Environment Agency
Annual report and accounts for the financial year 2015 to 2016

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We are the Environment Agency. We protect and improve the environment.

Acting to reduce the impacts of a changing climate on people and wildlife is at the heart of everything we do.

We reduce the risks to people, properties and businesses from flooding and coastal erosion.

We protect and improve the quality of water, making sure there is enough for people, businesses, agriculture and the environment. Our work helps to ensure people can enjoy the water environment through angling and navigation.

We look after land quality, promote sustainable land management and help protect and enhance wildlife habitats. And we work closely with businesses to help them comply with environmental regulations.

We can't do this alone. We work with government, local councils, businesses, civil society groups and communities to make our environment a better place for people and wildlife.

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Acting Chair's foreword

The past year has been one of change. We have a new government, a new Chief Executive and a new team of executive directors, including a Deputy Chief Executive. We have welcomed new executive directors for Environment and Business and Flood and Coastal Risk Management. And I was appointed acting Chair – a position which I am extremely proud to hold.

Our people

Over the last few months, I have seen first-hand the commitment and professionalism of the people who work tirelessly to protect people and the environment. I am proud of how we responded to the record-breaking rainfall in December. We worked round the clock with other emergency services, the military, local councils, the voluntary sector and utility providers, to help and support those affected. I visited Lancashire, Cumbria, York and Leeds in the wake of the December flooding and saw for myself the challenges that communities across the north of the country were faced with, and how we with our partner organisations supported them. We are playing a leading role in the National Flood Resilience Review to ensure that our country is even better protected from future flooding.

Natural capital

We have a great opportunity to take a long-term view on how we protect and improve our natural resources. We are incorporating ideas on natural capital into our environmental planning to support an integrated approach to managing catchments. Early work has begun on Environment Agency land assets, with the first trial on the Steart Peninsula, a wetland habitat creation scheme that provides natural flood risk benefits to local communities. Alongside this we have formulated an internal position statement on our role in natural flood management and through our Natural Capital and Ecosystem Approach group we have a developing plan which will look at how we can incorporate natural capital in all areas of our work.

Area boundaries

We are working even more closely with our partners to improve our work around river catchments and landscapes. After moving to a national and area structure in 2014 to 2015, this year we have been working with Defra and Natural England to look at further opportunities to work more effectively and efficiently together. One major outcome of this work will mean that from July 2016 we will align our area boundaries with those of Natural England.

Open Data

This new thinking on the natural environment has much to do with us living in a time of unparalleled technological advancement with data underpinning everything we do. In June 2015 Defra announced that it would release 8,000 datasets as Open Data by June 2016. I fully support the principles of Open Data; knowledge being accessed, used and shared by everybody free of charge, allowing individuals, academics and businesses unparalleled opportunity to create and innovate. My hope is the benefits brought by Open Data will help local communities understand and manage their local environment in a smarter way and allow us to achieve our corporate and environmental outcomes through innovative methods.

Strategic objectives

Success will increasingly depend upon us working together with Natural England, the rest of the Defra group and all our other partners. In our Action Plan – 'Creating a better place: our ambition to 2020' – we set out how we will meet our strategic objectives as set out in Defra's Single Departmental Plan and support a long term plan for the environment. We will work for cleaner air, cleaner water and cleaner land to benefit people and the economy. We will seek to ensure that we're better prepared for the challenges brought on by climate change and better protect people from floods. And we will do this by working in partnership and supporting local choices.

The Board has a big responsibility to ensure that the Environment Agency is fit for an ever more challenging future. I am confident that we have the leadership and vision in place to meet these challenges in creating a better place for people and wildlife.

Emma Howard Boyd, Acting Chair

11 July 2016

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Chief Executive's statement

The Environment Agency's job is to protect the environment and promote sustainable development. Last year we did both.

We reduced the risk of flooding for thousands of households by completing more of our flood defence investment schemes: our aim is that by 2021 300,000 houses will be better protected.

We improved the quality of water in our rivers and around our coasts. We protected our water supply and our unique wetlands by licensing water abstraction. We helped create new habitats for wildlife to thrive and people to enjoy. We restocked rivers and restored fish species long gone from certain waters, benefitting anglers and local economies.

We worked with industry to stop pollution and sustain growth. We closed down illegal waste sites which harm local communities and legitimate business. We worked with local planning authorities up and down the country to help shape green and prosperous cities and rural communities.

It's also our job to help protect people from flooding and provide a quick response when it happens. The storms of December 2015 dumped record amounts of rain on parts of the north of England and caused widespread flooding to over 20,000 properties. I know from my own visits to the areas affected that every flooded house or business is a personal tragedy. Our teams worked 24/7 to protect lives and property before and during the floods, and to assist communities with recovery afterwards. They did a great job and I am proud of them.

But we need to do even better next time. So we have work underway to strengthen our capacity to respond to future incidents, with more effective warnings, more staff and more kit. And we are active participants in the National Flood Resilience Review which is looking at how we can better protect our country in future in the face of more extreme weather. We can never prevent all flooding: nature will always be stronger than us. But we can and will do all we can to help protect our communities against flooding and help them recover quickly when it happens.

We live in one of the most beautiful countries in the world. That hasn't happened by accident. Millions of people, past and present, have played a part in making it so. So has the Environment Agency since 1996. We are proud of the achievements of our first 20 years. There is much more to be done, but I am confident that we can make an even bigger difference in future. We will work more closely with the Defra group to deliver a long term plan for the environment, and with communities across the country, to create a better place for people and wildlife.

J.D. Bevan

Sir James Bevan, Chief Executive

11 July 2016

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 have 3 main business areas:

- flood and coastal risk management
- water, land and biodiversity
- regulated business

Acting to reduce the impacts of a changing climate on people and wildlife is at the heart of everything we do.

We can't do this alone. We work with government, local councils, businesses, civil society groups and communities to make our environment a better place for people and wildlife. 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 2016 we had around 10,300 full time equivalent employees. Our annual expenditure for the financial year ending 31 March 2016 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 2014 to 2016 outlined how we would respond to environmental challenges in line with new government priorities. The plan ensured that our organisation was fit for the future. It recognised how important it is that we continue to work with our partners to create better local environments that improve people's lives and support sustainable growth. The plan set out our priorities for this time period, and reflected our expected funding position to the end of March 2016. It also recognised longer-term objectives.

The plan was based on the following priority areas:

- a changing climate
- increasing the resilience of people, properties and businesses to the risks of flooding and coastal erosion
- protecting and improving water, land and biodiversity
- being an efficient and effective regulator to protect people and the environment and support sustainable growth
- working together and with others to create better places
- ensuring that we are fit for the future

Our corporate scorecard shows our progress against the objectives. Our corporate plan and corporate plan measures and targets are on GOV.UK (www.gov.uk).

Our ambition for 2016 to 2020

Our Action Plan – 'Creating a better place: our ambition to 2020' – sets out what we want to achieve over the next 4 years. Our objectives are clear: a cleaner, healthier environment which benefits people and the economy; a nation better protected against natural threats and hazards; and higher visibility, stronger partnerships and local choices.

Our plan sets out how our work will support the Defra strategy that we helped to develop (detailed below), and contains our success measures for 2016 to 2017.

We will do this guided by 3 principles that will inform all our choices:

- **Put people and wildlife first:** our goal is to create a better place for them.
- **80/20:** focus on the 20% of things that make 80% of the difference.

- **Support local priorities:** every place and community has its own needs.

Our Action Plan recognises that the challenges of a growing population, more extreme weather, and budget pressures will require us to innovate, focus on the things which make the biggest difference and work more closely with our partners.

Our success relies on a positive culture where our staff are trusted and confident to take decisions. To ensure this, we've set out the culture we want - how we will do things in the Environment Agency:

- Yes, if: we will take this approach in all that we do
- Think big, act early, be visible
- Seek partnership and show leadership
- Focus on outcomes not processes
- Embrace difference: include everyone
- One team: support and trust each other to do the right thing
- Stay safe and grow: we will invest in the wellbeing and development of all our staff

In addition to our culture and principles, in the future we will concentrate on making sure our workplace feels right and that it's a life-enhancing place to work. We will have the right people in the right places and offer the right packages to recruit and retain them.

We want our people to embrace and manage risk rather than avoid it. And we will empower them to make the right decisions, using evidence and technology to produce sound solutions. We will also work more closely with the Defra group for the public good.

The Defra strategy

The Defra strategy sets out a shared vision and set of strategic objectives for the whole of Defra for the period up to 2020. It is intended to provide staff across the whole group of Defra organisations (including non-ministerial departments, executive agencies, non-departmental and other public bodies) with a clear, shared framework. Actions to achieve the strategic objectives are described in more detail in Defra's Single Departmental Plan.

The strategy provides a clear unifying framework for how we will design and deliver our goals, track delivery and measure success across the whole of Defra. At the heart of the strategy is our shared vision for the Defra group: creating a great place for living.

Defra's goals are focused on 4 impact objectives, which explain our ambitious, long-term aims, and the positive differences we will make to the UK by 2020. Defra has one delivery objective, which describes the high levels of service and value for money for the taxpayer which we will strive for.

The strategy sets out 2 organisational objectives outlining how the Defra group will organise itself to deliver, and what it will be like: a Defra group that will act together, be simpler, avoid duplication, maximise impact, and embrace digital and data.

Cutting across the strategy are 4 themes that are critical to achieving Defra's objectives and will deliver important outcomes in their own right: better use of data; increasing productivity; better regulation; and working internationally.

About the performance report

This performance report outlines the Environment Agency's performance against our priorities for the financial year from 1 April 2015 to 31 March 2016 (referred to throughout as 'this financial year'). It follows the structure of our corporate plan for 2014 to 2016, and includes examples of how we are meeting our objectives.

Increasing the resilience of people, properties and businesses to the risks of flooding and coastal erosion

Our measures of success are:	Our performance:
We reduce the risk from flooding for more households	1a
We maintain our flood and coastal risk management assets at or above required condition	1b
More households and businesses at high risk of flooding can receive direct warnings	1c

The winter of 2015 to 2016 saw prolonged flooding across England. The north was particularly affected by storms Desmond, Eva and Frank, which brought record breaking levels of rainfall, and led to the highest ever river flows in several catchments. This resulted in around 20,000 properties being flooded.

Our flood risk management assets helped protect over 23,000 properties during this period. We sent around 861,000 messages to warn people of impending flooding and issued 92 severe flood warnings, which generated more than 23,000 pieces of online, print and broadcast coverage. Our live flood warnings and river levels services on GOV.UK also provided the information to communities, partners and businesses to help them be better prepared and take action to reduce the impact from flooding. Our website received over 7 million visits during December 2015.

We are now reviewing our operational response to see what lessons we can learn to help us become more effective and efficient. This involves supporting the National Flood Resilience Review, which is looking at how the country can be better protected from future flooding and increasingly extreme weather events.

We continue to work with the communities affected to help them recover from flooding and ensure they are better protected. For example, we are working with the new local flood partnerships in affected catchments across Cumbria and Yorkshire, which include local authorities, land owners and managers, and community flood action groups. These partnerships enable communities to improve their own resilience and integrate local flood risk management across their catchments. This may involve using natural measures to slow rivers upstream and reduce the intensity of water flow.

As part of our funding settlement from the Spending Review 2015, we were set the following objectives up to March 2021:

- reduce the risk of flooding to at least 300,000 households
- improve efficiency by at least 10% (£235 million)
- secure partnership funding contributions of at least 15% (£350 million) for new schemes
- maintain 97% of flood risk management assets at their target condition

Between April 2015 and March 2016 we have:

- reduced the risk of flooding to 54,400 households against the end of year target of 44,000
- achieved efficiency savings of £55.5 million against the end of year target of £39.9 million

- invested £437 million in the flood and coastal erosion risk management capital programme, of which £72.4 million came from partnership contributions
- maintained 96% of flood risk management assets at their target condition

We have not met our yearly target for maintaining assets at 97%, falling slightly short at 96%. This is largely because of the damage caused by the storms of winter 2015 to 2016. Our recovery programme, coupled with our planned programme of work for 2016 to 2017 should enable us to meet the target of 97% by April 2017. However, this will be subject to any further storm damage. We remain on track to achieve the objectives set by government for the Spending Review 2015 period.

At the end of March 2016, 1,072,983 (62%) households and businesses at high risk of flooding could receive our direct flood warnings, against a target of 984,650 (57%). We've achieved this through working with the mobile phone provider EE, who provided us with mobile phone numbers registered to homes and businesses in our flood warning areas. We are now working with a further 3 mobile phone providers so that we can warn more people directly in the future.

In February 2016 we published a study of the financial and economic damages from the flooding in England and Wales during winter 2013 to 2014. We've used the findings from this to update our rapid flood cost calculator, which helps us estimate costs for flood damages quickly during and after flooding. We're already using the calculator to assess the impacts of the winter floods in 2015 to 2016.

We have now published flood risk management plans (FRMPs) for the 10 river basins in England. The plans, produced in partnership with risk management authorities, highlight the hazards and risks of flooding from rivers, the sea, surface water, groundwater and reservoirs. They also set out how risk management authorities will work with communities over the next 6 years to manage flood risk at the river basin level. Publishing our FRMPs was the final step in meeting the Floods Directive 2007 and Flood Risk Regulations 2009. We will report to Defra each year on the progress of the FRMP actions.

This financial year we produced high quality communications to support local flood projects such as the opening of the Morpeth flood scheme, built in partnership with Northumberland County Council to protect businesses and communities from flooding. We ran events for partners and the community to celebrate the event and welcomed the new Defra Permanent Secretary Clare Moriarty to the town as part of her induction.

In September 2015, we received good media coverage on a partnership project with Essex Wildlife Trust to create 22 hectares of new intertidal habitat by breaching the existing sea wall, allowing the River Colne to enter the site. We invited media to attend the site on the day of the breach and received coverage from a range of media outlets, including BBC Look East, BBC Radio Essex and East Anglian Daily Times.

In the same month we also ran 'Exercise Obex' to test our temporary flood defences in Guildford, using the event as a way to showcase to Rory Stewart MP, Parliamentary Under Secretary of State at Defra, how the Environment Agency would work in a real flood. We involved the community and local stakeholders and gave them an opportunity to ask questions about how our teams respond to flooding incidents.

Flood action campaign 2015

During early November 2015, we carried out a nationwide flood action campaign to raise awareness of flooding and encourage people to take simple steps to be better prepared. The campaign highlighted the actions that people, businesses and communities can take to reduce the impact of flooding. We asked people to check their flood risk using our maps, sign up for free flood warnings and know what to do when a flood happens.

The campaign was launched with a co-ordinated push across social media and involved more than 50 partner organisations including the Prime Minister's Office, Defra, the Metropolitan Police, Met Office, Red Cross, Marks and Spencer, The Co-Operative Group and Debenhams. We also sent targeted messages to landlords via the Association of Residential Letting Agents, and to business owners via the Federation of Small Businesses newsletter.

We achieved widespread national coverage by teaming up with the Royal Society for the Prevention of Accidents to warn people not to put themselves at risk by taking 'storm selfies'. We received national and trade press coverage of the 'James Bond-style' technology used to combat flooding and partnered with the AA to produce social media messages about the dangers of driving through flood water. Our 'get #floodaware' messages were retweeted more than 1,000 times. We also targeted people in high risk areas with direct messaging using Facebook and Millennial mobile advertising.

Our campaign resulted in over 25,000 visits to our 'Floods destroy' web page, over 16,000 people checking their flood risk, and nearly 2,000 people signing up to our free flood warning service.

Protecting and improving water, land and biodiversity

Our measures of success are:	Our performance:
We work with others to improve the quality of surface waters, ground waters, coastal waters and wetlands	2a
The quality of bathing water is getting better	2b
We improve and protect rivers and wetlands damaged by unsustainable abstractions	2c
We deliver our commitment to the England Biodiversity Strategy by: i Creating new habitat ii Restoring sites of Special Scientific Interest	2d i 2d ii
There are fewer salmon rivers in the 'at risk' category	2e
We maintain our navigation assets at or above the target condition	**2f**

In February 2016, we published updated river basin management plans, setting out environmental goals and actions for groundwaters, rivers, lakes, estuaries and coastal waters over the next 6 years and beyond. The plans, which were developed with partners, stakeholders and the public, show that the water environment has improved since 2009. There have been 16,000 local investigations to understand pressures on the water environment and large investments by public, private and voluntary sectors.

The plans show that over £3 billion investment in the water environment will lead to at least 8,000km of improved waters by 2021 and will also create significant economic benefits. We've analysed the costs and benefits of measures in over 300 catchments in England, and calculated that the updated plans will generate £22.5 billion of benefits to England. These include cleaner, healthier water bodies for wildlife and recreation, naturally functioning catchments that are resilient to flood and drought, and improved quality and supply of water for people and businesses. Investment by water companies and the government's Countryside Stewardship scheme, for example, will continue to contribute to creating these benefits.

We have continued to see improvements in the quality of England's bathing waters. The first results released under the revised bathing waters directive saw over 90% classified as 'good' or 'excellent', despite more stringent measures than before. Only 3% failed to meet the minimum standards, which is considerably lower than expected. This is a result of our continued work with partners to reduce pollution sources that affect 'at risk' waters.

One example of our work with partners is through a new strategic communications group including the main partners, stakeholders, non-governmental organisations and government departments involved with bathing waters. The group provided clear and consistent communications around the changing bathing water standards and what it would mean for people and the environment.

We also re-launched our bathing water data in an app to help beachgoers decide which bathing water to go to, based on the water quality. The app, which was a joint project with local councils, water companies and lobby groups, has been referred to by Defra as an Open Data exemplar.

We have continued to make good progress in addressing unsustainable water abstractions. This is where farming or industry take water from sources where environmental damage may be occurring, or could occur, as a result of the abstraction. We manage unsustainable abstractions by changing or removing an operator's existing abstraction licence.

