Annual report and accounts for the financial year 2014 to 2015

Environment Agency

Annual Report and Accounts for the financial year 2014 to 2015

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

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

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

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

Foreword

2014 to 2015 was a year of change for the Environment Agency. Although we were spared the extreme weather events of the previous winter, the year was challenging for us in other ways. We completed a major change programme, moving to a national and area structure and saving £10 million per year. Our workforce has reduced and we've made significant changes to our support services. We are on a journey and there is more work to do, but I'm confident we are on the right track.

The way we work is also changing. More of our work is being done in collaboration with others and partnering with a wide range of public and private stakeholders will be key to our success. I am also keen that we look at how we can work with other infrastructure providers to see what opportunities there could be to pool resources. But the most important thing is to continue to focus on our customers and, where we can, improve their experience by working more closely with other agencies and public bodies. I have heard a lot of excellent feedback from stakeholders about how the Environment Agency works with its customers now, and how much that has improved over the past few years. We will continue to build on this.

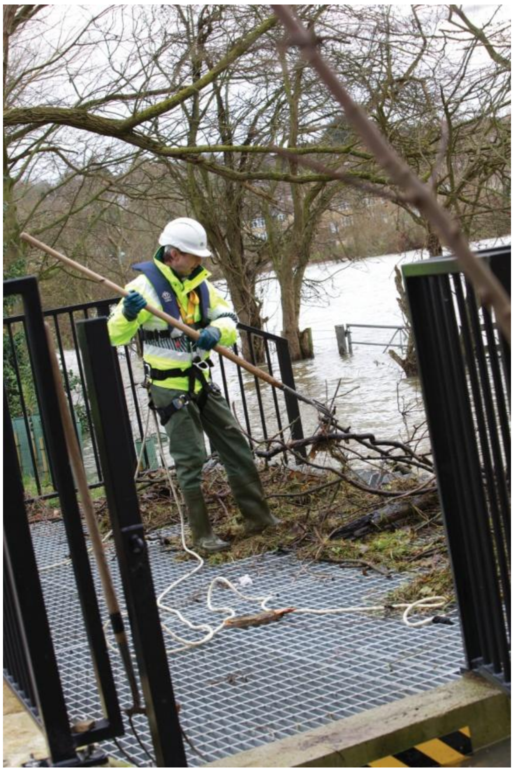
Since I joined the Environment Agency last September I have visited many of our offices around the country to meet our people, partners and stakeholders. As well as giving me a fantastic insight into how work is carried out on the ground, I have been struck by the professional, enthusiastic and passionate individuals and teams that I've met, covering a huge range of skills and doing impressive things. One of the things I have been emphasising to our people is that they should be very proud of their achievements.

Flood protection

One such achievement is our work on the extensive flood repairs following last winter's floods. The combination of the wettest winter in England and Wales in 250 years, as well as the most severe tidal surge since 1953, caused significant damage to flood and coastal risk management assets. In February and March last year, the government provided an additional £270 million to help deliver the necessary repairs. By the end of October 2014, with the help of many partners, we had restored protection for more than 200,000 households affected by the storms and flooding.

Somerset was badly affected. We've made excellent progress on our work with the local communities to help them recover from last year's floods and prepare for future events. We received £10 million from the government to help implement the county's 20-year plan for the Levels and Moors. We dredged an 8km stretch of the Parrett and Tone rivers, completing the work on schedule by the end of October 2014. Alongside local partners and councils, our role in the new Somerset Rivers Authority will help them better maintain these waterways in the future.

I very much welcomed the government's announcement in December of a 6-year investment commitment for our capital flood risk project work. This certainty will enable us to plan ahead in a way that we couldn't before. We are in a better position to award contracts that will lead to greater efficiencies and cost savings. We can also give more certainty to communities by letting them know what flood risk management schemes they can expect and when. At the end of the 6 years we are planning to be better protecting a further 300,000 households.



Operations staff installing a demountable defence and carrying out river maintenance in Oxford

Regulation

In our regulatory activities our priority has been on high risk sites and poor performing operators to reduce the risks and improve their performance. We have also made real progress on minimising unnecessary burdens on businesses. Our work to address poor performing waste sites and illegal waste activity in particular has had a high profile. Despite only 4% of waste sites being poor performers, these sites can have a significant impact on local communities and the local environment. Waste fires have been a prominent public issue this year. Whilst there were no more fires in 2014 than in previous years, there have been some very high profile ones that have caused a great nuisance to local residents. We are actively looking at what we can do to reduce the risk of waste fires through voluntary actions by operators and regulatory measures.

We are making good progress on closing down illegal waste sites and we have reduced the overall number of active illegal waste sites from a high point of over 1,000 at the end of March 2012 to under 600 at the end of March 2015. We've been given over £9 million for the period April 2014 to March 2016 to further improve our approach to waste crime and poor performing waste sites. We are also working with the Department for Environment, Food and Rural Affairs (Defra) to modify and strengthen our powers so that we are better able to ensure these sites improve and to address illegal sites more quickly.

Investigating a high priority site in Liverpool

Onshore oil and gas

Another high profile activity for us this year has been our work in regulating onshore oil and gas exploration. We continue to take the environmental risks linked to onshore oil and gas exploration and production, including those associated with fracking for shale gas, very seriously and we are committed to ensuring that people and the environment are protected where it takes place. I am confident that this can be achieved, providing the companies operate in accordance with their permit conditions. We will carry out the necessary regulatory checks to ensure they comply. In January we issued our first 2 permits for fracking in Lancashire. We consult with the public on our response to permit applications and on the draft permits we are proposing, and engage locally with MPs, councils and communities to keep them informed. We have been allocated an extra £1.5 million from the government to help with this engagement work in the coming year.

Habitat creation

In 2014 to 2015 we created a record 1,869 hectares of new priority habitat, 643 hectares of which were created as an integral part of our work to reduce flood risk. Other significant benefits from this habitat creation included increased carbon storage, improved water quality, health and wellbeing benefits for local communities, and enhanced biodiversity. None of this work could have been delivered without the support of our key partners, including Natural England and Forestry Commission, who continue to work hard with us to align Countryside Stewardship and forestry funding with our own projects on the ground.

Water quality

2014 saw the best ever bathing water quality results with 414 of the 416 bathing waters meeting mandatory standards. Although we don't anticipate any deterioration of those waters, the criteria have been made tougher through European Union legislation so we'll have to work even harder with our partners and stakeholders if these standards are to be met in the future. In addition, we know that the weather can have a marked impact on water quality.

In October 2014 we launched a consultation on our proposed updates to England's river basin management plans. These set out measures to improve the water in rivers, lakes, estuaries, coasts and in groundwater. The consultation, which ran until April 2015, contains the main issues for the water environment and information on what needs to be done to address these issues. The consultation responses are helping us shape the final plans which we will be submitting to the Secretary of State and ministers for their agreement and sign off.

To inform Ofwat's latest price review (PR14), we produced a National Environment Programme based on a ministerial statement setting out the actions that water companies must do to comply with their environmental obligations. As a result, water companies will be investing £3.3 billion on protecting and improving the water environment across England over the next 6 years.

Sampling bathing water in Devon

The future

Over the next year there will undoubtedly continue to be pressures on our budgets and we will work closely with Defra on the government's priorities. I am clear we must continue to find innovative and better ways to maximise the outcomes we deliver for people and the environment with the available funding across all areas of our work. The Environment Agency has skilled and enthusiastic members of staff who I know will continue to rise to the challenge of protecting and improving the environment for people and wildlife.

Sir Philip Dilley

Chairman

23 June 2015

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Strategic report

About the Environment Agency

The Environment Agency is the leading public body for protecting and improving the environment in England. Our vision is to create a better place for people and wildlife. We have 3 main business areas:

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

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

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

On 31 March 2015 we had around 10,235 full time equivalent employees. Our annual gross expenditure for the financial year ending 31 March 2015 was £1.3 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

Last year we launched a new corporate plan for 2014 to 2016, responding to environmental challenges and in line with new government priorities. The plan ensures that our organisation is fit for the future. It recognises how important it is that we continue to work with our partners to create better local environments that improve people's lives and support sustainable growth. The plan sets out our priorities for the next year, reflecting our expected funding position to the end of March 2016, and it also recognises longer-term objectives.

The plan is 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).

About the strategic report

This strategic report outlines our performance against our priorities for the financial year from 1 April 2014 to 31 March 2015 (referred to throughout as '2014 to 2015'). It gives examples of how we are achieving our aims in a sustainable way and highlights important events from the year. The data supporting our sustainability performance is reported in appendix B.

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

This section details what we have done in 2014 to 2015 to address the following aims of our corporate plan:

- target resources to reduce the risk of flooding to communities with the highest flood risk
- help develop and encourage a better understanding of flood and coastal erosion risk
- ensure that investments in flood and coastal risk management provide economic and environmental benefits wherever possible
- reduce the consequences of flooding and coastal erosion

Target resources to reduce the risk of flooding to communities with the highest flood risk

Corporate target 1a

We improve protection from flooding for more households – Green

We have reduced the risk of flooding and coastal erosion for 177,300 households since the start of the Spending Review in 2010 against a target of 165,000.

Corporate target 1b

We maintain flood and coastal risk management assets at or above the required condition – Green

This year, 96.6% of flood and coastal risk management assets were at or above the required condition which is on target.

Performance against Spending Review 2010 targets

The government's Spending Review presented in 2010 outlined the spending budgets for each government department up to 2014 to 2015.

Our objectives for the Spending Review 2010 period were to:

- reduce the risk of flooding and coastal erosion to at least 165,000 households
- achieve efficiency savings of 15% (£65.96 million)
- ensure at least 97% of Environment Agency maintained assets were in target condition
- extend our flood warning coverage to at least 66% coverage in high risk areas
- create 400 hectares of intertidal habitat

By the end of the Spending Review 2010 period we had:

- reduced the risk of flooding and coastal erosion to 177,300 households

- achieved £71.18 million of efficiency savings
- maintained 96.6% of Environment Agency assets at their target condition
- ensured that 54.7% of properties at highest flood risk in England receive direct flood warnings
- created 506 hectares of intertidal habitat

Play our part in building, maintaining and improving flood risk and coastal erosion management infrastructure and systems, working in partnership with communities at risk

In 2014 to 2015, we completed construction on 111 flood and coastal risk management schemes, helping to reduce flood risk to around 33,000 households.

In 2014, we also won some major awards for flood and coastal risk management schemes completed in 2013 to 2014. The Medmerry Managed Realignment Scheme in West Sussex, which includes 4 miles of new sea walls to reduce flood risk for hundreds of local properties, won 'The Prime Minister's Better Public Building Award' and 'Civil Engineering Project of the Year' in the 2014 British Construction Industry Awards. This was the only UK project to win 2 awards. The 'Outstanding Contribution Award' went to the Godmanchester flood risk management scheme in Cambridgeshire. The scheme protects 556 properties and consists of 1.5km of engineered defences made from earth embankments, sheet piles and masonry-clad reinforced concrete walls. It also includes 2 new pumping stations.

Recovery from the winter floods of 2013 to 2014

Many of England's flood and coastal risk management assets, including sea walls, embankments and natural features such as shingle banks, were damaged during the winter storms and floods of 2013 to 2014. We trained 200 military personnel to carry out asset inspections and they inspected 150,000 assets in just 6 weeks. We identified 890 urgent repair projects costing £135 million. Of these, 844 projects involved the repair of a flood risk management asset and 46 projects involved surveys, studies or actions relating to incident response.

The government announced funding for these repairs in February and March 2014. With the help of local councils, internal drainage boards and our supply chain, by October 2014 we had restored all of the assets that were damaged during the winter storms to pre-winter 2013 to 2014 standards on a permanent or temporary basis. This programme of repairs has helped restore flood protection to over 200,000 households. By the end of March 2015, 883 of the 890 projects were completed. The remaining 7 projects will be completed by March 2016.

Action plan for Somerset

In Somerset, we have supported local organisations in developing their 20-year plan for the short, medium and long term future of the Levels and Moors. We received £10 million from the government to begin to implement our actions in this plan. The first action, to dredge an 8km stretch of the Rivers Parrett and Tone near Burrowbridge, began in March 2014 and was successfully completed by the end of October 2014.

Manage tidal flood risk to London

The Thames Estuary 2100 Plan shows how tidal flood risk in London and the Thames Estuary can be managed up to the end of the century. We have completed the procurement of the first 10-year asset management programme. The plan will reduce the risk of flooding in an area where 1.25 million people across Kent, Essex and London are at risk. This includes £200 billion of property, UK government buildings, major infrastructure and businesses.

Mitigating flood risk in Hensall, Yorkshire

Following negotiations with UK Coal, Defra, Department of Energy and Climate Change and Her Majesty's Treasury, we were successful in securing £5 million from UK Coal to mitigate the impact of their mining operations on our flood risk management assets protecting Hensall and Gowdall.

We have been flexible in our approach, providing UK Coal with a temporary solution to meet their programme, which will be followed by a permanent scheme. The temporary works have now been completed and we are now designing and forecasting costs for the permanent solution – an earth embankment which will be the new flood risk management scheme when subsidence of the old defences occurs.

Carry out a programme of capital investment to protect more properties and, where possible, support economic growth and environmental improvements. We will aim to provide increased protection for at least 300,000 households between 2015 to 2016 and 2020 to 2021

Flood and coastal erosion risk management investment programme 2015 to 2021

The government has committed to investing £2.3 billion to reduce the risks of flooding and coastal erosion between 2015 to 2021. In December 2014, we published the largest and most ambitious programme of flood and coastal erosion improvements ever to be undertaken in England. This includes over 1,400 projects which will reduce the flood and coastal erosion risk to at least 300,000 households across the country by 2021.

Assess the long-term investment needs of flood and coastal risk management

In December 2014, we published our long-term investment scenarios, presenting a new analysis of the costs and benefits of flood and coastal erosion risk management in England. The study shows the effect of different levels of investment over the next 50 years to get the most cost effective reduction in risk. The study builds on and extends earlier studies, including Foresight Future Flooding from 2004 and the original long-term investment strategy from 2009. It supports a national discussion about future investment needs to manage flood risk in the long term.

Help develop and encourage a better understanding of flood and coastal risk

Improve evidence, information, and mapping and modelling tools to understand better the risks of flooding and coastal erosion and to support better decisions and coastal resilience

Develop flood risk management plans

We are currently developing flood risk management plans (FRMPs) for each river basin district in England. Working with other risk management authorities, we will highlight the hazards and risks within each area of flooding from rivers, the sea, surface water, groundwater and reservoirs. The FRMPs must be produced and published by December 2015.

The plans incorporate the results of many other strategic plans including catchment flood management plans, shoreline management plans, surface water management plans, and local strategies. They will provide a comprehensive document to help us and our partners address flood and coastal risks. Risk management authorities and the public will also be able to see how flood risk from all sources will be managed in their areas.

During this year we published and consulted with partners, stakeholders and communities on our draft FRMPs. We received over 400 responses to the consultation and the plans were welcomed by most people. We will use the consultation feedback to inform our final plans, which will be published in December 2015.

Improve how we communicate flood risk

Fewer than 10% of people who live in a flood risk area believe that their property is at risk. Only half of those who receive a flood warning take effective action. This prompted research into a new approach to communicating flood risk, co-funded by the Department of Business, Innovation and Skills' Sciencewise Expert Resource Centre and the Flood and Coastal Erosion Risk Management Research and Development Programme.

