuclear reactor designs. We have completed Step 1 (the preparatory stage) of the GDA with Hitachi-GE. We have started Step 2, which assesses the acceptability of the proposed reactor design and identifies any design aspect or safety shortfalls that could prevent construction in the UK. We expect to complete the GDA process early in 2018.

Hitachi-GE has launched its UK ABWR website and has opened the GDA comments process, which enables anyone to submit comments and questions about the reactor design to the company.

Horizon Nuclear Power plans to use the UK ABWR in new nuclear power stations at Wylfa in Anglesey and Oldbury in South Gloucestershire.

Support hydropower schemes

Our guidance supports developers and community groups to design run-of-river hydropower schemes that both contribute to renewable energy generation and protect the local environment. Our revised approach to assessing and permitting hydropower schemes recognises how important local site characteristics are and allows us to be more flexible in making decisions for individual applications. We have updated our technical guidance to reflect the new approach.

Engage with communities at risk from coastal change

As the climate changes, coastal communities face rising sea levels, more frequent storm surges, increased coastal erosion and coastal flooding. Coastal Communities 2150 (CC2150) is an EU project to engage with communities that are at risk from these changes. As a lead partner in CC2150, we established the Coastal Futures group, a local engagement group for the communities of the Lower Ouse valley in East Sussex. The group uses the members' community networks to develop and communicate messages about adapting to long-term coastal change. Our project partners in Kent, Hampshire, Belgium and the Netherlands have also set up groups.

As a result of our work, the communities have written their own local Vision and Adaptation Action Plans for long-term climate change. The plans will also become templates for future community responses to the challenge of climate change.

CC2150 has produced 2 interactive computer visualisations and a film showing how sea level rise would affect the Lower Ouse valley. They also show the possible options for reducing the risk of flooding or replanning the coastal zone. As many different organisations are responsible for managing flood risk, this video gives a joined-up message to stakeholders. This approach has helped to raise awareness of the long-term impacts of climate change, enabling communities to make better decisions for their future.

Reduce our own carbon emissions

We have set a challenging target to reduce our own total carbon emissions by 33% by March 2015 from our emissions in the financial year 2006 to 2007 (our baseline figure). We are on course to reduce the emissions from our buildings by around 45%. Our actions have also reduced the carbon impact of our travel by around 30% from our baseline. Our fleet management programme has a carbon dioxide cap on vehicle emissions; our strict travel hierarchy helps to support this. We have a number of pure-electric and plug-in hybrid vehicles, and this year we ran a trial of a 50% blend of sustainable biodiesel. In recognition of this work to reduce our fleet carbon dioxide emissions, we won the prestigious Best Public Sector Fleet Award at the 2013 Energy Saving Trust Fleet Hero Awards. Our approach to running a sustainable fleet, and the substantial reduction in both business miles and tonnes of carbon dioxide emitted, impressed the judges.

Our operational sites, and in particular our pumping stations, are the largest single source of our carbon footprint. But they are also the most variable source, as demand varies so much depending on the weather. The impact of this year's severe weather has meant our reductions are not as big as we planned. However we still decreased our carbon footprint by 8% compared to last year, which is a decrease of 19% from our baseline year of 2006 to 2007. Please see Appendix C for full details of our emissions.

We encourage innovative solutions to lower our emissions with our low-carbon pumping competition. With funding from the Technology Strategy Board, we are working with 2 UK companies to design, build and test new concepts to provide off-grid, renewable power for low-carbon pumping. If successful, the new pumps could dramatically reduce our carbon emissions and running costs.

We are improving the efficiency of our IT server rooms by installing systems such as evaporative cooling, which reduces our need for air conditioning. We estimate that we have saved £12,000 and over 50 tonnes of carbon a year at our test site for evaporative cooling, giving a payback on investment of just over a year. In the next year we will install more evaporative cooling systems across our estate to reduce both costs and carbon emissions.

Manage energy use at our sites

In 2010 we started a project to install automatic electricity and gas meter reading technology (AMR) at our sites that consumed most energy. We installed AMRs at approximately 600 sites. In September 2013 we launched the final phase of this programme, working with our supplier to install over 1,000 more AMRs at the remainder of our sites. The AMRs help us to analyse our power use so that we can find new ways to reduce our carbon footprint.

We also benefit from using renewable technology at our sites including wind turbines, photo voltaic cells, biomass boilers and a ground source heat pump. This year we have generated almost 400,000 kWh of energy from renewable technology. Using renewable energy helps us reduce our carbon emissions and save money on our energy bills.

Photo voltaic cells at our hydrology and telemetry sites, where we measure the level and speed of flow in rivers, have proved particularly successful. Many of these sites are now self-sufficient and we have been able to switch off the supply from the national grid. We now sell electricity back to the national grid from some of our larger sites.

Encourage innovative solutions to reduce carbon emissions

Since 2007 we have been investing in our Carbon Reduction Fund, which encourages innovation to reduce our carbon emissions. The fund enables us to trial new technology or different ways of working. Ideas come directly from our staff and if the solutions are successful we extend them across the whole Environment Agency. Projects we funded this year include:

- using a biomass boiler to replace old and inefficient oil-fired boilers
- introducing internal LED lighting which reduces energy, maintenance and waste costs
- trialling eco-cooling air conditioning in server rooms
- installing photo voltaic cells at Kielder hatchery in Northumberland
- installing a wind-powered air source heat pump at our Teesdale House office to supplement the existing heating system

This year we received 2 awards for our Carbon Reduction Fund: the Environment and Energy Award for the Best Energy Product or Service 2013 and the Green Apple Award for Carbon Reduction.

As well as reducing our carbon and energy footprints, we also manage our water use and the waste we generate. See Appendix C for our performance against these measures.

Protect and improve water, land and air

Protect bathing waters

Bathing water quality has been improving steadily since 1988, due to our work with others to reduce pollution from sewage, agriculture, urban drainage and other sources. We've worked in partnership with local councils, Surfers Against Sewage, the Marine Conservation Society, Keep Britain Tidy, water companies and others to complete this work. During this time, water companies have also made significant investment to improve their sewage discharges. In 2012, there was a dip in water quality which reflected the wet weather conditions during the summer. The results in 2013 were much better, with 99% of the 415 bathing waters in England meeting the mandatory standard of the current European Bathing Water Directive. 90% of bathing waters also met the more stringent revised Bathing Water Directive standard, which will be used after 2014.

We have worked with the Marine Conservation Society to include our up-to-date bathing water linked data tool in their online Good Beach Guide. We also supported Surfers Against Sewage in developing their Sewage Alert Service app, which tells people when there has been a sewer overflow. Our bathing water data explorer tool allows more people to access our monitoring data as we update it during the bathing water season, so they can make an informed decision about which beaches to visit. We are now developing a way to provide daily updated reports of risks to bathing water quality.

Manage river quality

Take a catchment-based approach

We work in partnership with other organisations and local communities to help create a healthier natural water environment that is resilient to climate change. The different activities happening in a river catchment (the land that drains into a river) can affect the health of that river. These activities include:

- the types of business and industry operating in the catchment
- how people have modified river banks and channels
- how people take water for drinking water supplies, industry or agriculture

These activities create different challenges for every river catchment. Therefore, taking a catchment-based approach is the best way to manage water quality.

Since 2011, we have been enabling groups across catchments in England to come together, share evidence and agree actions to improve the water environment. An important feature of the groups is that they have local connections and knowledge, with representatives from Wildlife Trusts, rivers trusts, farming groups, water companies, local councils and the local community. We have set up 111 catchment partnership groups, which are now led by other organisations. The groups cover all 87 major catchments in England and 6 catchments that cross the border with either Wales or Scotland. Most of the groups use funding from a £1.6 million Defra catchment partnership fund.

The highly successful EU Life+ funded RESTORE project ended in September 2013, culminating in a conference in Vienna, alongside the award of a European River Prize to the River Rhine Commission. The project established new networks for sharing knowledge on river restoration across Europe. It has built an interactive database of over 700 case studies from 31 countries, which will help others restore more rivers to their natural condition.

Administer the catchment restoration fund

This year was our second year administering a catchment restoration fund on behalf of Defra to help charities complete projects in river catchments. The projects:

- restore natural features in and around rivers
- reduce the impact of manmade structures on wildlife in rivers
- reduce the impact of diffuse pollution from rural and urban land use

Since the catchment restoration fund started in May 2012, we have distributed £18.4 million to projects. Partners have also contributed approximately £3.6 million in funding to support this work.

Over 2,000 volunteers have been involved so far and the results of their work include:

- restoring 79 km of river banks
- putting up 97 km of fencing
- installing 3 technical fish passes
- removing 29 barriers to fish migration

Listen to our customers

Protecting and improving the water environment is a complex task. It involves many challenges and choices over what to do, who should do it and how much money we should invest. We want to learn from our customers and it's important that we get their views and suggestions on how we can protect and improve river quality. In 2013 we ran 2 consultations to find ideas about how we can deal with the biggest challenges to protecting and improving the water environment. We received over 800 responses from a diverse range of groups, organisations and individuals, including water and energy companies, charities, non-governmental organisations, wildlife groups and industry. The feedback will help us work with others to improve the water environment and develop updated river basin management plans.

Improve how we manage water resources

We are improving how we manage water abstractions. Water abstraction means taking water from rivers, lakes or groundwater for use as drinking water supplies, for farming and industry, or for other purposes. The current legislative framework for water abstraction is over half a century old and is not flexible enough to respond to the pressures of climate change and a growing population.

We know that reforming the abstraction system is complex. We are working closely with Defra to ensure that together we develop and implement the new system effectively. The new system will provide flexibility to deal with future challenges of climate change, population and economic growth, whilst protecting the environment and ensuring abstractors use water efficiently.

We are also working to stop unsustainable abstraction by changing or removing existing abstraction licences. We have changed 107 licences since 2008 and continue to work on solutions for a further 377 unsustainable licences. These changes have already returned at least 75 billion litres of water per year to the environment, equivalent to more than the annual average water use of a city larger than Birmingham.

Working with Ofwat (the water services regulation authority) we have developed a drainage strategy framework to help water and sewerage companies plan strategies for their drainage systems. The guidance will help water and sewerage companies to protect the environment, support economic growth and development, and plan for climate change adaptation.

Alongside this we published ‘Water for life and livelihoods: managing water for people and the environment’, which summarises our approach to managing water. It describes the main features of rivers, lakes and estuaries, and their current condition. It explains our different roles and how they fit together, how we take an integrated approach, and how we work with others. It highlights some of the big challenges ahead and our aims and priorities in addressing these challenges.

Work with water companies

Water companies have 25-year water resource management plans to show how they intend to provide sufficient water to meet demand while protecting the environment. We have continued to advise Defra on how water companies have responded to consultation on their plans. During 2014, we will also test and improve how the government, the water industry and others respond to drought.

In 2014 Ofwat will complete its 5-year price review of the water industry, known as PR14. As part of the review, we will produce an updated National Environment Programme which sets targets that water companies must meet.

The current National Environment Programme includes measures to help water companies meet environmental standards and provide customers with a range of benefits, from cleaner drinking water to a reduced risk of flooding.

In the last year we also worked with water companies, through UK Water Industry Research, to increase understanding of how chemicals affect the environment and how they can be removed more effectively at sewage treatment works.

Work with farmers to protect the environment

We have developed a set of actions and messages for farmers to help them manage water and soil better. We have joined up our work covering water resources, water quality, flood risk management and climate change to help us give clearer and more consistent information. We will use our agreed messages to communicate with both farmers and contractors who carry out work on behalf of farmers.

We have shared our messages with other people who work closely with farmers, such as agronomists and industry representatives, so that they can help us to communicate the actions more efficiently. This reduces duplication and saves farmers time and money. Ultimately it will reduce risks to farming businesses, for example by encouraging investment in infrastructure that reduces business risks and ensures efficient use of nutrients. For example, we worked with the farming industry and other regulators to agree a clear approach to enforcing non-compliance around slurry storage and management. We then communicated this approach through industry representatives.

We are working with Natural England to develop the New Environmental Land Management Scheme (NELMS) for farmers. NELMS will replace the current agri-environment scheme, Environmental Stewardship. Meeting the requirements of the Water Framework Directive and the England Biodiversity Strategy are top priorities in NELMS.

We are working with Natural England, the Forestry Commission and Defra to ensure we target the right actions within NELMS to the right places. Wherever possible, we want to make sure that each investment a farmer makes provides multiple environmental benefits for water, flood risk and biodiversity. For example, locating buffer strips next to a river in a priority catchment would improve both water quality and biodiversity.

Minimise the impacts of incidents

Each year we deal with many thousands of pollution incidents that do, or could, affect water, air and land. They range from very serious incidents which can have long-lasting impacts on people and the environment, to more minor ones which have short-term, localised impacts. In the last year, there has been an unexpected increase in the number of serious and significant pollution incidents, in particular from regulated but non-permitted sites. We are currently investigating why this increase has happened.

We have pollution prevention projects aimed at reducing incidents in the highest risk sectors. The projects include:

- looking at the causes of waste fires and waste incidents
- assessing the capacity and condition of farm slurry stores
- developing a tool to predict the best time and rate to use de-icers on roads during the winter to minimise the impact on rivers and streams
- developing a tool to calculate the true cost to business, people and the environment of a wide range of pollution incidents
- working in partnership with the fire and rescue services to provide specialist pollution equipment for fire crews to contain spills
- mapping and prioritising dirty highway outfalls (pipes that discharge water from roads) so that councils can prioritise their improvement works
- communicating to plumbers and the public about the impacts of incorrectly connecting waste water to clean water drains

Creative approaches to enforcement

Regulate the use of chemicals in an intelligent way

We always seek to improve the way we enforce regulations. This year we have taken a new intelligence-based approach to ensure businesses comply with chemical restriction laws, including the REACH (Registration, Evaluation, Authorisation and restriction of CHemicals) Regulation. We prioritise the chemicals that are most likely to get into the environment and cause environmental harm. We work with trade associations to provide specific information to businesses using or selling chemicals, to help them comply with the law. We also identify the most effective point in supply chains to target, minimising the impact on compliant businesses.

Extend our use of civil sanctions

We have continued to use civil sanctions, which give us more flexibility to enforce regulations. Offenders pay to clean up the damage they have caused and improve the environment affected by their actions.

This year we have used stop notices for the first time. A stop notice is a written notice which requires someone to stop immediately an activity that is causing - or risks causing - serious harm. One stop notice led to the closure of an illegal tyre site. Another led to us prosecuting a defendant for failing to comply with the notice. The defendant received a 4-month prison sentence, suspended for 2 years.

Another type of civil sanction is an enforcement undertaking. We have continued to accept enforcement undertakings, which involve the offender agreeing to put right the effects of their non-compliance. In 2013 a company offered an enforcement undertaking costing them £415,000 to put right packaging waste offences they had committed. This is the largest sum offered to date in an enforcement undertaking.

Crack down on illegal waste sites

Our illegal waste site task force project ran from October 2011 to December 2013. Our specialists investigated, disrupted and prevented illegal waste activity, helping to stop or bring into regulation over 2,000 illegal waste sites over the course of the project. By the end of March 2014 we knew about 556 illegal waste sites in England, which is the lowest number ever.

In the 2014 Budget, the Chancellor announced an additional £5 million payment to help reduce waste crime. We will use this money to help us deal with illegal waste exports, mis-description of waste and illegal waste sites.

Take action against environmental crime

We still prosecute waste criminals when necessary. Eight offenders went to prison last year and another 8 received suspended sentences. We obtained court orders to recover over £2 million of proceeds of crime from offenders. When defendants have not paid the money due, they have received sentences of up to 3 additional years' imprisonment. Defendants must still pay the money they owe on their release.

In June 2013, we and the Office for Nuclear Regulation prosecuted Sellafield Limited for sending radioactive waste to a landfill site and breaching the conditions of their environmental permit. Sellafield Limited had to pay a £700,000 fine. The company went to the Court of Appeal because they thought the fine was too high, but the Court dismissed the appeal and upheld the fine. This is a landmark case in environmental and health and safety law, and reinforces our message that fines must be large enough to deter offenders. We do not receive any financial benefit from fines as offenders pay them directly to HM Treasury.

The approach to fining large businesses was confirmed further when the Court of Appeal upheld Southern Water Service’s fine of £200,000 for pollution offences at Margate.

Regulate the environmental impacts of shale gas and oil

We have set up a team to regulate the onshore oil and gas sector, including the emerging shale gas industry. We have assessed the potential environmental impacts on water, land and air, and concluded that the risks are low if properly regulated, including from hydraulic fracturing. Hydraulic fracturing involves injecting water containing sand and low levels of chemicals under high pressure into rocks deep beneath the surface to create fractures. Natural gas or oil contained in the rock comes out into the fractures. We are working with oil and gas companies to ensure they have the correct permits in place to protect the environment. We have published draft guidance setting out the technical and managerial controls operators must put in place to protect people and the environment.

Conserve and enhance biodiversity

The England Biodiversity Strategy sets out the government's ambitions to stop the loss of biodiversity by 2020. The strategy sets goals to help us support healthy ecosystems.

In the last year we have created 817 hectares (ha) of new priority habitat and carried out work on 1,828 ha to restore Sites of Special Scientific Interest. We have worked with Nature Improvement Areas and Local Nature Partnerships to ensure that we link our work with other organisations' initiatives.

We also ran a series of training workshops for senior managers to ensure that we continue to get the best results possible for the environment from our major investments. For example, new flood risk management schemes can protect properties and also provide wildlife habitats that store carbon, improve water quality and give people easier access to nature. And projects to improve water quality in a river catchment can include working with farmers to reduce soil compaction and to enhance fisheries.

Manage invasive non-native species

Invasive non-native species cause damage to native plants, fisheries and the environment. Topmouth gudgeon is a small freshwater fish from Asia that can form vast populations damaging native invertebrates and fish. Since 2005 we have eradicated topmouth gudgeon at 14 of the 21 sites where there were established populations of the fish and we are on target to remove them from England by 2017. Eradications are complex and challenging, but our innovative approaches are proving successful.

We also co-ordinated the treatment of the South American water primrose, 'Ludwigia grandiflora', at the 23 locations where we know it grows in the wild in England. The treatment involves a combination of chemical, mechanical and manual removal methods. We will continue to inspect sites annually for at least 5 years after removal to ensure it does not return.

We have improved biosecurity to reduce the risk of spreading invasive species. We have improved awareness of the need for good biosecurity by developing an online learning package and establishing a network of biosecurity champions in each area. Our biosecurity communications programme is based on the results of a staff survey of 2,300 of our field staff. We have also identified biosecurity procurement standards for the equipment we buy and the services we commission. We will be auditing our progress in following the government's 'check, clean, dry' campaign in all our operational work.

Protect eel populations

Populations of juvenile eels have dropped across Europe by 95% since 1980. We are working with other EU member states to increase the size of the future eel population. Since 2009, we, the rivers trusts and others have installed 322 eel passes on weirs, flood risk management assets and other obstructions that stop eels migrating upstream. This work has opened up over 1,700 ha of habitat for eels. We are also installing screens at abstraction points, pumping stations and hydropower facilities to prevent eels becoming trapped or injured. Eel passes and screens are mandatory for new structures that could affect them. The 44 electricity generating power stations in England have reviewed how they can reduce risks to eels from cooling water intakes. They have all now given us plans for how they will install eel passes.

Work with people and communities to create better places

Respond to severe weather and flooding

The UK experienced extremes of weather during the winter of 2013 to 2014. It was the wettest winter in southern England since records began in 1766, almost 250 years ago. Some areas received 3 times their average rainfall in January alone. We also saw the highest tidal ranges and biggest waves ever recorded in some places, particularly in south-west England.

In December 2013, the biggest tidal surge for 60 years hit the east coast of England. Our flood risk management assets protected 800,000 properties and our early warnings helped coastal communities to prepare. Almost 2,000 properties flooded, around half of which were in the Humber Estuary in Lincolnshire, which was one of the worst affected areas. But this was in sharp contrast to the surge in 1953, when there were 300 deaths and 25,000 properties flooded.

There was significant flooding across south and west England that lasted from Christmas until the end of February. Our staff worked around the clock to protect people and properties. Unfortunately over 5,000 properties were flooded. However our flood risk management assets protected around 531,000 properties during this time.

On the Somerset Levels and Moors, our flood risk management assets protected 3,500 properties and over 200 square kilometres (km^2) of land between December and February. But the prolonged and persistent rainfall led to around 170 homes and 65 km^2 of land flooding, and the flood water remained for several weeks. We used an extensive array of temporary pumps, including very large pumps from the Netherlands, to supplement the existing fixed pumps to remove over 90 million tonnes of water from the land. We have supported local organisations to develop a 20-year plan for the short, medium and long-term future of the Levels and Moors. The government has given us

£10 million of special funding to begin to implement this plan. We have started on the first action, which is dredging an 8 km stretch of the Rivers Parrett and Tone near Burrowbridge in Somerset.

Develop solutions to flooding

We continue to work in partnership with the Met Office to use technical and scientific evidence to forecast severe weather and its impacts. The Flood Forecasting Centre, a joint venture between the Met Office and the Environment Agency, accurately forecasted the tidal surge in December and the other floods throughout the winter. We issued timely flood warning messages which improved our response (closing flood gates, for example) and gave the emergency services and communities valuable time to prepare.

We supported a 'flood hack' event in February 2014. The Cabinet Office and the Prime Minister's Office led the event, which used our data to find creative solutions to help those affected by and at risk of flooding. There were over 200 attendees including engineers from Facebook, Google, Twitter and Microsoft, many independent developers, and technical and creative members of the public. We are now working with the teams from the hack day to help them turn their prototypes into real public services.

Manage tidal flood risk to London

The Thames Estuary 2100 Plan shows how we will manage tidal flood risk to London and the Thames estuary up to the end of the century. It plans for rising sea levels and a changing climate, and shows how we will continue to protect 1.25 million people and £200 billion of property from the risk of flooding.

The Cabinet Office's Major Projects Authority (MPA) recently reviewed the outline business case for the first 10-year programme of work on these defences. The significant savings we expect to achieve over the 10 years impressed the MPA.

Build and maintain flood risk management assets

This year, our work to build new assets and improve existing ones has reduced the flood risk to 36,000 more households. This includes both the contribution from our own work and work carried out by local councils and internal drainage boards (IDBs), to which we provide grant funding. Around 6,000 households were in areas of significant economic deprivation. In addition, we provided funding for local councils to improve protection to 4,500 households against coastal erosion.

Manage and repair flood risk management assets

With our partners, we also manage over 29,000 miles of flood risk management assets, including structures, sea walls and flood banks. Over the last year, 94% of these assets were in the required condition or better compared to 98% the previous year. The reduction in condition is due to:

- damage and deterioration caused by floods and severe weather in 2012, 2013 and early in 2014
- difficulties in completing planned maintenance in 2012 and 2013 due to bad weather and poor ground conditions
- pressure on maintenance budgets between the financial year 2012 to 2013 and the financial year 2013 to 2014

We check both the assets that we maintain and the assets that other people maintain to ensure they are in good working order. We schedule and carry out repairs where necessary, as well as carrying out other regular maintenance such as grass cutting on river banks and clearing debris.

We enlisted the help of the military for 6 weeks to inspect over 150,000 assets and check for damage caused by the exceptional flooding and storms over the winter. They identified 1,000 sites which are in need of repair. We now estimate that the unprecedented series of storms caused £135 million worth of damage.

In early February, the government announced £130 million of funding to repair assets damaged by the storms between December and mid-January. We invested £31 million repairing assets before the end of March 2014. We have plans to complete all major repairs which we had identified by 15 January 2014 before next winter.

In the March Budget, the Chancellor announced an additional £140 million of funding for flood and coastal risk management over the next 2 years. We will use the extra money to fund further repairs to flood risk management assets damaged in late January and February and carry out more maintenance identified through our asset inspections.

The additional funding will help to improve the condition of more flood risk management assets during the next financial year.

Warn and inform people and businesses at risk of flooding

Our flood detection and forecasting service uses the latest science and technology. We are among the world leaders in this field. We provide flood forecasts for over 1,000 locations on rivers and about 650 coastal locations in England and Wales.

We provide a national forecasting and alert service to emergency responders, such as local councils, the police and coastguard. The service operates 24 hours a day, 365 days a year, giving emergency responders lead times and targeted information to prepare for flooding. We're always looking for ways to develop the service to improve forecasting techniques and services.

Last year we issued our highest ever number of flood warnings to people and businesses. Between December 2013 and February 2014 we issued 155 severe flood warnings, meaning that there was an immediate danger to life. In comparison we issued only 17 severe flood warnings in the whole of the financial year 2012 to 2013. We can now warn 908,000 customers in the highest flood risk areas about flooding through our Floodline Warnings Direct and our Extended Direct Warnings services. Floodline Warnings Direct is our free service providing flood warnings by phone, text or email. Extended Direct Warnings is our opt-out warning service providing flood warnings and severe flood warnings to properties not registered to Floodline Warnings Direct using their landline telephone numbers. As fewer people now have landline telephones, the number of people registered through the Extended Direct Warnings decreased last year. We are working with mobile network operators to see if we can apply the opt-out approach to mobile telephone numbers in future.