We issued 56 water abstraction licence notifications to make compulsory or voluntary changes to abstraction licences this financial year. 43 of these licence notifications related to the delivery of our Habitats Directive obligations, helping us protect rivers and wetlands damaged by unsustainable abstractions while ensuring there is enough water for people, agriculture and the environment.

Rod licence income funds much of our work with fish, fishing and fisheries management. Since 2014 we have been actively marketing rod licences and have stopped the declining trend in licence sales. This financial year we sold licences to almost 1 million anglers and saw a rise in individual anglers of over 1,200.

We have also seen some positive results in the condition of our navigation assets, with 89% at or above the target condition - exceeding our target of 80% - at the end of the financial year. This is a result of additional funding during 2012 to 2014.

The status of England's 42 principal salmon rivers remains concerning with 11 rivers falling into the 'at risk' category (the poorest of 4 categories), against a corporate target of 9. The salmon spawning in these rivers has been insufficient and there is a risk that not enough young will hatch and survive to support future runs of salmon and their fisheries. None of the principal salmon rivers were categorised as 'not at risk'. To help address this, we have developed the Salmon Five Point Approach with Defra and other partners, which sets out actions to address the key pressures that affect salmon at different stages of their lives.

We created 575 hectares of priority habitat this financial year - almost double our target of 300 hectares. This was achieved through working with a wide range of external organisations including RSPB, wildlife trusts, rivers trusts, Natural England, local authorities and water companies. Examples of projects this year include the Fingringhoe managed realignment scheme in Essex where we created coastal saltmarsh and floodplain grazing marsh, benefiting birds and providing fish refuges. We created upland oak woods to reduce flood risk and prevent soil erosion in Clough Woodlands in Yorkshire, and created lowland meadows and reedbeds to address flood risk at the Great Fen in Cambridgeshire. We also worked with the Pennines Peat Partnership to create new areas of blanket bog that will improve the ecological status of several water bodies downstream.

We have helped to restore 972 hectares of sites of special scientific interest (SSSIs) this financial year, against a target of 622. We achieved this through a wide range of actions, including controlling invasive species at the River Avon, addressing diffuse pollution at Rostherne Mere, managing water levels at Bowness Common, and dealing with agricultural run-off at Comber Mere.

Working together to improve bathing water in Teignmouth town

In 2015 Teignmouth town bathing water was not in a good state. Pollution from bird and dog faeces, untreated sewage spills and misconnected household drains meant the bathing water was on course to receive a ‘Poor’ water quality classification. The town was on the verge of installing signs to discourage beachgoers from getting in the water.

To address this, we partnered with Teignbridge District Council and other local groups to create a ‘Love Your Beach’ action group.

We held events for local residents and businesses to talk to them about reducing pollution by not pouring fats and oils down drains, and cleaning up after dogs. We ran social media campaigns and joined in a national project to stencil a yellow fish next to drains where waste might end up in a waterway.

We also installed specialist gel disks under the pier to discourage pigeons from roosting or nesting.

As a result of the group’s hard work, Teignmouth town has now achieved a ‘sufficient’ water quality classification. We continue to work with the group to find innovative ways to improve the water quality further. For example, the town will soon benefit from seagull-proof bins and hawk-shaped kites to deter seagulls from the bathing water area.

Improving the way we work as a regulator to protect people and the environment and support sustainable growth

Our measures of success are:	Our performance:	
We improve business compliance through supporting legitimate business to comply and by tackling the deliberately non-compliant	3a	
We reduce serious and significant pollution incidents	3b	
We reduce the administrative costs of regulation to business	3c	
We reduce the overall risk presented by illegal waste sites targeting our efforts on the highest risk sites	3d	

There has been an overall reduction in the number of serious or significant pollution incidents reported this financial year. These are major or significant incidents with serious, persistent or extensive impacts to people, the environment or property. 485 of these incidents have been reported this financial year, compared to 602 in 2014 to 2015 and 697 in 2013 to 2014. One of the main reasons for this reduction is our focus on the top 5 contributing sectors (landfill, non-hazardous and inert waste, biowaste treatment and use, the water industry, and agriculture). We will continue to review data and address priority sectors as they emerge.

There has been an overall reduction in incidents at non-hazardous and inert waste permitted sites, where odour and fire-related incidents tend to be most common. Incidents in this sector commonly relate to waste management and storage issues, and we will continue to develop our understanding of the causes of these incidents and work to manage these risks. The biowaste treatment and use sector has seen serious or significant incidents reduce in 2015 to 2016. We have concentrated on intervening at poorly performing permitted sites so that they recognise and deal with potential causes of incidents.

There has been a substantial fall in the number of serious or significant pollution incidents at permitted landfill sites. At the end of the financial year, there had been only 17 serious incidents associated with the sector, compared with 32 in the previous year. One of the reasons for this reduction is the progress we’ve made in reviewing gas management systems and leachate regulation. We have also introduced a new permit template with stronger conditions for managing landfill gas, including stricter timescales and approvals processes.

Serious pollution incidents in the agriculture sector have increased. Most are as a result of inappropriate management of slurry by the dairy industry. This has been the trend for the last few years, suggesting there is an underlying problem in the sector and that less investment in safe and secure slurry storage is being made. We are addressing this by proactively visiting priority Water Framework Directive catchments and when these incidents happen, we attend to assess and advise on storage and handling of slurry. We are also speaking to the dairy industry about how we can help them address the issue.

Last financial year we set ourselves some challenging targets to stop activity at high risk illegal waste sites more quickly. We aimed to see a 24% reduction from 272 to 206 by the end of this financial year. After initial reductions, we then saw a steady increase in the number of these sites, peaking at 322 at one point in 2015 to 2016. To address this, towards the end of this financial year we focused on specific areas that have seen a significant increase, such as south east England, and carried out targeted campaigns to reverse the trend. At the end of the financial year, although numbers had fallen back down to 273, this represented a 0.4% increase in illegal waste sites during this 2-year period.

We've continued to reduce the administrative costs of regulation to businesses by reforming our guidance as part of Defra's Smarter Environmental Regulation Review. This includes our guidance on waste regulation, flood risk management, the cross-cutting aspects of environmental permitting, and most other topics. We have also made more of our guidance available in a digital format. By making our guidance clearer, quicker to read and better aligned to the needs of users, our initiatives have saved businesses an estimated £32 million this financial year.

During the year we have continued to administer schemes for the Department of Energy and Climate Change (DECC) to reduce greenhouse gas emissions and increase energy efficiency. These include the Climate Change Agreements scheme, a voluntary initiative which encourages businesses to reduce energy use and emissions. We completed our first assessment of participants' progress and the results were positive, with 99% reporting their performance to us by the deadline of May 2015. Our assessment also confirmed a 12% fall in participants' carbon dioxide equivalent emissions during 2013 and 2014, compared to their base year figures which mostly relate to 2008.

Another initiative is the new Energy Savings Opportunity Scheme, which requires large businesses to assess their energy use, identify cost-effective energy savings opportunities and notify us of their compliance. Over 6,000 individual companies and groups notified us of their compliance during the year. DECC has estimated that the scheme will save businesses around £250 million per year.

Prosecution as an enforcement option

This financial year saw Thames Water receive a record breaking fine of £1 million for polluting the Grand Union Canal in Hertfordshire.

Effluent from the company's Tring sewage plant leaked into the canal 9 times between July 2012 and April 2013, harming plant and fish life. At one point the entire width of the canal was covered in sewage.

Each of the pollution incidents involved discharges of sewage. Our officers saw, most notably, sanitary towels and ear buds trapped against the side of a moored boat. They also found sewage debris and sewage fungus in the canal.

The company pleaded guilty to one offence of breaching the works condition of its permit, having failed to sufficiently treat its effluent to minimise pollution. It also pleaded guilty to a further offence relating to a routine sample containing iron and aluminium as well as a Chemical Oxygen Demand above the limit specified in the permit.

This is the highest ever fine for a water company in a prosecution that we have instigated. We are confident that this sentence will deter others tempted to breach environmental regulations.

Working together and with others to create better places

Our measures of success are:	Our performance:
We respond to planning application consultations and pre-application enquiries within 21 days	4a
We contribute to the delivery of priority development sites	4b

We have continued to work closely with developers at our priority development sites. These are sites that are important in meeting government priorities, such as building more homes for people, where we have an interest from a flood risk or environment perspective. We have completed 96% of our planned actions over the financial year, exceeding our target of 80%.

Much of our work has concentrated on early involvement at the pre-planning and design stage. Engaging early means we can help developers create places that are good for people and the environment, and they gain more certainty through the planning process. An example of effective early engagement this year is our work with High Speed Two Limited (HS2), helping them to develop their waste management strategy for the UK's new high speed rail network. This means that almost all the waste materials from the project will be reused in the most sustainable way, including the possibility of some being used for flood defence embankments. We have also been working with Affinity Water and HS2 to ensure the safe and secure supply of water throughout the construction and operation of the railway and we are currently planning the best way to deliver the numerous permits that will be required for the project, due to commence in 2017. Jointly, we are looking at environmental benefits along the route and we have been advising on improvements towards Water Framework Directive and other habitat creation schemes.

We have responded to 92% of planning application consultations and pre-application enquiries within 21 days. This is below our target of 95%. We are now working on ways to improve response times from internal consultees and are putting in place more training for staff to improve our performance in this area.

We have continued to give flood risk advice to planning authorities and developers on plans for local land development. As a result, many developments have gone ahead without detrimental effects on flood risk. This financial year, we provided detailed technical comments on 15,785 planning applications and 2,588 pre-application enquiries. Across all development types where we were informed of the outcome, 95% of planning decisions were in line with our flood risk advice. Local planning authorities followed our advice for new homes in 95% of all planning applications where we raised objections and know the outcome.

River basin management plans have helped bring communities and organisations together to make decisions on ways to improve the water environment. Over the last 3 years, we have helped set up over 100 catchment partnerships in England, involving more than 1,500 organisations from the public, private and voluntary sectors. We support these partnerships through a network of Environment Agency catchment co-ordinators. These partnerships are helping to secure funds from various sources for activities to improve the water environment. The funding sources include the Catchment Partnership Action Fund, which we administer. This financial year we accepted 107 applications for this fund, including 17% to prevent the deterioration of water bodies or to help meet protected area objectives (£520,000); 23% to reduce the effects of diffuse pollution from urban areas (£675,000); 28% to reduce the effects of diffuse pollution from rural areas (£850,000); and 32% to reduce the impact of man-made structures on wildlife in watercourses (£909,000).

We have been working with Living with Environmental Change (LWEC), a partnership of 20 major UK public sector funders and users of environmental research. We supported LWEC in the development of a new climate change impacts report card on health, which was published in autumn 2015. Climate change is likely to have a wide range of impacts on health - some harmful, others potentially beneficial. The report card summarises the latest scientific evidence and understanding of how climate change may affect the health of the UK population. We are also leading the development of another report card on climate change impacts on business and we are updating the current water report card. Together we are building a comprehensive and authoritative picture of the impact of climate change in the UK to support and inform decision-makers inside and outside government in planning for climate change.

Our Climate Ready support service, which ended in March 2016, has helped many organisations adapt to a changing climate in its 4 years of operation. The service was designed to deliver the objectives in the National Adaptation Programme. It was envisaged as a 3-year programme but was extended for a further year until March 2016. During this time, we provided hundreds of businesses and organisations with advice and produced more than 70 sets of guidance materials and various tools for them to use. Through the service, we achieved many of the objectives set out in the government’s National Adaptation Programme to make the country more resilient to a changing climate.

Over the last year we ran a workshop on resilience to severe weather and climate change with Marks and Spencer and 50 of their suppliers. We supported the Local Government Association’s Climate Local initiative, helping councils reduce carbon emissions and increase their resilience to climate change. 115 councils have now signed up to the initiative and 97 have published action plans. We provided support and advice to Zero Carbon Hub to help them highlight the issue of overheating in buildings.

During the winter floods, we worked effectively to warn and inform the public, provide round-the-clock cover and liaise with partners including government departments, ministers and the Prime Minister’s Office. Our staff showed great adaptability by ensuring communications teams in the affected areas were supported. We have evaluated our communications response to ensure we learn from these events and have plans in place to implement the recommendations from this review.

A lot of our communications work this financial year has been carried out with partners to maximise its impact. Our work in Cumbria formed the basis of an episode of Countryfile, where one of our colleagues was interviewed about the work we have done to improve rivers and water quality. We secured support from over 16 partners, including Crimestoppers, as part of our themed month showcasing our enforcement action and encouraging people to report waste crime. We also used a themed month on sustainable fisheries to jointly launch the new £50,000 fisheries improvement fund with the Angling Trust and promote the re-launch of the Fishing Info website.

Working with and helping others to reduce flood risk

Public Sector Cooperation Agreements (PSCAs) are contracts with individual risk management authorities that allow them and us to carry out work on one another's behalf. They help us carry out local work more efficiently and save money on maintenance activities such as weed clearance and grass cutting.

Throughout the year we have increased the number of PSCAs for our flood risk maintenance work. We now have PSCAs in place with 42 internal drainage boards, 1 county council, 1 district council and 1 navigation authority. A further 25 PSCAs have been agreed in principle, pending final negotiations.

A wide range of activities have been carried out so far under PSCAs, including weed control, grass cutting, dredging, tree and vegetation works, bank repairs, obstruction removal, asset condition surveys and inspections.

We are now sharing our approach to PSCAs with local authorities who are considering developing similar ways of working with internal drainage boards.

Ensuring that we are fit for the future

Our measures of success are:	Our performance:	
We reduce our carbon footprint	5a	
We have a diverse workforce: i Proportion of staff who are Black, Asian and Minority Ethnic origin (BAME) ii Proportion of executive managers who are female	5b i	
	5b ii	
We provide a safe place to work: i Lost time incident (LTI) frequency rate ii Health and safety actions implemented in target time	5c i	
	5c ii	
We manage our money effectively	5d	

We have an important role to play in ensuring we minimise the negative impacts of our activities on people and the environment, and enhance the positive impacts. We take account of the direct impacts of our business decisions, as well as the indirect impacts of our supply chain. This financial year we have continued to improve our internal environmental performance. This has brought benefits to people and the environment, and financial savings.

In 2006 to 2007 we set ourselves a target to reduce our carbon emissions by 33% by March 2016. By March 2016 we had seen a 35% reduction. We achieved this through a number of initiatives including the installation of 70 cameras this financial year to remotely monitor our assets. We estimate that this initiative alone will save us over 75,000 miles of travel, and 30 tonnes of carbon dioxide each year, and will benefit our staff’s health and wellbeing. The estimated financial savings mean that on average we cover the cost of each camera within a year.

We encouraged our staff to only travel when necessary and consider the means of travel carefully. We also implemented initiatives to improve the environmental performance of our fleet such as installing electric vehicle charging points at important sites and using ultra low emission vehicles. As a result of these and other actions, we won the award for the ‘Most sustainable public sector organisation in government’ at the Public Sector Sustainability Association’s 2015 Awards in November 2015.

We continue to be registered to the environmental management system standard ISO14001, one of the core set of standards used by organisations for an effective Environmental Management System. This means we meet or exceed the quality level needed to minimise our negative effects on the environment, comply with environmental laws and improve environmental performance.

We are now working towards an ambitious new sustainability plan, ‘eMission’, which sets out a 45% reduction in carbon emissions by March 2020 compared to our baseline year of 2006 to 2007.

We include many sustainability performance measures in our corporate reporting. These sit alongside and have equal weight with other key performance measures.

Table 1: Sustainability statistics for 2015 to 2016

Measure	Target reduction by March 2016	Actual reduction by March 2016
Carbon emissions	33%	35%
Mains water	25%	27%
Total office waste	100%	97%
Total travel	25%	44%

Flood and coastal risk management construction and maintenance is the area we spend most money on and it's also the area with the highest sustainability risk. We make sure we consider sustainability impacts throughout the lifecycle of each of our projects, from inception and design through to delivery, operation and maintenance. As part of our contract management activities, we carried out a review of how our Water and Environmental Management framework suppliers manage their sustainability impacts. As a result, we are agreeing improvement plans for the coming year to further improve the sustainability impacts of this framework. We are also using the findings to understand our supply chains, and focus on sustainable design options and securing supply of key materials and alternatives.

Reducing the impact of our supply chain

This financial year we commissioned a study into the environmental impact of the goods, services and works we buy, based on our spend in 2013 to 2014. The study focused on the following impacts of our supply chain: greenhouse gases, land use, water consumption, air pollutants, waste, and land and water pollutants.

The study found that 81%of our environmental impact comes from our supply chain, with the top 100 suppliers accounting for 80% of these impacts. We will be working with these suppliers over the next 4 years to reduce the impacts by 20%.

We expanded our coaching and mentoring programmes for our Black, Asian and Minority Ethnic, disabled, female, and lesbian, gay, bisexual and transgender employees. To complement these programmes, we ran personal skills, confidence and development workshops for these employees.

We continued to run workshops to raise awareness of diversity among our managers and help them make decisions that are transparent and fair. As a result, despite low external recruitment levels, our most recent workforce statistics indicate that now 35% of our executive managers are female. This is above our target for the year end of 33%. We've also exceeded our target of not less than 3.7% for Black, Asian and Minority Ethnic employees, who now make up 3.8% of our workforce.

Over the last year, staff in our internal communications and press teams have embraced being part of the Defra group, working closely with new colleagues to share knowledge and experiences. A number of staff members have transferred to short-term Defra roles to help develop new ways of working, and we have applied learning from our capability review to ensure our learning and development aligns with other communications professionals across government. We have also been instrumental in providing guidance on digital strategy for Defra's single intranet.

We welcomed the opportunity to work with the Parliamentary and Health Ombudsman to improve our customer service, and have developed a strong approach to persistent complainants. This has resulted in better management of complaints for customers, and very low numbers of serious complaints upheld by the Ombudsman compared to similar organisations. Ongoing work by our Customer, Engagement and Market Research team means we are constantly reviewing and improving the way we work and do business with our internal and external customers. For the first time we have produced a consistent customer scorecard for our area teams to help them decide on the best course of action. Our finance teams have been reaccredited with Customer Service Excellence, a Cabinet Office recommended external programme.