We talked with 100 members of the public about how they access, use and find meaning in our flood risk information. We discovered that people do not find flood risk information helpful when it focuses on likelihood, for example, '1 in 100', or '1% chance' of flooding. People want to know how a flood will affect their house and what they can do about it.

We are working with national and local partners including the Met Office, Defra, Cabinet Office and the Department for Communities and Local Government to look at updating our communications to explain flood risk in a way that is easier for people to understand.

Make flood and coastal risk information more accessible, taking account of social and technological change and opportunities, such as the increasingly widespread use of social media

New Floodline number

Following Ofcom guidance that non-geographic numbers should begin with '03', we have changed our main Floodline number from an 0845 to an 0345 number. The project involved updating all our external communications materials and websites, as well as our flood warning systems, with the new number. We also had to make technical changes to our Floodline Warnings Direct system. Our old 0845 number still works and customers can continue to use it if they prefer, however, the 0345 number is now used by up to two-thirds of our customers.

Ensure that investments in flood and coastal risk management provide economic and environmental benefits

Carry out an integrated programme of work to create new habitats and provide other environmental benefits that contribute to Water Framework Directive improvements, to England Biodiversity Strategy outcomes for priority habitat creation and the restoration of Sites of Special Scientific Interest (SSSI), and to meet EU Eel Regulation objectives

Create and restore habitats

Integral to our flood risk management works, in 2014 to 2015 we created 643.5 hectares of priority habitat. As part of this we made improvements to around 132 hectares of Sites of Special Scientific Interest. Along with internal drainage boards, we improved eel and fish migration by removing barriers to their passage on 171 flood and coastal erosion risk management structures. We improved 65km of rivers in special areas of conservation, for example, by constructing a fish pass at Kings Weir, dealing with floating pennywort (an invasive weed) at Pevensey in East Sussex and renaturalising the channel on the River Gowan in Cumbria. We also took action to restore the Little Ouse on the border of Norfolk and Suffolk, the River Derwent in Cumbria, the River Wensum in Norfolk and the River Mease which flows through Leicestershire, Derbyshire and Staffordshire.

Play our part in the implementation of the Flood and Water Management Act 2010

In September 2014, we published our third annual national flood and coastal erosion risk management report, as required under Section 18 of the Flood and Water Management Act 2010.

The report reflects on the successes and challenges of flood and coastal erosion risk management during the period 1 April 2013 to 31 March 2014. It reports on progress in implementing the national flood and erosion risk management strategy for England. It includes contributions from a range of sources, including flood and coastal erosion risk management authorities.

Work with natural processes to reduce flood risk

Measures such as land management and moving coastal defences further inland offer a more sustainable way to reduce flood risks in certain locations. These measures can also achieve many additional benefits, such as reduced soil erosion and sedimentation of lakes and rivers, carbon capture and storage, improved water quality, and enhanced biodiversity.

We have made significant progress over the last few years in using natural measures to reduce flood risk. One example is the 'Slow the Flow' project in Pickering, North Yorkshire where we worked with partners on a number of land management solutions. Flood risk management schemes such as the Medmerry Realignment Scheme in West Sussex where new sea walls were built up to 2km inland, meant that we could let the waters in to a contained area. Both schemes have reduced flood risk whilst also enhancing the local environment.

There is still a way to go before such measures to reduce flood risk are commonplace but we are confident the programme we have in place will help us progress in this area.

Work with local government to support better management of risk through the planning system to help ensure sustainable development and to reduce associated risk through location and innovative design. Work with and encourage communities to take action themselves, for example by forming flood support and action groups, sharing advice, carrying out training and producing practical guidance

We continue to advise local planning authorities, other risk management authorities and developers to avoid inappropriate development in flood risk areas in their strategic and local planning and development plans.

In 2014 to 2015, 97.6% of the residential units within planning decisions where we had been consulted were either amended in line with our flood risk advice to enable appropriate development, or refused on flood risk grounds.

Build relationships with communities at risk of flooding

We work with communities at risk of flooding to help them take action to reduce their risks. We continue to work with a large network of flood volunteers who fulfil a wide range of roles at a local level, including operating and maintaining local flood structures. We also work with community-based flood wardens throughout England who engage and support their communities at times of flooding. Their role is to help to raise awareness of flood risks, pass on flood warnings, and help people prepare and recover from flooding.

Community flood defence scheme in Waldringfield, Suffolk

The community-led Waldringfield Flood Defence Group took action after their homes and businesses were damaged by the December 2013 tidal surge. Determined to protect themselves from future flooding, they set out to find funding for a new flood risk management scheme in Waldringfield. The group gained support and funding from us, their local council, and government. They raised a total of £900,000, including money from the Big Lottery Coastal Community Fund.

This money has enabled us to work with Waldringfield residents and businesses to introduce an innovative new flood risk management scheme. We have created schemes made from sheet piling, concrete walls and flood risk management gates. The gates are kept open to allow access to the footpath but will be closed when flooding is forecast. The scheme will be completed in September 2015 and we are confident it will protect homes and businesses from a similar future flooding event.

Support and enable action by others to undertake maintenance, including channel conveyance, in line with good practice

Between October 2013 and March 2015 we ran 9 pilot studies with local authorities, internal drainage boards and local communities to help them maintain rivers. The studies made it easier for landowners to remove silt from main rivers and gave farmers, communities and environmental groups a greater opportunity to be involved in river maintenance. We are also developing Public Sector Co-operation Agreements to enable internal drainage boards and local councils to work with us to maintain rivers. Around 50 agreements are now either in place or being finalised across England for river maintenance works.

Expand our advice and guidance

We have updated our range of guidance for flood and coastal erosion risk practitioners. This includes new advice on the design, construction and maintenance of levees, guidance on managing vegetation, and information on when and how to carry out channel management for flood risk and land drainage. We've also made it easier for professionals and the public to access the detailed data and guidance they need to calculate their own flood risks, so they can easily see the economic damages of floods and the benefits of investing in reducing flood risk.

Help landowners to maintain and improve watercourses

We have been trialling a scheme to make it easier for land owners to maintain and improve watercourses at Bottesford Beck in Scunthorpe. The scheme has reduced the amount of unnecessary bureaucracy involved in maintenance work such as weeding and de-silting. This has meant the owners of the beck, the local council and farmers have been able to weed and de-silt a 3km stretch of the beck. This work has greatly reduced water levels and the risk of flooding, and improved the Water Framework Directive status of the beck. Since starting the scheme, we've had positive feedback from members of the local community and council. The Bottesford Beck Improvement Group will continue to monitor the scheme and report on its progress.

Reduce the consequences of flooding and coastal erosion

Corporate target 1c

More households and businesses at high risk of flooding can receive direct warnings – Red

At the end of March 2015, 953,019 (54.7%) of households and businesses at high risk of flooding can receive our direct flood warnings, against a target of 1,150,427 (66%).

Maintain an effective and resilient capability to respond to flood emergencies

Warn and inform

The number of homes and businesses we can directly warn has been declining as people have switched from having home landlines to only using mobile phones. We extended our programme of pre-registering phone numbers for flood warnings to users of the largest mobile phone service provider. This means flood warnings can continue to reach over 1.1 million homes and businesses in England. We will extend this service to all mobile phone users in future years if this pilot is successful.

Resilient flood risk systems

One of the ways we make sure our critical flood risk systems are resilient is by basing our systems and services in multiple locations. For example, if we have increased demand for our Floodline service, we are able to react quickly and use other call centres to meet the demand.

We have designed our systems so that, if we need to, we can update information manually at a number of stages in the flood warning process. This means we can continue to provide our services during power failures, data corruption, network faults and system errors.

Future improvements in flood incident management

Following a review of our flood risk systems in 2013 to 2014 we have started a series of projects of work to improve our flood forecasting and warning services for customers and reduce our costs. The projects will help us establish more efficient and effective IT systems, helping us to reduce our operating costs by over £1.5 million per year as a result.

Improve our flood forecasting, monitoring and warning capability to support better incident management response and to help others act promptly to reduce risk

Develop solutions to flooding

We continue to provide a cutting-edge flood detection and forecasting service in partnership with the Met Office. This service uses technical and scientific evidence to forecast severe weather and its impacts.

This year we have built on our international reputation for high quality flood forecasting systems and services. We have changed the configuration of our system so that it is now more stable and performs even better.

Support local authorities with local flood resilience and resistance measures

Improve our flood research

We have developed 2 research frameworks for our flood and coastal erosion risk management work. The first identifies research projects that will help flood risk management authorities work with nature to deliver sustainable flood risk management. The second identifies research priorities for communities that are at risk from surface water and groundwater flooding. We will carry out these projects with other organisations including research councils, Defra, UK Water Industry Research and the Construction Industry Research and Information Association.

Work with our partners to promote the 'Flood Identity' to increase the reach of information about flood risk and the actions that people can take to protect themselves from flooding

Flood action campaign

In November 2014, we carried out a nationwide flood action campaign to raise awareness of flooding and encourage people to prepare. We worked with 4 national partners to support the campaign. Our staff held display stands in 18 ASDA and Marks & Spencer stores and spoke with around 2,000 staff and customers about flood risk. We also held a presentation at Network Rail's head office to speak with staff about flood risk.

We worked with the AA to issue a joint media release and social media messages about the dangers of driving through flood water. The joint release was covered in 182 media items with an estimated reach of over 25.4 million people.

We developed an online campaign pack to help national and local partners get involved and over 1,000 people used these materials.

The campaign resulted in 1,971 people checking our flood maps, 453 people making personal flood plans and 929 new people signing up for flood warnings.14,982 people visited our campaign page.

Protecting and improving water, land and biodiversity

This section details what we have done in 2014 to 2015 to address the following aims of our corporate plan:

- protect and improve waters so that they are clean and healthy
- make sure there is enough water for people, agriculture, business and the environment
- promote more sustainable and integrated management of land and water
- enhance biodiversity in the water environment and ensure sustainable management of fish stocks
- promote opportunities for people to enjoy water and wetlands through angling and navigation

Protect and improve waters so that they are clean and healthy

Corporate target 2b

The quality of bathing waters is getting better – Green

94% of bathing waters meeting revised Bathing Water Directive standards

Protect all water bodies and improve others where possible including those that are specifically designated for protecting wildlife, bathing, abstraction for water supply, and fish and shellfish production

Improve bathing water quality

Bathing water quality is the best it has ever been, with 99.5% of England's bathing waters meeting the Bathing Water Directive last year. We expect 94% compliance with the revised, more stringent directive when it is fully introduced later this year.

Many factors have contributed towards this figure:

- Our influence in securing £2.2 billion of investment from the water industry to improve sewage discharges.
- A reduction in pollution from urban run-off (for example, surface water drains washing pollutants into the sea) and misconnections (when foul drainage which should connect to foul sewer is connected to surface water drains). We achieved these reductions by working with local councils and water companies to improve drainage systems and correct misconnections. We also provided the public with information on how to deal with misconnections.
- A reduction in pollution from agricultural run-off. Water draining from rural areas can carry animal wastes, fertilisers and pesticides, and sediment. We are continuing to advise and work with farmers to minimise these pollution risks.
- The effects of having the hottest year on record with the driest September since 1910. Rainfall washes pollution into the sea, so in years of low rainfall, bathing waters are less polluted. Sunlight kills bacteria, so when it is sunnier, bacteria in the water are killed off more quickly.
- Provision of more information on short-term pollution. We now provide forecasts to warn councils when heavy rainfall is expected in their bathing water area. Such a forecast means

there may be a temporary reduction in bathing water quality. If the council displays the appropriate warning at their bathing water, samples taken during these warnings may be disregarded from our compliance assessment. We've made these forecasts available at all 151 sites where this was feasible in 2014. We've also made our forecasts and bathing water information available to the public at beaches and on the internet.

Introduce better standards and tools

We have developed new standards and tools to improve the way we assess the ecological status of surface waters. These help target actions to protect and improve fresh waters and are being introduced for the second cycle of River Basin Management Plans. They include new standards for some metals, phosphorous in rivers and better biological assessment tools. As part of this, we have developed a Metal Bioavailability Assessment Tool (M-BAT) that focuses on the toxic form of metals and so provides a better assessment of their risk to wildlife. The tool helps us to target our actions on waters where there is a risk from metals, for example arising from discharges from contaminated land or mine waters.

Work with partners on water issues

The Joint Water Evidence Group was formed in 2011 to bring together evidence teams from Defra, the Environment Agency, Natural England and the Forestry Commission to deal with water issues of common concern. The group has recently produced an evidence review of the possible implications of climate change on water quality. The review confirmed that this important aspect of climate change is relatively under-researched. There is sufficient evidence to indicate significant implications, especially for eutrophication of surface waters in England. The findings have been shared with relevant UK research councils who acknowledged the need to develop and co-ordinate future research.

Improving water quality at Down Brook

We have worked with the Coal Authority to fulfil our 15 year ambition to reduce the iron levels in Down Brook, a mine water in Merseyside. Coal mining activities can cause significant pollution to water bodies and it can take a long time to improve them.

High iron levels can cause a bright orange discolouration of a watercourse. Affected watercourses can also be harmful to aquatic invertebrate species such as Blackfly by limiting their ability to feed. This can have negative implications further up the food chain, affecting fisheries and causing the water body to lose some of its economic value.

When we started work at Down Brook, the iron levels were 4.75mg/litre, well above the 1mg/litre environmental quality standard. Through our use of settlement and reed bed filtration techniques the iron level is now approximately 0.3mg/litre, significantly lower than the environmental quality standard for the first time in 70 years.

Reducing water pollution from abandoned metal mines

We have also been working with the Coal Authority to investigate and build sustainable treatment schemes to clean up pollution from abandoned metal mines. Metals leaching from these old mines cause significant problems, polluting over 1,700km of rivers in England. The programme, which is funded by Defra, means we can help clean up the highest priority discharges and this will help meet Water Framework Directive targets. This year the first 2 treatment schemes were switched on and both are working well. Both will need to be in place for many years as the mine water will continue to discharge indefinitely.

The first scheme is at Force Crag Mine in Cumbria, which pollutes at least 10km of river and

Bassenthwaite Lake, a special area of conservation and a Site of Special Scientific Interest (SSSI). Working with the Coal Authority, the National Trust and Newcastle University, we have been treating some of the mine water flow using a compost-based system – the first time this technology has been has been used on a large scale in the UK. This is already making a significant difference to the water quality of the river by removing over 95% of the zinc and 90% of the cadmium and lead from the mine water. The economic benefits of this scheme are estimated to be worth up to £4.9m over 25 years, at a cost of around £1.5 million.

We developed and built the second scheme, at Saltburn Gill in Cleveland, in partnership with the Coal Authority and the local Saltburn Gill Action Group. Here the water from an old ironstone mine severely pollutes a stream and discolours one of the most popular surfing and bathing beaches on the east coast. The first phase was completed in 2014 and has been a success – the most visible sign is that the stream is no longer a bright orange colour. In March 2015 the scheme won the Redcar and Cleveland 'Mayors Community Achievement Award' which recognises hard-working individuals and groups that make a difference in the local area. The final phase will be completed in 2015 and will remove up to 99% of the iron by passing the mine water through passive settlement ponds and a reed bed wetland. The economic benefits of cleaning up the pollution are estimated to be around £10.5 million over 25 years, at a cost of around £7 million.