Use technology to update flood risk maps

We use cutting-edge technology to model how rainwater flows, taking into account local topography, weather patterns and historical data. We have published a report explaining the accuracy of different hydraulic models for flood risk management and how we can update and improve models in future. The report helped us to select the best model to use when we created our new surface water flood maps.

In December 2013 we published updated flood risk maps on our website to comply with the EU Floods Directive. The maps show the risk of flooding from rivers, the sea and - for the first time - surface water flooding. The new maps also take flood defences into account, so they give a more realistic view of flood risk. In March 2014 we also published maps showing the risk of flooding from reservoirs. These new maps all help improve the way we communicate flood risk to the public.

Work with the insurance industry

In November 2013, the government published its response to the public consultation on making sure home insurance is available and affordable for people in areas at risk of flooding. There was strong support for the proposed 'Flood Re' approach, an agreement between the government and insurers to develop a not-for-profit flood fund. We do not have a formal role in the Flood Re approach, but the government and insurers may use our mapping, modelling and data.

Report on flood and coastal risk management

In July 2013, we published our second annual flood and coastal erosion risk management report for England (as required by Section 18 of the Flood and Water Management Act). It:

- highlights the successes and challenges of all the risk management authorities who work in partnership to manage the risks to people
- reports on progress in implementing the national flood and coastal erosion risk management strategy for England
- includes information from Lead Local Flood Authorities (LLFAs) and input from water and sewerage companies

Raise awareness of flooding

One in six homes in England is at risk of flooding. During November 2013 we carried out a nationwide flood action campaign with no external costs to raise awareness of flooding and encourage people to prepare. The campaign included using media stories, digital engagement and local engagement to promote our messages and encourage action. The campaign resulted in 2,296 people checking our online flood maps, 945 people completing personal flood plans and 476 people signing up for flood warnings. There were 3,200 media items covering our messages and 8,623 people visited our website as a direct result of the campaign. On social media, people used our hashtag - #floodaware - in 4,267 twitter posts and retweeted our campaign twitter messages 2,653 times. We also gained 9,476 new Twitter followers during the campaign.

Alongside the campaign, we developed a 'flood identity' to increase the reach and consistency of information about flood risk and the actions people can take to protect themselves from flooding. The new identity, which consists of a range of logos, guidelines and templates, is for all organisations, groups, communities and individuals to use. Since November 2013, we have given 252 people (from 188 non-commercial organisations) access to the flood identity and they have downloaded 636 items.

Improve and simplify our planning and permitting

We continue to improve our planning and permitting processes to facilitate sustainable growth. We are joining up our work with other agencies including Natural England, the Forestry Commission, the Marine Management Organisation, English Heritage and the Highways Agency. We helped to set up the Consents Service Unit in the Planning Inspectorate. The unit provides a free service for developers to help them engage at an early stage with the organisations they need to get consents from. The unit co-ordinates the different consents developers need for large infrastructure projects, such as the work at Hinkley Point B and Sizewell C nuclear power stations.

We have continued to achieve a high performance in providing timely planning advice. We gave 95% of our responses to planning application consultations within our target of 21 days or the period agreed with the local council. We continue to offer customers a free preliminary opinion for all pre-development enquiries. In addition, we've recently introduced a voluntary charged service for applicants who want more detailed planning advice. Customers can now get faster advice on critical aspects of their projects, such as flood risk assessments, ahead of planning submissions, saving them time and money over the lifespan of the project.

To facilitate sustainable growth, we have also agreed a 'coastal concordat' with other regulatory and advisory organisations that have a role in giving consent for coastal developments. The concordat is part of our response to a review by the Better Regulation Executive, which aims to cut red tape and improve the links between regulations applying to land and the sea.
The concordat:

- improves co-ordination and support to coastal developers
- reduces unnecessary regulatory duplication
- provides better guidance
- provides ways to make assessments simpler
- makes advice more transparent and consistent

Support local economic growth activities

We are supporting the government's local economic growth plan by developing and implementing a joint service offer to Local Enterprise Partnerships (LEPs) and City Deals with other Defra organisations. Recently we have worked with government to help LEPs develop bids for European and national funding to support sustainable growth. As part of this we have commented on 78 funding plans from LEPs (39 Strategic Economic Plans and 39 European Structural and Investment Funding Strategies).

Encourage participation in angling

In 2013, the Angling Trust produced the National Angling Strategy, 'Fishing for life'. We worked closely with the Angling Trust to develop the strategy, which a diverse range of third sector and government organisations support. The strategy sets out how to get more people fishing, and how to enhance the economic and social benefits of the sport. It will encourage a more inclusive, co-ordinated and co-operative approach to increasing participation in and the enjoyment of angling. The Angling Trust carried out the largest ever angling survey, speaking to over 29,000 anglers, as part of developing the strategy.

Work with businesses and other organisations to use resources wisely

Help businesses comply with legislation

We are working with Defra to make it easier and quicker for businesses to understand which environmental rules apply, and simpler for them to report essential environmental data. This is part of the Smarter Environmental Regulation Review response to the Red Tape Challenge.

Defra reviewed the environmental information requests that businesses receive in a 'zero based review' during 2013. We worked with Defra to develop an implementation plan to help us achieve the recommendations from the review. The plan identifies reforms that we must implement by March 2015 and a further set that we must implement by March 2016.

Reduce the cost of regulation for businesses

Before it went live in July 2013, we piloted the Accountability for Regulator Impact scheme on behalf of the Department for Business, Innovation and Skills (BIS). The pilots helped improve the BIS guidance to make it easier to understand and apply for both regulators and customers. The scheme requires us to talk to those we regulate about how changes to the way we implement regulations will affect them financially.

Help businesses record what happens to their waste

As part of their legal duty of care for waste, businesses have to keep waste transfer notes to show that they have recycled or disposed of their waste correctly. In January 2014 we launched our new electronic duty of care system (edoc), providing UK businesses with a quick and easy way of recording what happens to their waste. edoc is a secure, online system, which we estimate could save UK businesses around £8 million a year in reduced time and effort compared to creating and managing paper documents. The government has included edoc as an example of reducing administrative burdens on businesses on their Red Tape Challenge website.

edoc will also provide high quality, real-time data, potentially saving government around £1 million a year, previously spent on surveying and estimating the overall amount of waste businesses produce.

We led the project in partnership with the waste industry, Welsh Government, Northern Ireland Environment Agency, Scottish Environment Protection Agency and Waste and Resources Action Programme, with part-funding from the EU Life+ programme. We developed edoc using an agile IT approach, carrying out regular user testing to ensure a user-centred design.

Rationalise our offices and depots

This year we continued to rationalise our estate of offices and depots to ensure that we use them efficiently. We have optimised our use of office space by working flexibly so that we need fewer workstations. As a result, we have been able to close some offices and depots, and consolidate staff onto freehold sites. Since starting our national accommodation programme in 2008 we have:

- reduced ongoing running costs of our estate by around £5.7 million per year
- sold around £7 million of surplus property

We are working with members of the Defra network on plans to share offices and depots wherever possible.

Be the best we can

Provide a safe and healthy workplace

Ensuring that we provide a safe and healthy workplace for our employees and contractors continues to be at the heart of our work. We have a health, safety and wellbeing board subgroup to provide greater scrutiny and challenge to the way we work.

We use a variety of ways to understand health, safety and wellbeing risks and concentrate on preventing and learning from 'Safety Critical Incidents' that have the potential to cause most harm. We have a well developed assurance programme, including internal and external audit and inspection work. We use our periodic employee surveys to understand how people feel about our health, safety and wellbeing culture. The majority of staff consider the Environment Agency to be a safe organisation to work for, that cares about the health, safety and wellbeing of its employees. In our 2013 employee survey, 84% of our staff said they always feel safe doing their job. There are similarly high, and improving, results for the organisation supporting employees to be healthy, safe and well (82%) and caring about the health, safety and wellbeing of employees (81%).

Listen to employees

In September we ran the 2013 employee survey, with 82% of staff (9,799 people) responding. The survey found that:

- staff engagement has significantly improved by 8 percentage points since 2011, to 71%
- staff consider flexibility and flexitime, the people, and protecting and improving the environment to be the top 3 best things about working for the Environment Agency
- our commitment to developing staff has improved significantly - from 45% in 2011 to 56% in 2013
- the things staff value most about their reward package are their pension and flexitime
- half of employees believe we will take action as a result of the 2013 survey, compared to a third who believe we took action following the 2011 survey

All management teams are developing action plans as a result of the survey so that they can improve their engagement with staff working in their teams.

Manage our workforce effectively

We continue to improve the way we manage our workforce. We have introduced a workforce planning framework to ensure we have the right people, with the right skills, in the right place, at the right time. Our senior managers are accountable for having strategic workforce plans in place and for maintaining skills resilience. A Strategic Workforce Planning Group of senior staff from across the organisation provides governance, advice and support on workforce planning risks and issues.

Support and develop staff

We continue to invest in our staff to ensure both technical and managerial resilience, running a range of development activities including classroom courses and online training resources. We run leadership and talent development programmes to support staff who show leadership potential. We've also set up a coaching network within the organisation offering cost-effective support for staff at all levels.

Build a diverse workforce

This year we have continued to make progress against our diversity objectives and our ambitions for diversity and inclusion remain high priorities. Our popular programme of workshops to raise awareness and manage unconscious bias continued, and members of the board, Executive Directors and their leadership teams all attended.

The employee survey shows more staff now have confidence in our commitment to diversity and inclusion. 80% of staff agreed we consider and respect the diversity of our customers, an increase of 33% from the survey in 2011.

Our employee-led networks also continue to grow. This year staff have started up a dyslexia forum and a Sikh fellowship. These complement our lesbian, gay, bisexual and transgender (LGBT) and women's networks, our forum for Black, Asian and Minority Ethnic (BAME) employees, and our Christian Fellowship and Islamic Fellowship groups.

We continue to increase our understanding of our employees through a confidential self disclosure programme. This allows employees to give us information about their diversity so that we can respond better to their needs. This year 81% of our employees completed the self disclosure.

Keep staff informed

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

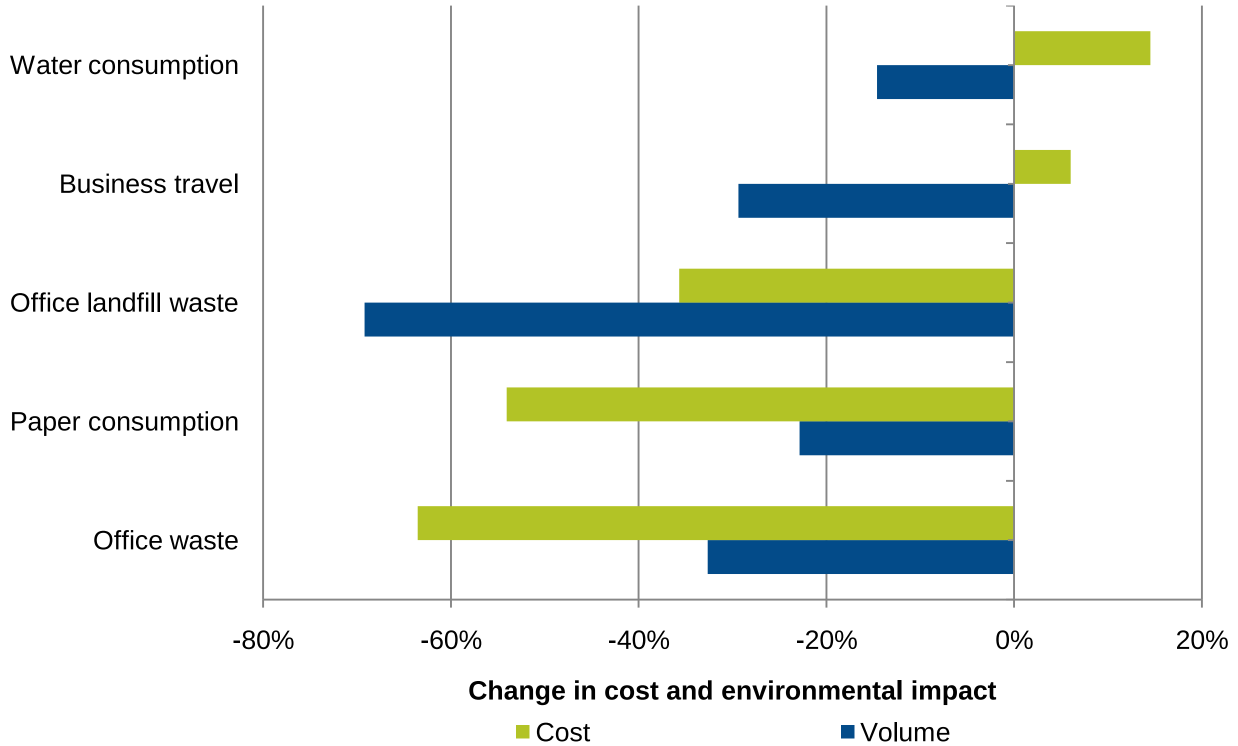
Ensure our work is sustainable

We place a high priority on ensuring that we carry out our activities in a sustainable way. We have incorporated examples throughout the strategic report, as sustainable working is part of how we operate as an organisation. This year we won 'Sustainable Business of the Year' at the Sustainability Live 2014 awards. We impressed the judges with our dynamic and structured approach to environmental management. They praised us for integrating sustainability into all areas of our work such as our operational activities, procurement and our sustainable pension fund.

Our corporate reporting includes many of our environmental performance measures and we regularly report them to our board and Executive Directors. This ensures that they have the same priority as other performance measures within the organisation and the board discusses them at their meetings.

Figure 1 is a summary of our environmental impact per full time employee over the past 4 years. It shows how much our impact has either increased or decreased per employee since the financial year 2010 to 2011. We want our environmental impact per employee to be as low as possible. We show both the cost and volume associated with each performance measure. We manage our performance against corporate targets and internal environmental targets. To find out more about our corporate targets and environmental footprint, please see Appendices B and C.

Figure 1: Change in environmental impact per full time employee since the financial year 2010 to 2011



We estimate that over 70% of our environmental impacts come from the goods, services and works we buy from our suppliers. To reduce our environmental impact, we focus our efforts on our highest risk categories by spend and sustainability risk. The sustainability risk is based on environmental, social, commercial and business considerations. We work hard to ensure that we manage these and we work with our suppliers to reduce our impact on the environment.

We are on track to achieve the highest level of the government's Sustainable Procurement framework by March 2015. We have already identified construction as our highest risk area. Over the next year we will identify and analyse the rest of the high risk areas in our supply chain by quantifying and costing the social and environmental impacts. This approach will help us to see how our impacts compare with those of other organisations, monitor supplier performance and work with suppliers to set targets to improve overall supply chain sustainability.

Procure sustainable services

As part of our sustainable procurement strategy, in July 2013 we set up a Water and Environment Management supplier framework to use for our flood and coastal risk management activities. Local councils and LLFAs can also use these suppliers.

All the suppliers on the framework have an accredited environmental management system meeting ISO 14001 standards (or equivalent). Suppliers on the framework must:

- use recycled materials, or reuse materials, wherever possible
- reduce their carbon footprint on an individual project basis, with a focus on sourcing materials locally
- ensure projects are inclusive and accessible for all by following our 'Access for All' design guidance when planning projects
- use technology, public transport and car-sharing initiatives to minimise their travel carbon footprint
- use tools, such as our online carbon calculator for construction activities, to help them improve the sustainability of assets and manage resources efficiently
- follow and report progress against the government's aim to cut waste, reduce water use and support small businesses

Recognition for our work

We won the Public Sector UK Green Champion 2013 award at the Green Apple Awards for Environmental Best Practice and Sustainable Development. We also won 4 gold awards:

- Teignmouth Tidal Defence Scheme won the innovation category for our work to develop a previously unfavourable design into an innovative new defence scheme. We ran a successful consultation to refine the scheme so that it now meets the needs of the community and allows recreational use of the beach.
- Steart Coastal Management Project won in the habitat category. This project created new flood risk management assets and a wide range of new habitats in the Severn Estuary. During the project we successfully moved protected species, carried out major ecological and archaeological surveys, and improved visitor access.
- The Keeping Rivers Cool programme won in the climate change benefits category for its work to create dappled shade in rivers to reduce water temperatures for trout and salmon.
- Our Carbon Reduction Fund won in the carbon reduction category. The fund helped us reduce our business emissions by trialling new and innovative carbon-reducing solutions.

The Environment Agency Active Pension Fund also won the award for the best implementation of responsible investment at the Portfolio Institutional Awards. The award recognised our work in responsibly managing each aspect of investing our pension fund, particularly our approach to managing climate risk and the transition to a low carbon economy.

Communicate effectively with customers

We know we have many kinds of customers, with different needs and expectations for the services we provide. We seek to continue to improve customer service and we have designed our service commitment so that customers know what to expect from us. Every 6 months we publish some of the questions customers have asked us and explain what we did about them.

Over the winter we warned and informed people about the flood risk associated with the extreme wet weather, high tides and coastal surge. We generated 23,000 items of print, online and broadcast coverage and managed over 1,000 media interviews. There were over 10 million visits to our website between 1 December 2013 and 31 January 2014, including 1.26 million visits on 5 December - the highest ever recorded in a single day. This resulted in 19,000 new subscribers to the Flood Warnings Direct service.

Between April 2013 and March 2014 the number of people following our corporate accounts on Twitter increased by over 113%, to over 260,000 people. Over the same period, our Facebook followers increased from 6,800 to 14,900 and our LinkedIn followers increased from 12,200 to 26,800. There were also 155,000 views of our films on YouTube.

We were the first organisation in the UK to use the new Twitter Alert function, which we used when we had severe flood warnings in place. Twitter Alerts send notifications to a user's phone. They help give important and accurate information from credible organisations. We also used infographics and videos on Twitter and Facebook to explain how we were responding to the extreme weather.

Move online information to GOV.UK

As part of the move to a single government website, we moved our online content to GOV.UK on 1 April 2014. We reviewed our guidance documents and website content to offer a more customer-focused service. We worked with other Defra organisations to reduce duplication and simplify our regulatory guidance before the move. We also worked with third sector partners to host relevant content on their websites.

We will continue to host and control our digital transactional services. These include flood warnings, the sign up to the Flood Warnings Direct service, environmental mapping data and hazardous waste registration. We have reviewed and made technical changes to these services so that our customers can link through easily from GOV.UK.

Lead the way with our online services

In December 2013 we launched a new service for the registration of waste carriers. This service is one of 25 'exemplar' services that demonstrate the Government Digital Strategy's Digital by Default Service Standard. These services are simpler, clearer and faster for our customers to use. The waste carriers' service is the second exemplar service across government to go live. Initial feedback from customers shows that 93% were 'satisfied' or 'very satisfied' with the new service. We plan to learn from the success of this service to develop other improved services for our customers.

Continue to meet recognised standards for our management system

Our management system sets out the quality standards and requirements for our work to help the organisation run effectively. It meets the international standards ISO 9001 and ISO 14001. We are also registered with the European Eco-Management and Audit Scheme (EMAS) which recognises and rewards organisations that go beyond minimum legal compliance and continuously improve their environmental performance.

Work effectively with our partners

We published with Natural England the Triennial Review joint action plan in December 2013. The plan sets out how we will improve our services to shared customers, achieve better results for people and the environment, and improve our business efficiency. We work effectively with Natural England, Forestry Commission, Joint Nature Conservation Committee and other partners to co-ordinate the services we provide.

In June 2013 Defra launched its ambition for the Defra network to operate as 'One Business'. This includes Defra, its executive agencies and non-departmental public bodies. We are actively involved in Defra's Strategic Alignment Programme which aims to establish these improvements.

Provide services to Natural Resources Wales

On 1 April 2013, Natural Resources Wales took over the functions previously carried out by the Environment Agency Wales, Countryside Council for Wales and Forestry Commission Wales. We supported the set up of Natural Resources Wales and continue to work together as partners. We have continued to provide over 30 services for the new organisation, many on a transitional basis. These include:

- a fully managed IT service to support staff who transferred from the Environment Agency to Natural Resources Wales
- systems that underpin flood forecasting, warning and informing
- fishing rod licence sales

We have agreed how we will work with Natural Resources Wales on cross-border issues, which include situations where a river catchment is in both England and Wales, or where a flood risk management asset protects properties in both countries. Natural Resources Wales provided welcome support to our response to the winter floods.

Move to a new structure

On 1 April 2014 we moved to a new 2-tier structure. Work that we previously did at a regional level has now moved into area and national teams. We have agreed national approaches, tailored if appropriate to local circumstances.

As a result of reduced funding we will reduce staff numbers from 11,400 in October 2013 to around 10,250 by the end of October 2014. However, these reductions are not as high as previously planned for as we have received additional funding from government for our work on flood and coastal defences.

We have already achieved a reduction in staff numbers to around 10,600 on 31 March 2014 by:

- allowing 144 staff to leave through the voluntary early release scheme in March
- reducing the number of temporary positions
- holding some posts vacant

The changes we are making are essential to our continued ability to protect and improve the environment for people and wildlife. We are developing proposals for new structures and ways of working through our Strategic Reviews Response Programme.

Manage our finances effectively

Our total expenditure for the financial year ending 31 March 2014 was £1.2 billion. Of our total expenditure, £652 million (56%) came in the form of funding from Defra. We no longer receive funding from the Welsh Government following the creation of Natural Resources Wales on 1 April 2013. However, Natural Resources Wales pays us for the specific services that we provide for them.

Overall results

Our total expenditure for the year was £1.2 billion. This was a decrease of £43 million on the previous year (as shown in the Statement of Comprehensive Net Expenditure). Net expenditure before the transfer to Natural Resources Wales is £736 million and is total spend minus the income from fees, charges and non grant-in-aid sources. We are required to treat grant-in-aid from Defra as a financing contribution from a controlling party. Therefore we credit it directly to the general reserve and do not include it in our net expenditure.

Table 1: 5-year summary of our income and expenditure

	2013-2014	2012-2013	2011-2012	2010-2011	2009-2010
	£ million	£ million	£ million	£ million	£ million
Staff costs (excluding pension charge)	373	395	365	403	419
Pension charge or (credit)	70	54	55	(161)	39
Capital works expensed in year	215	219	223	247	282
Depreciation and amortisation	105	107	103	102	98
Other expenditure	401	432	421	402	393
Gross expenditure	**1,164**	**1,207**	**1,167**	**993**	**1,231**
Income	**(428)**	**(435)**	**(417)**	**(416)**	**(418)**
Net expenditure	**736**	**772**	**750**	**577**	**813**

More detail on staff costs, capital works expensed in year and other expenditure is provided in the financial statements in notes 3, 4 and 5 respectively. The income and expenditure for the year ended 31 March 2013 includes the activities of the Environment Agency in Wales. On 1 April 2014 these activities were transferred to Natural Resources Wales. The related income and expenditure for the year ended 31 March 2014 is therefore reported in Natural Resources Wales' annual report.

Expenditure

Our expenditure by business area is shown in table 2. The government makes decisions about our funding through HM Treasury's spending review process. This process sets funding for all government departments. The latest spending review covers the period up to March 2016.

Table 2: Expenditure by business area

Expenditure	2013-2014 (£ million)	% of total spend	2012-2013 (£ million)	% of total spend
Flood and coastal erosion risk management	664	57	636	53
Environment and business	500	43	571	47
Total	**1,164**	**100**	**1,207**	**100**

The decrease in total expenditure is as a result of the transfer of the Welsh functions of the Environment Agency to Natural Resources Wales. This is offset by our response to the winter flooding events, which has had an impact on the percentage split of our total spend between flood and coastal erosion risk management and environment and business work.

Table 3: Our funding from Defra

Funding area	Funding 2015-2016	Funding 2014-2015	Funding 2013-2014
	£ million	£ million	£ million
Flood and coastal erosion risk management			
Revenue	266	348	223
Capital	395	404	342
Total flood and coastal erosion risk management funding	**661**	**752**	**565**
Environment and business			
Revenue	68	87	99
Capital	-	7	28
Total environment and business funding	**68**	**94**	**127**
Total	**729**	**846**	**692**

Defra has not yet finalised environment and business capital funding for future years. We have to bid each year for the funding required. Table 3 includes the extra £270 million of funding that the government has allocated for flood and coastal erosion risk management in response to the winter floods, but does not include funding provided by Defra for depreciation or the Environment Agency Closed Pension Fund.

Flood and coastal erosion risk management partnership funding

In 2011, Defra introduced new partnership funding arrangements for flood and coastal erosion risk management schemes. The amount of grant-in-aid that Defra provides for most flood schemes in England follows a tariff system. The system depends on factors such as the number of households protected and how much habitat a new scheme will create.

If grant-in-aid alone is insufficient to fund a scheme, we, local councils and IDBs have to find partnership funding from other sources. Flood risk management schemes can only go ahead if there is sufficient funding from partners, including funding to maintain the scheme in future.

Financial management

Our Finance Directorate continues to develop more efficient ways of working. This has enabled us to meet the HM Treasury target of finance costs being less than 1% of our revenue. We have reduced support service costs over the last 3 years, enabling us to spend a greater proportion of our funding on protecting people and the environment.