As part of our health, safety and wellbeing programme, we have continued to measure the time it takes colleagues to complete health and safety actions. This financial year, 90% of these actions were completed on time. Although this is a good result, it is below our target of 95%. We are reviewing the process for issuing actions so that it is more efficient, easier to use and supports good compliance.

Incidents where colleagues take time off work due to injury are measured as ‘lost time incidents’. This financial year, we set the maximum level for these incidents at the level at which we performed last year - 0.16 injuries per 100,000 hours worked. Throughout the year, the number of incidents have remained at this level. We believe that this is a result of our ongoing emphasis on reinvigorating health, safety and wellbeing through our Safe and Well programme.

Opening up our LIDAR data

As part of Defra’s initiative to make over 8,000 of its datasets available for England Open Data, in September 2015 we made our light detection and ranging (LIDAR) data available. This means that users can now access it free of charge, even for commercial use.

We capture LIDAR data in England using a laser to scan and map the height of the landscape from a light aircraft. We now have an extensive archive of this data covering over 75% of England, predominantly in flood plains, coastal zones and urban areas. We use it in flood models, to assess coastal change and in land use analysis. As technology has improved and costs have fallen, LIDAR data is now being used by local planners, archaeologists, farmers and ecologists for research, in flood risk studies and in the development of innovative flood risk products and solutions.

We hope that now we’ve removed cost barriers, our data will be used by businesses and local communities to better understand the flood risk of current and future building developments in their areas. There is also great potential for the development of innovative tools and techniques to further benefit the environment.

Making the most of natural capital

Natural capital can be defined as the world’s stocks of natural assets which include geology, soil, air, water and all living things. For organisations, including ourselves, measuring and placing a value on the natural capital that we own and manage will help us monitor the condition of it. It gives us another way of monitoring negative effects on the environment and identifying ways we can improve the environment. It has the potential to inform our environment management strategy and help us allocate our budgets in a way that will benefit society the most.

Natural capital accounting provides a way of measuring and recognising natural assets in a format similar to traditional financial reporting. Our ambition is to develop full natural capital accounts. We tested this process on a small scale by estimating the natural capital value of the Steart Peninsula, the biggest coastal realignment project in the UK. We came up with an initial natural capital value of £20 to 30 million for the site. This includes the benefits of storing carbon at the site, the food produced in the area and the economic benefit from people visiting the site. These benefits would not have been captured in traditional accounting. However, the current value does not yet reflect all the benefits as we are still developing ways of measuring things such as biodiversity, water quality and air quality.

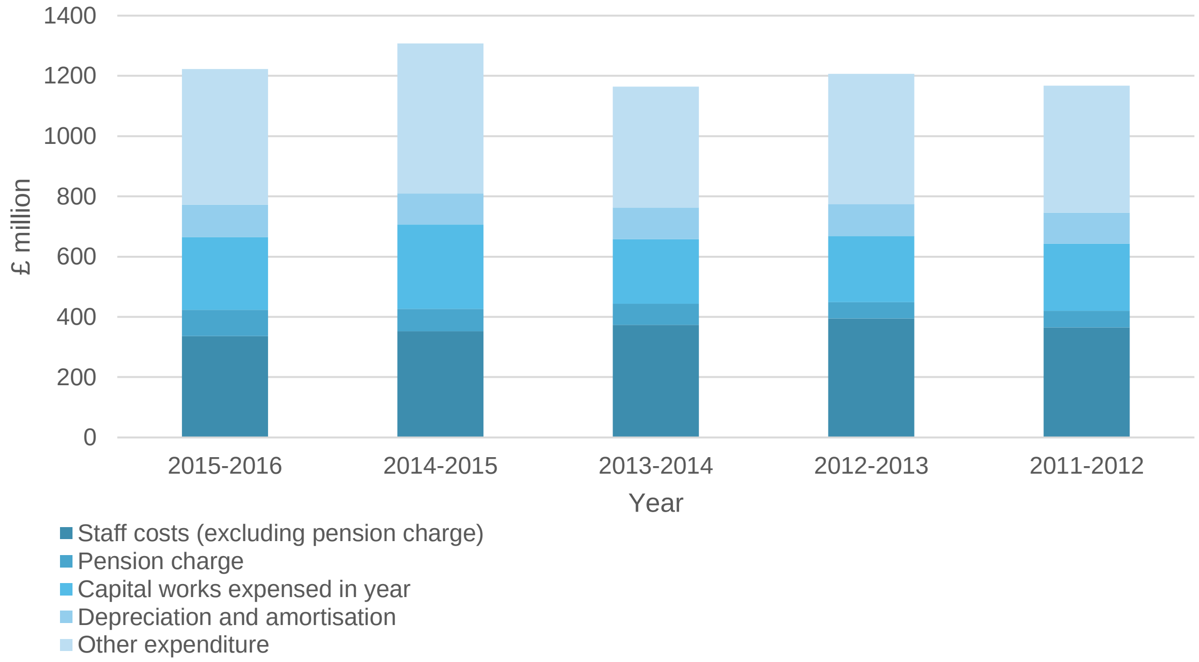
We are using the lessons learnt in developing our model for Steart to inform our wider work on natural capital. Appendix D contains our first corporate natural capital accounts which will be further developed in future years. These accounts have been developed through working with others in the Defra group and beyond.

Managing our finances effectively

Our total gross expenditure for the financial year ended 31 March 2016 year was £1.2 billion. This was a decrease of £72 million on the previous year (as shown in the Statement of comprehensive net expenditure). Of our total expenditure, £744 million (61%) came in the form of funding from Defra.

Net expenditure for the year was £824 million. We are required to treat grant-in-aid cash receipts of £744 million from Defra as a financing contribution as it is our sponsoring body. Therefore we credit this directly to the general reserve and do not include it in our net expenditure in the financial statements.

Figure 1: 5-year summary of our expenditure

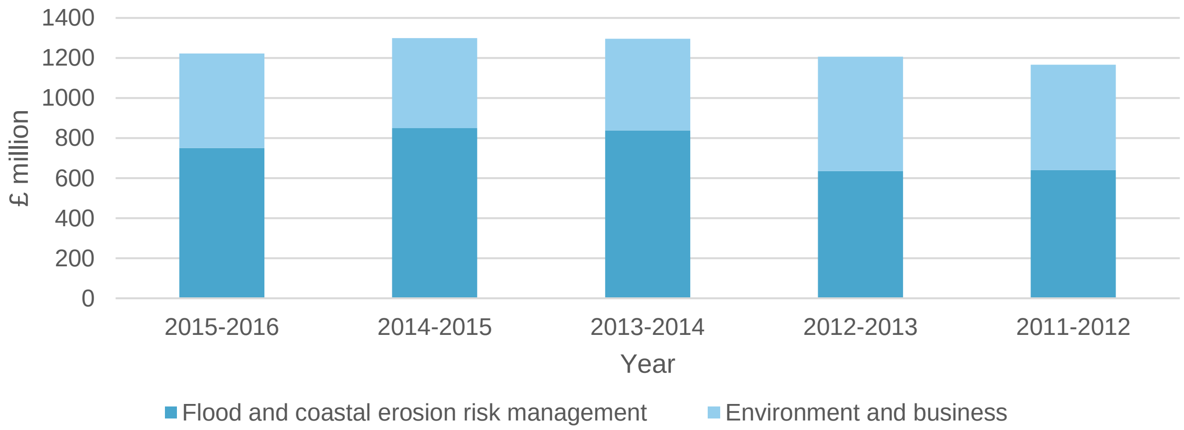


More detail on staff costs, capital works expensed in year and other expenditure is provided in the financial statements in notes 3, 4 and 5 respectively.

Expenditure

Our expenditure by highest level business area is shown in figure 2. Environment and business comprises of water, land and biodiversity, and regulated industry business areas and is largely funded through charges and fees, further details of these can be found in the Directors' report. The government makes decisions about Defra funding through HM Treasury's spending review process and a proportion of this funding is then allocated to us. This process sets funding for all government departments. The latest spending review covers the period up to March 2020 and table 2 provides a summary of the grant funding we received.

Figure 2: Expenditure by business area



The increase in total expenditure over the period is due to work we have done in response to the severe flooding of the winter of 2013 to 2014. The government provided £270 million of additional funding, spread over the financial years 2013 to 2014 to 2015 to 2016. Flood and coastal erosion risk management therefore represents an increased proportion of total spend.

We have allocated the Defra funding provided by HM Treasury for the Spending Review period from 1 April 2016 to 31 March 2020. The table below sets out the Environment Agency expected funding for this period.

Table 2: Our funding from Defra

Funding area	Funding 2019-2020	Funding 2018-2019	Funding 2017-2018	Funding 2016-2017	Funding 2015-2016
	£ million	£ million	£ million	£ million	£ million
Flood and coastal erosion risk management					
Revenue	264	299	280	270	262
Capital	405	404	442	465	372
Total flood and coastal erosion risk management funding	**669**	**703**	**722**	**735**	**634**
Environment and business					
Revenue	51	63	56	50	41
Capital	18	13	23	22	14
Total environment and business funding	**69**	**76**	**79**	**72**	**55**
Total	**738**	**779**	**801**	**807**	**689**

We have not yet finalised with Defra the allocation of the additional £700 million over the spending review period announced in the recent budget. Table 2 does not include funding provided by Defra for depreciation or the Environment Agency Closed Pension Fund.

Single Operating Platform implementation

In November 2015 we implemented an upgraded Finance and Human Resources system in partnership with Shared Services Connected Limited (SSCL), known as the Single Operating Platform (SOP). This replaced the Oracle system which stopped being supported on 31 March 2016. SOP will be provided to many parts of government including Defra, DECC, Department of Work and Pensions, Department for Education, Cabinet Office, Ministry of Justice and the Home Office. We have led the way in transferring to SOP first. We worked closely with SSCL to ensure that the replacement system would meet our business needs.

Non-current assets

Non-current assets in the year have increased in value by £167 million. The value of our non-current asset base is £2.9 billion.

We are required to carry out an independent 5-yearly revaluation of our non-operational land and buildings. A revaluation was carried out in March 2016. 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 use depreciated replacement cost to give the most appropriate valuation of these operational assets.

Going concern

The Statement of financial position at 31 March 2016 shows taxpayers' equity of £2.2 billion (at 31 March 2015 this was £1.8 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 our grant-in-aid funding for next year and for nearly all of our required funding in the current spending review period (2016 to 2017 to 2019 to 2020). We are confident that we will receive approval for sufficient future funding, although the level of that funding will be subject to ongoing annual review by central government. We and Defra could face modest in-year reductions. We have prepared these financial statements on a going concern basis.

Sir James Bevan, Accounting Officer

11 July 2016

Accountability report

Corporate governance report

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
- confirm that the annual report and accounts as a whole is fair, balanced and understandable and take personal responsibility for the annual report and accounts and the judgements required for determining that it is fair, balanced and understandable.

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.

Governance statement

1. Introduction

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

This governance report 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

2.1 The governance framework

The Environment Agency is led by a non-executive Board appointed by the Secretary of State for the Department of Environment, Food and Rural Affairs (Defra). The Board ensures that:

- we fulfil our statutory duties
- we follow the directions provided by the Secretary of State
- we operate with propriety and regularity
- the Environment Agency is an efficient and effective organisation

Eight independent non-executive Board members, including the Chair, sit on the Board. The Board, Executive Directors' team and senior managers review our performance across all our activities and discuss it with Defra. The Chair and Chief Executive meet with the Secretary of State and other Defra ministers regularly. This financial year, the topics discussed during ministerial meetings included:

- the Environment Agency's roles and responsibilities
- flood risk management and maintenance
- incident response to both flooding and waste fires
- water resource management including river basin management plans
- onshore oil and gas
- budgets and how they are allocated
- illegal waste
- shared services and joint working across the Defra group

2.2 Committee structure, including Regional Flood and Coastal Committees

The Board has established 5 committees to help shape and steer our operational duties and functions. Our committee structure is included in Figure 1. The chair of each committee gives an update at Board meetings and raises specific issues to the Board as necessary. The remuneration report lists the members of each committee and Appendix E shows Board members' attendance at meetings, which remains high.

The Flood and Water Management Act 2010 required us to establish Regional Flood and Coastal Committees (RFCCs). RFCCs raise levies to fund local priority projects. They also work with coastal groups and lead local flood authorities to advise on activities within their catchments and along the coast, and to share good practice. We must consult with RFCCs and agree our flood and coastal risk investment programmes with them.

All RFCC meetings are advertised on GOV.UK and are open to the public.

2.3 Executive Directors' team

The Chief Executive manages a team of national executive directors who provide leadership and strategic direction to the organisation (see Figure 3). There is an executive director responsible for each of our directorates:

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

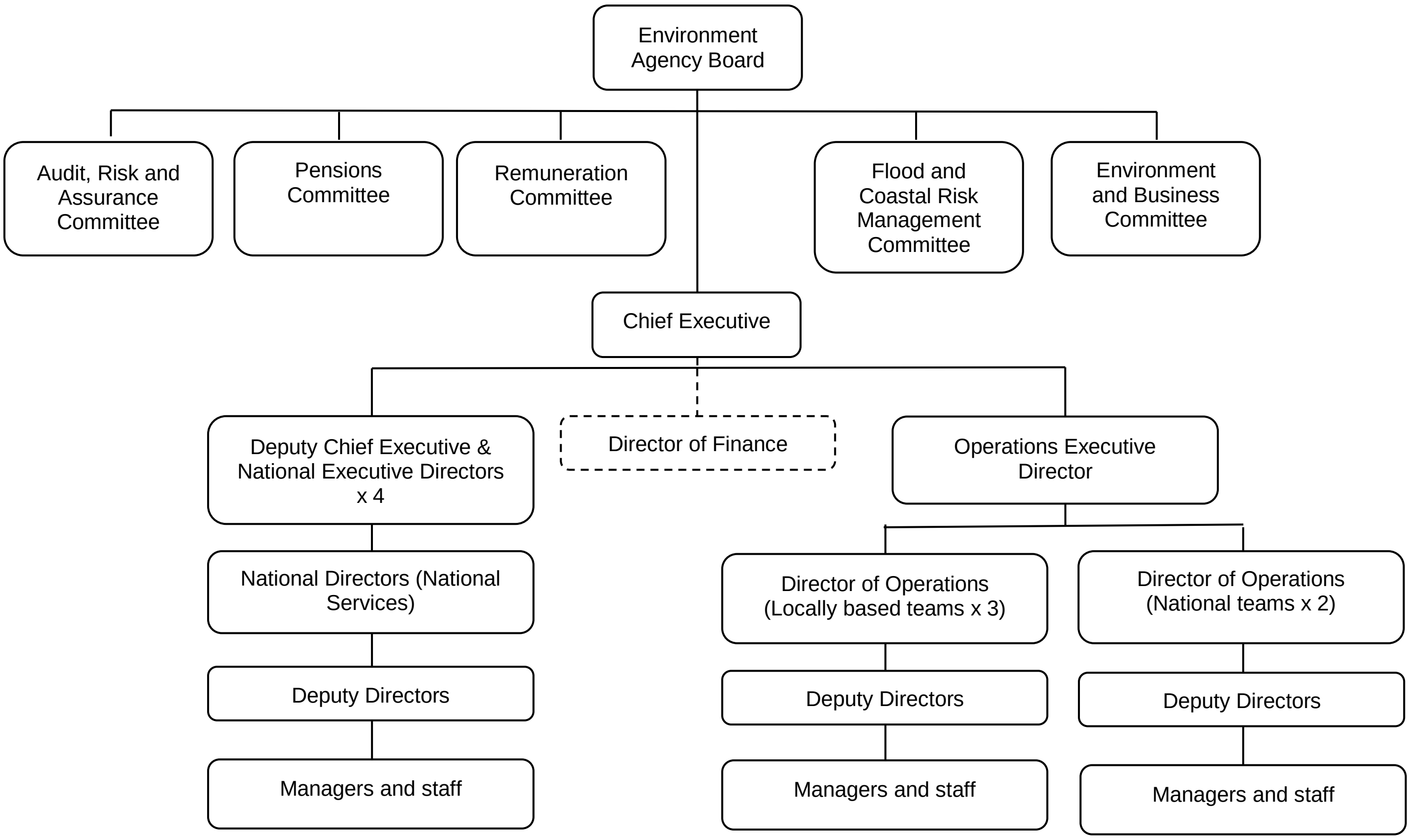
On 1 October 2015, our Executive Director of Finance was appointed as Chief Finance Officer for the Defra group. His responsibilities were delegated to the Director of Finance, who attends Executive Directors' team meetings.

There was an Acting Chief Executive during October and November to cover the period between the retirement of the previous Chief Executive and the starting date of the new one.

On 30 November 2015, the Chairman and Chief Executive created a temporary role of Deputy Chief Executive to support the new Chief Executive in his first year. The Deputy Chief Executive is a member of the Executive Directors' team.

The Chief Executive and executive directors meet weekly. They are responsible to the Board for all aspects of performance and risk management. The executive directors support the Chief Executive in establishing and maintaining an effective system of internal control within the organisation.

Figure 3: Environment Agency reporting lines, including committee structure



2.4 Changes to our structure

In 2014 to 2015 we simplified our structure by removing our regional operational layer. Work that was previously done at a regional level has now moved into area and national teams. We are now working with Defra and others in the Defra group to create a departmental corporate services function. Many of our directors and deputy directors are involved in influencing the shape of this new service. When fully implemented, it will support all organisations in the Defra group.

2.5 Compliance with the corporate governance code

We follow best practice for corporate governance, and have complied with the Financial Reporting Council's UK Corporate Governance Code. Our handbook for Board members reflects this guide, and they are required to make an annual declaration of memberships of other organisations' boards and any conflicts of interest. They also declare any conflicts of interest in relation to specific items on the agenda before every meeting.