Work with water companies to improve the water environment

In December 2014, Ofwat, the economic regulator for water and sewerage, set the maximum prices that water companies will charge their customers between 2015 and 2020. This is known as the price review 2014 (PR14). The final determination is the product of a great deal of hard work and close liaison between the Environment Agency, Ofwat and the water companies.

As part of the review, we produced a National Environment Programme, based on a ministerial statement, setting out the actions that water companies must take to comply with their environmental obligations. Water companies responded by identifying £1.1 billion for Water Framework Directive improved status work in England, which Ofwat have agreed can go ahead. Ofwat have not previously earmarked such an amount of money to be spent on river basin management actions to improve the status of England's water environment. Water companies will be investing £44 billion in improving services including £3.3 billion on protecting and improving the water environment in England over the next 5 years.

Water company actions will improve and protect 6,000km of rivers and 50 bathing waters, help migrating eels and other fish, and reduce diffuse pollution in over 180 river catchments. Water companies have committed to achieving 100% compliance with permits and licences and to increase pollution prevention work so that the number of serious pollution incidents are reducing towards zero by 2020. Water companies have also committed to cut leakage by 5% and internal sewer flooding incidents by 33%. Throughout the period of PR14, water and sewerage companies will also be installing equipment to monitor Combined Sewer Overflows, which are designed to operate in storm conditions.

We are working with water and sewerage companies, Ofwat, Defra and Water UK to develop a long term UK wide vision and strategy for sewerage. The program of work, Delivering 21st Century Drainage, will inform Price Review 2019 business plans and future plans and will consider sewerage from different perspectives including regulation, water quality, flooding and external engagement.

Contribute to creating a cleaner, healthier estuarine and coastal water environment through our regulatory and advisory roles, working with other delivery partners, and through River Basin Management Plans

River basin management plan consultation

In October 2014 we launched a consultation on proposed updates to river basin management plans to protect and improve the aquatic environment up to 2027. The consultation, which ran until April 2015, is closely linked to Defra's catchment based approach and the parallel consultation on flood risk management plans.

The consultation included proposed environmental objectives for each water body and the measures necessary to achieve them. We're using the consultation responses to help us update the river basin management plans.

To help our partners and customers find the information they need to complete the consultation, we developed new tools including:

- Catchment data explorer: An online tool with maps to allow customers and stakeholders to interrogate the information the draft plan is based on.
- Catchment summaries: Local information to help customers and stakeholders respond to the consultation. The summaries include information on the state of the environment, draft objectives, measures and the associated costs and benefits.
- Data share website: We updated our online tool for sharing the large datasets that inform river basin planning with customers and partners.

We used our evidence to inform the consultation, updating our risk assessments for significant water management issues for each water category. We also produced a summary of the costs and benefits of 300 catchments at sector and river basin level.

Progress on estuarine and coastal issues

We've been working closely with estuarine and coastal stakeholders to improve their understanding of and involvement with our national consultations. In response to their feedback, we set up a national stakeholder panel to discuss issues affecting their interests. The panel includes representatives from industry sectors (ports, aggregates extraction, renewable energy and fisheries), government departments, non-governmental organisations, delivery partners, catchment and coastal partnerships.

We've carried out workshops, presentations and briefings to help promote the link between the river basin management and flood risk management plan consultations. In October 2014, we published a national engagement summary of status, progress and proposed objectives for estuarine and coastal waters to accompany the river basin management plan consultations. These measures have generated greater interest and positive feedback from partners and stakeholders.

Make sure there is enough water for people, agriculture, business and the environment

Corporate target 2c

We improve and protect rivers and wetlands damaged by unsustainable abstractions – Green

We have achieved a total of 70 schemes against a target of 70.

Promote a better understanding of the value of water to society, the economy and the environment. Work with key sectors to raise awareness of the need to reduce demand and use water more efficiently

We regulate 20,000 water resource licences across England. These licences enable us to balance the water needs of people, businesses and the environment, and provide the income that supports all of our water resources work. In 2014 to 2015 we received 1,174 applications for new water licences whilst also dealing with applications from licence holders to update and change licences. Our determination process ensured that we maintained the balance between protecting the environment and providing access to water to enable economic growth.

Water abstraction

Water abstraction is the taking of water from rivers, lakes or groundwater for use as drinking water supplies, for farming and industry, or for other purposes. We use our abstraction licensing strategies to ensure any new activities are sustainable. We also check returns showing how much water has been abstracted and carry out site inspections to check licences are being complied with. In 2014 to 2015 we carried out over 3,500 inspections.

Unsustainable abstractions

We have made substantial progress this year addressing unsustainable water abstractions. An unsustainable abstraction is 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’ve spoken to abstractors of unsustainable quantities of water and helped them understand the environmental impacts of their abstractions. As a result, between April 2014 and April 2015, we have dealt with 70 licence notifications to make compulsory or voluntary changes to abstraction licences. This includes 4 compulsory licence changes on the rivers Kennet, Mimran and Beane, ensuring water is returned to the rivers so they will be protected in future.

Manage water resources in drought situations

We are responsible for managing water resources during a drought. This includes providing advice to government and regulating water use for all sectors to ensure that farmers, water companies and others are all managing their own water supplies appropriately. As part of our work, we are implementing the recommendations from the review of the 2011 to 2012 drought and are making good progress. These measures include changing our approach to drought management to align it with our incident management response framework. Our work on the new drought incident structures will help us to be better equipped to protect the environment whilst enabling water companies to provide essential public water supplies in the future.

Ensure water companies’ resource management plans address the security of supply and strike a balance between developing new resources and reducing demand

Water companies in England and Wales are legally required to produce a Water Resources Management Plan (WRMP) every 5 years. The WRMP must show how the company intends to maintain the balance between supply and demand for water over a 25-year period. We advise government on the suitability of WRMPs to maintain security of supply.

Following a consultation on draft WRMPs in 2013 to 2014, water companies published final plans in 2014 to 2015. These plans will ensure a secure supply of water for the period 2015 to 2040, including investment to address 600 megalitres a day of falling yields due to climate change and investment to provide 490 megalitres a day of alternate supply as a move towards sustainable abstraction. This would be enough water to supply an area equivalent to Birmingham and its surrounding conurbation. Almost half will be achieved by 530 megalitres a day of water savings by such measures as reducing leakage, more water efficient household appliances and less use of water in gardening.

Support Defra in developing a more flexible water abstraction system to deal with unsustainable abstractions, a changing climate and a growing population, that takes account of water quality as well as water quantity

We have been working with Defra to develop a fairer, more flexible approach to abstraction management. Defra intends to introduce a range of changes over the coming years.

We have also been working with Defra to influence and advise on market reforms in the water industry. These reforms will open up and increase competition in the water market over the next few years.

Promote more sustainable and integrated management of land and water

Work with the farming industry to ensure that management planning for soil, nutrients, water use and waste becomes an integral part of business plans on all farms to both improve the environment and help to secure a healthy and sustainable supply of food

Water quality evidence

We've completed an in-depth analysis of our evidence on the impact of agriculture on water quality. Our findings clearly highlight the main pollutants and sources affecting water quality and draw attention to the gap between current water quality and the standard required to meet environmental objectives. Our analysis received praise from farming industry representatives and environmental stakeholders, generating renewed interest in acting to improve the water environment.

We continue to work closely with farmers through the Catchment Sensitive Farming (CSF) project. The project, jointly managed by Natural England, provides advice and support to help farmers take action to reduce water pollution. Our recent evaluation of the first 8 years of the project shows how CSF activities have led to clear improvements in water quality and contributed to meeting Water Framework Directive and Site of Special Scientific Interest objectives.

Work with farmers and partners to reduce water pollution

Chemicals from plant protection products are often detected in watercourses at higher levels than the drinking water standard. We've been working with farmers at a series of events to understand how agricultural practices are contributing to this problem and what they can do to address it.

Working with partners from across the agricultural sector, our land and water team have given farmers advice on ways to reduce losses of chemicals such as nitrate and phosphate from farmyards and farmland. We've also provided advice on reducing the loss of soil and nutrients.

We've communicated our advice through press releases, social media, one to one sessions and events. The events attracted an average of 100 farmers each time. We also run seminars with partners once a year as part of the Green Futures initiative in the West Midlands.

We have worked with Defra and Natural England to shape the new Countryside Stewardship agri-environment scheme. The scheme, worth around £925 million over 5 years has a specific objective to address water management issues. Working with partners, we have made sure the scheme will address water and flooding issues in the highest risk areas.

Enhance biodiversity in the water environment and ensure fish stocks are managed sustainably

Corporate target 2d

We deliver our commitments to the England Biodiversity Strategy – Green

2d.i We created 1,869 hectares of new wildlife habitat against a target of 700 hectares.

2d.ii We restored 388 hectares of sites of special scientific interest (SSSI) against a target of 300.

Corporate target 2e

There are fewer salmon in the 'at risk' category – Green

10 rivers were assessed to be in the poorest 'at risk' category in 2014 (out of 42 principal salmon rivers in total). This is a decrease from 16 rivers in 2013.

Deliver our contribution to the England Biodiversity Strategy by maintaining and restoring favourable conservation status at protected sites, creating and restoring priority habitats and enhancing populations of priority species

Our contribution towards Biodiversity 2020

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

Over the year we have made a significant contribution to the objectives in the strategy. We created 1,869 hectares of new priority habitat and restored 388 hectares of sites of special scientific interest. We also worked with local groups in Nature Improvement Areas interested in maintaining resilient ecological networks, and Local Nature Partnerships interested in improving the local natural environment. This helped to ensure that water quality and quantity and flood and coastal erosion risk management information is joined up with other external initiatives wherever possible.

Creating new habitats in the Steart Peninsula, Somerset

In September 2014, we completed one of the UK's biggest coastal realignment schemes with our partners in the Wildfowl and Wetlands Trust. The construction of Steart Marshes means we can continue our maintenance of flood risk schemes elsewhere in the Severn Estuary that protect 100,000 homes and businesses.

Rising sea levels are predicted to result in loss of intertidal habitat in the Severn Estuary. Steart Marshes will replace about half of this loss and reduce the flood risk for local communities.

The Steart Marshes scheme uses the shallow gradient and coarse vegetation of the saltmarsh to absorb wave energy naturally. This will help to protect local villages from storm surges, and protect the newly constructed flood banks from erosion so that they last longer.

Protecting the marine environment in Southampton

After 6 years of working with Associated British Ports (ABP), the Southampton Approach Capital Dredge project has been completed. With our help, the port, which has an annual turnover of £1 billion, was able to deepen and widen the Southampton Channel to improve access and safety while still protecting the marine environment.

Our early advice meant that migratory fish were considered from the start and throughout the planning process. We worked closely with ABP and our partners to ensure that the works were carried out with appreciation of the natural environment. As part of this we made sure the marine licence included a condition to reduce the impacts of the dredge on migratory salmon and on water quality.

Work with others to conserve and maintain the diversity and populations of freshwater fish, salmon, sea-trout, eels, lampreys and smelt. We will play our part in the delivery of eel action plans in support of the EU Eel Regulation

Regulate fish stocks, transfers and movement

We regulate the introduction of fish into, and their removal from, waters in England. As part of our role, we make sure fisheries are maintained and improved and minimise risks from parasites, diseases and invasive non-native species. Each year up to 4,000 consents to introduce fish and over 1,500 authorisations to remove fish from waters are issued.

Migratory and freshwater fish depend on gaining access through rivers to reach spawning areas or habitat for growing, feeding and maturing. We have worked on the structures we own and with rivers trusts, land owners and other partners to remove 60 river obstructions and install over 140 fish passes since 2010.

Defra introduced new regulations earlier this year for keeping and introducing fish. The new regulations support sustainable fisheries management, aid compliance and reduce the burden of administration. We are expecting Defra to consult on extending our existing powers on addressing obstructions to migration for salmon, sea trout and eel to cover all fish species. This will help with our wider aim of achieving good ecological status in the water environment.

Conserve salmon stocks

Our corporate target for 2014 was that the number of principal salmon rivers assessed in the poorest of 4 categories ‘at risk’ should reduce to 10 and this was achieved. However, our assessment of salmon stocks for 2014 showed an overall decline in stocks with 90% of England’s 42 principal salmon rivers now falling into the ‘at risk’ or ‘probably at risk’ category and none categorised as ‘not at risk’. Fewer salmon leaving rivers as juveniles are surviving to return as adults to spawn.

To help address this, we’ve altered or removed barriers stopping salmon from migrating upstream to spawn at 63 sites since 2009 and made changes in 44 abstraction licences that will aid salmon stocks.

Regulation and effective communication with anglers has caused an increase in the proportion of salmon catch released alive from 10% in 1993 to 77% in 2014, which is the highest proportion ever recorded. Net and trap fisheries have been reduced through tighter regulation, and intelligence-led targeted enforcement continues to clamp down on illegal fishing, for example, 4.5km of illegal nets were seized along the Dorset coast.

We continue to work with other agencies, angling and fisheries organisations, rivers trusts and individual fisheries to address the wider issues surrounding fish stocks and recognise that there is still much to do to safeguard salmon for the future.

Conserve and restore eel populations

The European eel is caught in many important fisheries from Spain to Scandinavia, including in England. Eel are an important part of England's biodiversity, contributing to the diet of many iconic animals, such as otters, heron and bittern. Following a 95% decline in the numbers of young eel (elvers) returning to Europe, EU member states have been working together to implement the 2007 EU Eel Regulation to halt and reverse the decline.

We have been implementing Eel Management Plans for each major river system in England and through Defra will report our progress to the European Commission later this year. We have applied more controls to cap the number of nets and traps that fishers can use to catch adult eels. Elver fisheries have met targets to supply at least 60% of their catch for restocking.

Regulations implemented by Defra in 2009 provide powers to require those responsible for river obstructions and water abstractions to provide passes and screening. Eel habitats have been extended and new aquatic habitats have been introduced to meet Biodiversity 2020 targets.

Spotlight on illegal fishing

Operation Stone was carried out in summer 2014 to find and stop illegal fishing in the Midlands. The operation was part of a national campaign with the police to address fish thieves and the threatening of fish stocks, especially eels.

Legal anglers and fishing clubs raised concerns about poaching and unlicensed fishing affecting sustainability of fish stocks. We gathered intelligence from members of the public and found that offenders were broadly those who occasionally fished without a licence and those coming from countries that didn't realise they needed a rod licence. In response to this, we developed communications materials in other languages to inform non-English speaking anglers of the need for a rod licence and the need to catch and release fish.

Weir removal in Ewden Beck, Yorkshire

Brown trout will soon be able to reach important spawning grounds upstream of the River Don thanks to the removal of a weir at Ewden Beck.

The owners of a paper mill on the site, SCA, held an abstraction licence for Ewden Beck. This abstraction activity, as well as an old weir which formed a barrier to fish movement, were damaging the beck environmentally. Because of this, we put the Ewden Beck abstraction licence into our Restoring Sustainable Abstraction programme, which allows us to revoke damaging licences, and pay compensation for their loss.