From 1 November 2013, our transactional processing work in finance and human resources (HR) transferred to Shared Services Connected Limited (SSCL), a joint venture between Steria Ltd and the Cabinet Office. We worked closely with SSCL to manage the transition to an outsourced shared service. SSCL also supports Defra and the Department for Work and Pensions (DWP). The Cabinet Office business case estimates an average 21% saving in costs for us over the next 10 years. At the moment SSCL is continuing to carry out our transactional finance, HR and procurement services with largely the same staff and processes that we used before the transfer. Over the next year, SSCL will produce a consistent set of procedures for DWP, Defra and us. Our contract with SSCL is for 7 years and we can renew it for a further 3 years at the end of the initial term.

Manage risks

We have a structured risk management strategy to help us achieve our objectives. Local risk and assurance leads, nominated by Executive Directors, actively manage our risks, monitor action plans and act as a ‘risk conscience’ for the organisation. We use risk registers and review our performance against them to ensure that we meet our targets. For more details about how we manage risk see section 4 of the governance statement.

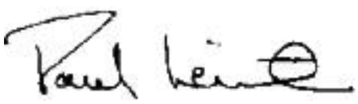
Going concern

The Statement of Financial Position at 31 March 2014 shows taxpayers' equity of £1.9 billion (at 31 March 2013 this was £2 billion). In common with other government non-departmental public bodies, the future funding for our liabilities will be as grant-in-aid from Defra and other income. Parliament approves this funding annually.

We have already received approval for most of our grant-in-aid funding for next year. We are confident that we will receive approval for sufficient future funding, although the level of that funding will be subject to review by central government. Therefore it is appropriate to adopt a going concern basis for these financial statements.

Our performance

We report on our progress against the targets in our corporate plan. This is outlined in Appendix B.



Paul Leinster

Accounting Officer

17 June 2014

Directors' report

Board and Executive Directors

The Environment Agency employs 6 Executive Directors in addition to the Chief Executive (see table 4).

Table 4: Executive Directors for the Environment Agency

Position	Position holder	Period of service
Chief Executive	Dr Paul Leinster	1 Nov 2008 to present
Director of Environment and Business	Mr Ed Mitchell	1 Apr 2010 to present
Director of Operations	Mr David Jordan	1 Jun 2008 to present
Director of Evidence	Ms Miranda Kavanagh	29 Apr 2009 to present
Director of Resources and Legal Services	Mr Jonathan Robinson	18 Jul 2011 to present
Director of Finance	Dr Mark McLaughlin	22 Jun 2009 to present
Director of Flood and Coastal Erosion Risk Management	Mr David Rooke	1 Nov 2011 to present

You can see the full list of board members in the remuneration report. The notice period for Executive Directors is at least 3 months.

The board members and Executive Directors had no company directorships and other significant interests which may conflict with their management responsibilities in the financial year 2013 to 2014.

Non-current assets

Non-current assets in the year have increased in value by £24 million. The value of our non-current asset base is over £2.6 billion. The increase is mainly as a result of continuing capital investment and revaluing our assets as required by accounting standards, offset by the transfer to Natural Resources Wales of assets relating to activities in Wales.

We are also required to carry out an independent 5-yearly revaluation of our non-operational land and buildings. The last 5-yearly revaluation was in the year ended 31 March 2011.

We consider that the value of assets held in our accounts is not significantly different to their market value. Where there is no market value for the asset, for example for the Thames Barrier, we consider that using depreciated replacement cost gives the most appropriate value.

Manage our buildings

This year we continued to implement our national accommodation plan to ensure that we are using our workspace more efficiently. Some parts of our estate do not have an alternative use, given the current uses for flood risk management and environmental purposes. Our independent valuers do consider other uses in their 5-yearly revaluations. There is no material difference between the values in the financial statements and values existing under alternative uses.

Creditor payment policy and statistics

We aim to meet the level of performance for paying creditors 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% of invoices from suppliers within 10 days of receipt and registration, compared to 95% in the previous year. Creditor days, calculated on an average basis for the year, were 4 days, the same as in the previous financial year. This helps to ease businesses' cash flow in the current challenging economic environment.

Pensions

The Environment Agency is a statutory member of the Local Government Pension Scheme (LGPS). We are the administering and employing authority for the Environment Agency's Active Fund. The Active Fund was created in 1989 for employees of the National Rivers Authority. It now provides final salary pension benefits to over 23,000 people, who are current and former employees of the Environment Agency, Natural Resources Wales and Shared Services Connected Limited (SSCL). Natural Resources Wales became an employer in the Active Fund on 1 April 2013 and SSCL joined the Active Fund on 1 November 2013. For the financial year 2013 to 2014, the Active Fund received contributions from:

- staff - between 5.5% and 7.5% of pay
- the Environment Agency and Natural Resources Wales - 16.5% of pay
- SSCL - 22.7% of pay
- income from its assets

The assets of the fund relating to the Environment Agency have decreased in value by £23 million to £2,091 million during the year. This figure allows for contribution income and benefits paid out over the period, and it also includes the transfer of assets to Natural Resources Wales of £204 million. The overall net liability has increased to £453 million, mainly as a result of changes in the assumptions used by the actuaries to calculate future liabilities. For more information, see note 15 to the financial statements. For details of Executive Directors' pension arrangements see the remuneration report.

We are also the statutory administering authority for our Closed Fund. The Closed Fund provides final salary pension benefits for employees from predecessor water industry bodies. We are responsible for administering both funds in line with the LGPS Regulations. The Closed Fund receives no contributions linked to Environment Agency staff. The Secretary of State for the Environment, Food and Rural Affairs has a duty under Section 173 (3) of the Water Act 1989 to ensure the fund can meet the liabilities of pensioners who are in the scheme. We have continued to receive cash funding from Defra for the Closed Pension Fund to pay these liabilities. The Closed Fund is reported within the annual report and accounts for Defra.

External funding

Last year we paid out £72 million as capital grants to local councils and IDBs, from specifically designated money from Defra, for:

- flood risk management
- coastal erosion protection
- cleaning up contaminated land

We work in partnership with community organisations, such as local trusts and associations, to improve local environments. We are also involved in environmental improvement projects which use external funding including EU match funding schemes and the Heritage Lottery Fund. This year, the total expenditure on these projects was £8 million. We contributed £1.7 million, with the balance coming from other project partners and external funding schemes.

Sickness absence data

We closely monitor sickness absence and have policies in place to reduce staff sickness absence. An average of 6.1 days per full time equivalent employee was lost to sickness absence during the reporting year ending 31 March 2014. This has decreased from 6.6 days in the previous year.

Tax arrangements of public sector appointees

On 31 January 2012, the Chief Secretary to the Treasury announced a review of the tax arrangements of public service appointments. We must now provide information about appointments of consultants or staff that last longer than 6 months, where we pay by invoice rather than through the payroll.

We only use these arrangements where we cannot avoid them, for example some IT contractors will only work in this way. We will continue to minimise the use of these arrangements. We include contractual clauses in the appointment documents to enable us to receive assurance that the individual or their employer is managing their tax affairs appropriately. The individual or their employer must contractually commit to paying appropriate levels of tax and national insurance.

Tables 5 and 6 show the information that we have to report as a result of the review.

Table 5: Off-payroll appointments at 31 March 2014, for more than £220 per day and that last longer than 6 months

Length of time of appointment at 31 March 2014	Number of appointments
Less than 1 year	2
1-2 years	7
2-3 years	5
3-4 years	1
4 years or more	7
Total	22

Table 6: Off-payroll appointments between 1 April 2013 and 31 March 2014, for more than £220 per day and that last longer than 6 months

Appointments between 1 April 2013 and 31 March 2014	Number of appointments
Total appointments	2
Appointments including contractual clauses giving us the right to request assurance for income tax and National Insurance obligations	2
Appointments for whom we have requested assurance	2
Appointments for whom assurance has been received	2
Appointments for whom assurance has not been received	-
Appointments we have terminated as a result of a lack of assurance	-

There were 17 board members or senior officials with significant financial responsibility over the organisation during the financial year 2013 to 2014. We did not pay any of them via off-payroll arrangements.

Protect personal data

We had no reportable security incidents between 1 April 2013 and 31 March 2014, one less than in the previous financial year. The governance statement provides further information on how we are improving controls around personal data.

The Environment Agency is a public sector information holder, which means we generate, collect and distribute public sector information and data. We have complied with the cost allocation and charging requirements associated with this role, as set out in HM Treasury guidance.

Research and development expenditure

Our Evidence Directorate runs a research and development programme which covers all our scientific and technical functions in environment and business, and flood and coastal erosion risk management. The purpose of the programme is to make our business more effective and efficient, inform our advice and guidance, and develop innovative approaches to the challenges we face. We record expenditure on research in the year we spend it and we do not capitalise this expense.

Auditor

The Comptroller and Auditor General, Head of the National Audit Office (NAO), is the statutory external auditor of the Environment Agency. The NAO received no remuneration for non-audit services in the year to March 2014, the same as in the previous year.

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

17 June 2014

Governance statement

1. Introduction

The Chief Executive is the Accounting Officer and is responsible for maintaining a sound system of internal control that supports our aims and objectives. This is in accordance with the responsibilities in the HM Treasury publication 'Managing public money'.

This governance statement sets out how we have managed and controlled our resources during the year. It provides assurance on how we have carried out our corporate governance, how we have managed significant organisational risks and how we have addressed control issues.

2. Effectiveness of governance arrangements

The governance framework

The Environment Agency is a non-departmental public body sponsored by the Department for Environment, Food and Rural Affairs (Defra). On 1 April 2013, activities in Wales transferred to Natural Resources Wales, leaving the Environment Agency with responsibility for England only.

The Environment Agency is led by a non-executive board appointed by the Secretary of State for the Environment, Food and Rural Affairs. Ministers expect the board to ensure that the Environment Agency fulfils its statutory duties in the light of the guidance and directions which they provide, and to ensure that the organisation operates with propriety, regularity, efficiency and effectiveness. The Chief Executive sits on the board and there are currently 10 independent board members, including the Chairman.

We discuss our performance with Defra at regular meetings of officials, including meetings with Defra's Accounting Officer. Our Chairman and Chief Executive regularly meet with the Secretary of State for Environment, Food and Rural Affairs and other Defra ministers. This year, the topics discussed during ministerial meetings included:

- the role and responsibilities of the Environment Agency
- flood risk management and maintenance
- incident response
- water resource management
- hydropower
- government reviews
- onshore oil and gas
- the Thames Estuary project

The board, Executive Directors' team and senior managers review performance across all areas of the Environment Agency's activities.

In June 2013, Defra announced the conclusion of the Triennial Review of the work of the Environment Agency and Natural England. The review concluded that both we and Natural England should remain independent, but that we should work more closely together. We have written a joint action plan with Natural England to respond to the conclusions of the review, and incorporated the actions into our corporate plan for 2014 to 2016.

The Chief Executive is accountable to the independent board of the Environment Agency and Parliament. Defra delegates powers through annual formal letters to the Accounting Officer, through the Financial Memorandum and the Management Statement.

Committee structure

The board has established committees for a number of important business areas. The chair of each committee gives an update at board meetings and raises issues to the board as necessary. The remuneration report lists the members of each committee. Board members' attendance at meetings is high and proportionate to their roles (see Appendix E).

Audit and Risk Assurance Committee

The Audit and Risk Assurance Committee:

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

Defra's Head of Internal Audit and the National Audit Office (NAO) attend the committee meetings. Major areas of work during the financial year included:

- the transfer of human resources (HR) and financial transactional services to Shared Services Connected Limited (SSCL)
- the Environment Agency's internal change programme - the 'Strategic Reviews Response Programme'
- the board's discussion of organisational risks
- the performance of Capgemini in managing the IT service
- value for money reviews and audit work undertaken by the NAO
- Natural Resources Wales

Pensions Committee

The Pensions Committee oversees how we administer 2 pension funds - an Active Fund and a Closed Fund - under local government rules.

Significant issues for discussion during the financial year included:

- changes to the Local Government Pension Scheme terms
- the Finance Act and Pensions Act
- the admittance of 2 new employers to the Active Fund (Natural Resources Wales and SSCL)
- the triennial valuation

Flood and Coastal Risk Management (FCRM) Committee

The FCRM Committee oversees:

- how we allocate grant-in-aid funding to the Regional Flood and Coastal Committees (RFCCs) in England for flood risk management capital and revenue activities
- spend and performance related to grant-in-aid funding
- locally raised income, such as contributions, precepts, levy and drainage charges

The government recently announced additional funding to be spent addressing damage to flood risk management assets caused by the flooding from December 2013 to February 2014. This included £30 million to be spent by the end of March 2014 and a further £100 million to be spent in the financial year 2014 to 2015. In the Budget, the Chancellor announced an additional £140 million of flood and coastal risk management funding over the next 2 years. We will use this to fund flood risk management asset repairs after the winter floods, and to carry out additional maintenance work. The committee will ensure that we spend this additional funding efficiently and effectively, in accordance with government conditions, to protect as many additional households as possible and to encourage sustainable growth opportunities.

By 2015, 165,000 households will be better protected from flooding. This is 20,000 more than our original target. In the next financial year, we will start construction on 54 new flood risk management schemes, which will protect over 42,000 households.

Environment and Business Committee

The Environment and Business Committee, established in October 2013, recommends to the board how we can achieve our responsibilities for regulating industry, and protecting water and land. It also advises the board on our activities on climate change mitigation and adaptation.

Remuneration Committee

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

Regional Flood and Coastal Committees (RFCCs)

We have 11 RFCCs established under the Flood and Water Management Act 2010. The majority of members on the committees are local representatives. Each RFCC has an independent chair appointed by the Secretary of State. The RFCCs:

- advise on and approve programmes of work for their areas
- raise levies to fund local priority projects, working with coastal groups and Lead Local Flood Authorities
- provide a forum for raising and allocating local funding and sharing good practice
- guide local flood and coastal management activities within catchments and along the coast

We advertise all RFCC meetings locally and the public are able to attend.

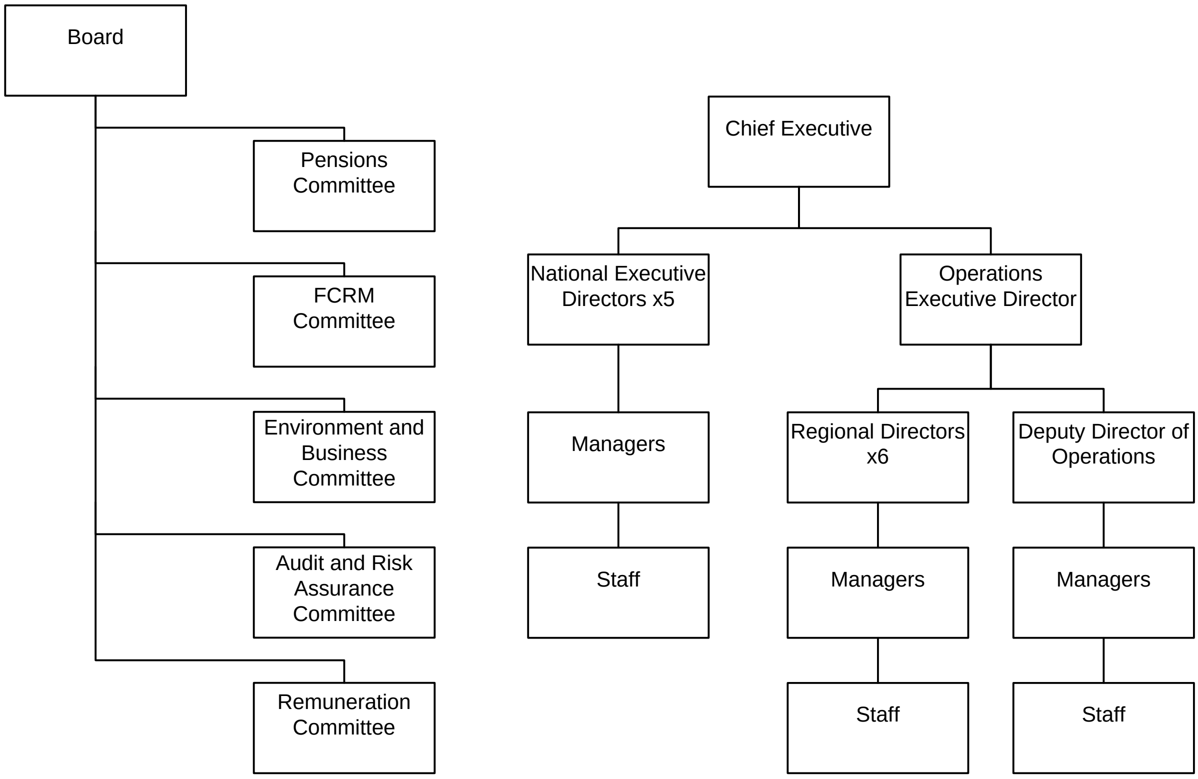
Executive Directors' team

The Chief Executive has a team of national Executive Directors that provides leadership and direction to the organisation. Each Executive Director covers one of the areas below:

- Flood and Coastal Risk Management
- Environment and Business
- Evidence
- Operations
- Resources and Legal
- Finance and Information Technology (IT)

The Chief Executive and Executive Directors meet regularly with the board and are responsible to them for all aspects of performance and risk management. The Executive Directors are responsible for establishing an effective system of internal control within the organisation.

Figure 1: Delegation of decision-making arrangements within the Environment Agency during the financial year 2013 to 2014

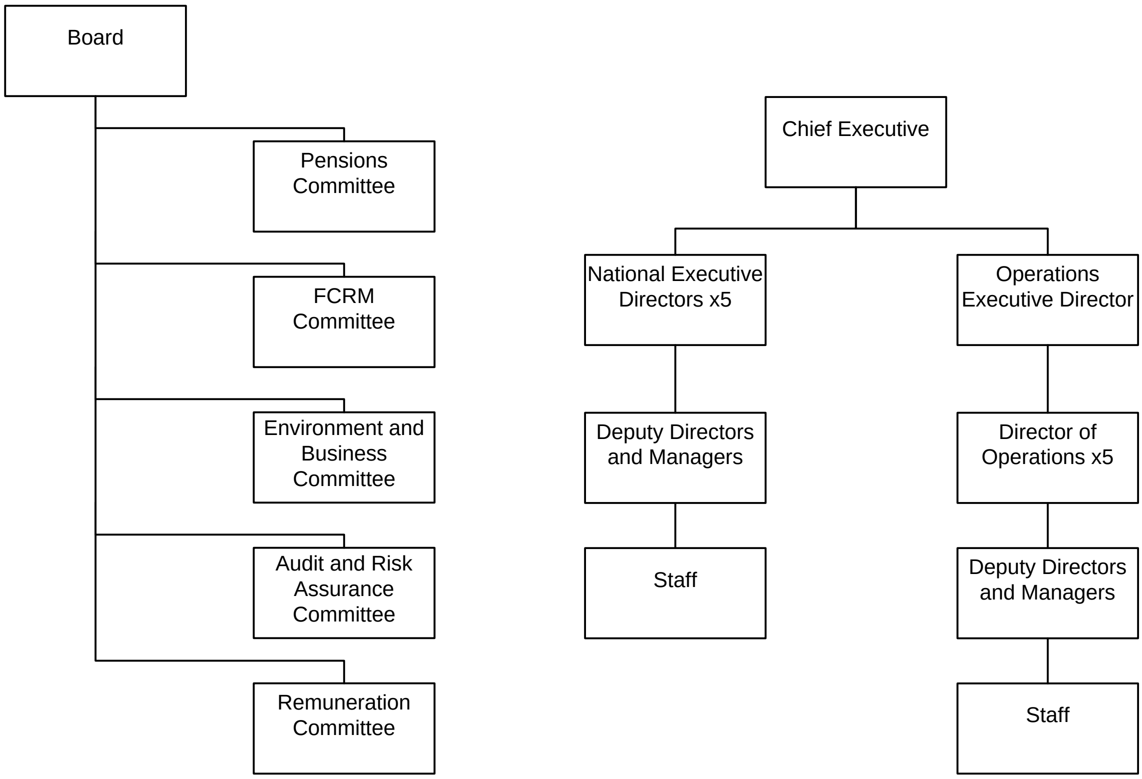


Changes to our structure

We have set up an internal change programme to improve our efficiency and effectiveness. This will help us respond to government reviews (Triennial Review, Strategic Alignment, Spending Review and Shared Services) and establish how we will operate in the future. We expect to implement the structural changes fully by 31 October 2014, subject to ongoing staff and trade union consultation.

The changes include moving the organisation from a 3-tier model (head office, region and area) to a 2-tier model (head office and area). We introduced a new management structure on 1 April 2014 (see figure 2).

Figure 2: Decision-making arrangements within the Environment Agency from 1 April 2014



Sharing our experience

We attend a number of cross-government department groups to share good practice. Examples include:

- Defra network of Heads of Internal Audit
- Defra Counter Fraud Network
- Cross-government Fraud Investigators' Group
- HM Treasury-sponsored Risk Improvement Group
- Financial Reporting Advisory Board
- Continuous Improvement Strategy and Planning Group
- Communications Group

Reporting on our progress

We report on our progress against objectives and performance targets, and how we have allocated resources, through our corporate scorecard and the annual report and accounts. Our former 6 Regions and National Operations department were responsible for achieving our operational targets for the financial year. We have recently published our corporate plan for 2014 to 2016.

We have developed the existing system of internal control over many years, and it is in accordance with HM Treasury guidance. We continued to implement stewardship reporting across the business during the financial year. This assurance mechanism provides a continuous and active method of obtaining evidence to support this governance statement. See section 5 for more details on our internal control system.

Data governance

Good data governance means being clear about who is accountable and responsible for data custodianship. Senior managers take a lead role by being aware of the data we hold and its quality. This applies for all our data, both business (including financial) and environmental. Data integrity is one of our corporate risks and we are working to mitigate this by improving how we manage our data.

We continue to make progress in understanding how data is used, where the risks are and, most importantly, on improving the quality of our data. Improving data quality will take time. We want to put data integrity at the heart of our culture and understand the level of confidence we have in all our data products. We use data quality action plans to measure, assess, improve and monitor data quality.

We use models to forecast and simulate what may happen to people and the environment under different conditions and scenarios. For example, the National Flood Risk Assessment model uses local data and expertise to forecast flood risk from rivers and the sea. If we do not manage our models effectively, it could cause adverse effects for communities, reputational damage and financial losses. We have Senior Responsible Officers, who are senior managers with accountability and responsibility for our models. Our framework for model management meets HM Treasury requirements and we have a programme of work to review all of our models against the framework. As part of this programme, we reviewed all of our business-critical models and confirmed they have an appropriate level of quality assurance. Therefore we can make confident decisions when using our models.

Compliance with the 'Corporate governance code'

We comply with the good practice requirements of the 'Corporate governance code'. Our 'Board handbook' has been reviewed against the corporate governance code and found to be well-aligned with no identified areas of weakness. All new board members receive a copy of the handbook. Each year, board members disclose their memberships of other organisations' boards and any conflicts of interest. They also declare before every meeting any conflicts of interest with the proposed agenda. All managers and staff are asked to complete an annual disclosure of conflicts of interest and discuss any disclosures with their line manager.

Our governance was reviewed as part of the Triennial Review in June 2013. The review found that we comply with all aspects of the principles of good governance. Organisational performance is reported quarterly to the Executive Directors' team, the board and Defra, as well as being scrutinised by the Secretary of State at half-yearly Ministerial Performance Reviews. Our corporate scorecard uses a system of red, amber and green to reflect our level of performance against our targets. Where we have measures that score red or amber, we agree actions to manage and improve performance.

3. Effectiveness of the Executive Directors' team and the board

The Executive Directors' team meets formally 3 times a month to discuss:

- technical issues associated with our current and future activities
- business issues such as finance, risk and people management
- organisational issues including internal change programmes, value for money and customer service standards

The Executive Directors' team receives papers to help their discussions at these meetings. In April 2013, the Executive Directors' team completed a self-evaluation exercise, using a standard questionnaire based on best practice. The review looked at governance, engagement and the Executive Directors' ways of working together. Staff who regularly interact with the Executive Directors' team and board members also provided evidence for the review. Following the review, Executive Directors agreed a programme of actions and endorsed their current level of involvement in executive decision making and programme review across the organisation.

The board carried out an effectiveness review in June 2013. Executive Directors, Regional Directors, RFCC Chairs and the Secretariat participated. As a result of the review, the board decided to:

- disband its informal subgroups, except the health safety and wellbeing subgroup
- establish a formal committee to look at the Environment and Business work of the organisation
- task the former FCRM Finance Committee with examining all FCRM matters

In July 2013 the NAO assisted in an annual self-assessment exercise for the Audit and Risk Assurance Committee. The 2013 review included board members, Executive Directors and senior managers who regularly attend the committee meetings. The committee discussed the results at their September 2013 meeting. The outcome of the review was to ensure continued and appropriate scrutiny of the correct issues with the appropriate level of rigour. The Chair and members of the committee agreed to attend workshop meetings on the internal audit programme and use risk registers to inform their discussions at committee meetings.

Data quality

All papers and data submitted to the board and committees are subject to a rigorous quality review process that includes Executive Director and Chief Executive sign-off. In addition, the annual evaluation exercise provides an opportunity for members to raise concerns about data quality; no issues were raised in the 2013 review. These controls all ensure that the quality of data used by the board is acceptable.