All managers and staff are asked to complete an annual disclosure of interests and discuss any disclosures and potential conflicts with their line manager.

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

The Executive Directors' team meets every Monday and for a full day each month to discuss and make decisions on managing the Environment Agency.

In June 2015, the Board employed an external facilitator to support their annual evaluation exercise, which included interviews of Board members and 3 executive directors, presentation of the interview findings to the Board, and a discussion of the Board's ambition and legacy. The legacy ambitions discussed at the evaluation included our organisation as a trusted delivery body for the environment, a place-based organisation working in partnership with others, and our ambition for a resilient environment whose natural capital value is understood.

The Board also agreed practical steps to improve its own performance and that of its committees each year. The Board decided to:

- review members' roles in supporting the organisation
- continue to simplify Board committees and align meetings
- build in time for informal discussions on significant issues
- make better use of their networks

The National Audit Office (NAO) facilitated the Audit, Risk and Assurance Committee's (ARAC) annual self-assessment in December 2015. This exercise was based on the NAO's effectiveness toolkit and considered the ARAC's role, membership, independence, objectivity, skills, and the scope of its work and communications. Overall, the findings were positive, with actions from previous reviews having been completed and actions to further increase effectiveness under consideration.

4. Effectiveness of risk management

4.1 Risk management framework

Our strategic approach to risk management is approved by the Board and executive directors. The Board and the ARAC have an important role in identifying, monitoring and managing significant organisational risks. The Executive Directors' team assess and prioritise corporate risks throughout the year and individual directors are responsible for the risks within their business area. Executive directors own the corporate risk register and are responsible for developing, formally reviewing and updating their risk assessments every quarter.

Local risk and assurance leads help individual management teams and directorates develop their risk and assurance capability. There are processes for two-way communication of new risks, changed circumstances or when action is required.

4.2 Effectiveness of risk management

We have a consistent approach to risk management across the organisation. Risk registers are in place for each directorate and operational management team, which include risk assessments, mitigating measures and the person accountable for managing each risk.

In September 2015, we completed our annual risk review, which analysed and summarised risk registers from each operational area and directorate. The results were checked against the corporate risk register to give the Executive Directors' team and the ARAC confidence that the corporate risk register included all identifiable risks.

An internal audit review in December 2015 indicated that we continue to be effective at risk management, with high quality risk registers and good levels of risk control.

Risk leads, the national risk and compliance team and internal audit are working together on an integrated approach to assurance.

4.3 Organisational risk profile

The Executive Directors' team is currently managing 8 risks on the corporate risk register. These are described in Section 6 of this statement.

Other risks are managed by individual executive directors and their leadership teams.

5. Effectiveness of the internal control system

5.1 Overview of the internal control system

We follow HM Treasury guidance on internal control, intended to provide reasonable assurance and maintain propriety. This is a proportionate approach and not intended to eliminate all risk of failure, so the Accounting Officer can only provide reasonable, not absolute, assurance. Our internal control processes are designed to:

- identify and prioritise the risks affecting our business aims and objectives
- evaluate the likelihood of those risks happening and their likely impact
- manage those risks efficiently and effectively

The Board has delegated its powers of control over income and expenditure through a financial scheme of delegation, which establishes the limits within which individual officers are allowed to approve spending. Our resource allocation is published in our corporate plan and we report on our in-year progress against objectives and performance targets in our corporate scorecard. The performance report section of this annual report summarises our performance in delivering environmental outcomes and provides assurance on how we have used our resources this financial year.

5.2 Audit assurance

Each year the Executive Directors' team and the ARAC agree the annual internal audit plan, taking a risk-based and prioritised approach to identify aspects of the business that should be audited.

The Accounting Officer is advised on internal control matters through audit reports (and other papers and presentations at executive directors' meetings). The ARAC also reviews and acts on our internal audit reports. A large number of audit reports within the audit programme consider matters of compliance and propriety and provide assurance on good governance. One report in particular, received in December 2015, considered governance following the Strategic Review Response Programme (SRRP). SRRP was our most recent major change programme, carried out in 2014 to 2015 and this report looked into how roles, responsibilities and effectiveness of the new structures have been embedded.

The Head of Internal Audit submits an assurance statement to the Chief Executive each year, outlining the adequacy and effectiveness of our risk management, internal control and governance processes, based on our internal audits.

The Internal Audit team reviewed more than 40 topics and risks between 1 April 2015 and 31 March 2016. The team provided an overall 'moderate' assurance rating on the adequacy and effectiveness of our arrangements for corporate governance, risk management and internal control. 'Moderate' means that some improvements are required.

The Environment Agency has experienced a substantial number of Shared Services Connected Limited (SSCL) service level failures throughout the year on activities such as payroll and debt management. Additional assurance will be required to ensure that such issues are being urgently investigated and appropriate solutions identified to ensure there is no repetition during 2016 to 2017. There are no other significant weaknesses that fall within the scope of issues that should be reported in the governance statement and that threaten the achievement of our objectives. Where the audit team identified areas for improvement, managers have agreed how they will improve controls.

We act on the recommendations made by the NAO in their audit completion report and their individual value-for-money reviews. Recommendations are also made by accredited bodies who review our environmental performance and quality standards.

Last financial year, external auditors Societe Generale de Surveillance (SGS), assessed us against the requirements of the external registrations we hold for ISO 9001 Quality Management Standard and ISO 14001 Environmental Management Standard. We have addressed the only requirement that we had not met against ISO 9001, which concerned insufficient housekeeping at area depots. New checks have been introduced to ensure this does not reoccur. We continue to hold registrations for ISO 9001, ISO 14001 and the European Eco-Management and Audit Scheme.

5.3 Stewardship assurance

Stewardship assurance has been provided during the year. Managers report on their stewardship and how they have exercised operational control. These reports provide evidence from across the business to support this governance statement.

This financial year's stewardship topics were:

- Quality Management System - our system for setting quality standards, processes and procedures that enable us to meet customer needs
- learning and development
- incident response
- succession planning

Where the level of assurance is not considered sufficient, stewardship reports provide detail on the actions required to increase assurance to an acceptable level. During the year, stewardship reports have shown that all of the areas looked at were either 'substantially' or 'moderately' controlled. We identified a wide range of areas for improvement and examples of good practice.

Substantial control means controls which mitigate against all of the risks towards achievement of the relevant objectives are well established and are operating effectively. Very few control weaknesses have been identified and any additional management actions proposed relate to potential enhancements.

Moderate control means the majority of the controls required to address risks are present and any ineffective application of these controls does not create any significant weaknesses that threaten the achievement of the relevant objectives. Any additional management actions agreed relate to both control weaknesses and potential enhancements.

5.4 Assurance over SSCL controls

Grant Thornton have completed their ISAE 3402 audit which provides an independent opinion of the services provided by SSCL to us and other customers. This has identified some minor areas for follow up but no significant concerns. Since we moved to SOP we have experienced some poor performance in service levels, particularly for payroll and income activities. We are working closely with SSCL to make improvements in these areas. SSCL will suffer financial penalties because of the failure to achieve the agreed service levels.

6. Significant risks and actions

The following risks and concerns were identified through the processes above and are being actively managed through detailed action plans, each of which is sponsored by an executive director.

6.1 Impact of major flooding

Around 20,000 homes and businesses were flooded in the north of England during the winter of 2015 to 2016, which had huge effects on local infrastructure. UK rainfall records were broken and flood risk management assets in Carlisle, Cockermouth and parts of York were overtopped. We have supported several reviews into the flooding including the government's National Flood Resilience Review, which is expected to report its initial findings in July 2016.

We operate flood risk management assets and provide flood warnings to better protect the nation from natural hazards. Along with our flood warning services, they protected over 23,000 properties from flooding during the winter. There were 2.2 million visits to the GOV.UK flood warning pages on Boxing Day 2015 alone. Our advice enables the public, businesses and emergency responders to take effective action against flood risks.

We are facing more severe weather events due to climate change. If we have difficulties forecasting rainfall, do not carry out adequate planning or respond poorly to an incident, we may compromise our ability to protect the lives and livelihoods of those not protected by flood risk management assets. We have learnt from the recent floods and will increase our stock of temporary flood barriers and pumps before winter 2016 to 2017. We run exercises for emergencies and our staff are rostered for incident response 24 hours a day, 7 days a week.

The NAO produced its strategic flood risk management review in November 2014 and the Public Accounts Committee produced their report on this review in March 2015. We continue to deliver on these recommendations and progress is reported regularly to the Public Accounts Committee.

6.2 Water Framework Directive objectives

The Water Framework Directive (WFD) sets ambitious targets for river basin management. It requires engagement with a wide range of stakeholders and the need to integrate water quality, quantity and flood risk management requirements. This is a complex task and creates the risk that we won't be able to satisfy all stakeholders' requirements.

We published our updated river basin management plans in February 2016. The plans set out the priorities for protecting and improving the water environment to achieve benefits for the economy and people's wellbeing. They form an important part of the collaborative and integrated catchment approach to planning for water.

Open Data is data which has been made available free of charge so anyone can use it. The WFD requires Open Data about river catchments so we can engage and work with our partners to deliver more for the environment. Investment is being made in systems and data provision which will allow stakeholders to better interrogate the data available.

6.3 Onshore oil and gas sector regulation

We are the environmental regulator for onshore oil and gas operations in England. We're confident the regulatory controls in place provide a high level of protection for people and the environment. We are working with our partner regulators - the Health and Safety Executive, mineral planning authorities, Public Health England, Natural England and the Oil and Gas Authority - to engage with the public to increase awareness of our roles.

We are working with the oil and gas industry to ensure operators' applications and permits address the risks inherent in their developments. We will only issue permits to operators who demonstrate that they will meet all legal requirements to provide a high level of protection to people and the environment, and we will ensure strict permit conditions are met - taking enforcement activity if necessary. Permits remain in force until we are satisfied that there is no further risk to the environment and the site has been returned to its original condition.

6.4 Bathing Waters Directive

Bathing water quality is a matter of public interest and poor quality may cause reputational damage to our organisation. Higher European standards were introduced in March 2015, leading to an increase in failing bathing waters and the perception that water quality has deteriorated. For the first time in 2016, local councils are required to display signs at failing bathing waters, bringing bathing water quality into the spotlight.

Using data from environmental monitoring, we prioritise our work with others to improve water quality at problem sites. Working with other agencies, we chair a national bathing water group comprising government, major stakeholders and non-government organisations. This group ensures effective communications and management of risks associated with failing waters. We have action plans to encourage external partners to do their part to protect and improve bathing water quality.

6.5 Illegal waste sites

Illegal waste poses risks of pollution and harm to human health. Almost all serious pollution incidents from waste can be avoided through good site design and maintenance. Our work with operators helps them meet necessary requirements.

Operators remain responsible for cleaning up after major incidents. There is a risk of public expectation that, where we have intervened to reduce the risk of serious pollution from incidents, we will also deal with the clean-up. We now have powers of enforcement that allow us to tackle high risk sites more effectively and to require remediation by the operator or to recover costs of clean up from them at both illegal and permitted sites.

Although the number of waste fires reported each year remains relatively constant, these now attract greater attention in the media and from the public. Major changes in waste management practices over the last 10 years have led to significant increases in the storage of combustible materials. These naturally pose a high fire risk, particularly at illegal waste sites. Fires may be the result of accidents, poor management of waste or the result of deliberate acts.

We identify all sites with a significant fire risk. Newly permitted sites storing combustible wastes now have a specific permit condition to have and implement an approved fire plan. Sites which do not comply with appropriate waste management standards will be closed down.

6.6 Staff capacity

Our wide range of activities means we require a workforce with a diverse range of skills, knowledge and expertise, including the ability to carry out complex and potentially dangerous operational tasks. Poor health and safety compliance, lack of training and development opportunities, lack of stability or certainty from business change and poor workforce planning, could lead to us not having the right people in the right places with the right skills.

To counter these risks, heads of business are accountable for having strategic workforce plans in place and undertaking necessary actions to maintain resilience. Executive directors regularly discuss workforce planning for the Environment Agency. We promote a strong health and safety culture, supported by operational instructions and reviews of safety incidents.

Business Planning, Finance and Human Resources teams work closely with the rest of the organisation to ensure our affordable structure information is accurate and to identify and address any problems such as high levels of vacancies in specific work areas and related recruitment activity.

6.7 Data integrity

The Secretary of State's Open Data initiative provides new opportunities to make our data available, helping us to achieve environmental improvements through the work of other users of the data. To make sure our data is the best it can be we have a network of trained custodians who are responsible for data security, release and quality. We are standardising our approach to improve storage, security and sharing of data. We have begun to make many datasets available through Open Data, such as our light detection and ranging (LIDAR) data, which is supporting a wide variety of businesses.

There were no significant lapses of security resulting in data losses during the financial year.

6.8 Defra group organisational change

The Defra organisational change proposals and cross-government initiatives pose a variety of risks and opportunities to our normal day-to-day business. These include failure to realise financial savings from previous change programmes, impacts on staff efficiency and morale, and the ability to benefit from more generic, shared systems and processes.

We monitor all change initiatives to ensure the degree of change remains manageable, particularly if changes have an impact on the same groups of staff. Several of our managers are leading specific change programmes across the Defra group and employees are encouraged to get involved to help shape thinking and provide technical expertise and design solutions. Communications are co-ordinated across the Defra group for consistency. We make sure employees are aware of what is happening during change and work to reduce the risks of losing critical knowledge, skills and experience.

As part of the ongoing joining up of support services across government, this financial year saw the launch of a new Single Operating Platform (SOP) for financial and employee data. The Environment Agency was the first organisation to transfer to SOP and implementation was deferred until we were satisfied that all risks to our data and day-to-day transactions were sufficiently controlled.

7. Ministerial directions

We received 3 ministerial directions during 2015 to 2016:

- The Water Framework Directive (Standards and Classifications) Directions (England and Wales) 2015, which requires us to:
    - establish a framework for community action on water policy
    - provide schedules to classify environmental quality standards for water including the status and categorisation of surface water bodies, and the status and threshold values of groundwater bodies
    - amend directives 2000/60/EC and 2008/105/EC to include monitoring and reporting on priority substances, long-term trend analysis and the maintenance of an inventory of emissions, discharges and losses
- The Shellfish Waters Protected Areas (England and Wales) Directions 2016. This requires us to observe the microbial standard in shellfish water protected areas. We are also required to assess compliance against this standard and monitor microbial pollution.
- The Environmental Permitting (Linston Ltd) Exercise of Functions Direction 2016. This revoked a previous direction and made Derbyshire Dales District Council responsible for the regulation of metal wastes at the Ryder Point Works.

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

We pay grants to local councils, internal drainage boards, the Highways England and water companies (all of whom come under the grouping of other risk management authorities) for flood and coastal erosion risk management work. All projects must have technical and financial approval and all studies and schemes must adhere to the Grant Memorandum.

All grant recipients submit interim claim forms to draw down their grant. At the end of the project we request a project completion form and within 2 years of project close a final statement of accounts.

The project completion form shows how the aims of the project were met and is signed off by the Area Flood and Coastal Risk Management Manager and the Final Statement of Accounts shows that the grant has been spent to budget to deliver the project outcomes.

Since April 2012 we have also provided grants to civil society groups and charities for work within the WFD, supporting the delivery of water catchment outcomes.

All the grants are made available following an open bidding process where groups put forward proposals for local projects. We chair a national panel with representatives from Defra and Natural England, considering technical assessments and local priorities in recommending grant awards. The River Restoration Centre acts in an advisory capacity. We publish a list of grant awards and allocations. When assessing projects to receive grants, we use the same processes and standards as we use for our own projects.

The project manager for the Catchment Restoration Fund is responsible for its assurance. We require summary reports each year to ensure the projects are being delivered within the financial year for which funding is provided. Where projects are multi-year, they will need to have specific delivery milestones within each year. We ask for an external audit report for all projects over £125,000.

9. Whistleblowing

Our arrangements for whistleblowing remain unchanged, with clear information provided to all employees on how any disclosure can be made and what protections are in place. An internal audit review of our processes, reported in December 2015, found substantial assurances that fraud and whistleblowing processes were operating effectively. During 2015, 6 concerns were reported and fully investigated.

Directors' report

Main activities of the Environment and Business operating units

Environment and Business charges

The main chargeable activities of our Environment and Business operating unit are detailed below.

- Abstraction charges - charging businesses for 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.
- Environmental Permitting Regulations (EPR) water quality - charging for permits to discharge 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 Carbon Reduction Commitment (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

In addition we receive grant-in-aid from Defra which supports the following Environment and Business activities:

- strategic direction for delivery and support to Defra
- setting our 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 that are involved in environmental protection
- monitoring, including 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
- work with local partners, communities and government
- town and country planning advice

Board and executive directors

We employ 5 executive directors in addition to the Chief Executive.

A full list of executive directors and Board members is provided in the Remuneration and staff report. The notice period for executive directors is at least 3 months.

The Board members and executive directors had no company directorships or other significant interests which may conflict with their responsibilities in the financial year 2015 to 2016.

Pensions

We are 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 Environment Agency Active Fund was created in 1989 for employees of the National Rivers Authority. It now provides final salary pension benefits to around 24,000 people, who are current and former employees of the Environment Agency, Natural Resources Wales and Shared Services Connected Limited (SSCL). For the financial year 2015 to 2016, the Active Fund received contributions equivalent to 18.5% from the Environment Agency and between 5.5% and 12.5% from its employees.

The assets of the Active Fund relating to the Environment Agency have increased in value by £43 million to £2,462 million during the year. This figure allows for contribution income and benefits paid out over the period. The overall net liability has decreased to £459 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 and staff report.

The Environment Agency Pension Fund has a strategy to integrate responsible investment into its decision making, being a global leader. Being a responsible investor means delivering financial goals in the long-term interest of its members, recognising that environmental, social and governance issues can impact financial performance. These issues should be taken into account throughout the funding and investment decision-making process.