Following careful negotiation, SCA decided to voluntarily revoke their licence and so required no financial compensation. As part of this, SCA agreed to remove the weir last year and have regraded the land. This means that fish, including brown trout, can now access the spawning grounds upstream. We have also achieved Water Framework Directive benefits at no cost to the Environment Agency.

Help to reduce the impact of damaging, invasive, non-native species

Invasive non-native species cause damage to native plants, fisheries and the environment.

We are delivering eradication campaigns against two of the most damaging invasive non-native species to recently establish in Great Britain. Our programme to eradicate topmouth gudgeon, which degrades fisheries, is on target to be completed by 2017. Water Primrose, a plant that degrades habitats, amenity and increases flood risk, is believed to have been eradicated from 38% of recorded sites.

Our internal network of 'biosecurity champions' have been promoting better biosecurity among our staff and partners, reducing the risk of spreading invasive non-native species, parasites and diseases. These organisms can have a profound and irreversible impact on the environment, and our programme of staff training, raising awareness, provision of biosecurity equipment and facilities reduces the risk of us spreading these organisms while performing our duties.

Promote opportunities for people to enjoy water and wetlands through angling and navigation

Corporate target 2f

We maintain our navigation assets at or above the target condition – Green

This year, 88% of our high consequence navigation assets were at the required condition against a target of 80%.

Work with local communities, angling and navigation interests to provide opportunities for people to enjoy and benefit from the environment, and to address barriers to participation

Navigation

As one of the largest navigation authorities in England, we are responsible for 1,020km of navigable waterways and 3 harbours. People have a public right to navigate these waterways, but are required to register before doing so and to comply with the associated regulations.

We registered 25,500 boats and craft on these waterways in 2014, with most (60%), registered on the Thames waterway. We are looking to make it easier and quicker for people to register by exploring an online registration system. We are consulting existing registration holders to help us design a system that can better meet the needs of our customers.

The waterways require significant ongoing investment to maintain them in a condition that enables people to exercise their public right safely. We maintained the state of the waterways and the associated navigation locks and weirs to a suitable standard in 2014.

Rod licence campaign

Our 2014 rod licence campaign was launched to address the significant drop in revenue from rod licence sales over the last 5 years. The aim was to restore the number of people fishing in England, highlight where rod licence money is spent and the enforcement action we'll take against illegal fishing. We encouraged people to buy a rod licence from the Post Office website and worked with partners to encourage people to give fishing a go.

Our marketing activity played a part in generating sales of 422,000 licences and £9.35 million in income. The overall marketing programme gave a 33:1 return on investment. By using our insights into anglers' behaviour we increased the number of customers renewing their licence by 13% in 2014 to 2015 compared with the previous year.

Fishing information website

We have worked with the Angling Trust, Met Office and Post Office to create a new website, FishingInfo.co.uk, to promote fishing by improving access to information on where and how to go fishing, and encouraging rod licence sales. It also delivers the government's digital by default objectives and makes public data available. The site was officially launched in May 2015.

Being an efficient and effective regulator to protect people and the environment and support sustainable growth

This section details what we have done in 2014 to 2015 to address the following aims of our corporate plan:

- support sustainable growth by making it easier for businesses to know what they need to do to comply with regulatory requirements, without compromising environmental and public health protection and improvement
- take action to improve compliance of poor performers and reduce their impact on the environment
- reduce environmental crime, including waste crime, in order to protect both the environment and legitimate businesses that are affected
- work with businesses to reduce emissions, discharges and pollution incidents, and help to ensure that they use resources sustainably
- play our part in helping the UK meet greenhouse gas emissions targets

Support sustainable growth by making it easier for businesses to know what they need to do to comply with regulatory requirements, without compromising environmental and public health protection and improvement

Corporate target 3c

We reduce the administrative cost of regulation to businesses - Amber

We made cost savings of £292 million since April 2010 against a revised target of £317 million, but over 6 times our initial forecast of £45 million.

Review, streamline and simplify permitting systems

In 2014 to 2015 we saved businesses around an additional £20 million.

Initiatives that saved businesses money this year included:

- quality protocols for steel slag, and biogas / biomethane – these protocols let businesses know when wastes are fully recovered, enabling them to be sold as a product
- the Edoc national electronic duty of care system – a free online system that businesses can use to record their non-hazardous waste transfers, instead of using paper waste transfer notes
- the new lower tier waste carrier registration system – a simple online registration service for organisations and businesses
- online systems to gather regulatory data

- standard permits for certain Industrial Emissions Directive activities
- revised monitoring arrangements for landfill sites – standard environmental monitoring requirements agreed with industry, including reductions in monitoring in some areas

Accountability for Regulator Impact

In the Autumn Statement 2012, the government announced that it would introduce a package of measures to improve the way regulation is carried out. The Accountability for Regulator Impact (ARI) scheme was launched as part of this. ARI requires us to quantify the financial impacts of changes to our regulation on the businesses we regulate. By capturing this information and talking to businesses in advance about the impacts, we can help them understand and prepare for any changes and take their feedback on board. We then publish our finalised assessments online.

Since the launch of the scheme we have worked with business representatives to develop and publish 3 business engagement assessments. These cover the proposed changes to standard rules for the deposit of waste for recovery, a quality protocol for the processing and use of steel slag, and the revised river flow and water abstraction standards for hydropower. These assessments describe the proposed changes and their expected impacts on businesses and ensure that any feedback is taken into account in our decision making.

Regulators' Code

The revised Regulators' Code came into force in April 2014. The code provides a clear framework for how we and other regulators should engage with our regulated customers. It requires us to provide businesses with an informal route to appeal against our regulatory decisions or our failure to act in accordance with the code. We have updated our complaints procedures to include an impartial process for considering these appeals.

Environmental permitting and flood asset consenting

Throughout 2014 and 2015 we have been working with Defra on proposals to bring flood asset consenting into the environmental permitting regime. These proposals simplify the regulation of activities on main rivers or sea defences affecting flood risk, such as dredging or construction of bridges and outfalls. With no regulation, these activities might damage flood structures and embankments, restrict watercourses or the operation of a flood plain, leading to flooding of other properties that might not have happened otherwise.

We are making sure legislative proposals are clear and practical and are considering any adjustments we may need to make to the way we work. We aim to put the policy and guidance in place to deliver this new regulatory approach successfully so that it is consistent with the overall Environmental Permitting framework. The government consultation to bring flood defence consenting (currently under the Water Resources Act 1991 and local Byelaws) into the Environmental Permitting regime opened in December 2014 alongside our consultation on standard rules for flood risk related activities. The government is considering the views expressed in the consultation.

Improve guidance and information

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

We are implementing many reform actions, 3 of which are detailed below. The majority of changes will be in place by March 2016.

Lower tier waste carriers registration service

Organisations involved in carrying waste on a professional basis or carrying building or demolition waste have to register as 'upper tier' waste carriers. From January 2014, the requirement to register as a waste carrier was extended to organisations and businesses that used to be exempt from registration. These organisations and businesses normally and regularly transport their own waste. They are referred to as ‘lower tier’ waste carriers

To meet this new requirement, we introduced an online lower tier waste carriers registration service in December 2013. This was the second of 25 government transformation exemplars to be launched, with the aim of making our digital services simpler, clearer and faster to use. The registration service has so far seen over 37,000 registrations, a 95% digital uptake and a customer satisfaction rating of over 90%. We’ve now extended the system to commercial waste carriers, brokers and dealers, offering an improved and faster registration system for customers and ourselves.

Help businesses identify and re-use their waste

When a material is discarded, it becomes a waste. Many waste materials can be used in products. In order for materials to be used in this way, without further regulation, they need to meet the end of waste test which shows they are no longer waste. Businesses can make significant economic and environmental gains from using these end of waste materials.

Understanding whether a material is waste or has ceased to be waste can sometimes be complex. So we have provided evidence and tools to help businesses determine whether their new products meet end of waste criteria. One online tool, IsItWaste?, takes businesses through some assessment questions and gives them a summary with an indicative result on whether a material is or isn’t a waste. Businesses can also use the tool to approach us for our opinion on their materials.

There are also several voluntary end of waste frameworks available to help businesses assess what they need to do to achieve end of waste status for certain wastes. Our quality protocol checker tool enables businesses to self-assess their compliance with these. This tool is available for users of aggregates (construction and building materials) and compost.

In our waste quality protocols work, we continue to explain the steps necessary for when a waste derived material can be regarded as a non-waste product and is no longer subject to waste controls.

Help businesses compare the environmental benefits of waste and non-waste products

To support our waste protocols work we have produced a series of waste comparator reports to help businesses understand whether a product derived from a waste material can be used in the same manner as one derived from non-waste material with no worse environmental impact. The reports cover biochar, fuels (biomass, charcoal and coal), construction materials (concrete blocks, limestone aggregate and wood) and straw for animal bedding. Examples of products made using waste, which in our opinion have achieved end of waste status, include low sulphur diesel and kerosene produced from commercial and household waste plastic and use of recovered sand or aggregate as a replacement for sand in concrete.

Onshore oil and gas

We work with the Department of Energy and Climate Change (DECC) and other partners to make sure any exploration and development activity associated with the development of new energy resources is safe and sustainable. Those who intend to carry out this type of activity in England need an environmental permit from us. These permits ensure that any shale gas operations are conducted in a way that protects people and the environment.

Permits for exploring shale gas through hydraulic fracturing

In early 2015, we issued the first environmental permits to explore for shale gas by hydraulic fracturing (fracking). The permits were issued to Cuadrilla for its sites at Roseacre Wood and Preston New Road in Lancashire. They set out the conditions that Cuadrilla must follow to protect groundwater, surface water and air quality and safely manage and dispose of waste.

We held an extensive public consultation on this subject. We ran public information days in the villages close to the sites, which inspectors from the Health and Safety Executive also attended. We met with parish councils and attended liaison meetings. We used the Lancashire Shale Gas Forum to keep our partners informed, which included representatives from the 6 local councils in

Lancashire and other regulatory agencies such as Public Health England. We also issued local press notices and placed adverts in local media to encourage the public to have a say in the consultation process.

Standard rules for onshore oil and gas permits

In March 2015 we published a consultation on a second set of standard rules permits for some conventional onshore oil and gas operations. The consultation allows the public, industry and stakeholders to comment on the terms and conditions of the permits.

Standard rules define the activities that an operator can carry out and specify necessary restrictions on those activities. If an operator's proposal to carry out work does not meet these requirements they must apply for a bespoke permit. Standard rules have been used for a number of years to regulate a variety of activities including waste management and water discharges.

We have already developed standard rules permits for drilling to remove rock samples. The proposed second set covers the handling and storage of oil and two conventional well testing techniques: clearing rock debris from the bottom of the well by injecting dilute hydrochloric acid and testing the pressure at which the surrounding rock would fracture by injecting a relatively small volume of fluid.

We have no plans to develop standard rules for hydraulic fracturing itself, whether conventional or high volume, or for flaring. Fracking and flaring will continue to require bespoke permits.

Take action to improve the compliance of poor performers and reduce their impact on the environment

Corporate target 3a

We improve business compliance through supporting legitimate business to comply and by tackling the deliberately non-compliant – Red

There has been an increase from 182 to 229 permitted sites which have had poor compliance for 2 or more years against a target of 173.

Waste action plan

We have been working on our Waste Action Plan to ensure poor performing waste sites are either brought into compliance or closed. This joint Environment Agency and Defra plan outlines how we will use our existing powers at the permitting, compliance and enforcement stages to improve protection of the environment and people. It details how we will prevent known poor operators obtaining new permits, help poor performers become compliant, or if that is not possible, our aim is to revoke their permits.

We continue to gather intelligence to identify high risk waste streams where there is a significant level of poor compliance or illegal activity. We have produced a strategic assessment report for waste which sets out our priorities and approach. This year our focus has been on 2 of the UK's fastest growing waste streams, refuse derived fuel and mixed dry recyclables alongside the misdescription and mismanagement of soils and trommel fines. Trommel fines are the smallest sized fraction of material that comes out of a recycling plant, often soil-like in appearance and may include soil, but will also include smaller particles of other materials.

Environmental Permitting Regulations (EPR)

In 2014 the Environment Agency successfully defended appeals brought by 3 water companies. These appeals challenged the principles of EPR, relating to the application of management systems, notifications and reporting and use of guidance. If upheld, this would have threatened the implementation of EPR for water quality and other regimes and our overarching aims of encouraging companies to take responsibility for minimising the risks of their activities and improving their environmental performance. We are now working with the water companies to implement EPR for their sector.

Take timely and robust action against persistent poor performers, including enforcement, where necessary

Helping poor performers become better

One of the sites of a large, internationally-owned poultry firm has been a poor performer for 5 out of the past 6 years. The site was receiving complaints from the community about the odour from the processing factory. Our environmental regulations team worked hard to help the company address these problems.

The site has now implemented a new externally accredited, environment management system. The company installed new equipment to help manage the odour and invested over £20 million on new and larger refrigeration units. The new equipment is more energy efficient and the site has now moved out of the high risk category.

Apply effective and proportionate sanctions for non-compliant activity, and where appropriate, replace prosecution with civil sanctions

Enforcement and prosecution

We use a range of regulatory enforcement notices to respond to breaches of regulation and bring operators into compliance. We have successfully defended numerous appeals against our notices. For example, we were concerned about the pollution risk of some underground storage tanks containing liquid fertiliser and animal feed. This could have had major implications for the River Severn and so we served the company with an Anti-Pollution Works Notice. The company tried to appeal but their appeal was rejected by the Planning Inspectorate.

Last year an important sentencing guideline was introduced for environmental offences. The guideline uses a defendant's turnover to help calculate a fine. This means that larger businesses can now be fined considerably larger amounts. The guideline has already been used effectively with fines for water and sewerage companies increasing significantly, most notably Southern Water Services, recently fined £500,000, and United Utilities and Thames Water, recently fined £750,000 and £250,000 respectively.

The effects of this guideline were also evident in our joint prosecution of Rolls Royce Marine Power Operations Limited (RRMPOL) with the Health and Safety Executive. RRMPOL, based in Derby, was fined £200,000 plus £176,500 in costs for a number of environmental and health and safety offences. The incident which led to this prosecution involved the temporary loss of a high activity sealed radioactive source. Several members of staff received doses of radiation above the legal limit. The company pleaded guilty to the charges and has made significant improvements as a result of the incident.

Prosecution also carries the risk of imprisonment if individuals are convicted. Four defendants have been sent to prison this year and a further 10 have been given suspended prison sentences. We have secured confiscation orders against environmental offenders totalling over £800,000, removing the offenders' profit. We have continued to use our civil sanctions powers and accepted 30 enforcement undertakings securing over £460,000 for environmental projects, as well as serving 2 further Stop Notices which resulted in the closure of an illegal waste site.

Reduce environmental crime, including waste crime, in order to protect both the environment and legitimate businesses that are affected

Corporate target 3d

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

This year there were 275 high risk illegal waste sites that we were aware of against a target of 266 sites.

Our approach to high risk waste sites

High risk sites are those that are of high public interest, performing badly or those with a high risk of fire. This year we have revoked and suspended more permits, refused more permit applications, and have taken enforcement action against high fire risk sites. We have been working with Defra to improve our regulatory powers so that we can better target these sites. We have evidence of fire risk at many of these sites. Our priority has been to ensure we are collating the right data in the right way. We have collected data from many sources and presented it in a compelling and consistent way for government, other strategic decision makers, and our operations teams to use. Now everyone has access to the same information, and can learn from past regulatory or incident-related actions.