4. Effectiveness of risk management

Risk management framework

We have a statement setting out our strategic approach to risk management that the board and Executive Directors have agreed. The board and the Audit and Risk Assurance Committee have an important role in identifying, monitoring and managing significant organisational risks. The Executive Directors' team assesses and prioritises corporate risks throughout the year, with individual directors taking responsibility for the risks within their business areas. Executive Directors own the corporate risk register and review and discuss it quarterly at their business meetings. The Audit and Risk Assurance Committee receives regular reports on how we are managing the corporate risks and raises new risks for consideration by Executive Directors. We raise risks to Defra through a quarterly supervisory report, which sets out the top corporate risks.

Local risk and assurance leads provide visible leadership and promote development of risk and assurance capability within individual management teams and directorates.

Organisational risk profile

There are currently 7 corporate risks on the corporate risk register that the Executive Directors' team is actively managing. These are:

- information security
- incident and issues management, including major flooding events
- high profile Environment and Business areas, such as onshore oil and gas, Water Framework Directive and restoring sustainable abstraction
- IT capability and capacity
- staff and effectiveness
- data integrity
- external reviews, including Shared Services and Strategic Alignment

Since April 2013, Executive Directors have delegated, mitigated or removed a number of corporate risks from the register including:

- surface water flooding
- flood risk map publications
- the Triennial Review
- the Spending Review
- management of our charges balances
- compliance with the Bathing Waters Directive
- implementation of the new funding arrangements for flood risk and coastal management

Executive Directors and their management teams continue to manage these risks, but they are not raised to Executive Directors' meetings on a regular basis.

In September 2013 we completed an annual risk review, which collated and analysed risk registers from each region and each head office directorate. The number and nature of risks we manage continually changes, but group into 6 broad categories:

- incident management
- people risks, such as staff retention and workforce planning
- funding pressures
- health, safety and wellbeing
- external impacts
- the Water Framework Directive

Effectiveness of risk management

We continue to follow a consistent approach to risk management across the organisation. Risk registers are in place for each directorate and operational management team, which include details of current and target scores, mitigating measures and the risk owner. The September 2013 annual risk review showed that we continue to be effective at risk management, with good quality risk registers in place and a good level of control over each risk.

During the financial year the Corporate Risk and Compliance Manager worked with risk and assurance leads, operational and head office management teams, and risk management practitioners to improve how we carry out risk management and help embed an integrated approach to risk and assurance.

The Internal Audit team completed a review of our risk maturity in 2012. This showed that risk management is well embedded in business practices and our culture supports effective risk management. A follow-up audit in February 2014 found that we had made significant progress towards the targets for risk maturity set by the organisation since the 2012 review.

5. Effectiveness of the internal control system

Overview of the internal control system

The internal control system is designed to manage risk to a reasonable level, and maintain regularity and propriety, rather than eliminate all risks of failure. The Accounting Officer can only provide reasonable and not absolute assurance of effectiveness. The internal control system is based on an ongoing process designed to:

- identify and prioritise the risks affecting the achievement of our business aims and objectives
- evaluate the likelihood of those risks being realised and the impact should they be realised
- manage those risks efficiently and effectively

The Accounting Officer has been advised on the internal control system on the basis of the internal and external audit reports that have been produced during the year, and other papers and presentations at Executive Directors' meetings. At their meetings, the Audit and Risk Assurance

Committee discuss internal audit reports, in particular: areas of concern, progress in addressing improvements they have identified, and how we can continuously improve our existing systems.

Specific areas of focus during the financial year are set out in section 6 of the governance statement. We have put in place management actions across the business to mitigate these risks and ensure we manage them appropriately.

Internal audit assurance

The Head of Internal Audit submits a formal annual assurance statement to the Accounting Officer on the adequacy and effectiveness of our risk management, internal control and governance processes in accordance with government-set internal audit standards. This opinion is based on a review of the results from internal audits included in the annual internal audit plan. The Executive Directors' team and the Audit and Risk Assurance Committee agree the annual plan, and ensure that we take a risk-based and prioritised approach to audit appropriate areas of the business.

The Internal Audit team carried out 40 reviews between 1 April 2013 and 31 March 2014. The team provided an overall 'reasonable' assurance rating on the adequacy and effectiveness of our arrangements for corporate governance, risk management and internal control. There were no significant weaknesses in controls that threatened the achievement of our objectives. Where the team identified areas for improvement, managers have agreed how they will improve controls.

We also act on the recommendations made by:

- external auditors in their interim and final management letters
- accredited bodies reviewing environmental performance and quality standards
- value-for-money reviews carried out by the NAO

During the financial year external accredited auditors assessed us against the requirements of the external registrations we hold for ISO 9001, ISO 14001 and the European Eco-Management and Audit Scheme (EMAS). The auditors did not identify any non-conformities, and we continue to hold all these registrations.

Stewardship assurance

To enhance the system of internal control, we have introduced Executive Director stewardship statements during the financial year. These operate on a quarterly basis and require us to report personal assurances, supported by evidence, from colleagues who report directly to Executive Directors. To date, colleagues have provided assurance on topics including:

- diversity and equality duties
- fraud and ethical policies
- risk management
- special payments and write-offs
- protecting our staff
- equipment and information
- managing our health, safety and wellbeing
- data integrity
- use of IT
- business continuity
- external communications
- workforce planning
- investment appraisal

Where assurance is not considered sufficient, stewardship statements provide detail on the actions required to bring assurance up to an acceptable level. During the year stewardship assurance has shown that the majority of areas looked at were either 'substantially' or 'reasonably' controlled. We have identified actions where we found 'limited' or 'partial' assurance.

6. Significant risks and actions

The main risks and concerns that we have managed during the financial year have been identified through a number of control mechanisms, including:

- stewardship reporting
- risk reporting
- regular quarterly management and performance reviews
- internal and external audit reports
- specific investigations and reviews carried out by the Corporate Security team, finance, procurement and HR teams, the fraud steering group, and risk management and corporate performance reporting staff

Flood incidents and maintenance of assets

We have been involved in responding to a number of significant storms, tidal surges, sea and river flooding events during the year. From December 2013 to February 2014 flood risk management assets protected over 1.4 million properties. Unfortunately over 7,000 properties were flooded.

The east coast surge in early December 2013 was the highest experienced in places since 1953. Our flood risk management assets protected over 800,000 properties. Almost 2,000 properties flooded, around half of which were in the Humber Estuary in Lincolnshire, which was one of the worst affected areas. Over the Christmas and New Year period, conditions on the south-west and southern coasts were the worst in 10 years. Across large parts of southern England it was the wettest winter on record (since 1766) and in many places we recorded the highest ever river and groundwater levels for the time of year. The Mole and Wey catchments saw the worst flooding since 1968, and the River Thames saw conditions similar to those in 2003. In early 2014, flooding on the Somerset Levels and Moors resulted from prolonged and persistent rainfall. Here, our flood risk management assets protected over 200 square kilometres (km^2) of land and 3,500 properties, but around 170 homes and 65 km^2 of land remained flooded for several weeks. We used an extensive array of temporary pumps, including very large pumps from Holland, to remove over 90 million tonnes of water from the land.

During these incidents staff worked around the clock issuing flood warnings, working with local authorities and gold commands, informing the public and partners of risks, maintaining flood risk management assets, clearing blockages on rivers, and monitoring river and tidal levels.

During the flood recovery phase we worked with the military who helped us with visual inspections of our flood risk management assets. We were able to identify quickly which assets needed further inspection and repair. We supported local councils in their recovery efforts and worked closely with multi-agency command centres across the country.

In addition to responding to flood incidents, we have managed a number of flood risk management business risks. These include:

- clarifying our role in responding to surface water flooding so that it is clear what responsibilities we and other emergency responders have
- ensuring the new flood risk maps we are required to publish are clear and easy to understand
- preparing for the replacement of our critical flood warning infrastructure

At the start of April 2014, 94% of our flood risk management assets were at or above target condition in high consequence systems. We have been consistently above the corporate target of 97% until the current financial year, when the impact of severe flooding during 2012, and the combined effects of the east coast tidal surge in December 2013 and subsequent coastal and inland flooding in early 2014, resulted in significant asset deterioration. We have an emergency programme of asset repairs and, with the additional funding from government, we expect asset condition to improve during the next financial year.

We continue to review our maintenance activities to ensure we spend our reduced revenue on the areas of greatest potential flood risk benefits. We have improved the processes and IT tools available for asset management, which include the new Asset Information Management System.

We have updated our asset maintenance protocol, which sets out our approach to maintenance, including locations where we intend to change significantly the current levels of maintenance.

Impact of media interest

We have an important role during flood incidents to warn and inform the public and our professional partners of the flood risk. It is essential that people have confidence in our work. During the severe flooding in January and February 2014 there was significant press, television and parliamentary interest in the incident, including the causes of the flooding and how we and partner organisations managed the incident. Whilst much of the coverage reflected positively on how we were managing the situation, some was critical, particularly regarding the Somerset Levels and Moors. We monitored stories as they developed, including via social media, and responded to press enquiries ensuring we provided the relevant facts and information. We were also proactive in our handling of the media, putting out press releases and contributing to a government media briefing in February 2014 on the incident and our response. We regularly briefed staff on the incident, including explaining our position on media stories such as dredging in the Somerset Levels and Moors.

We will ensure we learn from the media interest during the recent flooding and will maintain the appropriate resources, skills and networks to handle interest from the media in our work. We continue to monitor and evaluate press and social media coverage and we are ready to challenge factual inaccuracies and present our case at speed. We are now managing this area as a corporate risk, considering the wider impacts of traditional and social media on our work.

Shared services

On 1 November 2013, we outsourced our finance and HR transactional processing activities to SSCL, a joint venture owned by Steria (75%) and HM Government (25%). Independent auditors, Grant Thornton, carried out an audit for the operational period from 1 November 2013 to 31 March 2014. The report concluded that there were no significant issues as a result of the outsourcing that could affect the reporting of our financial performance within the annual report and accounts.

Shared services represent a significant opportunity for us, as well as a risk that has been and continues to be actively managed. We regularly monitor and assure the quality of service we receive from this new venture. We are also moving our HR and financial transactional process IT system to a cross-government single operating platform. This work is due to be completed in winter 2014.

Internal change

We have set up an internal change programme to look at how the organisation will operate in the future, with the right structure at an affordable size. We are designing and consulting on the structures and ways of working, and expect to implement the changes by 31 October 2014. We are managing the programme to ensure that the organisation remains resilient throughout t, and that we maintain positive employee relations and meet legal requirements. We continue to review our capacity and capability to respond to incidents and ensure we remain resilient during and after the change. We reviewed the timings of the change programme during the flooding in January to February, allowing staff to concentrate on incident response.

In March 2014 we carried out ‘Exercise Delta’ to test our incident management response under the new 2-tier organisation structure. This exercise tested our new ways of working under a widespread flooding scenario and involved area incident rooms, the national incident room, communications staff and technical teams. We have taken great confidence from the exercise about the continued effectiveness of our incident management and have captured lessons learned to make valuable improvements to our systems and approach.

As already described, we have now moved to the 2-tier model and appointed executive managers to the new structures. The high level designs have been agreed by Executive Directors and shared with staff. Detailed structures are currently being developed and discussed with the unions prior to the formal consultation period.

Workforce planning

Ensuring we have the right people with the right skills in the right place is an important activity for us to manage. Workforce planning is integral to our ways of working and business planning activity. Executive Directors are accountable for having strategic workforce plans in place and maintaining skills resilience. A Strategic Workforce Planning Group, made up of senior staff from across the business, provides governance, advice and support on substantial workforce planning risks and issues. The group meets monthly and feeds back to the Executive Directors' team where there are important issues that need their attention and intervention. The group ensures that we have solutions in place for strategic workforce management problems and that we implement those solutions. Focus during the financial year 2013 to 2014 has been on ensuring that:

- we can afford our structure and we have the right number of people to achieve our priority environmental outcomes
- people are available in the right locations to meet the current and future workload
- we have a workforce with the right skills and competencies to achieve our priority outcomes now and in the future

Health, safety and wellbeing

We are committed to ensuring the health, safety and wellbeing of our staff and the general public. We now have a health, safety and wellbeing board subgroup to provide greater scrutiny and challenge. Our goal remains zero injuries and ill health. Next year will see a renewed push on health, safety and wellbeing, with a particular focus on why we care about people's safety.

Security issues

A recent internal audit report confirmed that we continue to comply with the government's Security Policy Framework. We continue to make improvements to lower potential security risks and mitigate new threats by:

- transferring applications which contain sensitive data to a secure enclave on our IT network
- ensuring that the interim arrangements for data access by Natural Resources Wales do not expose personal sensitive data in breach of the Data Protection Act

We have not had any reportable security incidents between 1 April 2013 and 31 March 2014.

Fraud

The Executive Directors' team, the Audit and Risk Assurance Committee and Defra receive reports of potential fraud cases on a regular basis. In spite of cases of potential fraud being very low in the Environment Agency, we take the risk very seriously. In addition to a published code of conduct and fraud policy, we have recently produced a fraud strategy. This sets out what we will do over the next 3 years to embed an anti-fraud culture into all levels of the organisation. Independent external auditors reviewed our vulnerability to fraud in 2012. We used the findings to produce a prioritised work plan.

Based on our analysis of completed fraud investigations, we have carried out a number of fraud awareness-raising campaigns including declaring conflicts of interest and talking about the risks from bribery. We have rolled out the Cabinet Office 'Counter fraud, bribery and corruption' e-learning training to all staff. We have also reviewed and improved our whistleblowing procedure to make it more accessible to staff and external parties.

Information systems improvements

The transformation of our information and communications technology (ICT) estate to supported software and hardware platforms is now almost complete. Process improvements as part of the project have resulted in:

- improving ICT asset management
- optimising ICT asset use
- simplifying processes between the Environment Agency and our strategic ICT outsource partner, Capgemini

Programme and project management

Under the leadership of the Corporate Portfolio Group, we have improved the way we manage programmes and projects, including strengthening our use of portfolio management for prioritising investment opportunities. We have increased our scrutiny of higher value projects and programmes, focusing on value for money, identifying appropriate benefits and managing risks. Some large value projects were rejected during the year due to concerns about these issues. Executive Directors scrutinise major projects and programmes at the Major Projects Assurance Group, including those which are part of the government's major projects portfolio and are subject to assurance by the Major Projects Authority.

During the financial year external reviewers assessed the maturity of our project, programme and portfolio management against the internationally recognised P3M3 (Project, Programme, Portfolio Management Maturity Model) standards. Our maturity corresponds well with public sector bodies and we have put in place actions to improve our controls and raise our maturity further.

In May 2011 the government announced a new approach to funding flood risk management projects, called partnership funding. Under the new arrangements, communities are offered the opportunity to invest in (and benefit from) local flood risk management schemes that could not be afforded from central government funding alone. In the financial year 2013 to 2014 we invested approximately £21.6 million of direct financial contributions from others towards Environment Agency-led flood risk management schemes. We estimate £55.7 million of partnership funding contributions will have been made to flood and coastal erosion risk management projects completed during the financial year. This takes into account contributions to projects led by other risk management authorities and in-kind contributions.

We continue to develop our skills and local relationships, and to refine our guidance and processes, to make funding decisions more transparent and help manage the associated reputation risks.

Procurement and contract management

We have worked with project managers, who use our major frameworks and contracts, to embed and improve procurement awareness, ways of working for financial approvals and supplier performance. Our new Water and Environment Management Framework, alongside other work set out in our sustainable engineering procurement strategy, is enabling us to develop clear, consistent ways of working, in particular for flood risk management and IT. We still need to develop further our awareness and skills in these areas. To address this we will provide further training in contract management and administration for project managers and other staff.

The move towards centralised procurement of a range of goods and services has highlighted a need for clear governance arrangements where we use cross-government contracts. To address this need we will set up agreements with other public sector organisations.

Financial management

The priority area for improvement in financial management has been our accounting for fixed assets. We have introduced initiatives including:

- better guidance and training for project managers
- enhanced awareness of asset ownership accountability
- reconciliation of the fixed asset register to operational asset registers

The National Estates team has been managing a project to register our land and property assets with the Land Registry. We have identified a number of disputed property interests which may be time-consuming and costly to resolve. We will be resolving these in a priority-based way. To date, we have successfully registered or resolved around 80% of our land records. We have completed a reconciliation of our land and property records with the fixed asset register.

We have matched other operational asset databases to our fixed asset register, including flood risk management, navigation and water resources assets. We are seeing the benefits of this work already, as we have been able to use the results of the post-floods asset condition reviews within the flood risk management database to calculate impairment adjustments to the valuation of our fixed assets.

Onshore oil and gas

We are the environmental regulator for onshore oil and gas operations in England. We take the potential risks arising from shale gas extraction very seriously and regulate to ensure that oil and gas operations are conducted in a way that protects people and the environment. We regulate water use, groundwater protection and the management of wastes such as drilling muds, flow back fluid, gases and any naturally occurring radioactive materials. We are working with stakeholders to ensure they understand our regulatory approach to the exploration and production of onshore oil and gas in England.

Hydropower

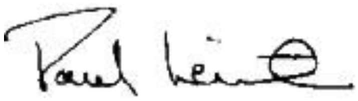
We are responsible for granting permits for hydropower schemes in England. Schemes can be complex and need to be designed and managed carefully to avoid unacceptable impacts on fish, the water environment and river users. Over the year we have been managing the risks and seeking to balance stakeholder interests. In July and October 2013 we held open board sessions to consider and agree a revised approach to managing flows and abstraction for hydropower developments, which protect the environment whilst allowing hydropower developments to proceed. A number of external organisations and interest groups attended the meetings. Following agreement at the board, in January 2014 we published revised hydropower guidance.

7. Administration of grants to local councils and internal drainage boards

We provide grants to local councils and internal drainage boards for flood and coastal erosion risk management and contaminated land remediation. Since April 2012 we have also provided funding for grants to civil society groups and charities for catchment restoration work. We administer other grants on behalf of the Secretary of State where we have Section 31 of the Local Government Act 2003 agreements in place.

All the grants are made available following an open bidding process where groups put forward proposals for local projects. We assess and prioritise the bids and publish a list of grant awards and allocations. We use the same processes and standards as we use for Environment Agency projects when assessing projects to receive grants. We use standardised documentation and publish grant memoranda which applicants need to comply with. This year we reviewed all the documents relating to grants and secured the plain English crystal mark for them.

Local officers provide guidance and advice with national experts being called upon to resolve difficulties. We ensure that we carry out post-project appraisals and that we include lessons learned into subsequent projects.



Paul Leinster

Accounting Officer

17 June 2014

Remuneration report

The Remuneration Committee

The Remuneration Committee comprises 5 non-executive board members and is chaired by the Chairman of the Environment Agency. Its terms of reference were updated in May 2012 and were derived from the 'Greenbury Code of Best Practice on Directors' Remuneration'. These were adapted to the circumstances of the Environment Agency as a non-departmental public body. The terms of reference are:

1. The Remuneration Committee is appointed as an Executive Committee of the Environment Agency board with its delegated authority to consider any matters relating to the pay or remuneration of Environment Agency employees. The committee must have regard to the Financial Memorandum and other relevant requirements of the Department of the Environment, Food and Rural Affairs (Defra).
2. The Remuneration Committee will consider and advise the Environment Agency board generally on matters relating to Human Resources.
3. The Remuneration Committee will:
    - consider and approve the overall remuneration strategy of the Environment Agency from the employees' perspective including the full benefits package
    - consider and approve periodic pay reviews for Environment Agency employees
    - consider and approve any significant policy issues involving employees' terms and conditions other than pay
    - consider and approve any performance-related pay to Executive Directors based upon recommendations from the Chief Executive, approve the broad salary bands for Executive Directors and approve the specific remuneration of any Executive Director proposed to be appointed outside of those bands or with any special conditions
    - set and review all aspects of the objectives and remuneration of the Chief Executive
    - review the framework for succession planning
    - receive an annual statement of expenses incurred by board members

The Chair of the Remuneration Committee reports on Remuneration Committee business to the board meeting following each Remuneration Committee meeting. The full minutes and papers of the Remuneration Committee meetings are made available to any board member on request.

Business conducted in year

The Remuneration Committee met 6 times during the year ended 31 March 2014. It agreed the Chief Executive's performance rating for the financial year 2012 to 2013 and agreed objectives for the financial year 2013 to 2014.

During the year, the committee also:

- endorsed the Environment Agency's general approach to the pay award
- examined Executive Directors' pay

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. 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 3 months' notice in writing.

Board members' remunerations (audited)

The appointment and emoluments of board members who have received emoluments in the last 2 financial years

Board member	Subcommittee member	Date of appointment or re-appointment	Period of appointment (years)	Time commitment (days per month)	Remuneration in 2013-2014 (£)	Remuneration in 2012-2013 (£)
The Rt Hon Lord Smith of Finsbury (Chairman)	RC, FCRM	14 Jul 2011	3	3 per week	92,496	97,365
Councillor Robert Light (Deputy Chair) (1)	RC, PC, EB	1 Jul 2012	3	5	25,201	21,002
Dr Andrew Brown (2)		10 Oct 2009	3	5	-	13,222
Mr Peter Ainsworth	FCRM, EB	1 Sept 2012	3	4	16,802	9,801
Ms Karen Burrows	ARAC, RC, EB	1 Sept 2012	3	5	21,003	12,251
Dr Clive Elphick	ARAC, PC, EB	1 Aug 2011	3	6	25,203	22,402
Dr Ruth Hall CBE (3)		30 Jun 2011	1.75	3	-	6,611
Dr Madeleine Havard (4)		4 Oct 2010	3	5	-	21,001
Ms Julie Hill (5)		1 Jul 2009	3	5	-	5,601
Ms Emma Howard Boyd	ARAC, PC,FCRM	1 Jul 2012	3	1 per week	18,202	18,202
Mr Richard McDonald (6)	ARAC, FCRM	1 Jun 2013	3	4	12,602	-
Mr Richard Leafe	ARAC	1 Sept 2012	3	4	16,802	9,801
Mr John Varley	PC, RC, EB	1 Oct 2012	3	5	21,001	19,951
Mr Jeremy Walker	EB, RC, FCRM	22 Jun 2012	3	6	25,203	25,203
Lady Suzanne Warner (7)		18 Sept 2009	3	6.5	-	12,647
Lord Larry Whitty (8)		18 Sept 2009	3	4.5	-	8,756
Total					**274,515**	**303,816**

ARAC - Member of Audit and Risk Assurance Committee at 31 March 2014

RC - Member of Remuneration Committee at 31 March 2014

PC - Member of Pensions Committee at 31 March 2014

FCRM - Member of Flood and Coastal Risk Management Committee at 31 March 2014

EB - Member of Environment and Business Committee at 31 March 2014

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

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

Notes

1. Councillor Robert Light was re-appointed to the board until 30 June 2015. He became Deputy Chair on 10 October 2012.
2. Dr Andrew Brown (Deputy Chair) retired on 9 October 2012. His full year equivalent pay was £25,201.
3. Dr Ruth Hall resigned on 9 October 2012. Her full year equivalent pay was £12,600.
4. Dr Madeleine Havard resigned on 31 March 2013.
5. Ms Julie Hill retired on 30 June 2012. Her full year equivalent pay was £21,002.
6. Mr Richard McDonald was appointed on 1 June 2013. His full time equivalent pay is £16,802.
7. Lady Suzanne Warner retired on 17 September 2012. Her full year equivalent pay was £27,301.
8. Lord Larry Whitty retired on 17 September 2012. His full year equivalent pay was £18,902.

Executive Directors’ emoluments (audited)

Total emoluments and benefits in kind of Executive Directors in the last 2 financial years

Executive Director	Emoluments (£000 banded range)		Benefits in kind (to nearest £100)		Pension benefits (to nearest £1000)		Total (£000 banded range)	
	2013-2014	**2012-2013**	**2013-2014**	**2012-2013**	**2013-2014**	**2012-2013**	**2013-2014**	**2012-2013**
Dr Paul Leinster	195-200	190-195	2,500	2,300	46,000	34,000	240-245	230-235
Mr David Jordan	160-165	160-165	2,400	2,200	-	-	160-165	160-165
Ms Miranda Kavanagh	140-145	135-140	3,800	3,800	37,000	24,000	180-185	165-170
Mr Graham Ledward (1)	-	20-25	-	240	-	-	-	20-25
Dr Mark McLaughlin (2)	145-150	140-145	2,000	1,800	32,000	(140,000)	180-185	5-10
Mr Ed Mitchell	135-140	130-135	-	-	48,000	44,000	185-190	175-180
Mr Jonathan Robinson	130-135	130-135	-	-	55,000	(7,000)	185-190	120-125
Mr David Rooke (3)	130-135	130-135	4,000	3,700	67,000	137,000	200-205	270-275

Total emoluments include gross salaries. On a voluntary basis by Executive Directors, no payments were received for performance-related pay for the financial years 2012 to 2013 and 2013 to 2014. Benefits in kind relate to the provision of lease cars.

The annual pension benefit reported in the table above represents the increase in cumulative pension benefits accrued during the year multiplied by 20, less the contributions made by the individual.