The fund has received recognition for both its investment and communication work in 2015 to 2016. Successes include winning 2 Responsible Investment awards from the Local Authority Pension Forum and Local Government Chronicle (LGC), whilst also being joint winners of the LGC Team award for National Frameworks.

The fund also won the Institutional Investors Europe (IIE) and Institutional Investors UK & Ireland awards for Environment, Social Governance. Professional Pensions magazine announced the Environment Agency Pension Fund as winners of its award for Best Communications for the Public Sector 2015.

We are also the statutory administering authority for the 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 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 Fund to pay these liabilities. The Closed Fund is reported within the Annual Report and Accounts for Defra.

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 89% of invoices from suppliers within 10 days of receipt and registration, compared to 98% in the previous year. Creditor days, calculated on an average basis for the year, were 5 days.

Protect personal data

We had no reportable security incidents between 1 April 2015 and 31 March 2016, the same as in the previous financial year.

We are 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 2016, the same as in the previous year. The fee for the statutory audit was £170,000 (2014 to 2015 - £175,000).

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

Remuneration and staff report

The Remuneration Committee

The Remuneration Committee comprises 4 non-executive Board members and is chaired by the Environment Agency's Chair. Its terms of reference were updated in 2015 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 and are as follows:

1. The Remuneration Committee is appointed by the Environment Agency Board with its delegated authority to consider any matters relating to the pay or remuneration of Environment Agency employees. The committee has regard to the Financial Memorandum and other relevant requirements of the Department of the Environment, Food and Rural Affairs.

2. The Remuneration Committee will consider and advise the Environment Agency Board generally on matters relating to Human Resources.

3. The Remuneration Committee will:

a. consider and approve the overall remuneration strategy of the Environment Agency from the employees' perspective including the full benefits package

b. consider and approve periodic pay reviews for Environment Agency employees

c. consider and approve any significant policy issues involving terms and conditions other than pay

d. consider and approve any performance-related pay to 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

e. set and review all aspects of the objectives and remuneration of the Chief Executive

f. review the framework for succession planning for key posts

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

h. advise the Board on any matters relating to pay, remuneration packages and benefits or general Human Resources matters in normal Board business

4. The Chair of the Remuneration Committee should make a report on Remuneration Committee business to the Board meeting following each Remuneration Committee meeting. The full minutes and papers of the Remuneration Committee meetings are made available to any Board member on request.

The Remuneration Committee met 5 times during the financial year. It agreed the Chief Executive's performance rating and objectives.

During the year, the committee also considered:

- pensionable pay and pay reform
- executive team structure and executive directors' pay
- payments for incident response
- appointment rules and processes
- the recruitment of the new Chief Executive
- the work of the committee and reviewed its planned work for next year
- the Board's own expenses

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.

Remuneration of executive directors

We employ 5 executive directors in addition to the Chief Executive. Detailed below are the executive directors and their period of service (including date of appointment).

Table 3: Executive directors' periods of service

Position	Executive director	Period of appointment
Chief Executive (i)	Sir James Bevan KCMG	30 Nov 2015 – present
Chief Executive	Dr Paul Leinster	1 Nov 2008 – 30 Sept 2015
Executive Director of Flood and Coastal Erosion Risk Management **Acting Chief Executive** **Deputy Chief Executive (ii)**	Mr David Rooke	1 Nov 2011 – 18 Sept 2015 19 Sept 2015 – 29 Nov 2015 30 Nov 2015 – present
Acting Executive Director of Environment and Business (iii)	Mr Harvey Bradshaw	26 Sept 2015 – 31 Mar 2016
Executive Director of Environment and Business (iv)	Mr Ed Mitchell	1 Apr 2010 – 25 Sept 2015
Executive Director of Operations	Dr Toby Willison	1 Apr 2015 – present
Executive Director of Evidence	Ms Miranda Kavanagh	29 Apr 2009 – present
Executive Director of Resources and Legal Services	Mr Jonathan Robinson	18 Jul 2011 – present
Executive Director of Finance (v)	Dr Mark McLaughlin	22 Jun 2009 – 30 Sept 2015
Acting Executive Director of Flood and Coastal Erosion Risk Management (vi)	Mr John Curtin	19 Sept 2015 – 31 Mar 2016

(i) Sir James Bevan was appointed Chief Executive on 30 November 2015.

(ii) David Rooke was appointed Deputy Chief Executive on 30 November 2015.

(iii) Harvey Bradshaw was appointed Executive Director of Environment and Business on 1 April 2016.

(iv) Ed Mitchell left the Environment Agency on 7 March 2016.

(v) Mark McLaughlin was appointed as Chief Finance Officer for Defra on 1 October 2015, on a secondment basis.

(vi) John Curtin was appointed Executive Director of Flood and Coastal Erosion Risk Management on 1 April 2016.

The notice period for Executive Directors is at least 3 months.

Board members' remunerations (audited)

Table 4: 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)	Latest time commitment (days per month)	Remuneration in 2015 to 2016 (£)	Remuneration in 2014 to 2015 (£)
Ms Emma Howard Boyd (Acting Chair) (i,ii)	ARAC, PC, FCRM, RC	1 Jul 2015	4	2-3 per week	40,116	19,987
Sir Philip Dilley (Former Chairman) (iii)		8 Sept 2014	3	2-3 per week	83,333	56,301
The Rt Hon Lord Smith of Finsbury (Former Chairman) (iv)		14 Jul 2011	3	3 per week	-	39,654
Councillor Robert Light (Former Deputy Chair) (v)		1 Jul 2012	3	5	6,300	25,201
Mr Peter Ainsworth	FCRM, EB	1 Sept 2015	3	4	16,802	16,802
Ms Karen Burrows (vi)	ARAC, PC, RC, EB	1 Sept 2012	3	7	22,402	21,003
Dr Clive Elphick	ARAC, PC, RC, EB	1 Aug 2014	3	6	25,203	25,203
Professor Lynne Frostick (vii)	FCRM, EB	16 Mar 2015	3	5	18,239	700
Mr Richard Macdonald (acting Deputy Chairman) (viii, ix)	ARAC, RC, FCRM	1 Jun 2013	3	5	20,302	16,802
Mr Richard Leafe (x)		1 Sept 2012	3	4	7,001	16,802
Mr John Varley (xi)	EB	1 Oct 2015	4	3	16,799	21,001
Mr Jeremy Walker (xii)		22 Jun 2012	3	6	5,651	25,203
Ms Gill Weeks (xiii)	EB, PC	8 Sept 2014	3	4	19,252	9,460
Total					**281,400**	**294,119**

Details of the attendance of Board members are provided in Appendix E. Non-executive Board members have no entitlement to performance-related pay. The above figures are total emoluments received and are not shown on a full time equivalent or full year basis.

ARAC – Member of Audit and Risk Assurance Committee at 31 March 2016

RC – Member of Remuneration Committee at 31 March 2016

PC – Member of Pensions Committee at 31 March 2016

FCRM – Member of Flood and Coastal Risk Management Committee at 31 March 2016

EB – Member of Environment and Business Committee 31 March 2016

Notes:

i. Ms Emma Howard Boyd was re-appointed on 1 July 2015 for a further term to conclude on 30 June 2019. She increased her time commitment from 1 day per week to 6 days per month on 1 January 2015. Her whole year equivalent pay for 1 April 2015 to 30 June 2015 was £25,200 (6 days per month). On 1 July 2015 she was appointed as Deputy Chair (6 days per month), and her whole year equivalent pay for this period was £29,399.

ii. Ms Emma Howard Boyd was appointed acting Chair from 1 February 2016. Her whole year equivalent pay was £100,000.

iii. Sir Philip Dilley was Chair from 8 September 2014 until 31 January 2016. His whole year equivalent pay was £100,000.

iv. Rt Hon Lord Smith of Finsbury's term as Chair ended on 8 September 2014. His whole year equivalent pay was £100,000.

v. Robert Light's term ended on 30 June 2015. His whole year equivalent pay was £25,200.

vi. Karen Burrows' time commitment increased from 5 to 7 days per month with effect from 1 February 2016.

vii. Lynne Frostick's time commitment increased from 4 to 5 days per month with effect from 1 February 2016.

viii. Richard Macdonald's time commitment increased to 5 days per month with effect from 1 October 2015. His whole year equivalent pay for 4 days was £16,802; and for 5 days was £21,002.

ix. Richard Macdonald was appointed Acting Deputy Chair from 1 March 2016.

x. Richard Leafe's term ended on 31 August 2015. His whole year equivalent pay was £25,200.

xi. John Varley's time commitment decreased to 3 days per month with effect from 1 October 2015. His whole year equivalent pay for 3 days was £12,597.

xii. Jeremy Walker's term ended on 21 June 2015. His whole year equivalent pay was £25,200.

xiii. Gill Weeks' time commitment increased to 5 days per month with effect from 15 September 2015. Her whole year equivalent pay for 5 days was £21,002.

Executive directors' emoluments (audited)

Table 5: 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 the nearest £1000)		Total (£000 banded range)	
	2015 to 2016	2014 to 2015	2015 to 2016	2014 to 2015	2015 to 2016	2014 to 2015	2015 to 2016	2014 to 2015
Sir James Bevan (i)	60-65	-	-	-	11,000	-	70-75	-
Dr Paul Leinster (ii)	95-100	195-200	100	2,800	-	-	95-100	200-205
Mr David Rooke (iii)	145-150	150-155	3,700	3,700	26,000	238,000	175-180	395-400
Dr Toby Willison (iv)	140-145	-	3,200	-	215,000	-	360-365	-
Mr David Jordan (v)	-	160-165	-	2,900	-	-	-	165-170
Ms Miranda Kavanagh	140-145	140-145	4,600	4,000	46,000	45,000	190-195	190-195
Dr Mark McLaughlin (vi)	70-75	145-150	1,600	2,700	21,000	46,000	95-100	195-200
Mr Harvey Bradshaw (vii)	55-60	-	-	-	28,000	-	85-90	-
Mr Ed Mitchell (viii)	130-135	135-140	-	-	46,000	34,000	175-180	170-175
Mr Jonathan Robinson	140-145	140-145	-	-	65,000	80,000	205-210	220-225
Mr John Curtin (ix)	55-60	-	1,200	-	71,000	-	130-135	-

Note: Total emoluments include gross salaries. On a voluntary basis by executive directors, no payments were received for performance-related pay for the 2015 to 2016 financial year.

i. Sir James Bevan became Chief Executive on 30 November 2015. Sir James Bevan is an employee of the Foreign and Commonwealth Office (FCO) who is seconded to the Environment Agency. The amounts shown above are the amounts reimbursed to the FCO, exclusive of VAT which is recoverable by the Environment Agency. His whole year equivalent would be between £180,000 - £185,000. The pension benefits disclosed above represent the reimbursement of the contributions the Environment Agency makes to the FCO in respect of Sir James Bevan's pension in the Principal Civil Service Pension Scheme. All other executive directors were members of the Environment Agency pension fund.

ii. Dr Paul Leinster left the Environment Agency on 30 September 2015. His whole year equivalent value was between £195,000 - £200,000

iii. David Rooke was appointed Deputy Chief Executive on 30 November 2015. He held the position of Acting Chief Executive for the period 1 October 2015 to 29 November 2015.

iv. Toby Willison was appointed Executive Director on 1 April 2015. This increased the level of his pensionable pay and resulted in an increase in his accrued pension of between £10,000 - £12,500, as disclosed in table 6. The pension benefit of £215,000 reported in table 5 is calculated using standard pension disclosure assumptions with the principal assumption that an increase in pension liability is approximately 20 times an increase in accrued pension.

v. David Jordan left the Environment Agency on 31 March 2015.

vi. Dr Mark McLaughlin was appointed the Chief Finance Officer for Defra on 1 October 2015. He remained an employee of the Environment Agency, and was seconded to Defra at no cost. He ceased to conduct the duties of Executive Director of Finance for the Environment Agency on that date. These duties were transferred to the Director of Finance, who is not an executive director. His whole year equivalent was between £145,000 - £150,000.

vii. Harvey Bradshaw was appointed Acting Executive Director of Environment and Business on 26 September 2015. He was appointed permanently on 1 April 2016. His whole year equivalent was between £115,000 - £120,000.

viii. Ed Mitchell left the Environment Agency on 7 March 2016.

ix. John Curtin was appointed Acting Executive Director of Flood and Coastal Erosion Risk Management on 19 September 2015. He was appointed permanently on 1 April 2016. His whole year equivalent was between £115,000 - £120,000.

Table 6: Pension benefits of executive directors during the last 2 financial years (audited)

Executive director	Accrued pension at 31 March 2016 (£5,000 range)	Increase in accrued pension during year (£2,500 range)	Accrued lump sum at 31 March 2016 (£5,000 range)	Increase in lump sum during year (£2,500 range)	CETV at 31 March 2015 (£000s)	CETV at 31 March 2016 (£000s)	Real increase in CETV (£000s)
Sir James Bevan (i)	–	–	–	–	–	–	–
Dr Paul Leinster (ii)	–	–	–	–	–	–	–
Mr David Jordan (iii)	–	–	–	–	–	–	–
Ms Miranda Kavanagh	15-20	2.5-5.0	-	-	214	269	28
Dr Mark McLaughlin (iv)	85-90	2.5-5.0	-	-	1,120	1,201	25
Mr Ed Mitchell	30-35	2.5-5.0	40-45	0.0-2.5	369	406	16
Mr Jonathan Robinson	60-65	2.5-5.0	-	-	683	763	30
Mr David Rooke	75-80	0.0-2.5	175-180	-	1,699	1,726	21
Dr Toby Willison	50-55	10-12.5	95-100	15-17.5	640	837	149
Mr Harvey Bradshaw	40-55	0.0-2.5	85-90	0.0-2.5	728	782	16
Mr John Curtin	35-40	2.5-5.0	60-65	2.5-5.0	452	514	43

The Environment Agency remunerates its employees in line with standard public sector pay and pension policies. The accrued pension at 31 March 2016 represents the annual pension that individuals would be entitled to at their normal retirement date in the event they left employment with the Environment Agency on 31 March 2016.

CETV - cash equivalent transfer value. This is the amount an individual's pension would represent if transferred to a private pension scheme. 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).

i. Sir James Bevan is on secondment from the FCO since 30 November 2015. He is a member of the Principal Civil Service Pension Scheme.

ii. Dr Paul Leinster retired from the Environment Agency on 30 September 2015. He 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. His CETV value at the time of opting out was £1,498,000.

iii. David Jordan opted out of the pension scheme on 31 March 2012. His CETV value at the time of opting out was £1,664,000.

iv. Dr Mark McLaughlin left his Executive Director role at the Environment Agency on 30 September 2015 but remains an employee and therefore a member of the Environment Agency's Active Fund pension scheme.

Staff report

Staff numbers

Table 7: Average number of full time equivalent staff employed during the year

			2015 to 2016			2014 to 2015
	Permanent	Temporary	Total	Permanent	Temporary	Total
Directly employed	9,593	116	**9,709**	9,760	151	**9,911**
Contractors	-	574	**574**	-	446	**446**
Total	**9,593**	**690**	**10,283**	**9,760**	**597**	**10,357**

The number of staff employed on capital projects was 1,218 (1,072 in 2014 to 2015).

In March 2016, the Environment Agency employed 122 executive managers (equivalent to senior civil servant grades). The breakdown of these by level is shown in table 8.

Table 8: Executive manager breakdown on 31 March 2016

	Headcount
Chief Executive	1
Executive directors	7
Directors	24
Deputy directors	90
Total	**122**

All of the above are Environment Agency employees, with the exception of the Chief Executive, who is on secondment from FCO. Mark McLaughlin is on secondment to Defra and is included as an executive director in table 8.

Gender

We monitor the gender split of our workforce and have included the current numbers in table 9. This year we have seen a slight improvement in the balance of men and women at each grade. We recognise there is more we need to do to improve this further.

Table 9: Gender split on 31 March 2016

Headcount	Male	Female
Chief Executive	1	-
Executive directors	6	1
Executive managers	74	40
All other staff	5,861	4,266
Total	**5,942**	**4,307**

Disability

This was the fourth year of our 2012 to 2016 equality, diversity and inclusion action plan, which is our response to the Equality Act's Public Sector Equality Duty. During 2015 to 2016 we achieved 86% in the Business Disability Forum's Disability Standard rankings. This equated to a silver level of recognition, the highest rating of any public sector organisation who undertook the Disability Standard during the year. The external assessment highlighted our good investment in disabled employee networks and strong consultation with disabled user-led organisations. We were also praised for our rigorous use of equality analysis and structured, documented and evidence-based disability-related action planning which produced successful results in a number of areas.

We have continued to champion the career development, career progression and retention of our disabled employees and carry out reviews to make sure we do not discriminate against our employees. We continue to make sure we make reasonable adjustments for employees with a disability or impairment and have this financial year introduced a confidential employee passport for these employees, which they can present to new line managers to ensure they continue to receive the adjustments and actions they need. In addition, our guaranteed interview scheme means that if an external or internal candidate declares that they have a disability or impairment and they meet the minimum criteria for the job, they will be offered an interview.

Employment of consultants and contractors

The nature of our work means we require the expertise of temporary workers as well as those we employ directly. Table 10 shows how much we've spent on temporary workers and consultants over the past 2 years.

Table 10: Expenditure on temporary workforce

	2015 to 2016	2014 to 2015
	£ million	£ million
Consultancy	9.2	12.5
Temporary workers and contractors	15.1	13.8
Total	**24.3**	**26.3**

Sickness absence data

We monitor staff sickness absences and have policies in place to minimise them. An average of 7 days per full time equivalent employee was lost to sickness absence during this financial year. This is the same as last year.

Tax arrangements of public sector appointees

We are obliged to provide information about appointments of consultants or staff that last longer than 6 months and earn more than £220 per day, where we pay by invoice rather than through the payroll.

We only use these arrangements where we cannot avoid them and minimise their use. We include contractual clauses in the appointment documents to enable us to receive assurance that the individual or their employer is managing their tax and national insurance affairs appropriately.