Waste fires attracted a considerable amount of attention during the summer of 2014, for example, the fire at Thoby Priory in Mountnessing. A fire at a waste site can cause disruption to local communities and businesses and cause significant environmental damage. Throughout these incidents, we made sure local communities understood our role, including our 24/7 response to fire incidents, our work with partners to minimise environmental damage and the enforcement action we take when operators break their environmental permit conditions. We also kept them updated with specific actions we were taking at relevant sites.

Another such high public interest site was Waste4Fuel in Orpington, Kent. The operator abandoned over 18,000 tonnes of waste close to a nature reserve and people’s houses. We have revoked the operator’s permit and worked successfully with partner organisations to agree a way forward for this difficult situation.

Reduce hazardous waste streams

We have reduced the number of hazardous waste streams sent to landfill and reduced the uncontrolled release of methane from operational landfills by working with landfill operators to identify ways to improve the gas collection systems at their sites. We have increased the number of landfills that have closed under the Landfill Directive and permit holders are required to continue managing them to ensure they do not cause risks to people or the environment. We have closure plans in place for all of the remaining sites we permit. We have also reduced the administrative burden for businesses by reducing the volume of our landfill technical guidance by over 80%.

Waste crime

The structure of the waste industry and the system of taxes and contracts aim to ensure there are adequate incentives to invest in more efficient and sustainable resource use. Effective regulation is essential to protect communities and the environment and to enable legitimate industry to prosper. Conversely, criminal behaviour and non compliance threatens a resource-efficient economy because:

- business confidence and investment is undermined by those that undercut legitimate operators and do not pay landfill tax

- poor performance, whether at permitted or illegal sites, puts communities and the environment at risk
- public confidence in legitimate industry and regulation is undermined
- operators of illegal waste sites and high risk non compliant sites have little incentive to invest in greater efficiency
- such operators may act as a cover for, or be part of, a wider criminal network, for example, by laundering money from other organised crime activities

Our role in protecting communities and supporting legitimate businesses include closing illegal waste sites by prioritising those that pose the greatest risk to communities and the environment, disrupting and stopping the illegal export of waste and tackling persistent poor performing sites by bringing them into compliance or closing them down.

The 2015 Budget included the announcement of additional grant income of £4.2 million, in addition to the £5 million announced in Budget 2014, to tackle waste crime and persistent poor performance in the waste industry.

Mis-description of waste

Inert waste material is a waste which is neither chemically or biologically reactive and will not decompose. It attracts a lower landfill tax at landfill sites. We have found evidence of non-inert waste being mis-described as inert. As well as causing odour and amenity problems, this has also resulted in lost landfill tax. We are using a waste stream approach to target sites which produce or use inert material to ensure compliance. This approach means ensuring waste is compliant as it flows through the system, with greater certainty on where it has come from and is going to. We are also working with HMRC to show them how the industry works and help them recoup any avoided landfill tax.

Illegal waste exports

From April 2014 to December 2015 we used our intelligence sources to identify, stop and check 1,134 containers of waste intended for export. Of these, 234 (5,024 tonnes) were prevented from being exported and sent for treatment or disposal in the UK at the cost of the intended exporter. A further 4 were subjected to more detailed investigation with a view to possible prosecution.

Illegal waste sites

We are using what we’ve learnt from the Illegal Waste Site Task Force Project, which ended in December 2013, to reduce the number and environmental and economic impacts of illegal high risk waste sites. Examples include using early interventions at sites to prevent them from becoming established and disruption tactics for existing sites. We are making good progress on closing down illegal waste sites and we have reduced the overall number of active illegal waste sites from a high point of 1,011 at the end of March 2012 to 598 at the end of March 2015.

To deter people from setting up these sites, we promoted our enforcement action nationally and locally throughout the year alongside our partnership with Crimestoppers to encourage people to report suspicious activity anonymously. We secured national coverage in broadcast, print and social media for our nationwide dawn raids to arrest suspects for illegal waste dumping (part of Operation Encore).

Work with businesses to reduce emissions, discharges and pollution incidents, and help us to ensure that they use resources sustainably

Corporate target 3b

We reduce serious and significant pollution incidents – Amber

There were 635 category 1 and 2 pollution incidents in the last year, decreasing from 637 the previous year. This is against a target of 631.

Following the high number of incidents reported over the last two years, we are now seeing a gradual reduction in the overall number. We are continuing to look at the causes and trends and are working with businesses so that they reduce the number of pollution incidents from their activities.

Incidents from 'unknown' sources

We are also making changes to the way we report incidents to ensure that we can more clearly attribute all incidents to a likely source, irrespective of whether the specific source or responsible party can be identified.

Changes to the Corporate scorecard measure

In response to evidence we have about incident trends, during 2015 to 2016 we will change the measure for this target to concentrate on the 'top 5' polluting sectors.

Reduce the number of pollution incidents

Helping companies prevent pollution and save energy

Our pollution prevention and control team has been working with the owners of a flour mill to help reduce the risk of pollution and save energy. The mill uses thermal oil as part of the manufacturing process and keeps the oil in 2 large storage tanks next to the River Trent. Our team advised the company to move the tanks and encouraged them to think about using more environmentally friendly fuels.

Following our advice, the site has started using natural gas, fed directly to the site, meaning the old oil tanks could be emptied, industrially cleaned and removed. As a result, the company has reported better than expected cost savings and has seen an annual reduction of 117 tonnes of carbon dioxide a year.

Play our part in helping the UK meet greenhouse gas emissions targets

Implement the EU ETS, the CRC Energy Efficiency Scheme, Climate Change Agreements and support government in the further development of these schemes

During 2014 to 2015 we continued to run three schemes to encourage reductions in greenhouse gas emissions from industry and businesses in the UK. The schemes are:

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

We also supported the government in the further development of these schemes. We completed the government's simplification of the CRC scheme. This involved reducing its coverage from 29 fuels to 2, publishing updated compliance guidance and starting to implement the second phase.

On the EU ETS, we informed revisions to UK legislation to simplify the aviation element of the scheme and implemented these measures.

For CCAs, we introduced new systems to manage participants' reporting of their progress against targets for 2013 and 2014 (the first two years we became administrator of the revised scheme). We also took on administration of the government's new Energy Savings Opportunity Scheme.

We have published details of how we are enforcing the above regimes in an appendix to the Environment Agency's wider Enforcement and Sanctions Guidance.

Support sustainable renewable energy and low carbon development

We have introduced new guidance for hydropower developers to ensure that run of river hydropower schemes are built and designed according to best practice standards, protecting river flows, fish passage and contributing to local renewable energy generation. The new guidance, developed over several years with input from industry and stakeholders, has resulted in more schemes now located 'on weir' and fewer with a depleted river reach. We continue to improve the way we issue licenses for hydropower and have reduced permitting times for developers. We will continue to work with the trade associations, as well as local river users, to ensure that hydropower is deployed sustainably.

We have also been working to promote water source heat pumps, a source of renewable heat using river water, which can be used in domestic, industrial and mixed use developments. Working with government and the industry, we have helped produce an online 'heat map' of potential opportunities for where this technology can be used on river side developments. We have also improved our licensing process, introducing a single application form and a single point of contact for developers.

Working together and with others to create better places

This section details what we have done in 2014 to 2015 to address the following aims of our corporate plan:

- take an integrated approach to our work
- work with others to ensure that new and existing developments have a reduced environmental impact and a well-planned environmental infrastructure
- work with partners to develop our incident management capability further
- contribute to creating better local environments that enhance people's lives and support a sustainable economy
- help people, the economy and the environment adapt to a changing climate
- put reducing and adapting to climate change at the heart of everything we do

Take an integrated approach to our work

Work with others to identify risks from shale gas

We worked with the British Geological Survey to undertake national monitoring of naturally occurring methane in groundwater to understand the baseline conditions. This will help set baseline conditions when the shale gas industry wishes to undertake hydraulic fracturing. We also worked with British Geological Survey to produce maps showing the location of important aquifers and potential shale gas rocks to determine the vertical separation distances between potential hydraulic fracturing and aquifers.

We have worked with Durham University to provide data on their study on well integrity and well failure. We also investigated the risks to regional air quality from fugitive emissions of methane and other hydrocarbons from gas sites.

Understand the impact of hydropower on river systems

We led projects on the effective regulation of hydropower (harnessing energy from flowing water to generate electricity). We investigated weir pools and found that hydropower development normally has only a small impact on the form and function of the habitat within the pool. We looked at catchments with multiple hydropower schemes and studied the cumulative effect of these schemes on the movement of fish. Our initial results reinforced the importance of well-designed fish passes and we are confident that current regulatory guidelines provide good environmental protection.

Shared Agency Regulatory Evidence Programme (ShARE)

We have developed a programme to share evidence with the UK and Ireland's other environmental regulators (Scottish Environmental Protection Agency, Northern Ireland Environment Agency, Natural Resources Wales, and the Irish Environmental Protection Agency). These agencies work from similar legislation to address similar environmental issues and have many common evidence needs. ShARE enables us to work together to design, produce and share our evidence, saving public money and ensuring that we maximise the impact of our work. The programme will provide us with new tools and techniques to help us improve how we regulate.

Work on sustainable drainage systems

We have been working with CIRIA (the construction industry research and information association) to update their Sustainable Drainage System (SuDS) manual. Primarily aimed at new build developments, it will help reduce future pressures on sewerage. Some of the techniques can also be applied to retrofit SuDS in existing developments.

Develop a catchment based approach with partners across all major catchments and coastal waters

Catchment partnerships

The Catchment Based Approach was introduced by Defra to involve stakeholders effectively in the river basin management planning process to meet Water Framework Directive (WFD) objectives. A Catchment Based Approach enables us to work with others to make decisions and helps promote a better understanding of the environment at the local level.

Since Defra launched the Catchment Based Approach, we have helped set up over 100 collaborative catchment partnerships in the 87 management catchments across England (plus 6 cross-border catchments with Scotland and Wales). Catchment partnerships work with local stakeholders across all of England's catchments. The aim is to deliver improved water quality and more ambitious river basin management plans that contribute to meeting the government's WFD targets. More than 1,500 organisations are now involved in these partnerships including water companies, local councils, government agencies, non-governmental organisations, landowners, angling clubs, farming groups, academia and local businesses.

We now employ over 60 dedicated 'catchment coordinators' who are the main points of contact between the Environment Agency and relevant catchment partnerships. They ensure regular contact with the partnerships and consistency of catchment planning and delivery. They also make sure catchment partnership information is incorporated into the overall catchment evidence base. As well as this, they help to identify and carry out interventions to manage pressures on the environment. This can involve linking up with other coastal or estuary partnerships and co-ordinating project funding bids.

Helping charities and civil society organisations restore their river catchments

We have been administering a catchment restoration fund on behalf of Defra to help charities and civil society organisations complete projects in river catchments. This fund ended on 31 March 2015.

The projects:

- restored natural features in and around rivers
- reduced the impact of man-made structures on wildlife in rivers
- reduced the impact of diffuse pollution from rural and urban land use

As of July 2014 the results included:

- 111 actions taken to improve fish and eel passage (fish passes installed, weirs or barriers removed)
- 157,069m of river channel and bankside restored or created
- 739 businesses changed their ways of working

We are now working to establish a programme to continue this funding to charitable trusts and philanthropic organisations in 2015 to 2016 through the Catchment Partnership Action Fund.

Implement a system to embed the ecosystem approach and ecosystem service assessments in our work

Use an ecosystem services framework

Natural capital (natural resources such as soil, air and water) is the basis for a wide range of benefits (or ecosystem services) such as food, clean water and recreation opportunities.

An ecosystem services framework allows project managers to assess all of the additional benefits, and any negative impacts, that will result from making environmental interventions. For example, re-connecting a river with its flood plain to reduce flood risk and protect local communities from peak flows may provide the additional benefits of keeping soil and nutrients out of rivers, supporting pollinating insects and sustaining naturally productive agriculture that can withstand floods and droughts.

Over the last two years, we have introduced a consistent ecosystem services framework. This has been used to inform decisions about the second cycle of river basin management plans, which contain the main issues for the water environment and the actions we need to take in order to make real progress in addressing them.

The use of the new Ecosystem Service Framework tool and the enormous data set that resulted (one assessment for each operational catchment) represents an important move towards integrated planning in the Environment Agency and the development of an ecosystem approach. It is the first time that any country has produced such a wide scale and in depth environmental economic appraisal.

Work with others to ensure that new and existing developments have a reduced environmental impact and a well-planned environmental infrastructure

Work with the Marine Management Organisation and other partners to input into, and make decisions in accordance with, marine spatial plans and as a consultee on marine licences

Working together on regulating coastal development

We have been working with partners including the Marine Management Organisation (MMO) who license, regulate and plan marine activities in the seas around England, to improve the way we regulate coastal development (coastal projects and investments). This type of development affects estuarine and coastal waters and we need to make sure it supports sustainable economic growth.

Coastal development usually requires permission from multiple regulatory bodies including the MMO, Natural England, local planning authorities and the Environment Agency. A review carried out by the Better Regulation Executive of the Department for Business Innovation and Skills in 2012, concluded that businesses found it difficult to understand and deal with overlaps between regulators. We have now implemented an agreement between these bodies (and Defra, Department for Transport and the Local Government Association Coastal Special Interest Group) to make the application process for people who want to carry out coastal developments easier. The agreement applies to developments in participating local council areas that have elements falling below high tide level, require multiple consents, including planning permission, and require a marine licence.

Work with partners to develop our incident management capability further

Partnership with Network Rail

In May 2014 we agreed and published a joint Memorandum of Understanding (MoU) with Network Rail, who are responsible for operating, maintaining and developing Britain’s railway infrastructure. The MoU recognises that cooperation and excellent communication are vital to protect the environment and the rail network. It provides guidance on how we will work together to minimise the risks of pollution and flooding to people, property, infrastructure and the environment.

Contribute to creating better local environments that enhance people’s lives and support a sustainable economy

Work positively with strategic partnerships, such as LEPs and Local Nature Partnerships, to facilitate sustainable growth

Local Enterprise Partnerships

Our work with government, Local Enterprise Partnerships (LEPs) and other local partners on the European Growth Programme has helped secure a positive policy framework for both economic growth and the environment. The European Growth Programme, which runs from 2014 to 2020, brings together the European Regional Development Fund, European Social Fund and part of the European Agricultural Fund for Rural Development. The programme provides:

- effective targeting of funding for projects under the programme’s environmental themes (low carbon, climate adaptation and environmental protection)
- the application of sustainable development principles across the whole of the programme.

We have helped LEPs identify where funding is most needed and helped secure provisional allocations of approximately £200 million for 2 important environmental themes: £117 million for environmental protection and resource efficiency measures and £88 million for flood risk management.

We continue to work with LEPs to make sure these provisional allocations are turned into real improvements on the ground. We are providing advice to government and LEPs on aspects of sustainable development. This should help make sure that sustainable development principles are reflected in all aspects of the programme, including individual project proposals.

Keeping Rivers Cool programme

The Keeping Rivers Cool programme is an important aspect of our climate change adaptation programme. Working with our local partners, the programme encourages land managers to create more shade from riparian trees in the right places. Doing this will keep rivers cool and benefit Atlantic salmon and Brown trout.