Notes

1. Mr Graham Ledward was made redundant on 30 April 2012 as a result of organisational change and was paid between £150,000 and £155,000 in line with our contractual redundancy policy.
2. Dr Mark McLaughlin’s decrease in pension benefits in the financial year 2012 to 2013 was as a result of the reduction in the highest salary in the previous 3 years used to calculate the benefit.
3. Mr David Rooke’s increase in pension benefits in the financial year 2012 to 2013 was due to the increase in salary in that year becoming the highest salary in the previous 3 years used to calculate the benefit.

The pensions of Executive Directors during the last 2 financial years

Executive Director	Accrued pension at 31 March 2014 (£5,000 range)	Increase in accrued pension during year (£2,500 range)	Accrued lump sum at 31 March 2014 (£5,000 range)	Increase in lump sum during year (£2,500 range)	CETV at 31 March 2013 (£000's)	CETV at 31 March 2014 (£000's)	Real increase in CETV (£000's)
Dr Paul Leinster (1)	65-70	2.5-5.0	130-135	0-2.5	1,466	1,498	45
Mr David Jordan (2)	–	–	–	–	–	–	–
Ms Miranda Kavanagh	10-15	0-2.5	–	–	125	165	22
Dr Mark McLaughlin	80-85	0-2.5	–	–	962	1,043	16
Mr Ed Mitchell	25-30	2.5-5.0	40-45	0-2.5	276	323	21
Mr Jonathan Robinson	50-55	2.5-5.0	–	–	537	605	28
Mr David Rooke	60-65	2.5-5.0	150-155	2.5-5.0	1,245	1,391	65

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

Notes

1. The Chief Executive was an ordinary member of the Environment Agency's Active Fund pension scheme, and the Environment Agency paid employer's pension contributions into the Active Fund at the same rate as for other participants until he opted out of the pension scheme on 31 December 2013.
2. David Jordan opted out of the pension scheme on 31 March 2012. His CETV at this time was £1,642,000.

Pay multiples

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

The banded remuneration of the highest paid employee in the financial year 2013 to 2014 was £195,000-£200,000 (financial year 2012 to 2013, £190,000-£195,000). This was 6.4 times (financial year 2012 to 2013, 6.5 times) the median remuneration of the workforce, which was £31,027 (financial year 2012 to 2013, £29,547). For the financial years 2012 to 2013 and 2013 to 2014, the highest paid employee was the Chief Executive and Accounting Officer.

Paul Leinster

Accounting Officer

17 June 2014

Statement of Accounting Officer's responsibilities

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

In preparing the accounts, the Accounting Officer is required to comply with the requirements of the government financial reporting manual and in particular to:

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

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

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

I certify that I have audited the financial statements of the Environment Agency for the year ended 31 March 2014 under the Environment Act 1995. The financial statements comprise: the Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the remuneration report that is described in that report as having been audited.

Respective responsibilities of the Accounting Officer and Auditor

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

Scope of the audit of the financial statements

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

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

Opinion on regularity

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

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the Environment Agency's affairs as at 31 March 2014 and of the net expenditure for the year then ended; and
- the financial statements have been properly prepared in accordance with the Environment Act 1995 and Secretary of State directions issued thereunder.

Opinion on other matters

In my opinion:

- the part of the remuneration report to be audited has been properly prepared in accordance with Secretary of State's directions made under the Environment Act 1995; and
- the information given in the foreword, strategic report, directors' report and the referenced appendices for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

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

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

Report

I have no observations to make on these financial statements.

Sir Amyas C E Morse — 20 June 2014

Comptroller and Auditor General

National Audit Office

157-197 Buckingham Palace Road

Victoria

London

SW1W 9SP

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's directions made under the Environment Act 1995; and
- the information given in the foreword, strategic report, directors' report and the referenced appendices for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

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

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

Report

I have no observations to make on these financial statements.

Sir Amyas C E Morse 20 June 2014

Comptroller and Auditor General

National Audit Office

157-197 Buckingham Palace Road

Victoria

London

SW1W 9SP

Financial statements

Statement of Comprehensive Net Expenditure

For the year ended 31 March 2014		2013-2014	2012-2013 (restated)
	Note	£ million	£ million
Expenditure			
Staff costs	3	443.6	449.5
Capital works expensed in year	4	214.7	219.0
Depreciation and amortisation	7,8	104.8	107.3
Other expenditure	5	400.6	431.6
		1,163.7	**1,207.4**
Income			
Income from activities		(409.1)	(422.1)
Capital grants and contributions		(18.7)	(12.8)
	6	**(427.8)**	**(434.9)**
Net expenditure	2.1	**735.9**	**772.5**
(Gain) or loss on disposal of assets		(2.9)	0.2
Net interest on pension scheme assets and liabilities	15.3	15.0	1.8
(Gain) on transfer of Natural Resources Wales	18	(34.9)	-
Net expenditure after interest		**713.1**	**774.5**
Other comprehensive expenditure			
Re-measurements recognised on pension scheme assets and obligations	15.3	98.6	141.4
Net (gain) on revaluation of property, plant and equipment	7,9	(105.5)	(65.1)
Net loss or (gain) on revaluation of intangible assets	8,9	0.9	(4.1)
Total comprehensive net expenditure for the year		**707.1**	**846.7**

The figures for the financial year 2012 to 2013 have been restated to reclassify pension charges into staff costs (note 3) and impairment of non-current assets into other expenditure (note 5). The income and expenditure for the year ended 31 March 2013 includes the activities of the Environment Agency in Wales. On 1 April 2014 these activities were transferred to Natural Resources Wales and the related income and expenditure for the year ended 31 March 2014 is therefore reported in the annual report of Natural Resources Wales. More information regarding the transfer can be found in note 18.

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

The notes on pages 61 to 94 form part of these accounts.

Statement of Financial Position

At 31 March 2014		31 March 2014		31 March 2013	
	Note	£ million	£ million	£ million	£ million
Non-current assets					
Tangible assets	7	2,506.0		2,472.9	
Intangible assets	8	136.6		145.9	
Total non-current assets			**2,642.6**		**2,618.8**
Current assets					
Assets held for sale		7.0		7.7	
Trade and other receivables	10	110.3		101.2	
Cash and cash equivalents	11	72.0		95.8	
Total current assets			**189.3**		**204.7**
Total assets			**2,831.9**		**2,823.5**
Current liabilities					
Trade and other payables	12	(305.4)		(271.3)	
Total current liabilities			**(305.4)**		**(271.3)**
Total assets less current liabilities			**2,526.5**		**2,552.2**
Non-current liabilities					
Trade and other payables	12	(1.7)		(3.0)	
Provisions		(8.7)		(13.5)	
Deferred capital grants		(1.2)		(0.5)	
Pension liabilities	15.3	(452.7)		(377.9)	
Financial liabilities	16.1	(141.6)		(181.5)	
Total non-current liabilities			**(605.9)**		**(576.4)**
Assets less liabilities			**1,920.6**		**1,975.8**
Taxpayers' equity					
Revaluation reserve		1,624.9		1,593.4	
General reserve		748.4		760.3	
Pensions reserve		(452.7)		(377.9)	
Total taxpayers' equity			**1,920.6**		**1,975.8**

The notes on pages 61 to 94 form part of these accounts. The financial statements on pages 57 to 60 were approved by the board on 17 June 2014 and signed on its behalf by:

Paul Leinster (Accounting Officer)

17 June 2014

Statement of Cash Flows

For the year ended 31 March 2014		2013-2014		2012-2013	
	Note	£ million	£ million	£ million	£ million
Cash flows from operating activities					
Net expenditure after interest		(713.1)		(774.5)	
(Gain) on transfer of Natural Resources Wales	18	(34.9)		-	
Depreciation and amortisation	7,8	104.8		107.3	
Impairment of non-current assets	9	13.2		5.2	
Amortisation of grants received		-		(0.6)	
Loss on disposal of assets		(2.9)		0.2	
(Increase) in trade and other receivables	10	(9.1)		(2.1)	
Increase in trade and other payables	12	32.8		27.3	
Increase or (decrease) in provisions		(4.8)		0.6	
Net non cash transfer to Natural Resources Wales	18	57.1			
Cash transfer to Natural Resources Wales	18	(6.0)			
Pension adjustment	13.1	(23.8)	-	11.5	
Net cash (outflow) from operating activities			**(586.7)**		**(625.1)**
Cash flows from investing activities					
Purchase of property, plant and equipment	7	(90.4)		(77.4)	
Purchase of intangible assets	8	(12.8)		(27.7)	
Proceeds of disposal of property, plant and equipment		13.4		3.3	
Capital grants and contributions for the purchase of property, plant and equipment		0.8		0.5	
Net cash (outflow) from investing activities			**(89.0)**		**(101.3)**
Cash flows from financing activities					
Grant from sponsoring body		651.9		723.0	
Net cash inflow from financing activities			**651.9**		**723.0**
Net (decrease) or increase in cash and cash equivalents in the year	11		**(23.8)**		**(3.4)**
Cash and cash equivalents at the beginning of the year	11		95.8		99.2
Cash and cash equivalents at the end of the year	11		**72.0**		**95.8**

The notes on pages 61 to 94 form part of these accounts.

Statement of Changes in Taxpayers' Equity

For the year ended 31 March 2014		Revaluation reserve	General reserve	Pension reserve	Total
	Note	£ million	£ million	£ million	£ million
Balance at 1 April 2012		**1,579.2**	**745.3**	**(225.0)**	**2,099.5**
Net gain on revaluation of property, plant and equipment	7,9	65.1	–	–	65.1
Net gain on revaluation of intangible assets	8,9	4.1	–	–	4.1
Re-measurements recognised on pension scheme assets and obligations	15.3	–	–	(141.4)	(141.4)
Transfers between reserves	13	(55.0)	66.5	(11.5)	–
Net expenditure		–	(774.5)	–	(774.5)
Total recognised income and expense		**1,593.4**	**37.3**	**(377.9)**	**1,252.8**
Grant from sponsoring bodies	17	–	723.0	–	723.0
Balance at 1 April 2013		**1,593.4**	**760.3**	**(377.9)**	**1,975.8**
Net gain on revaluation of property, plant and equipment	7,9	105.5	–	–	105.5
Net gain on revaluation of intangible assets	8,9	(0.9)	–	–	(0.9)
Re-measurements recognised on pension scheme assets and obligations	15.3	–	–	(98.6)	(98.6)
Transfers between reserves	13	(73.1)	49.3	23.8	–
Net expenditure		–	(713.1)	–	(713.1)
Total recognised income and expense		**1,624.9**	**96.5**	**(452.7)**	**1,268.7**
Grant from sponsoring body	17	–	651.9	–	651.9
Balance at 31 March 2014		**1,624.9**	**748.4**	**(452.7)**	**1,920.6**

The notes on pages 61 to 94 form part of these accounts.

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

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

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

1. Notes to the financial statements

1.1. Statement of accounting policies

The financial statements have been prepared in accordance with the 2013 to 2014 government financial reporting manual (FReM) issued by HM Treasury and are in accordance with the accounts direction issued by the Secretary of State for Environment, Food and Rural Affairs and HM Treasury under Section 45 of the Environment Act 1995.

The accounting policies in the FReM adapt and interpret International Financial Reporting Standards (IFRS) for the public sector context. They comply with the guidelines issued by the International Financial Reporting Interpretations Committee.

Where the FReM allows a choice of accounting policy, these accounts follow the policy which is most appropriate to give a true and fair view for the Environment Agency. The policies adopted by the Environment Agency are described in this statement of accounting policies. The Environment Agency has applied these judgements consistently in dealing with items that are considered material in relation to the accounts.

In the preparation of financial statements the Environment Agency is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities, and the reported amount of income and expenditure. All estimates are based on knowledge of current facts and circumstances, assumptions concerning past events, and forecasts of future events.

The following areas represent significant judgments that the Environment Agency has made in applying the accounting policies:

- Pension liabilities (reported in note 15). Independent and qualified actuaries assess the specific factors that influence the pension fund position, such as life expectancy and age of scheme members, prevailing interest and inflation rates, and projected returns on invested funds.
- The useful economic lives of assets that form the basis of periods over which property, plant and equipment is depreciated (reported in notes 1.5 and 7) and intangible assets are amortised (reported in notes 1.6 and 8).
- The impairment of property, plant and equipment, and intangible assets (reported in note 5) and the categorisation of expenditure as capital works expensed in year, and tangible or intangible assets (reported in notes 4, 7 and 8).
- Within receivables and payables there are accrued and deferred income balances for fees and charges where there is a surplus or deficit. Charging schemes are required to break even over a reasonable period of time and judgment is required in assessing the factors behind whether the surplus or deficit will result in a break even position over this reasonable period (reported in notes 1.9 and 6.1).

The actual future income, expenditure, assets and liabilities may differ from the estimates reflected in the financial statements.

1.2. Accounting convention

These accounts have been prepared on an accruals basis, under the historical cost convention, modified to account for the revaluation of property, plant and equipment and intangible assets. The accruals basis of accounting means reporting income and expenditure when it is incurred rather when it is received or paid. These financial statements are based on the going concern principle.

1.3. Income and expenditure

Income disclosed in the accounts represents revenue received and receivable during the accounting period for the permitted functions of the Environment Agency.

The income from charges for regulating businesses to monitor and control their impact on the environment is derived from a combination of applications for licences and ongoing fees and charges. Income also arises from issuing licences for activities such as fishing or navigation on designated rivers. The income is recorded at fair value.

Within other expenditure in the Statement of Comprehensive Net Expenditure the full cost of occupation is reflected on buildings that are either owned or leased by the Department for Environment, Food and Rural Affairs (Defra) as well as properties owned by the Environment Agency and included in the Statement of Financial Position. The costs are proportionate to occupation and include rates, utilities, management overheads, facilities management and associated capital charges. For Defra leasehold properties, this includes rental costs.

Grant-in-aid

The Environment Agency receives grants that are classified as either 'revenue' (to fund operating expenditure) or 'capital' (to fund expenditure on items providing longer term benefit). These grants are treated as financing received from its controlling party, which is Defra. The receipts are recorded as a financing transaction and are credited directly to the general reserve in the Statement of Financial Position and not through the Statement of Comprehensive Net Expenditure.

Grants and contributions received

The Environment Agency treats other grants that relate to specific capital expenditure, and that have conditions attached to the asset, as deferred grants and contributions. These are credited to the Statement of Comprehensive Net Expenditure over the period where the condition relating to the asset remains effective, but no longer than the asset's useful economic life. The specific conditions are:

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

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

Grant expenditure

The Environment Agency has responsibility for administering and issuing grants to local councils and internal drainage boards (IDBs) for flood and coastal erosion risk management capital schemes.

The Environment Agency also has responsibility to administer and issue grants to local councils for contaminated land remediation schemes. The Environment Agency receives the grant from Defra, as grant-in-aid, and then allocates it to appropriate projects during the year. The grants are included in the financial statements when a liability becomes certain.

1.4. Capital works expensed in year

When the Environment Agency undertakes works which are capital in nature but it does not retain the related risks and rewards or cannot reliably estimate the useful life of the asset being constructed, this expenditure is reported as capital works expensed in year. This includes:

- flood and coastal risk management assets built on land which the Environment Agency does not own but where it has permissive powers to maintain the defence
- assets where it is not possible to check for impairment, for example beach replenishment, so it is more prudent to write off the asset in year

1.5. Property, plant and equipment

Administrative freehold land and buildings are reported at a 'fair value' which is assessed on an open market value for existing use, rather than simply market value where a market exists. Land and buildings are subject to independent professional revaluation in accordance with the Royal Institute of Chartered Surveyors valuation standards every 5 years.

The Environment Agency uses operational assets to deliver its environmental outcomes. These assets are specific in nature, location or function. Typically these assets include flood defence works, such as barriers, pumping stations and flood risk management landholdings, and water resource assets, such as telemetry stations and boreholes. It is not possible to revalue these assets effectively using market comparatives or professional valuations. The Environment Agency accounts for these assets in the Statement of Financial Position at depreciated replacement cost. An appropriate index is used to increase the value of these assets each year.

On an annual basis the Environment Agency assesses the value of other tangible non-current assets against fair value.

The Environment Agency records assets under construction at cost and does not revalue them.

Where the Environment Agency incurs subsequent expenditure on previously commissioned property, plant and equipment, it is capitalised if it meets the criteria for capitalisation. The criteria are met where it is probable that the Environment Agency will receive continuing economic benefit from the asset and that the cost of the expenditure can be reliably measured.

All land is capitalised regardless of value. Other categories of property, plant and equipment are capitalised if they have a cost of £5,000 or more.

Depreciation

The Environment Agency calculates depreciation to write off the value of a tangible non-current asset on a straight line basis over the expected useful economic life of the asset concerned. Depreciation is not charged in the month of disposal or in the month of purchase.

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

Useful economic lives applied for depreciation charge

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

The range in the economic lives reflects the wide range of assets within each asset type.

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

Depreciation is not charged on assets under construction.

1.6. Intangible assets

Intangible assets with a value exceeding £5,000 are initially recorded at cost and are then revised annually through the use of suitable indices to fair value, reflecting depreciated replacement cost. Amortisation is calculated so as to write off the value of intangible assets on a straight line basis over the expected useful economic lives of the assets concerned.

Useful economic lives applied for amortisation charge

Asset type	Useful economic life (years)
Software licences and models	5-25
Websites and other internally generated IT	3-10

1.7. Assets held for sale

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

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

1.8. Impairment

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

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

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

1.9. Accrued and deferred income

Accumulated surpluses and deficits relating to water resources charges, flood risk management local levies and environmental protection charges are treated as deferred income or accrued income depending on whether the charging scheme is in surplus or deficit. These balances are only treated as deferred or accrued income where there is an expectation that the balances are recoverable over a reasonable period of time. The balances are considered when setting future years' fees and charges, to enable a break even position to be achieved over a reasonable time period, which is currently considered to be 3 years.

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

1.10. Leases

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

The determination of whether an arrangement is or contains a lease is based on the substance of that arrangement. This assessment is based on whether the arrangement is dependent on the use of a specific asset and conveys the right to use the asset.

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

1.11. Cash and cash equivalents

Cash and cash equivalents include cash in hand and deposits with any qualifying financial institution, repayable on demand or maturing within 3 months of the date of acquisition and which are subject to an insignificant risk of change in value.

1.12. Provisions

The Environment Agency provides for obligations arising from past events where there is a present obligation at the date of the Statement of Financial Position, if it is probable that we will be required to settle the obligation and a reliable estimate can be made.

The Environment Agency makes all appropriate provisions where these meet the definition within IAS 37.

1.13. Financial instruments

Financial assets and liabilities

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

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

Financial liabilities are recognised initially at fair value and are subsequently held at amortised cost using the effective interest method. Financial liabilities are derecognised when the obligation has expired.

The Environment Agency holds certain financial instrument liabilities as a result of operating agreements with a number of water companies entered into at their privatisation. These liabilities are treated as perpetuities and recorded in the Statement of Financial Position at amortised cost. The annual payments arising from these liabilities increase annually in line with the Retail Prices Index (RPI).

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

1.14. 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 exempt activities.

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

1.15. Employee benefits

Pensions

The Environment Agency makes regular contributions to the Environment Agency’s Pension Fund (known as the Active Fund) to fund current and future pension liabilities. Contributions are charged to the Statement of Comprehensive Net Expenditure taking account of the expected pension costs over the service lives of the employees and are set at a level sufficient to ensure the scheme is fully funded following formal actuarial valuations of the fund. The last triennial valuation of the Active Fund was at 31 March 2013. Liabilities for enhancements to employees’ pension arrangements under the Environment Agency’s voluntary severance scheme are accounted for in the year in which applications for severance are approved.

Other employee benefits

The Environment Agency recognises a liability and expense for all other employee benefits, including unused annual leave, accrued at the Statement of Financial Position date, provided these amounts are material in the context of overall staff costs.

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

1.16. Internal drainage boards (IDBs) under common control

The South East Region of the Environment Agency administered 8 internal drainage districts. These districts are separate legal entities which have their own budgets and reporting arrangements. Their administration is discharged through IDBs.

The Environment Agency board approves the accounts of the IDBs.

All the IDBs are subsidiaries of the Environment Agency for accounting purposes as they come under the common control of the Environment Agency's board. However, their annual income and expenditure are not material to the Environment Agency's accounts and their results have not been consolidated.

Name of IDB	Income	Expenditure	(Surplus) or deficit	Net assets or (liabilities)
	£ million	£ million	£ million	£ million
River Adur	(0.1)	0.1	-	-
River Arun	(0.1)	0.1	-	-
South West Sussex	(0.1)	0.1	-	-
Pevensey Levels	(0.3)	0.3	-	-
River Cuckmere	-	-	-	-
River Ouse	(0.2)	0.2	-	-
West of Gravesend	(0.1)	0.1	-	-
East of Gravesend	(0.1)	0.1	-	-
Total 2013-2014	**(1.0)**	**1.0**	**-**	-
Total 2012-2013	**(1.1)**	**1.0**	**(0.1)**	**0.3**

The board and Executive Directors of the Environment Agency have taken the decision to divest the Environment Agency from its responsibilities regarding the running of the Environment Agency-administered IDBs, as soon as it is reasonably practical to do so.

1.17. Adoption of new and revised IFRS or FreM interpretations

IFRS

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

IFRSs not yet effective	Environment Agency impact
IFRS 10 (Consolidated Financial Statements), IFRS 11 (Joint Arrangements), IFRS 12 (Disclosure of Interests in Other Entities), IAS 27 (Separate Financial Statements) and IAS 28 (Investments in Associates and Joint Ventures) EU adopted, effective from 1 January 2014 and FreM 1 April 2014	IASB has issued new and amended standards that affect the consolidation and reporting of subsidiaries, associates, joint ventures and investment entities. The Environment Agency does not prepare consolidated financial statements and therefore this is anticipated to have no impact.
IFRS 13 (Fair Value Measurement) EU adopted, effective from 1 January 2013 and FreM 1 April 2015 but subject to further consultation	The application of IFRS 13 is subject to further review by HM Treasury and the other relevant authorities following the consultation in 2013. The Environment Agency will review any consultations on these changes to assess the relevant impacts and, when known, how they will apply to the FreM.

No other amendments are anticipated to have an impact on the financial statements.

FreM

Every year HM Treasury issues a new FreM, which interprets IFRS for the public sector. There are no changes which will affect the Environment Agency.

2. Segmental reporting

2.1. Analysis of net expenditure by segment

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

Definition of segments and other segmental information

The Environment Agency summarises its activities into 3 main segments which are reported to the CODMs. These are:

- FCERM (Flood and Coastal Erosion Risk Management). The main activity for FCERM is to help to minimise, predict and manage the risk of flooding in England.
- E&B (Environment and Business) grant-in-aid. This incorporates work funded by Defra in environment protection, fisheries and navigation.
- E&B charges. This incorporates work funded by fees and charges for water resources, environment protection, fisheries and navigation. The activities for E&B are defined under note 6.1.

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

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

Expenditure by segment

Statement of Comprehensive Net Expenditure line	FCERM	E&B grant-in-aid	E&B charges	Total 2013-2014	Total 2012-2013 (restated)
	£ million	£ million	£ million	£ million	£ million
Staff costs	174.6	80.6	188.4	**443.6**	449.5
Capital works expensed in year	210.7	3.4	0.6	**214.7**	219.0
Depreciation and amortisation	68.4	26.2	10.2	**104.8**	107.3
Other expenditure	210.1	66.5	124.0	**400.6**	431.6
Gross expenditure	**663.8**	**176.7**	**323.2**	**1,163.7**	**1,207.4**
Income	(92.9)	(14.4)	(320.5)	**(427.8)**	(434.9)
Net expenditure	**570.9**	**162.3**	**2.7**	**735.9**	**772.5**

The figures for the financial year 2012 to 2013 have been restated to reclassify pension charges within staff costs (note 3) and impairment of non-current assets into other expenditure (note 5). The CODMs receive financial information with a slightly different classification therefore the segments reported are different to the prior year reported position. The income and expenditure for the year ended 31 March 2013 includes the activities of the Environment Agency in Wales. On 1 April 2014 these activities were transferred to Natural Resources Wales and the related income and expenditure for the year ended 31 March 2014 is therefore reported in the annual report of Natural Resources Wales. More information regarding the transfer can be found in note 18.

3. Staff costs

	2013-2014	2012-2013 (restated)
	£ million	£ million
Wages and salaries	330.2	349.7
Social security costs	28.5	30.4
Normal contributions to the Active Pension Fund	41.6	43.7
Total Environment Agency-employed staff costs	**400.3**	**423.8**
Employment agency staff wages and salaries	9.6	12.0
Other staff-related costs	23.7	26.0
Exit package costs (note 3.2)	9.2	2.6
Special contributions towards past service deficit in Active Pension Fund	14.0	–
Less amounts already included within the IAS 19 pension charge	(55.6)	(43.7)
Pension service charge (note 15)	70.3	54.2
Less amounts charged to capital projects	(28.2)	(25.7)
Amounts payable to board members	0.3	0.3
Total staff costs	**443.6**	**449.5**

Staff costs for the financial year 2012 to 2013 have been restated to reclassify the pension charge within staff costs and not separately within the Statement of Comprehensive Net Expenditure. The expenditure for the year ended 31 March 2013 includes the activities of the Environment Agency in Wales. On 1 April 2014 these activities were transferred to Natural Resources Wales and the related expenditure for the year ended 31 March 2014 is therefore reported in the annual report of Natural Resources Wales. More information regarding the transfer can be found in note 18.