Table 11: Off-payroll appointments at 31 March 2016, for more than £220 per day and that last longer than 6 months

Length of appointment at 31 March 2016	Number of appointments
Less than 1 year	53
1 to 2 years	28
2 to 3 years	5
3 to 4 years	9
4 years or more	23
Total	**118**

During this financial year, we made 59 new off-payroll appointments lasting more than 6 months. All of these included contractual clauses giving us the right to request assurance for income tax and National Insurance obligations, and for all of these we have requested and received such assurance.

The majority of new appointments arose as a result of a major IT programme, Unity, which aims to integrate the Defra group's core IT services, including ours. This is because some IT contractors will only work in this way.

There were 21 Board members or senior officials with significant financial responsibility over the organisation during the financial year 2015 to 2016. We did not pay any of them via off-payroll arrangements.

Reporting of compensation schemes (audited)

There may be occasions when external or internal changes have an impact on our staffing requirements. In these situations, we will utilise our Voluntary Early Release Scheme to avoid compulsory redundancies wherever possible. Our scheme supports business needs and fits in with our overall human resources strategy.

Redundancy and other departure costs are paid in accordance with our 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. A summary of exit costs in the past 2 financial years is shown in tables 12 and 13.

Table 12: Exit packages for the financial year 2015 to 2016 (audited)

Category	Compulsory redundancy	Other departures*	Total	Compulsory redundancy	Other departures	Total
	Number	Number	Number	£ million	£ million	£ million
Under £10,000	1	7	8	-	0.1	0.1
£10,000 - £25,000	2	10	12	-	0.2	0.2
£25,001 - £50,000	1	28	29	-	1.1	1.1
£50,001 - £100,000	-	13	13	-	0.9	0.9
£100,001 - £150,000	-	2	2	-	0.2	0.2
Total	4	60	64	-	2.5	2.5

* **O**ther departure costs would include those on voluntary early release schemes and early, flexible and ill health retirements**.**

Table 13: Exit packages for the financial year 2014 to 2015 (audited)

Category	Compulsory redundancy	Other departures*	Total	Compulsory redundancy	Other departures	Total
	Number	Number	Number	£ million	£ million	£ million
Under £10,000	3	7	10	-	0.1	0.1
£10,000 - £25,000	2	24	26	-	0.4	0.4
£25,001 - £50,000	1	24	25	-	0.8	0.8
£50,001 - £100,000	-	31	31	-	2.2	2.2
£100,001 - £150,000	-	6	6	-	0.7	0.7
Over £150,000	1	2	3	0.2	0.4	0.6
Total	7	94	101	0.2	4.6	4.8

Where we have agreed to a colleague taking early retirement, any additional costs have been paid by us rather than the Environment Agency Pension Fund. Ill-health retirement costs are covered 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 and staff report.

Pay multiples (audited)

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 cash equivalent transfer value of pensions.

The banded remuneration of the highest paid executive director, as disclosed in the Remuneration and staff report, for the financial year 2015 to 2016 was £195,000 - £200,000 (financial year 2014 to 2015, £200,000 - £205,000). This was 6 times (financial year 2014 to 2015, 6.6 times) the median remuneration of the workforce, which was £32,810 (financial year 2014 to 2015, £30,640).

Parliamentary accountability and audit report

Analysis of fees and charges

Table 15 relates to income from fees and charges 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 of the financial statements. 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 11 and 13 of the financial statements.

Expenditure funded by grant-in-aid has been excluded from the table below, 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.

Table 14: fees and charges income (audited)

Type of charge	Expenditure (£ million)	Income billed (£ million)	Deficit or (surplus) (£ million)
Abstraction charges	120.5	(120.4)	**0.1**
Navigation licences	9.2	(8.3)	**0.9**
Fishing licences	21.6	(21.1)	**0.5**
EPR water quality	58.3	(57.0)	**1.3**
EPR installations	30.9	(31.7)	**(0.7)**
EPR waste	27.8	(29.4)	**(1.6)**
Hazardous waste	15.1	(17.5)	**(2.5)**
Emissions trading and CRC Energy Efficiency Scheme	6.8	(6.6)	**0.1**
Nuclear regulation	14.5	(13.4)	**1.2**
Other environmental protection charges	15.1	(14.9)	**0.2**
Total 2015 to 2016	**319.9**	**(320.5)**	**(0.6)**
Total 2014 to 2015	**312.7**	**(317.4)**	**(4.7)**

Losses and special payments (audited)

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.

Table 15: Losses and special payments by category

	2015 to 2016		2014 to 2015	
Category or type of loss	Number	£ million	Number	£ million
Write-off of irrecoverable debts	2,663	5.1	1,740	4.0
Loss of assets	145	0.2	171	0.1
Other (cash losses, fruitless payments, unenforceable claims, special payments or gifts)	432	0.6	437	3.9
Total	**3,240**	**5.9**	**2,348**	**8.0**

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

Losses individually over £300,000

This financial year, there was 1 loss and special payment in excess of £300,000 (in the financial year 2014 to 2015 there were 3 losses or special payments over £300,000).

An invoice of £324,000 was raised to recover costs of cleaning up a pollution incident. This was raised against a party but courts ruled that they were not liable and no other liable party could be identified so therefore the invoice had to be written off.

J.D. Bevan

Sir James Bevan, Accounting Officer

11 July 2016

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 Environment Agency for the year ended 31 March 2016 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 and Staff Report that is described in that report as having been audited and the Parliamentary Accountability disclosures.

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 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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. 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 2016 and of the net expenditure for the year then ended; and
- the financial statements have been properly prepared in accordance with the Secretary of State directions made under the Environment Act 1995.

Opinion on other matters

In my opinion:

- the parts of the Remuneration and Staff Report and the Parliamentary Accountability disclosures to be audited have been properly prepared in accordance with Secretary of State directions made under the Environment Act 1995; and

- the information given in the Foreword, Performance Report, Accountability 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 parts of the Remuneration and Staff Report and Parliamentary Accountability disclosures 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 13 July 2016

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 period ended 31 March 2016		2015 to 2016	2014 to 2015
	Note	£ million	£ million
Expenditure			
Staff costs	3	435.1	411.3
Capital works expensed in year	4	241.0	281.1
Depreciation and amortisation	7,8	108.4	102.8
Other expenditure	5	438.4	499.3
		1,222.9	**1,294.5**
Income			
Income from activities	6	(391.0)	(387.9)
Capital grants and contributions	6	(31.4)	(21.8)
		(422.4)	**(409.7)**
Net expenditure	2.1	**800.5**	**884.8**
Gain or (loss) on disposal of assets		1.2	(0.3)
Net interest on pension scheme assets and liabilities	15.3	23.1	19.8
Net expenditure after interest		**824.8**	**904.3**
Other comprehensive expenditure			
Remeasurements recognised on pension scheme assets and obligations	15.3	(299.1)	221.2
Net (gain) on revaluation and impairment of property, plant and equipment	7,9	(195.6)	(109.1)
Net (gain) on revaluation of intangible assets	8,9	(1.2)	(2.3)
Total comprehensive net expenditure for the period		**328.9**	**1,014.1**

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

The notes on pages 60 to 86 form part of these accounts.

Statement of financial position

As at 31 March 2016		31 March 2016		31 March 2015	
	Note	£ million	£ million	£ million	£ million
Non-current assets					
Tangible assets	7	2,795.8		2,616.7	
Intangible assets	8	104.9		117.0	
Total non-current assets			**2,900.7**		**2,733.7**
Current assets					
Assets held for sale		8.9		9.7	
Trade and other receivables	10	100.2		93.4	
Cash and cash equivalents	11	115.6		105.9	
Total current assets			**224.7**		**209.0**
Total assets			**3,125.4**		**2,942.7**
Current liabilities					
Trade and other payables	12	(299.8)		(286.2)	
Total current liabilities			**(299.8)**		**(286.2)**
Total assets less current liabilities			**2,825.6**		**2,656.5**
Non-current liabilities					
Trade and other payables	12	(1.6)		(1.5)	
Provisions		(9.4)		(9.5)	
Deferred capital grants		(0.2)		(0.1)	
Pension liabilities	15.3	(459.5)		(707.3)	
Financial liabilities	16.1	(141.6)		(141.6)	
Total non-current liabilities			**(612.3)**		**(860.0)**
Assets less liabilities			**2,213.3**		**1,796.5**
Taxpayers' equity					
Revaluation reserve		1,833.8		1,686.2	
General reserve		839.0		817.6	
Pensions reserve		(459.5)		(707.3)	
Total taxpayers' equity			**2,213.3**		**1,796.5**

The notes on pages 60 to 86 form part of these accounts. The financial statements on pages 56 to 59 were approved by the Board on 22 June 2016 and signed on its behalf by:

J.D. Bevan

James Bevan (Accounting Officer) 11 July 2016

Statement of cash flows

For the period ended 31 March 2016		2015 to 2016		2014 to 2015	
	Note	£ million	£ million	£ million	£ million
Cash flows from operating activities					
Net expenditure after interest		(824.8)		(904.3)	
Depreciation and amortisation	7,8	108.4		102.8	
Impairment of non-current assets	9	10.6		8.8	
Amortisation of grants received		-		(1.1)	
Loss or (gain) on disposal of assets		1.2		(0.1)	
(Increase) or decrease in trade and other receivables	10	(6.8)		16.9	
Increase or (decrease) in trade and other payables	12	13.7		(19.4)	
(Decrease) or increase in provisions		(0.1)		0.8	
Pension adjustment	13.1	51.3		33.4	
Non-cash recharges		1.7		-	
Net cash outflow from operating activities			**(644.8)**		**(762.2)**
Cash flows from investing activities					
Purchase of property, plant and equipment	7	(76.4)		(83.7)	
Purchase of intangible assets	8	(13.9)		(11.8)	
Proceeds of disposal of property, plant and equipment		0.8		1.6	
Net cash outflow from investing activities			**(89.5)**		**(93.9)**
Cash flows from financing activities					
Grant from sponsoring body		744.0		890.0	
Net cash inflow from financing activities			**744.0**		**890.0**
Net increase in cash and cash equivalents in the year	11		**9.7**		**33.9**
Cash and cash equivalents at the beginning of the year	11		105.9		72.0
Cash and cash equivalents at the end of the year	11		**115.6**		**105.9**

The notes on pages 60 to 86 form part of these accounts.

Statement of changes in taxpayers' equity

For the period ended 31 March 2016		Revaluation reserve	General reserve	Pension reserve	Total
	Note	£ million	£ million	£ million	£ million
Balance at 1 April 2014		**1,624.9**	**748.4**	**(452.7)**	**1,920.6**
Net gain on revaluation of property, plant and equipment	7,9	109.1	–	–	**109.1**
Net gain on revaluation of intangible assets	8,9	2.3	–	–	**2.3**
Remeasurements recognised on pension scheme assets and obligations	15.3	–	–	(221.2)	**(221.2)**
Transfers between reserves	13	(50.1)	83.5	(33.4)	**–**
Net expenditure after interest		–	(904.3)	–	**(904.3)**
Grant from sponsoring body	17	–	890.0	–	**890.0**
Balance at 1 April 2015		**1,686.2**	**817.6**	**(707.3)**	**1,796.5**
Net gain on revaluation of property, plant and equipment	7,9	195.6	-	-	**195.6**
Net gain on revaluation of intangible assets	8,9	1.2	-	-	**1.2**
Non-cash recharges		-	1.7	-	**1.7**
Remeasurements recognised on pension scheme assets and obligations	15.3	-	-	299.1	**299.1**
Transfers between reserves	13	(49.2)	100.5	(51.3)	**-**
Net expenditure after interest		-	(824.8)	-	**(824.8)**
Grant from sponsoring body	17	-	744.0	-	**744.0**
Balance at 31 March 2016		**1,833.8**	**839.0**	**(459.5)**	**2,213.3**

The notes on pages 60 to 86 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.

Notes to the financial statements

1.1. Statement of accounting policies

The financial statements have been prepared in accordance with the 2015 to 2016 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 notes 5 and 9) 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 note 1.9).

Please note that the actual future income, expenditure, assets and liabilities may differ from these estimates which are 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 than 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 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 also 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 risk management 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. Where they are considered not to break even within 3 years, the Environment Agency has taken appropriate action.

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 non-water companies. Since the introduction of the Water Act 2014, balances are being refunded to water companies and in future only balances associated with non-water companies will be held. Charges are only raised where compensation has been assessed as likely to be paid in the future.

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, in line with the requirements of IAS 37.

1.13. Financial instruments

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 Price 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. For example the average rate over the 25 years from 1989 was 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 Environment Agency administers 8 internal drainage districts (IDDs). 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.

IDB income and expenditure

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)	0.2	**0.1**	**-**
South West Sussex	(0.1)	0.1	**-**	**(0.1)**
Pevensey Levels	(0.4)	0.4	**-**	**-**
River Cuckmere	-	-	**-**	**-**
River Ouse	(0.2)	0.2	**-**	**-**
East of Gravesend	(0.1)	-	**(0.1)**	**(0.1)**
Total 2015 to 2016	**(1.0)**	**1.0**	**-**	**(0.2)**
Total 2014 to 2015	**(1.0)**	**1.0**	**-**	**-**

The Environment Agency continues to administer a number of IDDs whilst continuing to progress the transfer of responsibilities to local hands. The first IDD abolition took place in July 2015 following agreement with landowners and district councils. The remainder are expected to be either transferred to new IDDs or to be abolished within the 2016 to 2017 financial year.

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.

IFRS impacts

IFRSs not yet effective	Environment Agency impact
IFRS 15 - Revenue from Contracts with Customers (IAS 18 Revenue replacement) Not yet EU adopted, estimated effective from 1 January 2018 and FReM 1 April 2018	The core principle in IFRS 15 recognises revenue in a way that reflects the amount to which the entity expects to be entitled to. The introduction of IFRS 15 is subject to analysis and review by HM Treasury. HM Treasury will be issuing an Exposure Draft on IFRS 15 over the summer of 2016. The Environment Agency will consider the adoption when it is included in the FReM.
IFRS 9 - Financial Instruments (IAS 39 Financial Instruments: Recognition and Measurement Replacement) Not yet EU adopted, estimated effective from 1 January 2018 and FReM 1 April 2018	The objective of the IFRS 9 is to provide users with more useful information about an entity's expected credit losses at all times The introduction of IFRS 9 is subject to analysis and review by HM Treasury. HM Treasury will be issuing an Exposure Draft on IFRS 9 over the summer of 2016. The Environment Agency will consider the adoption when it is included in the FReM.
IFRS 16 - Leases (IAS 17 replacement) Not yet EU adopted, estimated effective from 1 January 2019 and FReM 1 April 2019	IFRS 16 will be considered by HM Treasury with the expectation that it will be applied when IFRS 16 is introduced. Any adaptations or interpretations in the FReM will follow due process and HM Treasury will issue an Exposure Draft on IFRS 16 in advance of the effective date. The Environment Agency will consider the consultation and adoption when it is included in 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 known 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.

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 single individual customer to undertake its activities.

Expenditure by segment

Statement of comprehensive net expenditure line	FCERM	E&B charges	E&B grant-in-aid	Total 2015 to 2016	Total 2014 to 2015
	£ million	£ million	£ million	£ million	£ million
Staff costs	165.3	189.0	80.8	435.1	411.3
Capital works expensed in year	238.4	1.9	0.7	241.0	281.1
Depreciation and amortisation	72.9	16.8	18.7	108.4	102.8
Other expenditure	272.1	119.0	47.3	438.4	499.3
Gross expenditure	748.7	326.7	147.5	1,222.9	1,294.5
Income	(74.9)	(319.0)	(28.5)	(422.4)	(409.7)
Net expenditure	**673.8**	**7.7**	**119.0**	**800.5**	**884.8**

3. Staff costs

	2015 to 2016	2014 to 2015
	£ million	£ million
Wages and salaries	331.0	313.2
Social security costs	28.4	26.3
Normal contributions to the Active Pension Fund	43.6	40.1
Total Environment Agency-employed staff costs	**403.0**	**379.6**
Employment agency staff wages and salaries	8.1	7.1
Other staff-related costs	12.2	19.4
Exit package costs	2.5	4.8
Special contributions towards past service deficit in Active Pension Fund	14.0	14.0
Less amounts already included within the IAS 19 pension charge	(58.2)	(59.7)
Pension service cost (note 15.3)	87.0	74.2
Less amounts charged to capital projects	(33.8)	(28.4)
Amounts payable to Board members	0.3	0.3
Total staff costs	**435.1**	**411.3**

See note 15 for details of the Environment Agency's pension arrangements. See the Remuneration and staff report for details of the remuneration of Board members and executive directors.

4. Capital works expensed in year

	2015 to 2016	2014 to 2015
Type of capital works	£ million	£ million
Beach recharges	14.7	10.3
Culverts and channel improvements	18.4	19.4
Embankments	42.2	78.8
Flood risk management strategies	46.9	6.6
Flood mapping	2.2	34.7
Piling	2.6	1.8
Restoration and refurbishment	74.8	75.3
Rock groynes and sea walls	14.9	29.9
Other	24.3	24.3
Total	**241.0**	**281.1**

The above analysis includes £8.5 million (£8.5 million in 2014 to 2015) 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	2015 to 2016	2014 to 2015
	£ million	£ million
Grants awarded to local councils and IDBs	123.1	151.0
Outsourced IT costs	56.1	60.7
Hired and contracted services	50.2	58.2
Reservoir operating agreements (note 5.2 and 16.1)	21.2	21.2
Fees and commissions	21.7	20.4
Transport and plant	17.5	16.0
Utilities	16.8	16.2
Operating leases - plant and machinery	15.2	17.2
Travel and subsistence	14.7	14.7
Building costs	15.0	14.1
Impairment of non-current assets (note 9)	10.6	8.8
Grants and contributions	10.4	14.9
Operating leases - other	7.9	9.7
Consumables and materials	7.2	8.5
Information technology	8.4	15.8
Maintenance	5.0	7.7
Training	6.6	5.6
Administration	2.1	2.5
Environmental improvement unit charges compensation payments	0.6	2.7
Contaminated land grants	-	0.6
External auditor's remuneration (note 5.1)	0.2	0.2
Other	23.9	28.9
Bad debts written off	0.5	7.3
Increase or (decrease) in provision for bad and doubtful debts	3.5	(3.6)
Total	**438.4**	**499.3**

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 compensate licence holders for revocation of abstraction licences due to excessive water abstraction from one location.