The £800,000 programme, which began in 2012, received a ‘Gold’ Green Apple award in 2013 for setting an example of best practice and innovative work. By 2014 to 2015 the programme achieved its main aims. We had:

- planted more than 55,000 trees
- installed 37km of fencing
- produced a guidance manual for land managers
- designed maps showing where shade is most required

Because of the programme's success, The Woodland Trust has agreed to take on the leadership of Keeping Rivers Cool from 2015 onwards and will give it wider promotion and potential access to further funding. We will remain as a technical expert and adviser on the strategic direction.

Help people, the economy and the environment adapt to a changing climate

Provide a Climate Ready support service to help other organisations build capacity to adapt to a changing climate and to address the key activities identified in the government's National Adaptation Programme

Helping businesses and public sector bodies become Climate Ready

We run the government's Climate Ready support service to help businesses and other organisations in England adapt to a changing climate. The service is part of the government's National Adaptation Programme and offers support, tools and advice in partnership with the Met Office, the Local Government Association and Climate UK.

The government has recently extended funding of the service for a fourth year. Successes this year include:

- Advising Defra on what businesses and public sector bodies need from the Met Office Hadley Centre's next generation of climate projections.
- Supporting the Local Government Association's 'Climate Local' initiative for councils. This now has 102 signatories, and 85 councils have published action plans.
- Providing technical support and practical advice to over 100 public bodies and statutory undertakers who are writing adaptation plans under the Climate Change Act.
- Working with Asda and Marks and Spencer to improve the climate resilience of their supply chain, and ensure that their suppliers manage their weather risks.
- Launching the 'Climate Just' website with Joseph Rowntree Foundation and Climate UK, which allows councils and others to explore and manage the impact of extreme weather on vulnerable communities.
- Publishing a wildlife adaptation manual with Natural England, RSPB, Forestry Commission, the National Trust and the Wildlife Trusts, and running training courses to help conservation managers plan for climate change.

Put reducing and adapting to climate change at the heart of everything we do

Corporate target 5a

We reduce our carbon footprint – Green

At the end of March 2015, we have achieved a 40% reduction in carbon emissions compared to our 2006 to 2007 baseline, against our target of a 33% reduction.

Factor climate change adaption into all our work

We play an important role in helping the country prepare for future flood, coastal erosion and water availability risks, which are priorities in the government's national adaptation programme.

Our new long-term investment scenarios for flood and coastal risk management consider how climate change will affect future risk and investment needs. We account for climate change when developing flood and coastal erosion risk management schemes, and have issued new advice to planning authorities on how climate change will affect future flood risks to proposed developments.

We have worked with Ofwat and water companies to ensure that their new Water Resource Management Plans consider how climate change could reduce water yields. Our work to challenge unsustainable water abstractions will also help to restore rivers and wetlands.

We will publish a new adaptation strategy late in 2015 under the Climate Change Act.

We also work closely with government departments and agencies on climate change. We have given technical advice to Defra on the next national climate change risk assessment, and provided the Climate Change Committee with environmental data for their 2015 statutory report on national adaptation progress.

Develop and share our climate change evidence

Work on climate projections

We manage the website for UK Climate Projections 2009 (UKCP09), the leading source of climate information for UK land and marine areas. Approximately 2,500 researchers, practitioners and decision-makers in the public and private sector visit the UKPC09 site every month to find information on how the UK climate is expected to change over the century.

We are finding out how people use climate projections in adaptation decisions and are helping Defra ensure the next set of climate projections, due for release in 2018, better meet user needs. The new projections will include better information around extreme weather events, translation of climate information into its potential impacts and consequences, and presenting the information clearly so that organisations can incorporate it into their planning and decision making.

Assess the impact of climate change on infrastructure

We have been working with Living with Environmental Change, a partnership of 22 major UK public sector funders and users of environmental research. Our work includes the development of a Climate Change Impacts report card on infrastructure. It will be the first accessible summary of the impact of climate change on the UK's transport, energy, water, waste and information, communication and technology infrastructure systems. The card is for infrastructure professionals such as owners, operators or engineers, as well as decision makers in government and anyone responsible for ensuring the resilience of the UK's infrastructure to climate impacts.

Ensuring that we are fit for the future

This section details what we have done in 2014 to 2015 to address the following aims of our corporate plan:

- make the best possible use of our funding to achieve more for people and the environment
- provide a safe and healthy working environment
- equip and train staff to achieve their potential and maximise their productivity
- recruit and retain a diverse workforce
- provide a first class, professional service
- minimise our own environmental impact
- use evidence and knowledge to guide and inspire our own actions and the actions of others

Make the best possible use of our funding to achieve more for people and the environment

Manage public money prudently and wisely and support a government-wide approach to shared services

Move to a new structure

On 1 April 2014 we started our move to a national, local structure. Work that we previously did at a regional level has now moved into area and national teams. We reduced staff numbers from 11,400 in October 2013 to 10,235 at the end of March 2015 and reduced costs by £10 million per year.

Throughout the change period, we provided a fortnightly update to all staff, held regular online chats, face to face conversations with staff and managed over 1,000 pieces of electronic feedback. We regularly evaluated our communications and maintained a high degree of staff understanding about the need for change and where to go for more information.

The changes we have made are essential to our continued ability to protect and improve the environment for people and wildlife.

Use our workplaces efficiently

We are continuing to rationalise our workplaces and find new ways to make the best, most sustainable use of the space that we have, for example, through increased use of hot-desking and breakout areas. We regularly look for opportunities to let or sell properties that are expensive to run and share our resources with other local public sector partners. This means we can mutually benefit from economies of scale.

Use new technology to make savings

We have been using Acoustic Remote Controlled Boats (ARC Boats) to monitor river flows successfully over the past few years. We are now extending their use to carry out other types of monitoring and surveying. The boats save time and money as they can gauge several sites in a day with fewer staff required to carry out the monitoring. Gauging on the Lower Thames used to take 5 people on a single site each day. During the exceptional winter flooding of 2013 to 2014 only 2 officers were needed to gauge up to 6 sites per day safely, in the most challenging conditions.

The original ARC Boat was designed to be capable of working in the largest rivers and the biggest floods. To achieve this, the boat needed to be larger and heavier than was necessary in more normal, lower flows. We are now developing a second, smaller boat, ARCLite, with Cranfield University, which is intended to cope with the monitoring activities carried out on smaller rivers and in much lower flows. Crucially, it will be small and easy enough to be deployed and operated by a single person.

Maintain our leadership on sustainable, value for money procurement

We are ensuring long term sustainability is at the heart of all our choices and decisions. Our supply chain is one of 4 main areas within our new corporate sustainability plan.

We are encouraging suppliers to be innovative in their responses to tenders and we share ideas with them. We are looking at the design of products and services, securing the long term supply of sustainable materials and the right skills to deliver our work in the future. We work closely with our supply chain to help them become more sustainable and improve their efficiency. In 2013 we launched our Sustainable Engineering Procurement Strategy and awarded our biggest framework ever, the Water and Environment Management Framework (WEM).This framework means we can do more for people and the environment with the available funding.

We manage the sustainability risks and opportunities of our activities and business decisions, contract management and supplier development in a consistent way across all areas. We will apply what we've learnt from the WEM framework and our major outsourced IT contract.

Where we can, we influence pan-government frameworks and share our experience with partners, helping them to be more sustainable.

Reduce the environmental impacts of our supply chain

Over 70% of our environmental impacts come from the goods, works and services we buy. Our processes ensure that we only purchase products and services that we need and that we look for the most sustainable solution to meet our needs and provide value for money. Where we do need to make a purchase it is important that our suppliers provide us with goods, works and services that reflect our corporate objectives to create a better place for people and the environment.

Our spend categories have been prioritised to identify the high risk areas that we need to concentrate on. These have been assessed against criteria which include the environmental, social, commercial and business risks associated with them, and the amount we spend. We are working with our suppliers and a partner organisation to quantify and place a monetary value on the environmental impacts of the goods, works and services we purchase. This is due to be completed shortly and will help us to further understand and quantify the risks associated with our supply chain. Part of this work will also look at the affect of climate change on some of our core business activities. The findings from this analysis will be used to help provide a baseline for our supply chain impacts so that we can measure improvement annually.

We are also analysing our suppliers' commitment and contribution to driving more sustainable business practices. The results of this work will help highlight the Supplier Development Programme for Sustainability.

Sustainable materials

We work hard to reduce our use of non-renewable natural resources and, where possible, reuse or recycle materials. We monitor the amount we spend on these resources so that we can demonstrate that good environmental governance is consistent with strong financial management. Our corporate targets show how we're progressing in this area.

Where possible, we use recycled or reused aggregates rather than primary source aggregates and take into account the associated carbon impacts. 95% of the steel in the sheet piles for our construction projects are from recycled sources. We make sure all of the timber we purchase is from legal and sustainable sources in line with UK government Timber Procurement Policy. This applies to timber that we purchase directly or by contractors working on our behalf. Our approach to timber procurement has been cited as an exemplar in a recent World Wildlife Fund report. We will continue to reduce our impacts and focus on securing the long term supply of sustainable materials.

Provide a safe and healthy working environment

Proactively involve our workforce and partners in improving health, safety and wellbeing standards

The health, safety and wellbeing of our staff and those we work with is at the heart of everything we do. This year we've worked with trade union representatives, our staff, board and executive directors on a new policy, core values and commitments that will result in improvements in our culture and performance. We've also provided our staff with better tools to help them do their jobs safely, rationalising our guidance and procedures.

We will continue to prioritise our work around the important risks, needs and demands of the organisation. 'Safety critical incidents' are our main focus, where the actual or potential result is considered unacceptable (in terms of harm, loss or reputation) and where we have lessons to learn. We have also increased our emphasis on wellbeing.

Equip and train staff to achieve their potential and maximise their productivity

Monitor staff opinion

The Internal Quarterly Survey is part of our programme of staff research. We do a full employee survey every 2 to 3 years and an interim quarterly sample survey. The survey is sent to a random sample of 2,000 staff and has a response rate of around 60%. It covers the main employee engagement themes as well as other organisation-wide issues. The responses in January 2015 showed an increase in staff motivation and satisfaction. We use the data to monitor the improvement themes from the latest full survey – valuing our staff, leadership, managing change, developing staff, supporting staff to be healthy, safe and well and tackling disadvantage.

Recruit and retain diverse workforce

Corporate target 5b

We have a diverse workforce – Green

5b.i The proportion of our staff who are of Black, Asian and Minority Ethnic (BAME) origin is 3.8% against a target of 3.7%.

5b.ii The proportion of Executive Managers who are female is 35%. This is above our target of 33% (based on our aim of recruiting 50% female executive managers).

Diversity and inclusion action plan

This was the third year of our 2012 to 2016 diversity and inclusion action plan. We made good progress on our ambitious aims to be in the top 25% of employers for gender, race, sexual orientation and disability. To help with this, we extended our programme of managers' workshops to raise awareness of diversity and help them manage any unconscious bias. These workshops helped ensure that recruitment decisions in our change programme were transparent and fair. We expect all managers to follow 'Inclusive leadership', which means creating a place where everyone can truly be themselves and so are able to give their best. To make sure this approach is followed, we have set new stretching expectations for all managers, which ensure other people's views, backgrounds and preferences are considered at all times.

We have been actively formulating initiatives to build on our already inclusive culture to help everyone feel they are respected at work and able to perform to the best of their abilities.

One of our executive directors champions the career development, career progression and retention of our disabled employees, and reviews what we are doing to make sure we do not discriminate against our employees. This includes progress on our workplace reasonable adjustments processes for employees with a disability or impairment.

We continue to operate a guaranteed interview scheme, which 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.

During the financial year we worked with external providers to develop and introduce a 3 day personal skills and development programme tailored for disabled employees. We have held two of these programmes already and have scheduled more for later in the year.

Growth of employee networks

Our employee-led networks continue to grow. This year staff have started hearing loss, irritable bowel disease, mental health, physical impairment and visual impairment networks. These complement our black, asian and minority ethnic, Christian, dyslexia, Islamic, lesbian, gay, bisexual and transgender (LGBT), Sikh and women's networks.

We continue to increase our understanding of our employees through a confidential self-disclosure programme. This allows employees to give us information about their diversity so that we can respond to their needs. This year 84% of our employees completed their self-disclosure.

We will aspire to be the best we can, and will benchmark ourselves regularly to learn from others

Continue to improve diversity

For the first time we are among the top 25% of all employers who record data on gender (Opportunity Now) and race (Race for Opportunity) as well as on sexual orientation (Stonewall). We have entered the top 50% of all employers who record data on disability with plans to achieve top 25% status within a year.

We review the diversity of our workforce in accordance with our responsibilities under the Equality Act 2010.

- Age: the largest age groups are 31 to 35 and 36 to 40 years (16% each); this has been the case for the last 6 years although we anticipate seeing an increase in the older portion of our workforce with the removal of the default retirement age.
- Disability: out of the 80% of employees who have disclosed their disability status, 12% say they are disabled, have an impairment, or have a long term health condition.
- Gender: our workforce as a whole comprises a higher proportion of men (59%) than women (41%). The age profile is slightly older for men than for women. 35% of our executive manager population is female, up from 25% on 31 March 2010.
- Race/ethnicity: those employees from Black, Asian and Minority Ethnic backgrounds comprise approximately 3.8% of our employees.
- Religion: 73% of our staff disclosed their faith. The top three faiths disclosed are Christian (36%), No belief (32%), and Other (4%). There are a small number of employees who are Muslim, Buddhist, Hindu, Sikh, and Jewish. Knowing this helps us focus attention on how best to support our employee networks, making sure that staff of all backgrounds have a voice that is listened to.

- Sexual orientation: 76% of staff have disclosed their sexual orientation and 2% of the workforce disclosed their sexual orientation as gay man, gay woman / lesbian, bisexual or other.

Keep staff informed

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

Minimise our own environmental impact

Take account of the total environmental impact of our business decisions

We have an important role to play in ensuring we minimise the impact of our activities on people and the environment. We are also reviewing the wider impact of the goods and services that we buy.

Environmental performance achievements

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

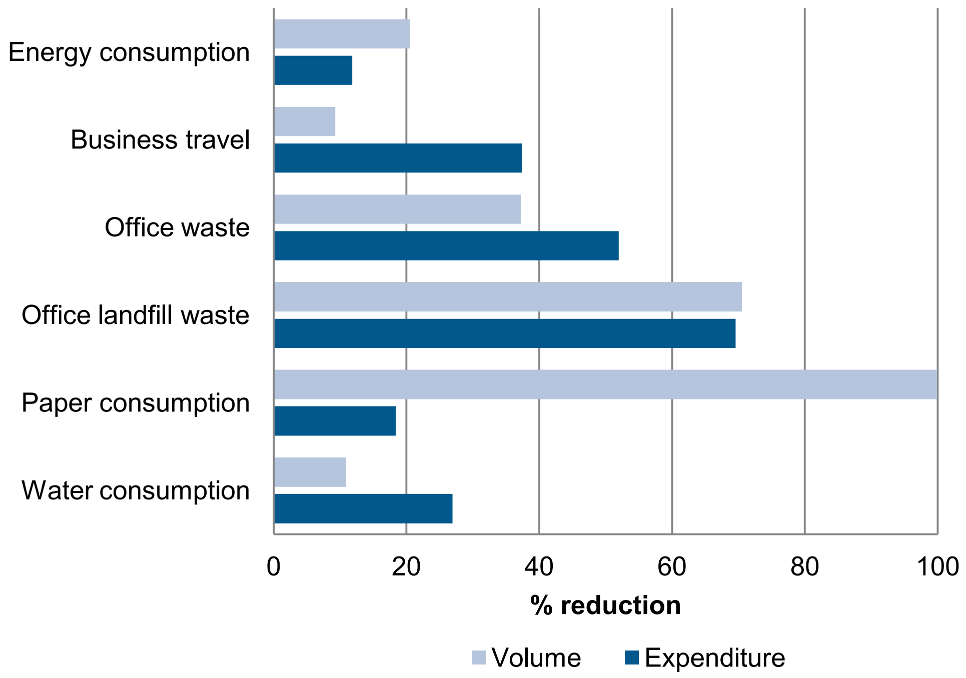
This year marks the end of our current 7-year internal environmental strategy. We have improved our performance, seeking to minimise the negative and enhance the positive effects our activities might have on the environment. This strong performance has helped deliver environmental benefits and financial savings.