See note 15 for details of the Environment Agency's pension arrangements. See the remuneration report for details of the remuneration of board members and Executive Directors.

3.1. Staff numbers

Average number of full time equivalent staff employed during the year

	2013-2014			2012-2013		
	Permanent	Temporary	Total	Permanent	Temporary	Total
Directly employed	10,372	314	**10,686**	11,177	536	**11,713**
Contractors	-	513	**513**	-	539	**539**
Total	**10,372**	**827**	**11,199**	**11,177**	**1,075**	**12,252**

The number of staff employed on capital projects and capitalised was 1,141 (1,313 in the financial year 2012 to 2013). The totals for the financial year 2012 to 2013 include 1,098 full time equivalent staff who transferred to Natural Resources Wales on 1 April 2014.

3.2. Reporting of compensation schemes

Exit packages in the period ended 31 March 2014

Category	Compulsory redundancy	Other departures	Total	Compulsory redundancy	Other departures	Total
	Number	Number	Number	£ million	£ million	£ million
Under £10,000	4	20	**24**	-	0.1	**0.1**
£10,000 - £25,000	1	30	**31**	-	0.5	**0.5**
£25,001 - £50,000	-	34	**34**	-	1.2	**1.2**
£50,001 - £100,000	-	44	**44**	-	3.1	**3.1**
£100,001 - £150,000	-	10	**10**	-	1.3	**1.3**
Over £150,000	1	15	**16**	0.3	2.7	**3.0**
Total	**6**	**153**	**159**	**0.3**	**8.9**	**9.2**

Exit packages in the period ended 31 March 2013 (restated)

Category	Compulsory redundancy	Other departures	Total	Compulsory redundancy	Other departures	Total
	Number	Number	Number	£ million	£ million	£ million
Under £10,000	2	2	**4**	-	-	**-**
£10,000 - £25,000	5	5	**10**	0.1	0.1	**0.2**
£25,001 - £50,000	2	6	**8**	0.1	0.2	**0.3**
£50,001 - £100,000	3	13	**16**	0.2	1.0	**1.2**
£100,001 - £150,000	-	3	**3**	-	0.4	**0.4**
Over £150,000	-	2	**2**	-	0.5	**0.5**
Total	**12**	**31**	**43**	**0.4**	**2.2**	**2.6**

The 31 March 2013 exit packages information has been restated due to an error identified regarding the split of the departures into the relevant bandings. The total cost was correct and has not been restated, although the cost per banding is disclosed.

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

4. Capital works expensed in year

Type of capital works	2013-2014	2012-2013
	£ million	£ million
Beach recharges	13.3	16.3
Culverts and channel improvements	14.6	20.3
Embankments	70.9	69.6
Flood risk management strategies	2.3	1.9
Flood mapping	34.1	23.2
Piling	3.4	7.5
Restoration and refurbishment	51.0	38.5
Rock groynes and sea walls	11.9	13.2
Other	13.2	28.5
Total	**214.7**	**219.0**

The above analysis includes £7.9 million (£10.9 million in 2012 to 2013) of costs in relation to the Public Private Partnerships (PPP) projects at Pevensey Bay and Broadlands.

Beach recharges

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

Culverts and channel improvements

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

Embankments

This is for the creation, improvement or heightening of embankments to reduce the risk of water escaping from a river channel.

Flood risk management strategies

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

Flood mapping

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

Piling

This relates to the installation of piles (normally steel) along river banks to strengthen them and secure the adjacent land and prevent landslips into the river causing obstructions. These works are largely below ground.

Restoration and refurbishment

This involves carrying out works to ensure that flood risk management assets are in the appropriate condition and restored to that condition as necessary.

Rock groynes and sea walls

Rock groynes and sea walls are built as part of sea and coastal flood risk management assets and are often used in conjunction with beach recharge activity to prevent sea flooding. The responsibility for maintenance often resides with the local council.

5. Other expenditure

Type of expenditure	2013-2014	2012-2013 (restated)
	£ million	£ million
Outsourced IT costs	62.6	66.9
Hired and contracted services	33.7	38.7
Grants awarded to local councils and IDBs	70.9	30.9
Contaminated land grants	1.5	3.5
Reservoir operating agreements	20.3	26.5
Information technology	12.7	15.6
Building costs	11.5	20.5
Fees and commissions	28.4	40.1
Transport and plant	17.0	22.4
Utilities	13.1	20.1
Operating leases - plant and machinery	17.1	16.9
Operating leases - other	10.9	13.4
Training	7.2	8.7
Travel and subsistence	16.0	17.9
Consumables and materials	7.6	11.4
Grants and contributions	18.7	18.0
Environmental improvement unit charges compensation payments	4.5	12.0
Maintenance	6.9	7.7
Administration	2.5	3.4
External Auditor's remuneration	0.2	0.2
Bad debts written off	4.9	1.0
Other	22.5	31.0
Impairment of non-current assets	13.2	5.2
(Reduction) in provision for bad and doubtful debts	(3.3)	(0.4)
Total	**400.6**	**431.6**

The figures for the financial year 2012 to 2013 have been restated to reclassify impairment of non-current assets into other expenditure (note 5) and also to reflect a change in categories reported in the current year. The expenditure for the year ended 31 March 2013 includes the activities of the Environment Agency in Wales. On 1 April 2014 these activities were transferred to Natural Resources Wales and the related expenditure for the year ended 31 March 2014 is therefore reported in the annual report of Natural Resources Wales. More information regarding the transfer can be found in note 18.

Bad debts are written off in line with our policy when considered to be irrecoverable. Outstanding trade and capital receivables are reviewed and high risk debts are identified and provided for.

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

5.1. Auditor's remuneration

The External Auditor's remuneration is the audit fee for the statutory audit of £185,000 (2012 to 2013 fees, £197,500). No payment was made to the External Auditor for non-audit work.

5.2. Reservoir operating agreements

Expenditure under reservoir operating agreements includes 2 components. The first and smaller component is reimbursement to water companies of their net costs of operating certain reservoirs, after deducting any income generated from hydroelectric power. The second element represents annual payments fixed at the time of the related agreements (generally in 1989 upon privatisation of water companies) as compensation for a return on reservoir assets and indexed annually by the RPI. The annual asset-related payments totalled £20.2 million in the financial year 2013 to 2014 (£23.1 million in the financial year 2012 to 2013).

5.3. Losses and special payments

HM Treasury's 'Managing Public Money' rules require disclosure of losses and special payments by category, type and value where they exceed £300,000 in total, and for any individual items above £300,000.

Losses and special payments by category

	2013-2014		2012-2013	
Category or type of loss	Number	£ million	Number	£ million
Write-off of irrecoverable debts	1,053	1.6	748	1.4
Loss of assets	292	0.4	215	0.7
Other (cash losses, fruitless payments, unenforceable claims, special payments or gifts)	160	0.4	81	0.9
Total	**1,505**	**2.4**	**1,044**	**3.0**

Losses are estimated at fair value and include costs incurred in previous years.

Losses individually over £300,000

In the financial year 2013 to 2014, there have been no losses and special payments in excess of £300,000 (in the financial year 2012 to 2013 there were 2 losses or special payments over £250,000, as reported to the previous requirements).

6. Income

Type of income	FCERM	E&B grant-in-aid	E&B charges	Total 2013-2014	Total 2012-2013
	£ million	£ million	£ million	£ million	£ million
Abstraction charges	-	-	(118.5)	**(118.5)**	(140.6)
Navigation licences	-	-	(8.1)	**(8.1)**	(7.0)
Fishing licences	-	-	(21.3)	**(21.3)**	(23.6)
Environmental Permitting Regulations (EPR) water quality	-	-	(53.9)	**(53.9)**	(66.6)
EPR installations	-	-	(24.0)	**(24.0)**	(33.0)
EPR waste	-	-	(31.1)	**(31.1)**	(32.2)
Hazardous waste	-	-	(23.7)	**(23.7)**	(20.5)
Emissions trading and CRC Energy Efficiency Scheme	-	-	(8.1)	**(8.1)**	(7.0)
Nuclear regulation	-	-	(14.3)	**(14.3)**	(13.8)
Other environmental protection charges	-	-	(14.9)	**(14.9)**	(13.9)
Total income from fees and charges	**-**	**-**	**(317.9)**	**(317.9)**	**(358.2)**
Flood risk levies	(33.1)	-	-	**(33.1)**	(24.0)
IDB precepts	(7.9)	-	-	**(7.9)**	(8.3)
Environmental improvement unit charges	-	-	(1.3)	**(1.3)**	(5.6)
EU grants	-	(1.3)	-	**(1.3)**	(2.0)
Other grants	(1.2)	(5.1)	(0.1)	**(6.4)**	(5.5)
Other income	(32.0)	(8.0)	(1.2)	**(41.2)**	(18.5)
Income from activities	**(74.2)**	**(14.4)**	**(320.5)**	**(409.1)**	**(422.1)**
Grants for capital works expensed in year	(18.7)	-	-	**(18.7)**	(12.2)
Deferred grants released	-	-	-	**-**	(0.6)
Capital grants and contributions	**(18.7)**	**-**	**-**	**(18.7)**	**(12.8)**
Total income	**(92.9)**	**(14.4)**	**(320.5)**	**(427.8)**	**(434.9)**

The income for the year ended 31 March 2013 includes the activities of the Environment Agency in Wales. On 1 April 2014 these activities were transferred to Natural Resources Wales and the related income for the year ended 31 March 2014 is therefore reported in the annual report of Natural Resources Wales. More information regarding the transfer can be found in note 18.

6.1. Analysis of fees and charges

	Expenditure	Income billed	Deficit or (surplus)
	£ million	£ million	£ million
Abstraction charges	120.5	(120.5)	**-**
Navigation licences	10.6	(8.1)	**2.5**
Fishing licences	29.6	(21.3)	**8.3**
EPR water quality	54.3	(57.5)	**(3.2)**
EPR installations	26.0	(27.2)	**(1.2)**
EPR waste	31.4	(28.0)	**3.4**
Hazardous waste	23.7	(16.9)	**6.8**
Emissions trading and CRC Energy Efficiency Scheme	8.0	(9.2)	**(1.2)**
Nuclear regulation	13.3	(13.3)	**-**
Other environmental protection charges	15.1	(16.4)	**(1.3)**
Total 2013-2014	**332.5**	**(318.4)**	**14.1**
Total 2012-2013	**364.4**	**(347.7)**	**16.7**

The above table relates to fees and charges income for the Environment and Business operating unit and is shown in line with the accounting policy for deferred and accrued income within note 1.9. Income billed differs from income reported in note 6 due to the accounting policy on accrued and deferred income disclosed in note 1.9. The cumulative surpluses and deficits are reported in notes 10 and 12.

Expenditure funded by grant-in-aid has been excluded from the table above, except for fisheries and navigation where the deficit after charges is funded by grant-in-aid. The table does not include the effect of IAS 19 pension adjustments as these are not passed on to charge payers. The financial objective for the above Environment and Business 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.

Income from FCERM is excluded from the table which exists to meet the requirements of the FReM and not to meet the requirements of IFRS 8.

Main activities of the Environment and Business operating units

Environment and Business charges

- Abstraction charges - charging for businesses abstracting water from rivers or groundwater. The income reported also includes other elements of water resources income.
- Navigation licences - charging individuals for boat licences.
- Fishing licences - charging individuals for licences to fish.
- EPR water quality - charging for discharges from businesses into the water environment.
- EPR installations - permitting to control and minimise pollution from industrial activities.
- EPR waste - permitting for waste management and exemptions.
- Hazardous waste - licensing for producing, transporting or receiving hazardous waste.
- Emissions trading and CRC Energy Efficiency Scheme - regulation of businesses under schemes including the EU Emissions Trading System and CRC Energy Efficiency Scheme.
- Nuclear regulation - regulation of nuclear sites (radioactive substances 1 and 2), non-nuclear sites (radioactive substances 3 and 4) and nuclear new build sites.
- Other environmental protection charges - licensing for registration of waste carriers and brokers, transfrontier shipments, producer responsibility licensing, end-of-life vehicles, polychlorinated biphenyls and regulation of businesses under such schemes as control of major accident hazards (COMAH).

Environment and Business grant-in-aid

- Strategic direction for delivery and support to Defra.
- Setting the Environment Agency's direction on environmental protection to help create a better place for people and wildlife.
- Provision of technical leadership.
- Advice to government and other organisations in England which are involved in environmental protection.
- Monitoring such as on water quality.
- Strategic environment planning including river basin and catchment restoration plans.
- Investigations and improvement under the Water Framework Directive.
- Enforcement and environmental crime work including waste crime.
- Incident management.
- Navigation and fisheries work not covered by charges.
- Working with local partners, communities and government.

7. Tangible assets

Tangible assets at 31 March 2014

	Operational assets	Freehold land	Dwellings	Freehold buildings	Plant and machinery	Vehicles	Furniture and fittings	IT	Assets under construction	Total
Cost or valuation	£ million	£ million	£ million	£ million	£ million	£ million	£ million	£ million	£ million	£ million
At 1 April 2013	**3,657.0**	**33.8**	**20.6**	**42.8**	**463.1**	**36.6**	**58.7**	**57.4**	**110.3**	**4,480.3**
Capital expenditure	–	–	0.1	0.9	7.7	3.1	3.8	4.6	70.2	**90.4**
Assets commissioned	30.4	–	–	–	–	–	–	–	(30.4)	**-**
Disposals	(46.9)	(4.5)	(0.3)	(7.6)	(10.8)	(3.6)	(5.4)	(0.1)	(4.9)	**(84.1)**
Reclassified as held for sale	(0.7)	0.2	–	1.2	–	–	–	–	–	**0.7**
Revaluation and indexation	157.3	5.4	3.1	7.4	(3.1)	(0.3)	(0.4)	(0.3)	–	**169.1**
Impairment	(63.4)	(0.2)	–	(0.8)	(0.2)	–	–	(2.9)	(7.2)	**(74.7)**
Reclassification	(4.4)	0.4	0.1	3.9	–	0.1	2.0	(13.6)	(0.8)	**(12.3)**
At 31 March 2014	**3,729.3**	**35.1**	**23.6**	**47.8**	**456.7**	**35.9**	**58.7**	**45.1**	**137.2**	**4,569.4**
Depreciation										
At 1 April 2013	**1,568.9**	–	**1.4**	**3.4**	**352.7**	**19.3**	**26.6**	**35.1**	–	**2,007.4**
Provided during the year	52.0	–	0.7	1.4	12.9	5.2	4.7	3.3	–	**80.2**
Disposals	(8.1)	–	–	(0.6)	(6.8)	(2.3)	(2.9)	–	–	**(20.7)**
Revaluation and indexation	58.8	–	0.3	0.6	(2.5)	(0.2)	(0.3)	(0.2)	–	**56.5**
Impairment	(54.7)	–	–	(0.1)	(0.1)	–	–	(2.2)	–	**(57.1)**
Reclassification	–	–	–	(0.1)	–	0.1	1.4	(4.3)	–	**(2.9)**
At 31 March 2014	**1,616.9**	–	**2.4**	**4.6**	**356.2**	**22.1**	**29.5**	**31.7**	**–**	**2,063.4**
Net Book Value at 31 March 2014	**2,112.4**	**35.1**	**21.2**	**43.2**	**100.5**	**13.8**	**29.2**	**13.4**	**137.2**	**2,506.0**

Tangible assets at 31 March 2013

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

Details of valuation

All of the Environment Agency’s assets are owned and none are held under finance leases. All of the Environment Agency's administrative land and buildings, including dwellings, except assets under construction, were revalued at 1 April 2011 by external independent chartered surveyors, King Sturge, on the basis of open market value for existing use. Intangible assets, plant and machinery, furniture and fittings, and operational assets were revalued internally at 31 March 2014 using suitable indices. The impact of both revaluations is shown as revaluation and indexation in notes 7 and 8 respectively for tangible and intangible assets.

Operational assets

Operational assets include £23.9 million (31 March 2013, £19.1 million) for land that forms an essential element of certain operational assets 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 assets of which it forms a part. Operational assets include the Thames Barrier which is valued at £1,049 million (31 March 2013, £1,038 million) reflecting its depreciated replacement cost.

8. Intangible assets

Intangible assets at 31 March 2014

	Software licences	Websites	Other IT	Assets under construction	Total
Cost or valuation	£ million	£ million	£ million	£ million	£ million
At 1 April 2013	**15.3**	**50.2**	**70.2**	**80.0**	**215.7**
Capital expenditure	11.4	–	–	1.4	**12.8**
Assets commissioned in year	–	1.1	5.5	(6.6)	**-**
Disposals	(0.5)	–	(3.1)	–	**(3.6)**
Revaluation and indexation	–	(0.4)	(0.5)	–	**(0.9)**
Impairment	–	(3.5)	(1.8)	(0.8)	**(6.1)**
Reclassification	–	11.4	0.1	0.8	**12.3**
At 31 March 2014	**26.2**	**58.8**	**70.4**	**74.8**	**230.2**
Amortisation					
At 1 April 2013	**2.0**	**40.0**	**27.8**	**–**	**69.8**
Provided during the year	1.1	10.1	13.4	–	**24.6**
Disposals	(0.1)	–	(0.2)	–	**(0.3)**
Revaluation and indexation	–	(0.4)	(0.3)	–	**(0.7)**
Impairment	–	(2.1)	(0.6)	–	**(2.7)**
Reclassification	–	3.6	(0.7)	–	**2.9**
At 31 March 2014	**3.0**	**51.2**	**39.4**	**–**	**93.6**
Net Book Value at 31 March 2014	**23.2**	**7.6**	**31.0**	**74.8**	**136.6**

Intangible assets at 31 March 2013

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

9. Impairment

	2013-2014	2012-2013
	£ million	£ million
Tangible assets	7.1	24.4
Intangible assets	0.7	-
Total charged to the revaluation reserve	**7.8**	**24.4**
Tangible assets	10.5	(0.6)
Intangible assets	2.7	5.8
Total impairment charge to the Statement of Comprehensive Net Expenditure	**13.2**	**5.2**
Total impairment in accordance with the Statement of Financial Position	**21.0**	**29.6**

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

10. Trade and other receivables

	31 March 2014	31 March 2013
	£ million	£ million
Trade receivables	45.7	36.9
Less provision for bad and doubtful debts	(11.1)	(14.7)
Net trade receivables	**34.6**	**22.2**
Grants	-	1.6
VAT	22.7	31.4
Employee loans, such as for travel season tickets and the cycle to work scheme	0.2	0.2
Prepayments	23.6	21.5
Abstraction licences accrued income	4.1	3.1
Environment protection accrued income	13.6	14.0
Other accrued income	9.2	3.4
Other receivables	2.3	3.5
Pension assets	-	0.3
Total	**110.3**	**101.2**

10.1. Analysis of trade and other receivables by organisation type

Type of organisation	31 March 2014	31 March 2013
	£ million	£ million
Government departments	27.0	21.7
Local authorities	4.5	2.2
Public corporations	-	0.1
National Health Service bodies	0.1	0.1
Non-government entities and individuals	78.7	77.1
Total	**110.3**	**101.2**

11. Cash and cash equivalents

	31 March 2014	31 March 2013
	£ million	£ million
At 1 April	**95.8**	**99.2**
Net change in cash and cash equivalent balances	(23.8)	(3.4)
At 31 March	**72.0**	**95.8**

The balances were held as cash with the government banking service with no bank overdraft.

12. Trade and other payables

	31 March 2014	31 March 2013
Within 1 year	£ million	£ million
Other taxation and social security	11.7	9.5
Trade payables	20.7	15.7
Trade payables accrual	34.2	65.4
Holiday pay accrual	9.1	9.9
Capital payables	8.8	3.8
Capital payables accrual	60.1	22.8
Flood risk management deferred income	37.4	34.7
Abstraction licences deferred income	4.8	4.7
Environmental improvement unit charge deferred income	68.9	51.4
Environment protection deferred income	7.4	10.6
Customer deposits and receipts in advance	34.6	37.9
Other payables	6.6	4.9
Pension contribution liability	1.1	-
	305.4	**271.3**
More than 1 year		
Capital payables and accruals	-	0.2
Trade and other payables and accruals	1.7	2.8
	1.7	**3.0**
Total	**307.1**	**274.3**

12.1. Analysis of trade and other payables by organisation type

	31 March 2014	31 March 2013
	£ million	£ million
Government departments	12.4	8.6
Local authorities	0.2	0.3
Public corporations	0.2	0.2
Non-government entities and individuals	294.3	265.2
Total	**307.1**	**274.3**

13. Transfers between reserves

13.1. For the year ended 31 March 2014

	Revaluation reserve	General reserve	Pension reserve	Total
	£ million	£ million	£ million	£ million
Depreciation, amortisation and disposal charges to the Statement of Comprehensive Net Expenditure relating solely to revalued cost	(53.6)	53.6	–	–
Natural Resources Wales transfer of revaluation reserve (note 18)	(19.5)	(32.5)	52.0	–
Net pension charge	–	28.2	(28.2)	–
Total	**(73.1)**	**49.3**	**23.8**	–

13.2. For the year ended 31 March 2013

	Revaluation reserve	General reserve	Pension reserve	Total
	£ million	£ million	£ million	£ million
Depreciation, amortisation and disposal charges to the Statement of Comprehensive Net Expenditure relating solely to revalued cost	(55.0)	55.0	–	–
Net pension charge	–	11.5	(11.5)	–
Total	**(55.0)**	**66.5**	**(11.5)**	–

14. Commitments

14.1. Capital commitments

	31 March 2014	31 March 2013
	£ million	£ million
Contracted for but not provided in the financial statements	53.8	43.7

The amounts above relate to both tangible and intangible fixed assets. Commitments on capital works expensed in year at 31 March 2014 totalled £92.2 million (31 March 2013, £104.1 million).

14.2. Financial commitments

The Environment Agency has entered into non-cancellable contracts (which are not leases).

Payments the Environment Agency is committed to	31 March 2014	31 March 2013
	£ million	£ million
Not later than 1 year	69.5	68.2
Later than 1 year and not later than 5 years	138.8	193.4
Later than 5 years	13.5	16.1
Total	**221.8**	**277.7**

The above commitments relate to the Broadland flood alleviation project, Pevensey Bay beach maintenance and an outsourced IT service contract with Capgemini. Contracted future commitments in relation to these 3 commitments are respectively £18.6 million, £15.3 million and £184.1 million.

14.3. Commitments under leases

The Environment Agency is committed to future minimum lease payments under operating leases.

Payments the Environment Agency is committed to	31 March 2014		31 March 2013	
	Land and buildings	**Other**	**Land and buildings**	**Other**
	£ million	£ million	£ million	£ million
Not later than 1 year	7.5	10.5	9.4	10.0
Later than 1 year and not later than 5 years	25.5	16.0	30.7	11.9
Later than 5 years	33.3	–	36.5	–
Total	**66.3**	**26.5**	**76.7**	**21.9**

The operating lease commitments above include costs that relate to the Environment Agency's proportion of occupation of Defra leasehold properties. These arrangements between the Environment Agency and Defra reflect a future commitment to reimburse Defra for the relevant portion of the underlying rentals paid to landlords for the provision of leasehold accommodation.

Other leases mainly comprise leases for Environment Agency vehicles.

15. Pension obligations

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

The Environment Agency Pension Fund has 3 admitted members, the Environment Agency, Natural Resources Wales and Shared Services Connected Limited (SSCL). Natural Resources Wales was admitted on 1 April 2013 and SSCL was admitted on 31 October 2013.

The total pension charge for the Environment Agency was £16.6 million for the financial year 2013 to 2014 (£54.2 million in 2012 to 2013). The pension charge relating to the scheme was assessed in accordance with the advice of an independent qualified actuary using the projected unit method of valuation to calculate the service costs.

The latest triennial actuarial valuation of the Environment Agency Pension Fund was at 31 March 2013. The assets taken at market value (£2.1 billion) were sufficient to cover 94% of the value of liabilities in respect of past service benefits which had accrued to members. The Environment Agency has accepted the independent actuary's recommendation in respect of future employer contributions.

A number of assumptions are made as part of the actuarial valuation process. In order to be prudent and not risk understating the liability, future investment returns are assumed to be 4.6% per annum with future salary increases averaging 3.5% per annum. The prudent actuarial assumptions do not represent a view on what future pay movements may be. It has been assumed that present and future pensions in payment will increase at the rate of 2.2% per annum. The estimated contribution payable by the Environment Agency, excluding any discretionary lump sum payments, for the year to 31 March 2015 will be approximately £43 million.

These financial statements include the disclosure requirements of IAS 19 for the current year in relation to the Environment Agency's Active Fund. All calculations have been made by a qualified independent actuary and are based on the most recent actuarial valuation of the fund at 31 March 2013 updated to 31 March 2014. The assumptions underlying the calculation of a net liability at 31 March 2014 are only used for accounting purposes as required under IAS 19. There is no requirement for the reported net liability to be met as a lump sum. Cash contributions paid by the Environment Agency to the pension fund will continue to be set by reference to assumptions agreed at each triennial actuarial valuation of the scheme.