5.1. Auditor's remuneration

The external auditor's remuneration is the audit fee for the statutory audit of £170,000 (2014 to 2015 fees, £175,000). 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. See note 16.1.

6. Income

Type of income	FCERM	E&B charges	E&B other	Total 2015 to 2016	Total 2014 to 2015
	£ million	£ million	£ million	£ million	£ million
Abstraction charges	-	(119.6)	-	**(119.6)**	(116.1)
Navigation licences	-	(8.3)	-	**(8.3)**	(8.2)
Fishing licences	-	(21.1)	-	**(21.1)**	(21.2)
Environmental Permitting Regulations (EPR) water quality	-	(58.3)	-	**(58.3)**	(54.3)
EPR installations	-	(30.8)	-	**(30.8)**	(25.3)
EPR waste	-	(27.5)	-	**(27.5)**	(27.7)
Hazardous waste	-	(15.0)	-	**(15.0)**	(15.6)
Emissions trading and Carbon Reduction Commitment Energy Efficiency Scheme	-	(6.8)	-	**(6.8)**	(6.8)
Nuclear regulation	-	(14.5)	-	**(14.5)**	(14.3)
Other environmental protection charges	-	(15.3)	-	**(15.3)**	(13.3)
Total income from fees and charges	**-**	**(317.2)**	**-**	**(317.2)**	**(302.8)**
Flood risk levies	(22.6)	-	-	**(22.6)**	(28.1)
IDB precepts	(7.6)	-	-	**(7.6)**	(8.1)
Environmental improvement unit charges	-	(0.4)	-	**(0.4)**	(0.5)
EU grants	-	-	-	**-**	(2.0)
Other grants	(0.1)	(0.1)	(2.7)	**(2.9)**	(4.7)
Other income	(13.2)	(1.3)	(25.8)	**(40.3)**	(41.7)
Income from activities	**(43.5)**	**(319.0)**	**(28.5)**	**(391.0)**	**(387.9)**
Grants for capital works expensed in year	(31.4)	-	-	**(31.4)**	(20.8)
Deferred grants released	-	-	-	**-**	(1.0)
Capital grants and contributions	(31.4)	-	-	**(31.4)**	**(21.8)**
Total income	**(74.9)**	**(319.0)**	**(28.5)**	**(422.4)**	**(409.7)**

7. Tangible assets

Tangible assets at 31 March 2016

	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 2015	**3,963.4**	**41.1**	**26.6**	**59.8**	**479.3**	**37.4**	**67.9**	**62.1**	**95.9**	**4,833.5**
Capital expenditure	-	.-	-	-	6.4	11.4	2.4	0.5	55.7	**76.4**
Assets commissioned	24.7	1.6	-	-	-	-	-	-	(26.3)	**-**
Disposals	-	(0.6)	(0.5)	(1.0)	(0.3)	(0.2)	-	-	-	**(2.6)**
Reclassified as held for sale	1.0	(0.7)	-	0.5	-	-	-	-	-	**0.8**
Revaluation and indexation	255.6	(2.2)	(0.7)	(4.9)	7.3	0.8	1.2	1.0	-	**258.1**
Impairment	(4.9)	(1.0)	(0.6)	(0.7)	-	-	-	-	(1.2)	**(8.4)**
At 31 March 2016	**4,239.8**	**38.2**	**24.8**	**53.7**	**492.7**	**49.4**	**71.5**	**63.6**	**124.1**	**5,157.8**
Depreciation										
At 1 April 2015	**1,732.9**	**-**	**3.6**	**7.0**	**375.4**	**26.4**	**35.3**	**36.2**	**-**	**2,216.8**
Provided during the year	55.5	-	0.6	2.0	11.4	4.3	5.3	4.1	-	**83.2**
Disposals	-	-	(0.1)	(0.3)	(0.3)	-	-	-	-	**(0.7)**
Revaluation and indexation	43.2	-	0.1	1.8	6.4	0.4	0.6	0.6	-	**53.1**
Impairment	0.8	-	-	-	9.1	-	-	(0.3)	-	**9.6**
At 31 March 2016	**1,832.4**	**-**	**4.2**	**10.5**	**402.0**	**31.1**	**41.2**	**40.6**	**-**	**2,362.0**
Net book value at 31 March 2016	**2,407.4**	**38.2**	**20.6**	**43.2**	**90.7**	**18.3**	**30.3**	**23.0**	**124.1**	**2,795.8**

Tangible assets at 31 March 2015

	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 2014	**3,729.3**	**35.1**	**23.6**	**47.8**	**456.7**	**35.9**	**58.7**	**45.1**	**137.2**	**4,569.4**
Capital expenditure	–	–	–	2.8	12.0	1.5	7.8	8.3	51.3	**83.7**
Assets commissioned	87.0	–	–	–	–	–	–	–	(87.0)	**–**
Disposals	(1.1)	(0.2)	–	–	(1.5)	(0.9)	–	–	–	**(3.7)**
Reclassified as held for sale	(5.9)	1.3	–	2.0	–	–	–	–	–	**(2.6)**
Revaluation and indexation	154.5	4.7	3.0	6.8	12.0	0.9	1.7	1.6	–	**185.2**
Impairment	(0.4)	0.2	–	0.4	0.1	–	(0.3)	–	(5.6)	**(5.6)**
Reclassification	–	–	–	–	–	–	–	7.1	–	**7.1**
At 31 March 2015	**3,963.4**	**41.1**	**26.6**	**59.8**	**479.3**	**37.4**	**67.9**	**62.1**	**95.9**	**4,833.5**
Depreciation										
At 1 April 2014	**1,616.9**	**–**	**2.4**	**4.6**	**356.2**	**22.1**	**29.5**	**31.7**	**–**	**2,063.4**
Provided during the year	53.4	–	0.8	1.6	10.9	4.3	4.9	3.6	–	**79.5**
Disposals	(0.3)	–	–	–	(1.2)	(0.7)	–	–	–	**(2.2)**
Revaluation and indexation	60.0	–	0.4	0.8	9.5	0.7	0.9	0.9	–	**73.2**
Impairment	2.9	–	–	–	–	–	–	–	–	**2.9**
At 31 March 2015	**1,732.9**	**–**	**3.6**	**7.0**	**375.4**	**26.4**	**35.3**	**36.2**	**–**	**2,216.8**
Net book value at 31 March 2015	**2,230.5**	**41.1**	**23.0**	**52.8**	**103.9**	**11.0**	**32.6**	**25.9**	**95.9**	**2,616.7**

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 2016 by external independent chartered surveyors, on the basis of open market value for administrative property and existing use for operational land. Intangible assets, plant and machinery, furniture and fittings, and operational assets were revalued internally at 31 March 2016 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 £91.2 million (31 March 2015, £79.9 million) for land that forms an essential element of certain operational assets and has significantly changed its nature as a result. Operational assets include the Thames Barrier which is valued at £1,058.2 million (31 March 2015, £1,061 million) reflecting its depreciated replacement cost.

8. Intangible assets

Intangible assets at 31 March 2016

	Software licences	Websites	Other IT	Assets under construction	Total
Cost or valuation	£ million	£ million	£ million	£ million	£ million
At 1 April 2015	**58.5**	**61.1**	**100.6**	**16.8**	**237.0**
Capital expenditure	-	-	-	13.9	**13.9**
Assets commissioned in year	0.7	0.6	0.8	(2.1)	**-**
Revaluation and indexation	1.0	1.0	1.6	-	**3.6**
At 31 March 2016	**60.2**	**62.7**	**103.0**	**28.6**	**254.5**
Amortisation					
At 1 April 2015	**8.7**	**55.6**	**55.7**	**-**	**120.0**
Provided during the year	8.1	2.2	14.9	-	**25.2**
Revaluation and indexation	0.3	1.0	1.1	-	**2.4**
Impairment	0.1	1.9	-	-	**2.0**
At 31 March 2016	**17.2**	**60.7**	**71.7**	**-**	**149.6**
Net book value at 31 March 2016	**43.0**	**2.0**	**31.3**	**28.6**	**104.9**

Intangible assets at 31 March 2015

	Software licences	Websites	Other IT	Assets under construction	Total
Cost or valuation	£ million	£ million	£ million	£ million	£ million
At 1 April 2014	**26.2**	**58.8**	**70.4**	**74.8**	**230.2**
Capital expenditure	–	–	–	11.8	**11.8**
Assets commissioned in year	30.9	0.8	34.9	(66.6)	**–**
Revaluation and indexation	1.4	1.5	2.5	–	**5.4**
Impairment	–	–	–	(3.2)	**(3.2)**
Reclassification	–	–	(7.2)	–	**(7.2)**
At 31 March 2015	**58.5**	**61.1**	**100.6**	**16.8**	**237.0**
Amortisation					
At 1 April 2014	**3.0**	**51.2**	**39.4**	**–**	**93.6**
Provided during the year	5.4	3.0	14.9	–	**23.3**
Revaluation and indexation	0.3	1.4	1.4	–	**3.1**
At 31 March 2015	**8.7**	**55.6**	**55.7**	**–**	**120.0**
Net book value at 31 March 2015	**49.8**	**5.5**	**44.9**	**16.8**	**117.0**

9. Impairment

	2015 to 2016 £ million	2014 to 2015 £ million
Tangible assets (Note 7.1)	9.4	2.9
Intangible assets	-	–
Total charged to the revaluation reserve	**9.4**	**2.9**
Tangible assets (Note 7.1)	8.6	5.6
Intangible assets (Note 8.1)	2.0	3.2
Total impairment charge to the Statement of comprehensive net expenditure	**10.6**	**8.8**
Total impairment in accordance with the Statement of financial position	**20.0**	**11.7**

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 2016	31 March 2015
	£ million	£ million
Trade receivables	44.8	28.2
Less provision for bad and doubtful debts	(11.0)	(7.5)
Net trade receivables	**33.8**	**20.7**
VAT	24.7	30.8
Employee loans, such as for travel season tickets and the cycle to work scheme	0.6	0.2
Prepayments	12.2	19.3
Abstraction licences accrued income	7.2	6.0
Environment protection accrued income	1.6	4.5
Other accrued income	20.0	11.6
Other receivables	0.1	0.3
Total	**100.2**	**93.4**

11. Cash and cash equivalents

	31 March 2016	31 March 2015
	£ million	£ million
At 1 April	**105.9**	**72.0**
Net change in cash and cash equivalent balances	9.7	33.9
At 31 March	**115.6**	**105.9**

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

12. Trade and other payables

	31 March 2016	31 March 2015
Within 1 year	£ million	£ million
Other taxation and social security	8.5	7.7
Trade payables	13.0	15.7
Trade payables accrual	48.9	25.6
Holiday pay accrual	7.0	6.9
Capital payables	7.6	6.8
Capital payables accrual	50.2	69.9
Flood risk management deferred income	60.0	45.6
Abstraction licences deferred income	11.0	9.9
Environmental improvement unit charge deferred income	20.8	31.3
Environment protection deferred income	7.6	8.4
Customer deposits and receipts in advance	56.6	51.1
Other payables	6.0	5.3
Pension contribution liability	2.6	2.0
	299.8	**286.2**
More than 1 year		
Trade and other payables and accruals	1.6	1.5
Total	**301.4**	**287.7**

13. Transfers between reserves

13.1. For the period ended 31 March 2016

	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	(49.2)	49.2	-	–
Net pension charge	-	51.3	(51.3)	–
Total	**(49.2)**	**100.5**	**(51.3)**	**–**

13.2. For the year ended 31 March 2015

	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	(50.1)	50.1	–	–
Net pension charge	–	33.4	(33.4)	–
Total	**(50.1)**	**83.5**	**(33.4)**	**–**

14. Commitments

14.1. Capital commitments

	31 March 2016	31 March 2015
	£ million	£ million
Contracted for but not provided in the financial statements	52.0	69.9

The amounts above relate to both tangible and intangible fixed assets. Commitments on capital works expensed in year at 31 March 2016 totalled £140.9 million (31 March 2015, £127.3 million).

14.2. Financial commitments

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

Financial commitments

Payments the Environment Agency is committed to	31 March 2016	31 March 2015
	£ million	£ million
Not later than 1 year	58.9	66.9
Later than 1 year and not later than 5 years	14.8	80.5
Later than 5 years	10.9	12.7
Total	**84.6**	**160.1**

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 £13.9 million, £13.7 million and £54.9 million (2015: £12.7 million, £16.8 million and £127.9 million).

14.3. Commitments under leases

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

Committed lease payments

Payments the Environment Agency is committed to	31 March 2016		31 March 2015	
	Land and buildings	Other	Land and buildings	Other
	£ million	£ million	£ million	£ million
Not later than 1 year	8.4	10.0	8.7	11.0
Later than 1 year and not later than 5 years	23.7	10.0	27.1	14.1
Later than 5 years	27.8	-	27.9	–
Total	**59.9**	**20.0**	**63.7**	**25.1**

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 of leases for Environment Agency vehicles.

15. Pension obligations

The Environment Agency operates a defined benefit pension scheme for current and former employees, and transferees from predecessor organisations. We are part of the Local Government Pension Scheme, a statutory scheme primarily governed by the Local Government Pension Scheme Regulations 2013 and the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014. These are subject to amendment over time. During 2015 to 2016, it was contracted out of the State Second Pension. This changed from 6 April 2016 when contracting out ended as part of the introduction of the new State Pension. Further details on the pension fund including its annual report and financial statements, are on the Environment Agency Pension Fund website (www.eapf.org.uk).

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

The total pension charge for the Environment Agency was £87 million for the financial year 2015 to 2016 (£72.1 million £73.5 million in 2014 to 2015). 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 Environment Agency's funding arrangements are to pay 14% of the monthly gross salary of members to the fund each month, and then pay over £14 million as a lump sum against the past service deficit.

The latest triennial actuarial valuation of the EAPF was at 31 March 2013. The assets taken at market value (£2.1 billion) were sufficient to cover 90% of the value of liabilities in respect of past service benefits which had accrued to members. The Environment Agency accepted the independent actuary's recommendation in respect of employer contributions.

The annual report and financial statements for the EAPF estimated that that it had sufficient assets to meet 92% of its expected future liabilities at 31 March 2016 on an ongoing funding basis. The Environment Agency's share of the EAPF's liabilities as reported in these financial statements is calculated using different actuarial assumptions, required by IAS 19, to those used in the EAPF's annual report. This leads to a different funding level to that reported by the EAPF.

The main difference in assumption is the discount rate used to value pension liabilities. The EAPF discount rate is based on long-term UK government bond yields and assumes a level of future asset outperformance by the bonds owned by the EAPF. The discount rate used in these financial statements, as required by IAS 19 is based on high quality corporate bond yields, with no additional asset performance assumption. The real terms discount rate in these financial statements is therefore 1.1% lower than the rate used in the EAPF financial statements. This lower rate results in a higher value being placed on liabilities. The sensitivity analysis in note 15.4 indicates the sensitivity of the fund liabilities to a difference in discount rate.

A number of assumptions are made as part of the actuarial valuation process. The prudent actuarial assumptions used 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 1.9% per annum. The estimated contribution payable by the Environment Agency, excluding any discretionary lump sum payments, for the year to 31 March 2017 will be approximately £46 million.

These financial statements include the disclosure requirements of IAS 19 for 2015 to 2016 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 2016. The assumptions underlying the calculation of a net liability at 31 March 2016 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

	% per annum 31 March 2016	% per annum 31 March 2015
Inflation and pension increase rate	1.9	2.1
Salary increase rate	3.4	3.5
Discount rate	3.5	3.2

Longevity assumptions: average future life expectancy at age 65

Scheme member	31 March 2016		31 March 2015	
	Male (years)	Female (years)	Male (years)	Female (years)
Current pensioners	22.6	24.5	22.6	24.5
Future pensioners (people aged 65 in 20 years)	24.7	27.0	24.7	27.0

15.2. Fair value of assets

Fair value of assets for the year ended 31 March 2016

Asset category	Active market quoted prices	Non-active market quoted prices	Total	% of total
	£ million	£ million	£ million	%
Equity securities				
Common stock	740.7	2.7	743.4	30
Other equity assets	7.5	-	7.5	-
Debt securities:				
UK government bonds	-	240.6	240.6	10
Corporate bonds	-	209.6	209.6	8
Other	-	13.9	13.9	1
Pooled investment vehicles:				
Equities	-	387.5	387.5	16
Bonds	5.7	380.8	386.5	16
Funds - common stock	10.6	81.7	92.3	4
Funds - real estate	3.6	123.4	127.0	5
Partnerships and real estate	-	196.3	196.3	8
Other investment:				
Stapled securities	4.5	-	4.5	-
Derivative contracts:				
Forward FX contracts	-	0.9	0.9	-
Cash and cash equivalents	47.7	6.6	54.3	2
Totals	**820.3**	**1,644.0**	**2,464.3**	**100**

We have won awards in recognition of our responsible investments. See the Directors' report for further details.