Measure	Target reduction from baseline	Actual reduction by March 2015
Residual office waste	100%	96%
Total office waste	20%	50%
Mains water	25%	39%
Mileage	25%	37%
Carbon emissions	33%	40%

We spent just over £5.6 million on electricity during 2010 to 2011, and around £4.4 million in 2014 to 2015. Projects to reduce our electricity use have helped contribute to a £1.2 million reduction in the annual cost of electricity compared to 4 years ago.

The figure below is a summary of our environmental impact per full time employee over the past 3 years. It highlights the trend of reducing impacts per employee since the financial year 2012 to 2013. We want our environmental impact per employee to be as low as possible. By measuring the volumes and costs associated with these we are able to focus our efforts where we can achieve the most significant benefits.

Environmental footprint and expenditure per full time employee since 2012 to 2013



Seek opportunities to reduce our direct environmental footprint further

Carbon reduction programme

We have continued to implement our carbon saving investment programme to reduce carbon and save money. For example, instead of driving to inspect our operational assets we've installed webcams to monitor them remotely. This has saved us time and fuel. We estimate that this project alone will save us approximately £300,000 each year, as well as bringing health, safety and wellbeing benefits for our staff. Upgrading our lighting with efficient LEDs provides a better working environment, uses less energy and reduces waste as the lights last for 50,000 hours. This element of our investment programme will deliver carbon reductions of around 1,600 tonnes per annum.

Biomass boilers

During 2014 to 2015 we saved 140 tonnes of carbon from a single project to replace the oil fired boilers at one of our laboratories with a biomass boiler fuelled by wood chips. This amounted to a 20% reduction in our carbon emissions for the site during the last year and a £25,000 saving in fuel costs.

Reducing the impacts of our travel

This year we travelled a total of 52.7 million miles to meet our operational requirements. Much of our travel (36%) was by rail. However, the nature of our flood risk and regulatory work necessitates travel by road as well. We are seeking to reduce the carbon intensity of our vehicle fleet. This year, our award winning fleet cars produced average emissions of 108 grammes of carbon dioxide per kilometre driven.

Our carbon dioxide emissions from travel have reduced by 35% compared to our 2006 to 2007 baseline. We continue to encourage our staff to use telephone and video conferencing.

Ultra-low emission vehicles

We are committed to lowering the carbon footprint of our fleet and are implementing a programme to use Ultra Low Emission Vehicles (ULEV). These vehicles emit less than 75 grammes of carbon dioxide for every kilometre, and the models we've chosen emit less than 50g of carbon dioxide per kilometre. We are also enhancing our electric vehicle charge point infrastructure to support the use of more ULEVs.

Asset replacement

During 2014 to 2015 we carried out a programme to update 580 commercial vehicles, plant, diggers and boats worth £16 million. As a result, we can be sure we are operating the safest, most operationally effective fleet, with the lowest environmental impact and running costs.

Recognition of our achievements

We won 'Best Public Service Recycler of the Year' at the National Recycling Awards 2014. We also won 'Fleet News Green Fleet of the Year 2015', and were highly commended for the overall 'Fleet of the Year award' at the Fleet News Awards 2015.

We were shortlisted:

- for the Waste and Resource Management category at the Sustainability Leaders Awards 2014
- as the 'Most Sustainable Public Sector Organisation' at the Public Sector Sustainability Awards 2014. We were runner up in this section after the National Assembly of Wales
- to be the English entry in the European Eco Management and Audit Scheme (EMAS) Awards. This focuses on eco-innovation and also considers the whole organisation's approach to sustainability
- for the 'Green IT Project of the Year' as part of the Business Green Leaders Awards 2015

Provide a first class, professional service

Converge our online content, tools and transactions on GOV.UK

As part of the rationalisation of government websites, we closed the Environment Agency website and moved our content to GOV.UK in April 2014. As well as making sure our services linked seamlessly to our new content we also moved, reviewed, republished and archived a total of 25,000 html pages and over 10,000 documents. The transition went smoothly and was viewed as an exemplar of best practice by the Government Digital Service, which is responsible for GOV.UK. As a result, no reduction of service or rise in complaints was recorded. Since the move, we have used feedback from customers and analysis of web traffic to make continuous improvements to the way our content is organised and can be searched.

Ensure that our communications are appropriate for their audience

Reform and reduce our guidance

During the year we have been reforming our external guidance to reduce duplication and make sure it meets user needs. This work is part of the Smarter Environmental Regulation Review (SERR), carried out across the Defra network. As a result of our work, we have already seen a 40% reduction in the volume of Environment Agency-led guidance.

We're now reviewing the remaining topics and expect to see further significant reductions by the end of the current parliament. This transformation is good for our customers because they get concise, reliable, co-ordinated government guidance and it also means less guidance for us to manage.

Use evidence and knowledge to guide and inspire our own actions and the actions of others

Make more of our data free and more of it readily available for others to use

In May 2014 we made the commitment to become an 'open data' organisation. This means that we will gradually begin to release all of our data in accessible formats for anyone to use free of charge. All new data releases are now in Open Data.

In December 2014, we released the risk of flooding from rivers and sea data products (formerly known as Nafra) as Open Data. These are perhaps the most significant of all our flood risk datasets. Anyone can now access the data, even for commercial use, for example in developing apps for mobile technology. People can use our data to better understand their risk of flooding and protect themselves. This will increase the success rate of people receiving and acting on a flood warning. These products have been created at no cost to the Environment Agency and are often developed in a much faster, more targeted and customer focused manner. This significantly increases the reach and influence of this data and helps enable others to make more informed environmental decisions. We now have well over 100 Open Datasets available from our total of 1,700.

Manage our finances effectively

Overall results

Our total gross expenditure for the financial year ending 31 March 2015 year was £1.3 billion. This was an increase of £131 million on the previous year (as shown in the Statement of Comprehensive Net Expenditure). Of our total expenditure, £857 million (66%) came in the form of funding from Defra.

Net expenditure for the year was £887 million. We are required to treat grant-in-aid of £890 million from Defra as a financing contribution as they are our sponsoring body. Therefore we credit it directly to the general reserve and do not include it in our net expenditure in the financial statements.

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

	2014 to 2015	2013 to 2014	2012 to 2013	2011 to 2012	2010 to 2011
	£ million	£ million	£ million	£ million	£ million
Staff costs (excluding pension charge)	338	373	395	365	403
Pension charge or (credit)	74	70	54	55	(161)
Capital works expensed in year	281	215	219	223	247
Depreciation and amortisation	103	105	107	103	102
Other expenditure	499	401	432	421	402
Gross expenditure	**1,295**	**1,164**	**1,207**	**1,167**	**993**
Income	(410)	(428)	(435)	(417)	(416)
Net expenditure	**885**	**736**	**772**	**750**	**577**

The major reason for the increase in expenditure in 2014 to 2015 is due to works to repair and restore flood risk management assets following the winter flooding in 2013 to 2014.

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

Expenditure

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

Table 2: Expenditure by business area

Expenditure	2014 to 2015 (£ million)	% of total spend	2013 to 2014 (£ million)	% of total spend
Flood and coastal erosion risk management	824	65	664	57
Environment and business	471	35	500	43
Total	1,295	100	1,164	100

The increase in total expenditure is because of the work we carried out in response to the severe flooding of the winter of 2013 to 2014. The government provided £270 million of additional funding, spread over the 3 financial years from 1 April 2013 to 31 March 2016. Flood and coastal erosion risk management therefore represents an increased proportion of total spend.

Table 3: Our future funding from Defra

Funding area	Funding 2015 to 2016 (£ million)	Funding 2014 to 2015 (£ million)
Flood and coastal erosion risk management		
Revenue	268	262
Capital	383*	490
Total flood and coastal erosion risk management funding	**651**	**752**
Environment and business		
Revenue	65	87
Capital	4	18
Total environment and business funding	**69**	**105**
Total	**720**	**857****

* £12 million of additional funding in 2015 to 2016 is held in a HM Treasury reserve

** This is the total grant-in-aid funding for 2014 to 2015, the cash grant-in-aid received was £890m

Table 3 includes the extra £270 million of funding that the government has allocated for flood and coastal erosion risk management in response to the winter floods, but does not include funding provided by Defra for depreciation or the Environment Agency Closed Pension Fund.

Flood and coastal erosion risk management partnership funding

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

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

Financial management

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

From 1 November 2013, our transactional processing work in finance and human resources (HR) transferred to Shared Services Connected Limited (SSCL), a joint venture between Sopra Steria Ltd and the Cabinet Office. We worked closely with SSCL to manage the transition to an outsourced shared service. SSCL also supports Defra, the Department for Work and Pensions, the Ministry of Justice and the Home Office. The Cabinet Office business case estimates an average 21% saving in costs for us over the first 10 years of the contract. Our contract with SSCL is for 7 years and we can renew it for a further 3 years at the end of the initial term.

As part of the contract, SSCL are required to deliver an upgraded Finance and Human Resources system to replace the current Oracle system which is due to go out of support from 31 March 2016. We are due to implement the new system in summer 2015, well before our existing system becomes unsupported. We are working very closely with SSCL to ensure that the replacement system will continue to meet our business needs.

Non-current assets

Non-current assets in the year have increased in value by £91 million. The value of our non-current asset base is over £2.7 billion. The increase is mainly as a result of continuing capital investment, increased following the winter flooding of 2013 to 2014 and revaluing our assets as required by accounting standards.

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

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

Manage risks

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

Going concern

The Statement of Financial Position at 31 March 2015 shows taxpayers' equity of £1.8 billion (at 31 March 2014 this was £1.9 billion). In common with other government non-departmental public bodies, the future funding for our liabilities will be as grant-in-aid from Defra and other income. Parliament approves this funding annually.

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

Paul Leinster

Accounting Officer

23 June 2015

Directors' report

Board and executive directors

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

Table 4: Executive directors for the Environment Agency

Position	Position holder	Period of service
Chief Executive*	Dr Paul Leinster	1 Nov 2008 to present
Executive Director of Environment and Business	Mr Ed Mitchell	1 Apr 2010 to present
Executive Director of Operations**	Mr David Jordan	1 Jun 2008 to 31 March 2015
Executive Director of Evidence	Ms Miranda Kavanagh	29 Apr 2009 to present
Executive Director of Resources and Legal Services	Mr Jonathan Robinson	18 Jul 2011 to present
Executive Director of Finance	Dr Mark McLaughlin	22 Jun 2009 to present
Executive Director of Flood and Coastal Erosion Risk Management	Mr David Rooke	1 Nov 2011 to present

* Paul Leinster has announced his departure as Chief Executive. He will leave the Environment Agency in September 2015

** Toby Willison was appointed Executive Director of Operations on 1 April 2015

A full list of board members is provided in the Remuneration Report. The notice period for executive directors is at least 3 months.

The board members and executive directors had no company directorships and other significant interests which may conflict with their management responsibilities in the financial year 2014 to 2015.

Manage our buildings

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

Creditor payment policy and statistics

We aim to meet the level of performance for paying creditors in 'British Standard 7890: Method for achieving good payment performance in commercial transactions' and relevant HM Treasury guidance. During the year we paid over 98% of invoices from suppliers within 10 days of receipt and registration, compared to 96% in the previous year. Creditor days, calculated on an average basis for the year, were 3 days, one less than in the previous financial year.

Pensions

The Environment Agency is a statutory member of the Local Government Pension Scheme (LGPS). We are the administering and employing authority for the Environment Agency's Active Fund. The Active Fund was created in 1989 for employees of the National Rivers Authority. It now provides final salary pension benefits to over 23,000 people, who are current and former employees of the Environment Agency, Natural Resources Wales and Shared Services Connected

Limited (SSCL). Natural Resources Wales joined the Active Fund on 1 April 2013 and SSCL joined the Active Fund on 1 November 2013. For the financial year 2014 to 2015, the Active Fund received contributions from:

- staff - between 5.5% and 7.5% of pay
- the Environment Agency and Natural Resources Wales - 17.5% of pay
- SSCL - 22.7% of pay
- income from its assets

The assets of the fund relating to the Environment Agency have increased in value by £329 million to £2,420 million during the year. This figure allows for contribution income and benefits paid out over the period. The overall net liability has increased to £705 million, mainly as a result of changes in the assumptions used by the actuaries to calculate future liabilities. For more information, see note 15 to the financial statements. For details of Executive Directors' pension arrangements see the Remuneration report.

2015 marks the 10th Anniversary of the Environment Agency Pension Fund's approach to integrating responsible investment into our decision making, becoming a global leader. Being a responsible investor means delivering our financial goals in the best long-term interest of our members, which recognises that environmental, social and governance issues can adversely impact on the Fund's financial performance. These issues should be taken into account in the funding and investment strategies and throughout the funding and investment decision making process.

In November 2014 the fund won an award for the integration of environmental, social and governance issues and another for climate related risk management. Both were awarded by Investment Pensions Europe (IPE) which recognises good practice and excellence across European Pension Funds. The fund also won the 'Portfolio Institutional' award for the best implementation of responsible investment.

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

External funding

Last year we paid out £151.9 million as capital grants to local councils and internal drainage boards, from specifically designated money from Defra, for:

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

We work in partnership with community organisations, such as local trusts and associations, to improve local environments. We are also involved in environmental improvement projects which use external funding including EU match funding schemes and the Heritage Lottery Fund. This year, the total expenditure on these projects was £6.1 million. We contributed £0.6 million, with the balance coming from other project partners and external funding schemes.

Sickness absence data

We closely monitor sickness absence and have policies in place to reduce staff sickness absence. An average of 7 days per full time equivalent employee was lost to sickness absence during the reporting year ending 31 March 2015. This has increased from 6 days in the previous year.

Protect personal data

We had no reportable security incidents between 1 April 2014 and 31 March 2015, the same as in the previous financial year.

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

Research and development expenditure

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

Auditor

The Comptroller and Auditor General, Head of the National Audit Office (NAO), is the statutory external auditor of the Environment Agency. The NAO received no remuneration for non-audit services in the year to March 2015, the same as in the previous year. The fee for the statutory audit was £175,000 (2013 to 2014 - £185,000).