15.1. Financial and longevity assumptions

Financial assumptions for the Environment Agency pension fund

Assumption	31 March 2014	31 March 2013
	% per annum	% per annum
Inflation and pension increase rate	2.5	2.5
Salary increase rate*	3.8	4.6
Discount rate	4.3	4.5

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

Longevity assumptions: average future life expectancy at age 65

Scheme member	31 March 2014		31 March 2013	
	Male (years)	Female (years)	Male (years)	Female (years)
Current pensioners	22.6	24.5	21.3	23.3
Future pensioners (people aged 65 in 20 years)	24.7	27.0	23.3	25.2

15.2. Fair value of assets

Fair value of assets for the year ended 31 March 2014

Asset category	Active market quoted prices	Non-active market quoted prices	Total	% of total
	£ million	£ million	£ million	%
Equity securities				
Consumer	247.5	-	247.5	12
Manufacturing	107.2	-	107.2	5
Energy and utilities	164.3	-	164.3	8
Financial institutions	144.4	-	144.4	7
Health and care	101.2	-	101.2	5
Information technology	100.1	-	100.1	5
Debt securities				
Corporate bonds (investment grade)	190.8	-	190.8	9
UK government	186.7	-	186.7	9
Private equity				
All	-	76.2	76.2	3
Real estate				
All	-	80.9	80.9	4
Investment funds and unit trusts				
Equities	400.0	-	400.0	19
Bonds	245.9	-	245.9	12
Derivatives				
Inflation	-	-	-	0
Foreign exchange	-	-	-	0
Cash and cash equivalents				
All	46.1	-	46.1	2
Total	**1,934.2**	**157.1**	**2,091.3**	**100**

Fair value of assets for the year ended 31 March 2013

Asset category	Active market quoted prices	Non-active market quoted prices	Total	% of total
	£ million	£ million	£ million	%
Equity securities				
Consumer	252.9	-	252.9	12
Manufacturing	135.3	-	135.3	6
Energy and utilities	205.9	-	205.9	10
Financial institutions	142.6	-	142.6	7
Health and care	107.3	-	107.3	5
Information technology	67.1	-	67.1	3
Debt securities				
Corporate bonds (investment grade)	199.1	-	199.1	9
UK government	186.3	-	186.3	9
Private equity				
All	-	94.1	94.1	5
Real estate				
All	-	57.5	57.5	3
Investment funds and unit trusts				
Equities	426.2	-	426.2	20
Bonds	216.6	-	216.6	10
Derivatives				
Inflation	(0.1)	-	(0.1)	0
Foreign exchange	(13.5)	-	(13.5)	(1)
Cash and cash equivalents				
All	36.9	-	36.9	2
Total	**1,962.6**	**151.6**	**2,114.2**	**100**

15.3. Change in fair value of employer assets, defined benefit obligation and net liability

Year ended 31 March 2014	Fair value of employer assets		Funded defined benefit obligations		Net (liability) or asset	
	£ million	£ million	£ million	£ million	£ million	£ million
Opening position at 1 April 2013		2,114.2		(2,492.1)		**(377.9)**
Pension benefits accrued by members during the year*	-		(66.1)		**(66.1)**	
Change in cost of pensions from previous years' service	-		(4.2)		**(4.2)**	
Total service cost (recognised in net expenditure)		**-**		**(70.3)**		**(70.3)**
Settlement relating to Natural Resources Wales	(203.9)		255.9		**52.0**	
Total pension gain from transfer to Natural Resources Wales (recognised in net expenditure)		**(203.9)**		**255.9**		**52.0**
Income on scheme assets	86.3		-		**86.3**	
Interest cost on defined benefit obligation	-		(101.3)		**(101.3)**	
Total net interest (recognised in net expenditure)		**86.3**		**(101.3)**		**(15.0)**
Employees' contributions	21.8		(21.8)		**-**	
Employer contributions	57.1		-		**57.1**	
Benefits paid	(62.7)		62.7		**-**	
Total cash flows		**16.2**		**40.9**		**57.1**
Expected closing position		**2,012.8**		**(2,366.9)**		**(354.1)**
Change in demographic assumptions	-		(71.5)		**(71.5)**	
Change in financial assumptions	-		24.8		**24.8**	
Other changes such as inflation rate	-		(130.4)		**(130.4)**	
Return on assets excluding amounts included in net interest	78.5		-		**78.5**	
Total re-measurements (recognised in Other Comprehensive Expenditure)		**78.5**		**(177.1)**		**(98.6)**
Closing position at 31 March 2014		**2,091.3**		**(2,544.0)**		**(452.7)**

* Includes an allowance for administration expenses of 0.4% of payroll costs. There are no current unfunded obligations (there were also no unfunded obligations at 31 March 2013).

Year ended 31 March 2013	Fair value of employer assets		Funded defined benefit obligations		Net (liability) or asset	
	£ million	£ million	£ million	£ million	£ million	£ million
Opening position at 1 April 2012		**1,849.1**		**(2,074.1)**		**(225.0)**
Pension benefits accrued by members during the year *	-		(53.6)		(53.6)	
Change in cost of pensions from previous years' service	-		(0.6)		(0.6)	
Total service cost (recognised in net expenditure)		**-**		**(54.2)**		**(54.2)**
Income on scheme assets	98.1		-		98.1	
Interest cost on defined benefit obligation	-		(99.9)		(99.9)	
Total net interest (recognised in net expenditure)		**98.1**		**(99.9)**		**(1.8)**
Employees' contributions	22.7		(22.7)		-	
Employer contributions	44.5		-		44.5	
Benefits paid	(61.7)		61.7		-	
Total cash flows		**5.5**		**39.0**		**44.5**
Expected closing position		**1,952.7**		**(2,189.2)**		**(236.5)**
Change in financial assumptions	-		(302.8)		(302.8)	
Return on assets excluding amounts included in net interest	161.4		-		161.4	
Total re-measurements (recognised in Other Comprehensive Expenditure)		**161.4**		**(302.8)**		**(141.4)**
Closing position at 31 March 2013		**2,114.2**		**(2,492.1)**		**(377.9)**

* Includes an allowance for administration expenses of 0.4% of payroll costs.

The defined benefit obligation comprises approximately £1.4 billion, £305.7 million and £850 million in respect of employee members, deferred pensioners and pensioners respectively as at 31 March 2014 (£1.6 billion, £254.4 million and £664.6 million at 31 March 2013).

15.4. Sensitivity analysis

Sensitivities regarding the principal assumptions used to measure the scheme liabilities

Change in assumption	Approximate % increase in employer liability	Approximate monetary amount (£ million)
0.5% decrease in real discount rate	11	284.1
1 year increase in member life expectancy	3	76.2
0.5% increase in salary increase rate	4	109.3
0.5% increase in pension increase rate	7	170.5

16. Financial instruments

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

16.1. Financial liability - reservoir operating agreements

In 1989 a predecessor body to the Environment Agency, the National Rivers Authority, entered into a number of reservoir operating agreements with water companies, under section 126 of the Water Act 1989, re-enacted by section 20 of the Water Resources Act 1991.

These agreements contained 2 financial components. The first was for payment to the water companies of their operating costs for the reservoirs, net of income generated thereon by the companies, such as on hydroelectric power. The second was for fixed payments, indexed upwards annually based on the RPI, which are payable in perpetuity. The terms of these agreements were negotiated between HM Government and the water companies and were made to enable privatisation to occur.

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

The largest payments are payable to Northumbrian Water (in relation to Kielder reservoir) and Severn Trent Water (in relation to Lake Clywedog and Lake Vyrnwy reservoirs). In the previous year payments included amounts to Dŵr Cymru in relation to various Welsh reservoirs including the River Dee reservoir scheme. On 1 April 2013 the liability relating to the payments to Dwr Cymru was transferred to Natural Resources Wales (note 18).

The total liability at 31 March 2013 was £181.5 million. £39.9 million was transferred to Natural Resources Wales.

Details of the financial liability reported on the Statement of Financial Position

Counterparty	Amount paid in 2013-2014	Amount paid in 2012-2013	Liability at 31 March 2014	Liability at 31 March 2013
	£ million	£ million	£ million	£ million
Northumbrian Water	17.8	16.6	129.2	129.2
Severn Trent Water	2.4	1.6	12.4	12.4
Dŵr Cymru (transferred to Natural Resources Wales on 1 April 2013)	-	4.9	-	39.9
Total	**20.2**	**23.1**	**141.6**	**181.5**

The liabilities are measured as perpetuities at the real terms value according to the underlying reservoir operating agreements. The discounting applied reflects the opportunity cost to the taxpayer of entering into the agreement and liability compared to other opportunities for investment.

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

The Environment Agency does not bear liquidity, credit or interest rate risk on these financial instruments.

17. Related party disclosures

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

Controlling parties

The Environment Agency is a non-departmental public body of Defra. Defra and other bodies within the Defra network are regarded as a related party and the results of the Environment Agency are consolidated into the Defra annual report and accounts.

Funding received from Defra	2013-2014	2012-2013
	£ million	£ million
Defra environment protection grant-in-aid	(109.5)	(158.9)
Defra flood defence grant-in-aid	(461.8)	(524.5)
Defra IDB or local authority grant-in-aid	(70.9)	(30.9)
Defra catchment restoration fund (CRF)	(9.7)	(8.7)
	(651.9)	**(723.0)**

The Environment Agency received £57 million of grant-in-aid in the financial year 2012 to 2013 from Welsh Government for activities in Wales. Due to the HM Treasury-led 'Clear Line of Sight' initiative, this funding was routed through Defra and is recorded as such in the table above.

Other related parties

	2013-2014	2012-2013
	£ million	£ million
Local Government Association	-	0.1

The Environment Agency had no other material related party transactions with organisations in which other board members, Executive Directors or senior managers have declared an interest. See the remuneration report for further information on board members and Executive Directors.

The Environment Agency has 8 IDBs which are under common control (see note 1.16).

18. Natural Resources Wales

On 1 April 2013, the activities of the Environment Agency in Wales were transferred to a new single body for the environment in Wales, called Natural Resources Wales, pursuant to the Natural Resources Body for Wales Transfer Scheme 2013 under the Public Bodies Act 2011. The Welsh activities of the Forestry Commission and the Countryside Council for Wales were also transferred to Natural Resources Wales on that date. The net assets were included in the Statement of Financial Position as at 31 March 2013 as they were still under the control of the Environment Agency. All assets, liabilities and reserves relating to the Environment Agency in Wales were transferred to Natural Resources Wales on 1 April 2013. As a result, the Statement of Comprehensive Net Expenditure for the financial year 2013 to 2014 does not include the income and expenditure for the former Welsh activities which are reported in the financial statements of Natural Resources Wales. The table below presents the assets and liabilities transferred together with a cross reference for the individual elements to the notes to the accounts where applicable.

Section of the Statement of Financial Position	Value of asset or (liability)	Where the transfer is reported
	£ million	
Non-current assets	56.1	Transfer included in the disposals figures in notes 7 and 8.
Current assets	10.4	Transfer included in the movement between years in notes 10 and 11.
Total assets	**66.5**	
Current and non-current liabilities	(9.5)	Transfer included in the movement between years in note 12.
Long-term liabilities - reservoir operating agreements	(39.9)	Transfer included in the movement between years in note 16.1.
Long-term liabilities - pension	(52.0)	Transfer reported in note 15 and recognised in the pension cost in note 3.
Total liabilities	**(101.4)**	
Net (liabilities) transferred	**(34.9)**	**Transfer reported as a movement in the Statement of Comprehensive Net Expenditure**.
Reserves transferred		
Revaluation reserve	(19.5)	Transfer reported in note 13.1.
Pension reserve	52.0	Transfer reported in note 13.1.

Reconciliation to Statement of Cash Flows	£ million
Current assets excluding cash	4.4
Current and non-current liabilities	(61.5)
Total non cash movement to Natural Resources Wales	(57.1)
Cash transferred to Natural Resources Wales	6.0

From 1 April 2013, any services provided to or received from Natural Resources Wales by the Environment Agency are reported within the Statement of Comprehensive Net Expenditure. All such services were provided on an arm's length basis, and under service agreements between the 2 entities.

19. Events after the reporting date

Date of authorisation for issue

The Environment Agency's financial statements are laid before the Houses of Parliament by the Secretary of State for Environment, Food and Rural Affairs. IAS 10 requires the Environment Agency to disclose the date on which the financial statements are authorised for issue. The Accounting Officer authorised these financial statements for issue on the same day as the signature of the Comptroller and Auditor General.

Appendix A – history of the Environment Agency

The Environment Agency was established on 8 August 1995 following Royal Assent for the Environment Act 1995. We took up our statutory powers and duties on 1 April 1996, when the functions of the National Rivers Authority, Her Majesty's Inspectorate of Pollution, the Waste Regulation Authorities and several smaller units of the Department of the Environment were transferred to us. Our registered office is Horizon House, Deanery Road, Bristol, BS1 5AH.

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

During the financial year 2013 to 2014, our principal government sponsor remained Defra. However the Environment Agency also works closely with other principal government departments such as the Department for Energy and Climate Change, the Department for Business, Innovation and Skills and the Department for Communities and Local Government. Defra oversees the environmental policy framework within which the Environment Agency operates in England. We operate under a financial memorandum issued by Defra.

In November 2011, Welsh Government announced that it intended to create a single body for Wales bringing together the Environment Agency, the Countryside Council for Wales and the Forestry Commission Wales. As set out in note 18, on 1 April 2013 the Environment Agency transferred the assets, liabilities and activities that relate to the work undertaken in Wales at book value.

Appendix B – our performance

This section shows how we performed against the targets in our corporate plan for the year from 1 April 2013 to 31 March 2014. We have targets for each of our 5 environmental themes, as set out below.

We measure our progress against the targets in our corporate plan using a system of red, amber and green:

- green shows that we have met our target
- amber shows that we have partially met our target
- red shows that we have not met our target

The figures in this year's report relate to England only. Last year we reported figures for England and Wales.

Act to reduce climate change and its consequences

1.1a We reduce methane gas emissions from landfill sites we regulate

2013-2014 target	Status
42 technical reviews	Amber

This year we completed 39 technical reviews at landfill sites, out of a target of 42 reviews.

The 3 technical reviews we weren't able to complete were due to staff not being available as they were involved in incident response for the winter floods.

We will have data for the reduction in methane gas emissions from the sites we regulate by the end of June 2014.

Next year we will target our technical reviews at poorly performing sites.

1.3a We reduce our carbon footprint

2013-2014 target	Status
42,100 tonnes of carbon dioxide	Red

We are at 114% of our profiled national carbon dioxide target for the year. During the financial year 2013 to 2014 we emitted 47,900 tonnes of carbon dioxide. We did not reduce our carbon dioxide emissions as much as we wanted to: by the end of March 2014 we had reduced our carbon dioxide emissions by 19% from the baseline year 2006 to 2007, compared to our target of a 30% reduction. However, we did reduce our emissions by 8% compared to the financial year 2012 to 2013, despite our sustained flood incident response which involved considerable amounts of pumping, which significantly increased our emissions.

Protect and improve water, land and air quality

2.1a We work with others to improve the quality of surface waters, groundwaters, coastal waters and wetlands

2013-2014 target	Status
2,370 water bodies (32%) at 'good' or better ecological status	Red

By the end of March 2014, 1,994 water bodies (27%) were at 'good' or better ecological status, a decrease from 2,017 at the end of March 2013. Water bodies include rivers, streams, lakes, estuaries, coastal waters and groundwater.

We are confident that the work we and our partners have done will improve water quality. However, it will take longer than we first thought to reach 32% of water bodies at 'good' or better ecological status.

In the last year we have completed 464 projects to improve 1,209 water bodies. We predict that these projects will continue to contribute to 36 additional water bodies reaching 'good' status by 2015 and a further 285 in future river basin management cycles.

We have now implemented the catchment-based approach in all 93 river catchments in England, and our catchment co-ordinators continue to work with partners to embed the approach. Each catchment has a river basin management plan, with cost-beneficial measures which will improve water quality. This year we allocated funding to support 111 catchment partnership groups and we expect most groups to take up further funding next year.

2.1b The quality of bathing waters is getting better

2013-2014 target	Status
91% of bathing waters at sufficient standard	Amber

In 2013 there was good weather during the bathing water season which contributed to better results than the previous year; 90% of bathing waters were at a sufficient standard, as defined in the revised Bathing Water Directive standard.

We are still on track to meet the target of 93% of bathing waters being at sufficient standard by the 2015 bathing water season.

During 2014 and 2015 we will, in particular, work with others to improve the 30 bathing waters that we have judged will not achieve the sufficient standard by 2015 unless further actions are taken.

2.1d We improve and protect rivers and wetlands damaged by unsustainable abstractions

2013-2014 target	Status
64 scheme decisions	Green

We have achieved a total of 68 scheme decisions against a target of 64. Scheme decisions comprise investigations, which decide whether or not to continue to an Options Appraisal. At the Options Appraisal stages, we decide on implementation options to protect and improve the environment.

We continue to work with licence holders to identify and agree actions to help protect and improve the environment.

2.3b We create new areas of habitat

2013-2014 target	Status
500 hectares (ha) of habitat created	Green

We created 817 ha of new wildlife habitat against a target of 500 ha (intertidal only). This is despite a delay to the large scheme at Steart, which is now due for completion in 2014.

We have exceeded this target primarily due to the creation of 100 ha of freshwater habitat - as well as intertidal habitat - at the Medmerry scheme in Sussex. We have also made the most of the growing number of small habitat creation opportunities offered by Water Framework Directive and flood and coastal risk management projects.

2.3c We improve the status of salmon fisheries

2013-2014 target	Status
73% of rivers outside the 'at risk' category (out of 42 rivers in total)	Red

A river is defined in the 'at risk' category when the number of salmon returning to spawn (lay their eggs) is not sufficient to maintain a healthy population. Only 60% of rivers (25 out of 42) are currently outside the 'at risk' category.

The financial year 2013 to 2014 was a poor year for salmon stocks in England. Grilse (salmon that have spent 1 winter at sea) fared particularly badly. There may be weather-related factors causing poor survival rates. There was, however, a comparatively better performance by salmon that have spent more than 1 winter at sea.

Measures that we have taken for the Water Framework Directive, such as putting fish passes in place, removing barriers and improving water quality, are helping to improve salmon fisheries. We also have appropriate catch controls in place such as Net Limitation Orders and mandatory catch and release byelaws. However, the effects of a changing climate are likely to mean that meeting our target in future years will remain challenging.

2.4a We improve business compliance

2013-2014 target	Status
124 sites with poor compliance for 2 or more years	Red

There has been an increase from 159 to 182 permitted sites which have had poor compliance for 2 or more years. This represents 3.8% of the 13,681 sites that we permit, an increase from 2.9% in the financial year 2012 to 2013. Poor performance means that the sites are in the lowest 3 compliance bands, D, E and F, of the operational risk assessment (Opra) scoring system. Thirty-five of these sites have had poor performance for 5 years or more.

To some extent, the increase reflects an overall improvement in our ability to identify and record non-compliance with permit conditions. We have also simplified our compliance classification scheme and are scoring non-compliances more consistently.

2.4b We reduce serious and significant pollution incidents

2013-2014 target	Status
No more than 422 category 1 and 2 pollution incidents	Red

There were 637 category 1 and 2 pollution incidents in the last year, which is an increase of 20% over the previous year.

Serious and significant pollution incidents are now 44% above target and have risen steadily throughout the year. Incidents from regulated but non-permitted sites have risen twice as fast in the financial year 2013 to 2014 as those from non-regulated sites and now represent 43% of the total.

An additional factor that may have influenced the unexpected increase in incidents was the extensive flooding during the winter. This may have led to impacts such as run-off, or spills of chemicals or wastes due to structural damage. So far we have been unable to identify this as a definitive contributor to the rise but we will continue to investigate.

2.5b We make it less burdensome for businesses to comply

2013-2014 target	Status
£267 million in cost savings to businesses since 2010 to 2011	Green

This year we have saved businesses the equivalent of £247.2 million. We achieved both our annual target of £247 million for the financial year 2013 to 2014 and our cumulative target of £267 million.

Businesses have saved money as a result of:

- the quality protocol for aggregates
- the landfill hydrogeological review regulatory position
- revisions to the pollution inventory
- resource efficiency reporting requirements
- the Environmental Permitting Regulations assurance scheme trial

3.1.2a We improve protection from flooding for more households

2013-2014 target	Status
Progress towards 145,000 houses with lower flood risk by the end of March 2015	Green

We have reduced the risk of flooding and coastal erosion for 40,500 houses in the last year. Since the start of the Spending Review in 2010, we and other flood risk management authorities have reduced the risk of flooding and coastal erosion to 144,649 homes.

3.1.2c We maintain flood and coastal risk management assets at or above the required condition

2013-2014 target	Status
97% at or above the required condition	Red

This year, 94% of flood and coastal risk management assets were at or above the required condition. This includes the results of 150,000 inspections carried out by the military after the winter floods.

The reduction in flood risk management asset condition reflects:

- the damage and deterioration caused by flooding in 2012, 2013 and 2014
- the difficulty of completing planned maintenance in 2012, 2013 and 2014 due to bad weather and poor ground conditions
- the pressure on maintenance funding between the financial year 2012 to 2013 and financial year 2013 to 2014

Since the storms during the winter of 2013 to 2014, the government has provided additional funding to support the recovery programme and help us carry out repairs quickly.

3.1.3a More households and businesses at high risk of flooding can receive direct warnings

2013-2014 target	Status
64% of properties at high risk of flooding can receive our direct warnings	Red

At the end of March 2014, 57% of properties in the highest flood risk areas in England could receive our direct flood warnings through Floodline Warnings Direct (FWD), against a target of 64%.

There are 1,705,000 properties in England in the highest flood risk areas. A total of 908,000 customers receive direct flood warnings through FWD. Of these, 369,000 have fully registered on FWD and we have registered a further 539,000 using our opt-out approach. 56,700 customers have declined or cancelled the service.

During the year, we continued to encourage customers to register on FWD. Our flood awareness campaign in November and the winter flooding resulted in nearly 18,000 new customers registering. Over 85% of these customers registered online.

Our opt-out approach relies on obtaining landline telephone numbers from telephone companies and registering them on FWD. Despite adding more customers in this way, we had a net reduction of nearly 59,000 properties registered on FWD as fewer and fewer properties now have landlines.

We are working with mobile network operators to see if we can apply our opt-out approach to register mobile telephone numbers on FWD.

3.2a Environmental outcomes are delivered through joint working with local councils and partnerships in prioritised locations

2013-2014 target	Status
Narrative update (no specific target)	Green

We have continued to embed our 'Priority Places' approach into the business. Priority Places identify strategic opportunities to integrate and focus our work with local councils and partnerships to address environmental risks and opportunities for environmental enhancement.

A Priority Place can be an individual local council area, a city region, Local Enterprise Partnership or Local Nature Partnership, or even a river catchment.

3.4c We maintain our navigation assets at or above the required condition

2013-2014 target	Status
81% of assets at or above the required condition	Green

This year, 87% of our navigation assets were at or above the required condition against a target of 81%. Navigation assets include locks, moorings, landing stages and access points such as slipways.

Our high performance is due to additional funding that we secured for work over the last 2 years. In future years, we do not expect to receive the additional funding so anticipate a slow deterioration in asset condition. We expect to meet our target of 80% next year.

Work with businesses and organisations to use resources wisely

4.2a More waste is fully recovered to the standards defined in the quality protocols, such that it is no longer classed as waste

2013-2014 target	Status
3,625,000 tonnes since 2009 (cumulative)	Green

Since the financial year 2009 to 2010, our work has helped to divert 20 million tonnes of waste from landfill sites. We have published 13 quality protocols, which help businesses to process waste to defined quality standards, removing waste classification and increasing the reuse and recycling rate. Businesses can sell their recovered materials instead of having to pay to dispose of them as waste. This helps to reduce the quantity of material that businesses send to landfill sites.

The implementation of the aggregates quality protocol has contributed to far exceeding the financial year 2013 to 2014 target for tonnage of waste diverted from landfill. This figure has been calculated from thorough economic review that took place alongside the publication of the quality protocol.

Working collaboratively across the organisation and with industry we have reviewed, consulted on and published new versions of quality protocols as planned.

2.4f We reduce the overall risk presented by illegal waste sites, targeting our efforts at the highest risk sites

2013-2014 target	Status
No more than 316 high risk illegal waste sites	Green

This year there were 272 high risk illegal waste sites that we were aware of against a target of no more than 316 sites. We have reduced the number of high risk illegal waste sites from 442 to 272 during the financial year 2013 to 2014.

Be the best we can

5.1b We have a diverse workforce

2013-2014 target	Status
3.5% of employees who are Black, Asian and Minority Ethnic	Green

This measure reports on the number of employees who are from Black, Asian and Minority Ethnic (BAME) backgrounds, as a percentage of total employees. The BAME percentage has remained at 3.9% (425 employees).

Our current figures are:

- female executive managers - 32.2% (46 people)
- BAME executive managers - 2.8% (4 people)
- executive managers with a disability - 14.7% (21 people)
- lesbian, gay and bisexual executive managers - 2.8% (4 people)

This year, 81% of staff completed a self disclosure. This was an increase from 76% last year. We used electronic pop-up messages to encourage people to complete their self disclosure.