Fair value of assets at 31 March 2015

Asset category	Active market quoted prices	Non-active market quoted prices	Total	% of total
	£ million	£ million	£ million	%
Equity securities				
Common stock	766.5	6.0	772.5	32
Other equity assets	3.4	-	3.4	-
Debt securities:				
UK government bonds	-	238.1	238.1	10
Corporate bonds	-	207.4	207.4	9
Other	-	13.4	13.4	-
Pooled investment vehicles:				
Equities	-	598.7	598.7	25
Bonds	10.1	232.5	242.6	10
Funds - common stock	11.0	95.4	106.4	4
Funds - real estate	-	88.6	88.6	4
Funds - venture capital	-	2.3	2.3	-
Partnerships and real estate	-	97.1	97.1	4
Other investment:				
Stapled securities	3.2	-	3.2	-
Derivative contracts:				
Forward FX contracts	-	(1.8)	(1.8)	-
Cash and cash equivalents	-	47.0	47.0	2
Totals	**794.2**	**1,624.7**	**2,418.9**	**100**

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

Year ended 31 March 2016	Fair value of employer assets		Funded defined benefit obligations		Net (liability) or asset	
	£ million	£ million	£ million	£ million	£ million	£ million
Opening position at 1 April 2015		**2,418.9**		**(3,126.2)**		**(707.3)**
Pension benefits accrued by members during the year*	-		(85.6)		(85.6)	
Change in cost of pensions from previous years' service	-		(1.4)		(1.4)	
Total service cost (recognised in net expenditure)		**-**		**(87.0)**		**(87.0)**
Income on scheme assets	77.6		-		77.6	
Interest cost on defined benefit obligation	-		(100.7)		(100.7)	
Total net interest (recognised in net expenditure)		**77.6**		**(100.7)**		**(23.1)**
Employees' contributions	22.1		(22.1)		-	
Employer contributions	58.8				58.8	
Benefits paid	(70.5)		70.5		-	
Total cash flows		**10.4**		**48.4**		**58.8**
Expected closing position		**2,506.9**		**(3,265.5)**		**(758.6)**
Change in financial assumptions	-		317.9		317.9	
Other changes such as inflation rate	-		25.8		25.8	
Return on assets excluding amounts included in net interest	(44.6)		-		(44.6)	
Total remeasurements (recognised in Other comprehensive expenditure)		**(44.6)**		**343.7**		**299.1**
Closing position at 31 March 2016		**2,462.3**		**(2,921.8)**		**(459.5)**

* 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 2015).

The defined benefit obligation comprises approximately £1.8 billion, £329 million and £812 million in respect of employee members, deferred pensioners and pensioners respectively as at 31 March 2016 (£1.9 billion, £375 million and £892 million at 31 March 2015).

Year ended 31 March 2015	Fair value of employer assets		Funded defined benefit obligations		Net (liability) or asset	
	£ million	£ million	£ million	£ million	£ million	£ million
Opening position at 1 April 2014		**2,091.3**		**(2,544.0)**		**(452.7)**
Pension benefits accrued by members during the year*	-		(68.5)		(68.5)	
Change in cost of pensions from previous years' service	-		(5.7)		(5.7)	
Total service cost (recognised in net expenditure)		**-**		**(74.2)**		**(74.2)**
Settlement relating to Natural Resources Wales	(0.7)		0.7		-	
Total pension gain from transfer to Natural Resources Wales (recognised in net expenditure)		**(0.7)**		**0.7**		**-**
Income on scheme assets	90.1		-		90.1	
Interest cost on defined benefit obligation	-		(109.9)		(109.9)	
Total net interest (recognised in net expenditure)		**90.1**		**(109.9)**		**(19.8)**
Employees' contributions	23.3		(23.3)		-	
Employer contributions	60.6		-		60.6	
Benefits paid	(73.7)		73.7		-	
Total cash flows		**10.2**		**50.4**		**60.6**
Expected closing position		**2,190.9**		**(2,677.0)**		**(486.1)**
Change in financial assumptions	-		(463.9)		(463.9)	
Other changes such as inflation rate	-		14.7		14.7	
Return on assets excluding amounts included in net interest	228.0		-		228.0	
Total remeasurements (recognised in Other comprehensive expenditure)		**228.0**		**(449.2)**		**(221.2)**
Closing position at 31 March 2015		**2,418.9**		**(3,126.2)**		**(707.3)**

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

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	12	346
1 year increase in member life expectancy	3	88
0.5% increase in salary increase rate	5	140
0.5% increase in pension increase rate	7	199

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).

Details of the financial liability reported on the Statement of financial position

Counterparty	Amount paid in 2015 to 2016	Amount paid in 2014 to 2015	Liability at 31 March 2016	Liability at 31 March 2015
	£ million	£ million	£ million	£ million
Northumbrian Water	17.2	17.2	129.2	129.2
Severn Trent Water	4.0	4.0	12.4	12.4
Total	**21.2**	**21.2**	**141.6**	**141.6**

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. This has been set at 6%, which is the equivalent HM Treasury 'green book' rate that would have applied at the inception of the agreements.

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. In order to assess the sensitivity of liability to the discount rate, a change of 0.5% would mean a £10.9 million change in the liability.

The Environment Agency does not bear liquidity, credit or interest rate risk on these financial instruments, other than the fact that annual payments are linked to the RPI.

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	2015 to 2016	2014 to 2015
	£ million	£ million
Defra environment protection grant-in-aid	(80.9)	(145.0)
Defra flood defence grant-in-aid	(540.0)	(595.9)
Defra IDB or local authority grant-in-aid	(123.1)	(149.1)
	(744.0)	**(890.0)**

Other related parties

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 and staff report for further information on Board members and executive directors. The Environment Agency has 7 IDBs which are under common control (see note 1.16).

18. 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 authorised for issue date is the date of the Comptroller and Auditor General's audit certificate on pages 54 to 55.

The EU Referendum

On 23 June, the EU referendum took place and the people of the United Kingdom voted to leave the European Union. Until exit negotiations are concluded, the UK remains a full member of the European Union and all the rights and obligations of EU membership remain in force. During this period the Government will continue to negotiate, implement and apply EU legislation. It will be for the Government, under the new Prime Minister to begin negotiations to exit the EU. The outcome of these negotiations will determine what arrangements apply in relation to EU legislation and funding in future once the UK has left the EU. This is therefore a non-adjusting event for which no estimate of its financial effect on the reporting entity can be made.

Appendix A: History of the Environment Agency

(Not subject to audit)

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 year to 31 March 2016, 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.

Appendix B: Sustainability data

(Not subject to audit)

Emissions, energy and business travel	Unit	2013 to 2014	2014 to 2015	2015 to 2016
Direct emissions (Scope 1)	tCO2e	17,000	12,000	7,000
Emissions from purchased energy (Scope 2)	tCO2e	24,000	18,000	23,000
Emissions produced by our suppliers (Scope 3)	tCO2e	64,000	46,000	26,000
Total gross emissions	tCO2e	105,000	76,000	56,000
Carbon intensity (per £ million expenditure)	tCO2e	95	61	49

Business travel	Unit	2013 to 2014	2014 to 2015	2015 to 2016
Car and motorbike	tCO2e	10,640	9,300	8,600
Rail	tCO2e	1,880	1,470	2,230
Air	tCO2e	80	120	151
Total business travel	tCO2e	12,600	10,890	10,980
	£ million[1]	26.6	24.3	20.3
Travel carbon intensity per full time employee	tCO2e	1.1	1.1	1.1

1 - These figures have been restated due to a change in calculation and inclusion of additional data

Non-office waste	Unit	2013 to 2014	2014 to 2015	2015 to 2016
Landfill	tonnes	20,000	10,000	6,000
	£	550,000	740,000	1,570,000
Reused or recycled	tonnes	140,000	200,000	401,000
	£	470,000	640,000	650,000
Total non-office waste	tonnes	160,000	210,000	407,000
	£	1,020,000	1,380,000	2,220,000

Office waste	Unit	2013 to 2014	2014 to 2015	2015 to 2016
Landfill	Tonnes	20	10	5
	£	80,000	60,000	60,000
Reused or recycled	Tonnes	300	310	380
Incinerated to produce energy	Tonnes	100	30	75
Reused, recycled or incinerated	£	240,000	260,000	230,000
Reused or recycled electronic or electrical equipment	Tonnes	40	10	5
Total office waste	Tonnes	460	360	465
	£	320,000	320,000	290,000
Waste intensity per full time employee	kg	41	35	45

Resource consumption	Unit	2013 to 2014	2014 to 2015	2015 to 2016
Purchased gas and purchased renewable electricity	million kWh	59	43	54
	£ million	5.9	4.7	5.3
Self-generated renewable energy	million kWh	0.4	0.4	0.5
Water supplied **(Abstracted)**	Cubic metres	46,000 (21,600,000)	38,954 (28,000,000)	52,000
	£	220	210	210
Steel sheet piles	Tonnes	5,400	6,880	3,530
	£	5,260,000	5,540,000	2,820,000
Stones and aggregates from a primary source	Tonnes	320,000	860,000	593,000
Stones and aggregates from a secondary source (recycled)	Tonnes	910,000	430,000	820,000
Timber from a legal and sustainable source (directly purchased)	£	510,000	440,000	270,000
Timber from a legal and sustainable source (purchased by our suppliers)	Tonnes	590	2,020	1,140
Paper from renewable or recycled sources	Reams	48,000	43,000	37,000
	£	40,000	30,000	10,000

Pension fund investment	Unit	2013 to 2014	2014 to 2015	2015 to 2016
Pension fund assets	£ million	2,306	2,656	2,731
Investments in sustainable and green economy	% of total fund	13	26	28
Carbon footprint	tCO2e per £ million	408	368	321

Appendix C: Performance

(Not subject to audit)

Increasing the resilience of people, property and businesses to the risks of flooding and coastal erosion

Success measure	Units	2015 to 2016 target	2015 to 2016 actual
1a We reduce the risk from flooding for more households	Households protected during Spending Review period	44,000	54,420
1b We maintain our flood and coastal risk management assets at or above the target condition	% of high consequence assets at required condition	97%	96%
1c More households and businesses at high risk of flooding can receive direct warnings	Properties able to receive warnings	984,650	1,072,983

Protecting and improving water, land and biodiversity

Success measure	Units	2015 to 2016 target	2015 to 2016 actual
2a We work with others to improve the quality of surface waters, groundwaters, coastal waters and wetlands new classification methodology used in 2014 so target needs to be re-established	Number of water bodies at good ecological status	No target, new measure	1370
2b The quality of bathing water is getting better	% meeting revised directive standards	94	97%
2c We improve and protect rivers and wetlands damaged by unsustainable abstractions	Number of abstraction licence notifications	59	56
2d i We deliver our commitments to the England Biodiversity Strategy by: Creating new habitat	Hectares created and/or restored	300 ha	575 ha
2d ii We deliver our commitments to the England Biodiversity Strategy by: Restoring sites of special scientific interest (SSSI)	Hectares created and/or restored	622 ha	972 ha
2e There are fewer salmon rivers in the 'at risk' category	Number of salmon rivers 'at risk'	9 or fewer	11
2f We maintain our navigation assets at or above the target condition	% of high consequence assets at required condition	80%	89%

Improving the way we work as a regulator to protect people and the environment and support sustainable growth

Success measure	Units	2015 to 2016 target	2015 to 2016 actual
3a We improve business compliance through supporting legitimate business to comply and by tackling the deliberately non-compliant	Sites in lowest compliance bands (D, E and F) for 2+ years as a % of total permitted sites	218	214
3b We reduce serious and significant pollution incidents	Number of incidents occurring in a rolling 12 months to the end of the quarter	Baseline	485
3c We reduce the administrative costs of regulation to businesses	£ savings at Q4 milestones Q1 to Q3	£20 million	£32 million
3d We reduce the overall risk presented by illegal waste sites, targeting our efforts on the highest risk sites	Number of high risk illegal waste sites	206	275

Working together and with others to create better places

Success measure	Units	2015 to 2016 target	2015 to 2016 actual
4a We respond to planning application consultations and pre-application enquiries within 21 days	% responded to within target time	95%	92%
4b We contribute to the delivery of priority development sites	% of planned actions delivered	80%	95%

Ensuring that we are fit for the future

Success measure	Units	2015 to 2016 target	2015 to 2016 actual
5a We reduce our carbon footprint	CO2 emissions (tonnes)	39,738	38,460
5b i We have a diverse workforce: Proportion of staff who are of Black, Asian and Minority Ethnic (BAME) origin	% of staff	3.7%	3.8%
5b ii We have a diverse workforce: Proportion of executive managers who are female	% of female executive managers	33%	34%
5c i We provide a safe place to work: Lost time incident (LTI) frequency rate	LTIs per 100,000 hours worked	0.16	0.16
5c ii We provide a safe place to work: Health and safety actions implemented in target time	% of actions completed	95%	97%

Appendix D: Corporate natural capital accounts

(Not subject to audit)

Natural capital is the term we use to describe parts of the natural environment that produce value for society, for example, water, air and trees. It gives us a way to value natural benefits such as outdoor recreation and food production as well as flood mitigation and improved air and water quality.

The Natural Capital Committee is an independent advisory committee that advises the government on how to use natural capital sustainably. The committee and its partners have established a framework to help organisations measure and value the natural capital that they own and are responsible for. This is called natural capital accounting.

Natural capital accounting is a core component of future Defra plans, and it is hoped will become established practice in both the public and private sectors. Thus far a very small number of organisations have reported on their natural capital values.

Using this framework, and drawing on research funded by Defra, we have produced a natural capital account for most of the land area we own. This is included in the table on page 93. This form of reporting will help us monitor and track changes each year, and will help us to identify ways to improve and maintain our assets.

Our natural capital accounts include the results from detailed analysis we carried out on the Steart peninsula, which is a newly created salt marsh in the Severn Estuary. We do not currently have accurate information available for our other land assets, so we have calculated a value based on an approximate average natural capital value of a number of land type categories. From this, we can estimate the future benefits and maintenance costs of these assets over the next 100 years in today's money and derive a net valuation.

We have published a range of values for each metric rather than a single number as we believe this is most appropriate based on the metrics and approach we have used. The amounts presented are likely to understate the full natural capital value of our land assets because our valuation is based on the largest 200 land assets that represent approximately 75% of the area that we own. This is because some of the smaller assets are more difficult to analyse and therefore it is harder to produce a reliable valuation for them.

We are working with other members of the Defra group to improve the range and accuracy of the metrics available, sharing data and expertise.

We have not included all natural capital benefits, focusing instead on 4 metrics – carbon storage, air quality, agriculture and recreation. We have used an additional metric for the Steart peninsula project: properties protected from flooding. We aim to increase the number of metrics we use each year (including flood prevention and biodiversity, for example) so that we can gain a more accurate valuation. In doing this and through refining the metrics we currently use, we expect our valuations to increase. So that we can compare figures from year to year accurately, we will use any new metric or metrics to recalculate the figures for previous years.

Our valuation for the Steart site is between £15 million and £28 million of our overall natural capital account value. If we were to be able to do a detailed natural capital value analysis on all our major land assets we would expect that the overall value for the organisation as a whole would increase substantially from the amounts shown in the table below.

Renewables	Baseline (2013 to 2014)[1]		Cumulative gains / (losses)[5]		Additions / (disposals)[6]		Reporting year (2015 to 2016)	
	Lower £ million	Upper £ million	Lower £ million	Upper £ million	Lower £ million	Upper £ million	Lower £ million	Upper £ million
Carbon storage	40.5	151.1	1.0	4.0	0.7	2.3	42.2	157.4
Air quality[2]	1.6	4.1	-	-	-	0.1	1.6	4.2
Agriculture[3]	2.8	7.6	(1.3)	(2.4)	-	0.2	1.5	5.4
Recreation	2.2	5.0	10.5	15.9	-	-	12.7	20.9
Properties protected from flooding[4]	5.2	5.2	(0.1)	(0.1)	-	-	5.1	5.1
Gross natural capital	52.3	173.0	10.1	17.4	0.7	2.6	63.1	193.0
Total maintenance provisions	(29.0)	(29.0)	(4.0)	(4.0)	(0.3)	(0.3)	(33.3)	(33.3)
Total net natural capital	23.3	144.0	6.1	13.4	0.4	2.3	29.8	159.7

Notes to the tables

1 – 2013 to 2014 was selected as the baseline as it was during the following year that work on the Steart peninsula was completed.

2 – Air quality figures only include numbers for the absorption of particulate matter of 10 micrometres or smaller.

3 – Figures for agriculture include livestock and crop production by others on land that we own.

4 – Figures for properties protected from flooding and recreation are only based on numbers from our Steart peninsula case study.

5 – The cumulative gains / (losses) only reflect changes as a result of the habitat creation at Steart peninsula.

6 – Land purchased or sold between the financial years 2013 to 2014 and 2015 to 2016.

Appendix E: Board member attendance

(Not subject to audit)

Member	Board meeting	ARAC	PC	FCRM	E&B	RC
	(10 meetings)	(5 meetings)	(5 meetings)	(5 meetings)	(5 meetings)	(5 meetings)
Sir Philip Dilley (Chairman from 8 Sept 2014)	8 of 8			3 of 5		5 of 5
Emma Howard-Boyd (Acting Chair from Jan 2016)	9 of 10	5 of 5	5 of 5	3 of 5		3 of 4
Robert Light (term ended on 30 Jun 2015)	3 of 3		1 of 1		2 of 2	1 of 1
Jeremy Walker (term ended 21 Jun 2015)	4 of 4			1 of 1	0 of 1	1 of 1
John Varley	9 of 10		1 of 3		0 of 5	2 of 3
Clive Elphick	10 of 10	5 of 5	5 of 5		3 of 5	1 of 1
Peter Ainsworth	9 of 10			4 of 5	3 of 5	
Karen Burrows	10 of 10	5 of 5	2 of 2		5 of 5	5 of 5
Richard Leafe (term ended 31 Aug 2015)	4 of 4	1 of 2				
Richard Macdonald	7 of 10	4 of 5		5 of 5	0 of 3	2 of 4
Ms Gill Weeks	10 of 10		3 of 5		5 of 5	
Professor Lynne Frostick	9 of 10			3 of 5	4 of 5	

ARAC – Member of Audit and Risk Assurance Committee

RC – Member of Remuneration Committee

PC – Member of Pensions Committee

FCRM – Member of Flood and Coastal Risk Management Committee

EB – Member of Environment and Business Committee

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