5.4a Performance in relation to the technical development framework

2013-2014 target	Status
100% of staff at or above target level	Amber

At the end of March 2014, 89% of staff had reached or exceeded their target level of capability within the technical development framework. This is the percentage of staff who are able to work unsupervised and assist in developing others, to build technical resilience and ensure knowledge transfer and retention.

5.4b We provide a safe place to work

2013-2014 target	Status
0.19 lost time incidents per 100,000 hours worked	Red

Between 1 April 2013 and 31 March 2014 there were 47 lost time incidents (LTIs) compared to 37 the year before. This equates to 0.24 LTIs per 100,000 hours worked.

The majority of LTIs happen to staff carrying out maintenance work. Field Operations teams report the largest proportion of LTIs. Manual handling and slips, trips and falls account for two-thirds of the total LTIs. Our data for the last 2 years shows that our LTI ratio and the severity of incidents appear to be stable. We review each LTI and share any relevant lessons learned.

5.5a We are more efficient

2013-2014 target	Status
£123.3 million reduction in spending on administrative costs	Green

We are on track to make 33% savings on our administrative costs over the Spending Review 2010 period. We have already reduced back office spend by 32.6% from the starting point in 2010, so that we can protect the funding available for frontline services. In the last year our total spend on back office services was £111.8 million compared to £166 million in the financial year 2010 to 2011.

5.5b We manage our money efficiently

2013-2014 target	Status
100% expenditure against profiled budget	Green

We invested £1.151 billion on the environment in the last year, making full use of the grant-in-aid funding from Defra. We have spent funding from charges income, including balances carried forward from the financial year 2012 to 2013, during the year on our regulatory work.
Our financial performance was strong in a year in which the UK faced extreme weather and flooding. Following the winter floods, the government announced an extra £30 million of funding for 2013 to 2014 help incident response and recovery, which we invested by the end of March 2014.

In spite of the severe flooding, investment progressed well on our main flood capital and maintenance programme. Environment and Business teams also invested in line with the available grant-in-aid funding and income received from charges.

Appendix C – sustainability reporting

This appendix details our sustainability performance to provide a clear picture of our environmental impact. The data we report in this appendix is consistent with the requirements of HM Treasury's sustainability reporting guidance.

From 1 April 2013 the activities of the Environment Agency in Wales were transferred to a new single body for the environment, called Natural Resources Wales. The information in this report for previous years includes the results for our activities in Wales, whereas the information for the financial year 2013 to 2014 is for England only.

Act to reduce climate change and its consequences

Carbon footprint

Greenhouse gas emissions	Unit	2010-2011	2011-2012	2012-2013	2013-2014
Direct emissions (Scope 1)	tCO_2e	17,000	15,000	18,000	17,000
Emissions from purchased energy (Scope 2)	tCO_2e	33,000	35,000	33,000	24,000
Emissions produced by our suppliers (Scope 3)	tCO_2e	6,000	104,000	44,000	64,000
Total gross emissions	tCO_2e	56,000	154,000	95,000	105,000
Carbon intensity (per £ million expenditure)	tCO_2e	48	141	83	95

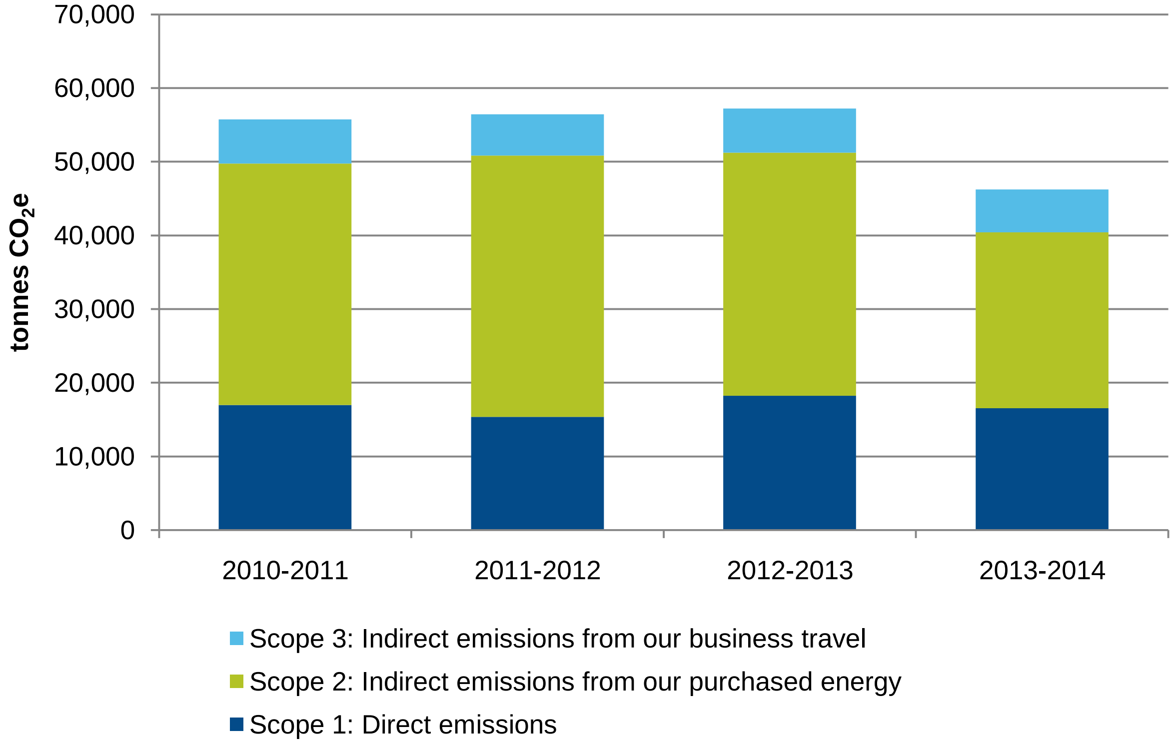
We report and categorise our greenhouse gas emissions using the widely accepted approach of emission scopes (scopes 1, 2 and 3). For further details see Defra's guidance on how to measure and report emissions (www.gov.uk/government/publications/guidance-on-how-to-measure-and-report-your-greenhouse-gas-emissions).

We are successfully reducing our scope 2 emissions through a range of initiatives. Examples are provided in the strategic report. Our progress towards meeting our corporate target to reduce our carbon footprint can be found in Appendix B.

We are continually looking to improve our transparency as data becomes available to us. This is why year-on-year greenhouse gas emissions may appear distorted, particularly in scope 3 where we include emissions from the activities our suppliers undertake on our behalf. For example in the financial year 2011 to 2012 we were able to include emissions resulting from our material consumption (aggregates, timber, steel and paper) and disposal of our office waste in our scope 3 reporting, which caused the large increase from the 2010 to 2011 financial year. Our reported scope 3 emissions reflect projects that have finished in a given year. So, for example, a number of large construction projects finishing in one year, such as 2011 to 2012, will lead to a higher set of reported emissions in that year.

To aid comparison in figure 1 we exclude emissions from construction projects from scope 3.

Figure 1: Greenhouse gas emission sources



You can read more about our work to reduce our carbon dioxide emissions on our website (www.gov.uk/government/organisations/environment-agency/about/our-energy-use).

Energy consumption	Unit	2010-2011	2011-2012	2012-2013	2013-2014
Purchased gas and purchased renewable electricity	million kWh	70	71	73	59
	£ million	5.6	6.5	6.7	5.9
Self-generated renewable energy	million kWh	–	0.3	0.4	0.4

The figures in the table above include the energy we use to maintain river flows during drought conditions and to manage flood water. We do not purchase any carbon offsets, choosing instead to run an internal carbon reduction fund, to enable us to carry out innovative projects that reduce our total greenhouse gas emissions.

We try to make our sites as sustainable as possible through initiatives such as investing in renewable sources of power. We have installed a new wind turbine at our Darlington office which will generate around 7,500 kWh of electricity and reduce our carbon emissions by 5,270 kg every year. The office already had 1 turbine and also uses a heat recycling system.

Business travel	Unit	2010-2011	2011-2012	2012-2013	2013-2014
Car and motorbike	tCO_2e	12,490	11,450	12,160	10,640
Rail	tCO_2e	1,400	1,640	1,710	1,880
Air	tCO_2e	130	90	70	80
Total business travel	**tCO_2e**	**14,020**	**13,180**	**13,940**	**12,600**
	£ million	**13.1**	**13.9**	**14.3**	**13.1**
Travel carbon intensity per full time employee	tCO_2e	1.2	1.1	1.2	1.1

Due to the location of many of our sites we have to travel to them by car. However, the emissions from our car and motorbike travel have fallen this year. We are aware that driving is one of the most significant impacts we have on the environment and are working hard to minimise this. Our success in reducing this was recognised by winning the Best Public Sector Fleet Award, as explained in the strategic report. We have restated the amount we spent on business travel last year as more data has become available to us.

This year we travelled 57 million miles. The majority of our business travel was taken by car, with 33% of miles travelled by train. Our carbon dioxide emissions from business travel have decreased from last year. These decreases partly reflect our continued policy to walk and use public transport wherever possible, rather than driving.

We have already met our target to reduce the business miles we travel by car by 25% from 2005 to 2006 levels by March 2015 and have achieved a 30% reduction.

Natural resources

Resource procurement	Unit	2010-2011	2011-2012	2012-2013	2013-2014
Paper from renewable or recycled sources	reams	67,000	53,000	51,000	48,000
	£	90,000	60,000	60,000	40,000
Timber from a legal and sustainable source	Tonnes	540	720	410	590
	£	840,000	700,000	370,000	510,000
Stones and aggregates from a primary source	Tonnes	–	100,000	190,000	320,000
Stones and aggregates from a secondary source (recycled)	Tonnes	–	250,000	940,000	910,000
Steel sheet piles	Tonnes	–	–	5,350	7,064
	£	–	–	4,470,000	5,255,000

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

The construction material volumes include materials used by contractors working on our flood and coastal erosion risk management projects and those used by our staff in maintenance. As with our scope 3 emissions, the quantities of materials used each year will vary significantly depending on the flood and coastal erosion projects completed in the year. Where information is unavailable for previous years we have left the values blank to illustrate this.

All of the timber we use is from legal and sustainable sources. We have a timber procurement policy for all timber purchased either directly or by contractors working on our behalf. Where possible, we try to use secondary source aggregates (reused or recycled) rather than primary source aggregates. 95% of the steel in the sheet piles that we use in our construction projects are from recycled sources.

Although we already work very hard in this area, we are planning a more thorough analysis of the sustainability of our supply chain over the coming year.

Protect and improve water, land and air quality

Flooding and coastal erosion

Additional households with improved protection from flooding and coastal erosion (not cumulative)

Unit	2010-2011	2011-2012	2012-2013	2013-2014
Total number of households	77,726	41,575	54,705	40,500
Number of households from 20% most deprived areas	5,913	1,114	4,101	8,810
Cost of completed projects (£ million)	888	824	479	368
Benefits of completed projects (£ million)	12,247	13,205	6,194	4,445

In addition to reporting the number of households protected by our flooding and coastal erosion programmes, we report the costs and benefits associated with this work. As with previous figures in this report, the cost and benefits reported vary from year to year depending on the projects completed.

Waste

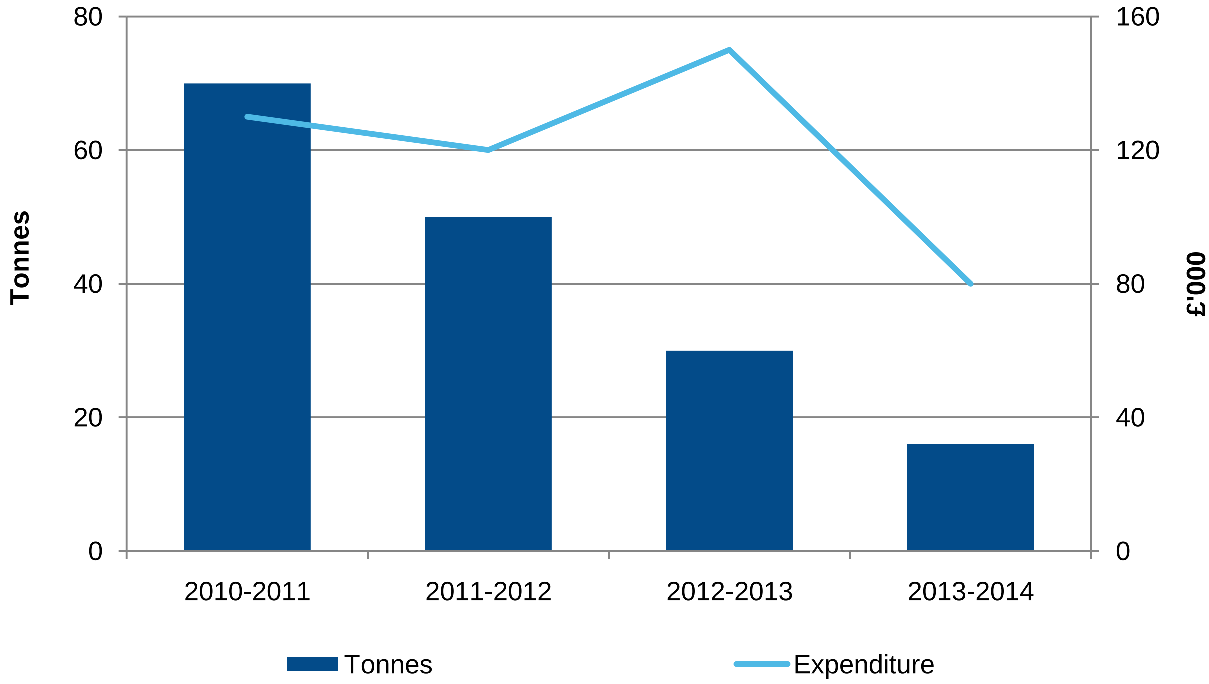
Non-office waste	Unit	2010-2011	2011-2012	2012-2013	2013-2014
Landfill	tonnes	50,000	10,000	20,000	20,000
	£	700,000	770,000	850,000	550,000
Reused or recycled	tonnes	130,000	110,000	430,000	140,000
	£	310,000	340,000	340,000	470,000
Hazardous waste	£	470,000	300,000	200,000	400,000
Total waste	**tonnes**	**180,000**	**120,000**	**450,000**	**160,000**
	£	**1,480,000**	**1,410,000**	**1,390,000**	**1,420,000**

The majority of our waste is produced by our coastal and river management (including flood risk management) activities. We work hard with our suppliers and contractors to minimise the volumes of waste generated on construction projects and where possible to reuse materials on site.

Again, the figures reported depend on the projects completed each year.

Our expenditure on hazardous waste is largely from the disposal of waste from our operational activities. We measure the volume of hazardous waste from our offices, such as batteries, but as this is a small part of our hazardous waste, we include the figures together.

Figure 2: Office landfill waste



Office waste	Unit	2010-2011	2011-2012	2012-2013	2013-2014
Landfill	Tonnes	70	50	30	20
	£	130,000	120,000	150,000	80,000
Reused or recycled	Tonnes	590	410	400	300
Incinerated to produce energy	Tonnes	70	90	100	100
Reused, recycled or incinerated	£	330,000	310,000	320,000	240,000
Reused or recycled electronic or electrical equipment	Tonnes	–	–	100	40
Cost savings from refurbishing and reuse of equipment	£	–	–	220,000	40,000
Total waste	**Tonnes**	**730**	**550**	**630**	**460**
	£	**460,000**	**430,000**	**470,000**	**320,000**
Waste intensity per full time employee	kg	61	49	56	41

Our office waste forms just a small percentage of our total waste volume. However, we work hard to minimise the waste produced in our offices, especially waste going to landfill. We aim to not send any office waste to landfill by March 2015 and we have already achieved a 91% reduction since 2008 to 2009. We are also on track to achieve our target of reducing our total office waste volume by 25% from our 2008 to 2009 level by March 2015. We have been able to include the volume of waste electrical and electronic equipment (WEEE) we create over the last 2 years. This year we reused or recycled 96% of all waste from our offices. We recycle 99.8% of our WEEE, exceeding the current recycling target within the WEEE Directive.

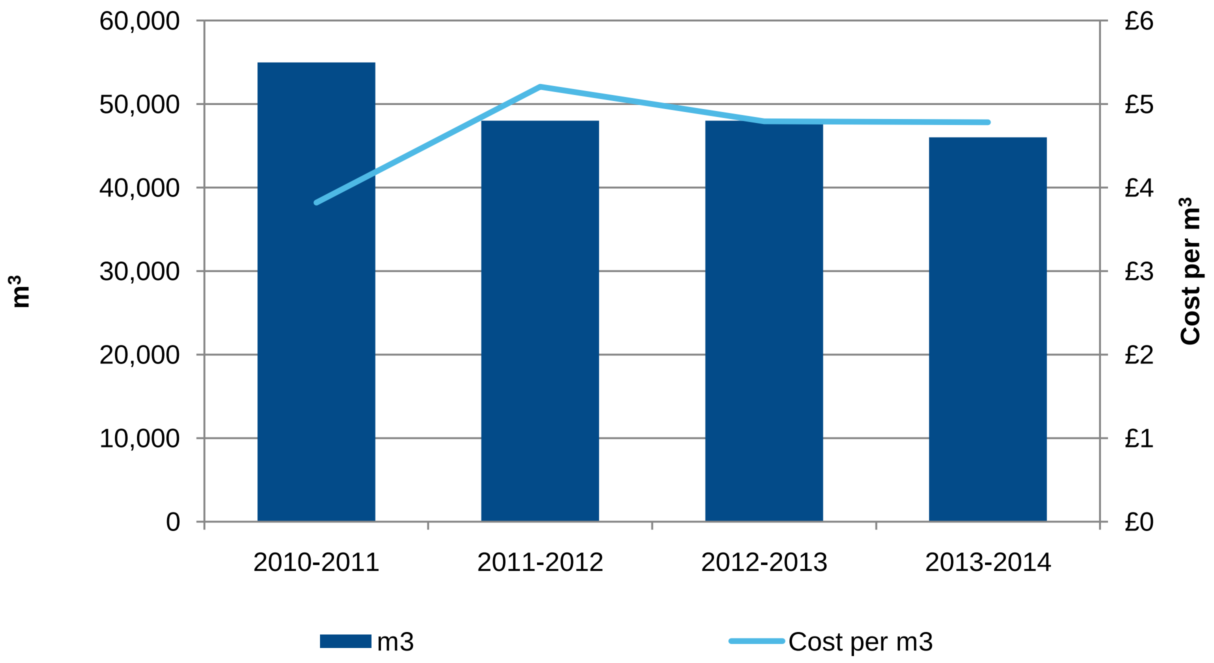
Where information is unavailable for previous years we have left the values blank to illustrate this. We are currently unable to obtain separate figures for the costs of incinerated waste used to produce energy, so have grouped this with the cost figures for our recycled or reused waste.

Water

Water	Unit	2010-2011	2011-2012	2012-2013	2013-2014
Water supplied	Cubic metres (m^3)	55,000	48,000	48,000	46,000
	£	210,000	250,000	230,000	220,000
Water abstracted	m^3	–	78,100,000	16,000,000	21,600,000
Water intensity per full time employee	m^3	4.8	4.2	4.3	4.1

We aim to reduce our mains water consumption by 25% from the financial year 2005 to 2006 levels by March 2015. We have achieved our target for the financial year 2013 to 2014, reducing our water consumption by 26% this year. We abstract water to maintain surface water levels and protect river ecosystems. Low river flows can be particularly damaging for the biodiversity of a waterway and any associated fisheries. The volumes used are highly dependent on weather conditions in any given year.

Figure 3: Water supplied



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

Work with people and communities to create better places

To help communities and the environment, teams are allowed to take part in 2 environmental outcome days a year. These are days when our staff volunteer to help a local initiative with some environmental benefit. These often also benefit and involve working with local communities. One team helped a local project remove invasive Himalayan Balsam from a park in Bristol. This helped to prevent the invasive weed damaging the local ecology and kept the park in good condition for people to enjoy.

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

Pension fund investments

Pension fund investment	Unit	2010-2011	2011-2012	2012-2013	2013-2014
Pension fund assets	£ million	1,747	1,849	2,114	2,306
Investments in clean technology	%	15	13	12	13
Carbon footprint	tCO_2e per £ million	425	370	386	408

We manage our pension fund investments in a financially robust and environmentally responsible way. The pension fund is a signatory of the United Nations Principles of Responsible Investment. This investor-led initiative has developed tools and approaches that can be used by all pension funds to manage risks associated with environmental, social and governance issues. In addition, we carry out annual reviews of the carbon footprint of our active equity investments. We use the results to engage with our fund managers. Our target for the pension fund is for 25% of the asset value to be invested in clean technology and sustainable investments by 2015. This year our pension fund was 22% less carbon intensive than the Morgan Stanley Capital International All Country World Index which we benchmark ourselves against.

You can read more about our pension fund and our commitment to responsible investment in the pension fund annual report on the Environment Agency pension fund website (www.eapf.org.uk).

Whilst we present the full asset figures for the Active Pension Fund, the carbon footprint is calculated using only the actively managed equities; in the financial year 2013 to 2014 this represented £833 million of the total fund value.

Be the best we can

Diversity

Workforce diversity	Unit	2010-2011	2011-2012	2012-2013	2013-2014
Race (black, Asian and minority ethnic groups)	%	3.4	3.5	3.8	3.9
	number	Not reported	Not reported	465	425
Women in our workforce	%	40.3	40.5	41.6	41.5
	number	Not reported	Not reported	5,111	4,555
Women in executive manager roles	%	Not reported	Not reported	29	32.2
	number	Not reported	Not reported	44	46
Staff with disabilities	% of those that self disclosed	Not reported	Not reported	9.9	11.4
	number	Not reported	Not reported	1,213	1,248

We believe that diversity is as important in the workplace as it is in the natural environment. Diversity in this context means differences, both visible and invisible, differences of background, socio-economic group, personality and work style, as much as the more overt differences of the 9 protected characteristics listed in the Equality Act 2010. One key element of this is that decisions affecting people's employment, training development and progression are made on the basis of merit, ability and potential.

We are committed to creating an inclusive and diverse workforce and ensuring that every employee can contribute to our business and environmental outcomes. We carry out staff surveys to identify and address any perceived barriers within our workforce to people developing and achieving their full potential. 82% of staff completed the survey last year. Executive Directors discussed the results and they launched action plans to improve staff diversity and wellbeing.

Each year staff can also complete a voluntary self disclosure questionnaire to help us monitor the diversity of the workforce. 81% of staff completed the self disclosure questionnaire last year.

Appendix D – water resources income standard unit charge (SUC) and environmental improvement unit charge (EIUC) balances

Region	SUC balance	EIUC balance water companies	EIUC balance non-water companies	Total March 2014	Total March 2013
	£ million	£ million	£ million	£ million	£ million
Anglian	(0.7)	(7.4)	(7.2)	(15.3)	(12.2)
Midlands	(1.5)	(5.5)	(2.7)	(9.7)	(9.5)
Yorkshire	1.3	-	(0.5)	0.8	1.0
Northumbria	2.3	-	-	2.3	1.4
North West	-	(10.0)	(1.2)	(11.2)	(6.9)
Southern	(0.2)	-	(2.1)	(2.3)	(1.7)
South West	0.4	(2.5)	(1.5)	(3.6)	(3.3)
Thames	(2.3)	(27.8)	(0.4)	(30.5)	(19.0)
Wales	-	-	-	-	(2.9)
Total	**(0.7)**	**(53.2)**	**(15.6)**	**(69.5)**	**(53.1)**

From the financial year 2008 to 2009, abstractors were charged an environmental improvement unit charge (EIUC) in addition to the standard unit charge (SUC). This enables the Environment Agency to pay compensation when we vary or revoke abstraction licences to reduce the risk of environmental damage due to taking too much water from certain water bodies. In the year to 31 March 2014, the Environment Agency varied or revoked abstraction licences under the terms of one compensation scheme following approval from the Secretary of State for the Environment, Food and Rural Affairs.

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

Appendix E – board attendance at meetings

Member	Board meeting (11 meetings)	Audit and Risk Assurance Committee (5 meetings)	Pensions Committee (4 meetings)	FCRM Committee (6 meetings)	Environment and Business Committee (3 meetings)	Remuneration Committee (6 meetings)
Lord Chris Smith	11	-	-	2	-	6
Paul Leinster	11	5	-	6	2	6
Robert Light	11	-	3	-	3	5
Peter Ainsworth	10	-	-	6	3	-
Karen Burrows	11	5	-	-	2	6
Clive Elphick	10	5	4	-	2	-
Emma Howard Boyd	11	5	4	6	-	-
Richard Leafe	11	3	-	-	-	-
Richard MacDonald	9	2	-	2	-	-
John Varley	11	-	3	-	2	4
Jeremy Walker	11	-	-	6	3	5

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

Then call us on
03708 506 506 (Monday to Friday, 8am to 6pm)

email
enquiries@environment-agency.gov.uk

or visit our website
www.gov.uk/environment-agency

incident hotline 0800 807060 (24 hours)
floodline 0345 988 1188 / 0845 988 1188 (24 hours)

Find out about call charges: www.gov.uk/call-charges

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

ISBN 978-1-4741-0683-2
9 781474 106832