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

Tax arrangements of public sector appointees

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

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

Tables 5 and 6 reports the information required on these arrangements.

Table 5: Off-payroll appointments at 31 March 2015, for more than £220 per day and that last longer than six months

Length of time of appointment at 31 March 2015	Number of appointments
Less than 1 year	36
1-2 years	10
2-3 years	10
3-4 years	15
4 years or more	17
Total	**88**

Table 6: Off-payroll appointments between 1 April 2014 and 31 March 2015, for more than £220 per day and that last longer than six months

Appointments between 1 April 2014 and 31 March 2015	Number of appointments
Total appointments	**37**
Appointments including contractual clauses giving us the right to request assurance for income tax and National Insurance obligations	37
Appointments for whom we have requested assurance	37
Appointments for whom assurance has been received	37

There were 17 board members or senior officials with significant financial responsibility over the organisation during the financial year 2014 to 2015. We did not pay any of them via off-payroll arrangements.

Paul Leinster

Accounting Officer

23 June 2015

Governance statement

1. Introduction

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

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

2. Effectiveness of governance arrangements

2.1 The governance framework

The Environment Agency is a non-departmental public body sponsored by the Department for Environment, Food and Rural Affairs (Defra).

The Environment Agency is led by a non-executive board appointed by the Secretary of State for the Environment, Food and Rural Affairs. Ministers expect the board to ensure that the Environment Agency fulfils its statutory duties following the guidance and directions which they provide, to ensure that the organisation operates with propriety and regularity and is efficient and effective. The Chief Executive is a board member alongside 11 independent non-executive board members, including the Chairman.

The board, Executive Directors' team and senior managers review performance across all areas of the Environment Agency's activities. We discuss our performance with Defra at regular meetings of officials, including meetings with Defra's Accounting Officer. Our Chairman and Chief Executive regularly meet with the Secretary of State for Environment, Food and Rural Affairs and other Defra ministers. This year, the topics discussed during ministerial meetings included:

- the roles and responsibilities of the Environment Agency
- flood risk management and maintenance
- incident response
- water resource management
- onshore oil and gas
- the Thames Estuary project
- budgets and how they are allocated
- waste fires
- illegal waste
- shared services and joint working across the Defra network

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

2.2 Committee structure

The board has established committees for a number of important business areas. The chair of each committee gives an update at board meetings and raises issues to the board as necessary. The Remuneration report lists the members of each committee. Board members' attendance at meetings is high and proportionate to their roles (see Appendix C). Three of these committees are a statutory requirement. These are:

Audit, Risk and Assurance Committee

The Audit, Risk and Assurance Committee is appointed as a committee of the Environment Agency's board.

The committee supports the board to fulfil its responsibilities for risk management and governance, by reviewing the comprehensiveness of assurance in meeting the board and Accounting officer's needs and reviewing the reliability and integrity of this assurance.

The Audit, Risk and Assurance Committee:

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

Defra's Head of Internal Audit and the National Audit Office (NAO) attend the committee meetings.

Major areas of work during the financial year included:

- our major internal change programme, the Strategic Review Response Programme which removed the regional level of the organisation (also see section on Financial management)
- managing organisational risks
- Capgemini's management of our IT service
- the NAO's value-for-money reviews and audit work
- Shared Services Connected Limited management of our finance and human resource services
- upgrading our Oracle computer system.

Pensions Committee

The Pensions Committee (and its investment and benefits sub-groups) has the principal aim of considering pensions matters with a view to safeguarding the interests of all pension fund members. The Committee advises the board on all aspects of stewardship of the Active and Closed Pension Funds and on wider pension issues.

Significant issues during the financial year included:

- changes to the Local Government Pension Scheme regulations including governance, cost effectiveness and embedding new Career Average scheme
- our major internal change programme, the Strategic Review Response Programme
- review of our investment strategy and climate risk management strategy
- improved access to pension fund information

Remuneration Committee

The Remuneration Committee is a committee of our board established to consider matters relating to the pay or remuneration of our employees. Further information on the Remuneration Committee activities can be found in the Remuneration Report.

The Environment Agency has established 2 further committees to help shape and steer our operational duties and functions.

These are:

Flood and Coastal Risk Management (FCRM) Committee

The committee considers and advises our board and Chief Executive on the following:

- grant-in-aid funding allocations to the Regional Flood and Coastal Committees (RFCCs) in England for flood risk management capital and revenue activities

- performance related to grant-in-aid funding
- locally raised income, such as contributions, precepts, levy and drainage charges

Environment and Business Committee

The Environment and Business Committee considers and advises the Environment Agency board and the Chief Executive on our responsibilities for regulating industry, waste management, protecting and improving air, water and land quality, climate change mitigation and adaptation.

The committee advises on:

- the exercise of relevant powers and the discharge of duties
- any proposed new powers and duties
- proposed charging schemes, including consultations
- the allocation of grant-in-aid and charges income

2.3 Regional Flood and Coastal Committees

We also oversee a number of Regional Flood and Coastal Committees that were established under the Flood and Water Management Act 2010. RFCCs:

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

We advertise all Regional Flood and Coastal Committee meetings locally and the public are able to attend.

2.4 Executive Directors' team

The Chief Executive manages a team of national executive directors who provide leadership and strategic direction to the organisation (see figure 1). The executive directors are responsible for:

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

The Chief Executive and executive directors meet regularly as a team and also with the Environment Agency's board, and 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 our organisation.

Changes to our structure

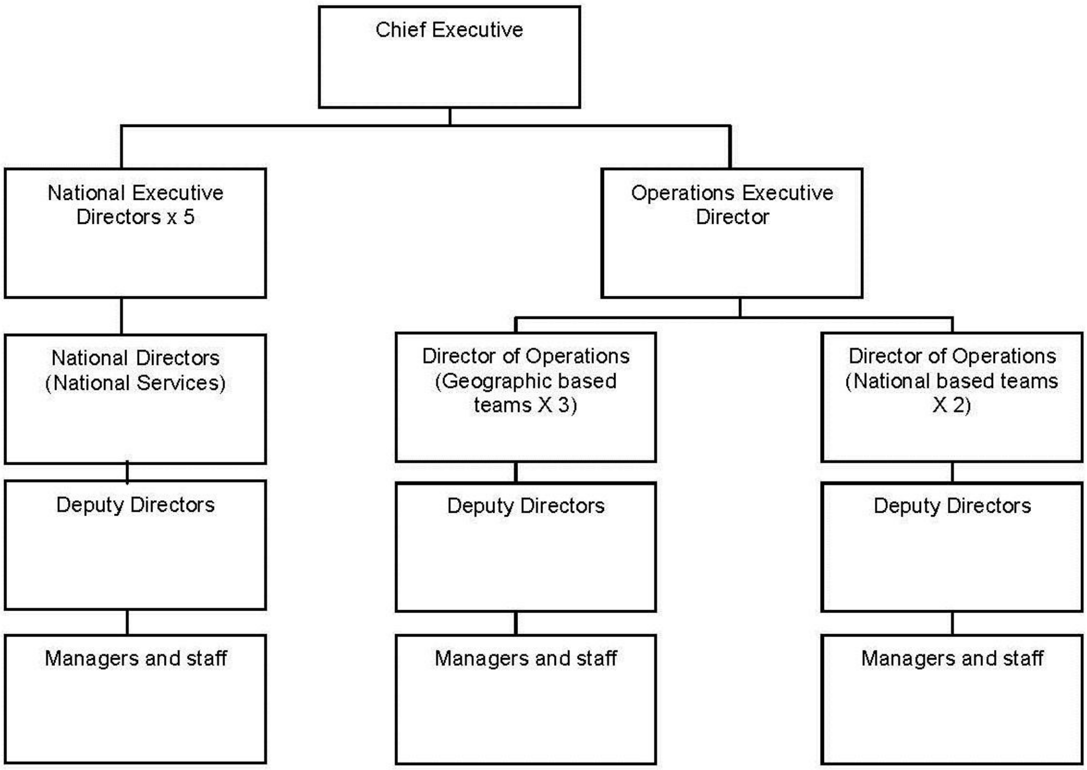
We implemented a major organisational change programme in 2014 to 2015 that removed our regional operational structure. This has reduced our organisational costs and improved efficiency and effectiveness.

The first phase of structural change was implemented on 1 April 2014 when we started to operate nationally and locally. Further structural changes were made in November and December 2014, following staff and trade union consultation.

Our structural change is now complete but we are continuing to simplify and change the way we work throughout 2015. We will continue to meet local needs through area-based operational teams, but carry out services nationally when this is more efficient.

Our revised governance reporting lines are shown in figure 1 below:

Figure 1: Environment Agency reporting lines



Sharing our experience

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

- Defra network of Heads of Internal Audit
- Defra Counter Fraud Network
- Cross-government Fraud Investigators' Group
- HM Treasury-sponsored Risk Improvement Group
- Financial Reporting Advisory Board
- Continuous Improvement Strategy and Planning Group
- The government's Project Program and Portfolio Management Head of Profession group
- Government Communications Service
- Defra Network Executive Committee

Reporting on our progress

We report on our progress against objectives and performance targets in our corporate scorecard as well as in this document. We also detail how we have allocated our resources. In April 2014, we published our corporate plan 'Creating a better place for 2014 to 2016'.

We developed our existing system of internal control over many years, in accordance with HM Treasury guidance. We continue to require business leaders to report on their management of controls, known as stewardship reporting, during the financial year. This assurance mechanism provides an active method of obtaining evidence from across the whole business to support this governance statement. Further details are provided in the 'Effectiveness of the internal control system' section.

2.5 Data governance

Good data governance means being clear about who is accountable and responsible for data. Senior managers take a lead role by being aware of the data we hold and its quality. This applies to all our data, both business (including financial) and environmental. We continue to improve our understanding of how data is used, its risks, and what we need to do to improve its quality. However, improving data quality takes time. We want to put data integrity at the heart of our culture and understand the level of confidence we have in all our data products. We use data quality action plans to measure, assess, improve and monitor data quality.

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

2.6 Compliance with the corporate governance code

We conduct our procedures in accordance with relevant best practice as identified in the Financial Reporting Council's Corporate Governance Guide, a copy of which is widely available online. Our handbook for members reflects best practice from this guide, and board Members 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 conflicts of interest and discuss any disclosures with their line manager.

We report our overall organisational performance to the Executive Directors' team, the board and Defra at least quarterly, with more frequent reporting of specific items as required. The Secretary of State also reviews our performance at half-yearly ministerial performance reviews. Our corporate scorecard uses a system of red, amber and green to reflect our level of performance against our targets. Where we have measures that score red or amber, we agree actions to manage and improve our performance.

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

The Executive Directors’ team meets formally 3 times every month to discuss and make decisions in relation to:

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

The Executive Directors’ team receives data and information from across the business to support its discussions at these meetings. They have an agreed programme of actions in line with their level of involvement in corporate decision-making.

The board carried out an effectiveness review in June 2014 and they decided to:

- review their roles in supporting business areas
- invite directors to attend committees, where relevant to their portfolios
- clarify their role during flood and other operational incidents
- consider their approach to risk assessment

Additional planning meetings are held as required.

In September 2014 the NAO carried out an annual self-assessment exercise with the Audit and Risk Assurance Committee. The review included board members, executive directors and senior managers who regularly attend the committee meetings. The committee discussed the results at their November 2014 meeting. The main outcome of the review was to hold a workshop for board and Audit and Risk Assurance Committee members to ensure their continued involvement in risk management, and allowing sufficient time to reflect and give further scrutiny of risk.

3.1 Data quality

All papers and data submitted to the board and committees are subject to a rigorous review process to ensure that the quality of data used by the board is acceptable. This review includes Executive Director and Chief Executive sign-off. A yearly evaluation provides an opportunity for members to raise concerns about data quality. No issues were raised in the 2014 review.

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 Audit Risk and Assurance Committee 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 review and update the risks at least quarterly

The Environment Agency has many different types of risks to manage and so we do not have an overall risk appetite statement. Instead we set our appetite at the individual risk level, based on management judgment.

We express the appetite for that risk through the target score developed in the evaluation stage of our risk management framework. Where the current risk assessment provides a score higher than the target score, controls are required to mitigate the risk and ensure it is brought down to an acceptable level. If this cannot be achieved, the risk is escalated to the next management tier.

The Audit Risk and Assurance Committee receive reports at each meeting which show how we are managing our corporate risks. We report to Defra on our top corporate risks in a quarterly supervisory report.

Local risk and assurance leads provide leadership and help individual management teams and directorates develop their risk and assurance capability.

4.2 Effectiveness of risk management

We continue to follow a consistent approach to risk management across the organisation. Risk registers are in place for each directorate and operational management team, which include details of current and target scores, mitigating measures and the risk owner. The September 2014 annual risk review indicated that we continue to be effective at risk management, with good quality risk registers in place and a good level of control over each risk. The registers include assurance scoring on the management of individual risks.

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

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

4.3 Organisational risk profile

The Executive Directors' team are currently managing 15 risks on the corporate risk register. These include:

- IT capability and capacity, including information security
- staff motivation and effectiveness
- data integrity
- the impact of external projects, including outsourced services and change programmes led by Cabinet Office and Defra
- negative media or parliamentary comment
- hydraulic fracturing
- water framework directive
- grant-in-aid
- bathing water
- onshore oil and gas
- Illegal waste

A risk review is carried out each year. In September 2014 we completed this review, which collated and analysed risk registers from each operational area and each head office directorate.

There has been a general improvement in the quality of our risk registers in comparison to 2013's registers. This year all risk registers included assurance scoring on the management of individual risks.

Following an internal audit recommendation in the last financial year we are setting up a network of risk leads across all areas of our business that review and discuss best practice regularly around all aspects of risk management

4.4. Communications

We maintain the appropriate resources, skills and networks to handle media interest in all our work. We are continuing to manage this as a corporate risk, considering the wider impacts of traditional and social media on our work.

We continue to engage with communities and stakeholders and are building relationships with partners, opinion formers and the media. We are improving our internal communications to keep staff informed; recognising the influence they can have with friends, family and the local community.

We monitor and evaluate press and social media coverage and we are ready to rebut factual inaccuracies and present our case at speed.

5. Effectiveness of the internal control system

5.1 Overview of the internal control system

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

The Accounting Officer has been advised, based on audit reports that have been produced during the year and other papers and presentations at Executive Directors' meetings. At their meetings, the Audit and Risk Assurance Committee discuss internal audit reports. These reports highlight areas of concern, progress on previous areas identified for improvement, and ways to improve existing systems.

Specific areas of concern during the financial year are set out in the ‘Significant risks and actions’ section of this governance statement. We have put in place management actions across the business to mitigate and manage these risks.

5.2 Internal audit assurance

The Head of Internal Audit submits a yearly assurance statement to the Accounting Officer. This statement outlines the adequacy and effectiveness of our risk management, internal control and governance processes based on internal audit standards set by the government. The information in this statement is based on the results from internal audits included in our annual ‘Internal Audit Plan’. The Executive Directors’ team and the Audit Risk and Assurance Committee agree the annual plan, and ensure that we take a risk-based and prioritised approach to areas of the business that need auditing. The future plans of both internal audit and external audit (the National Audit Office) are shared together with key findings from our respective reviews.

The Internal Audit team carried out more than 40 reviews of our processes between 1 April 2014 and 31 March 2015. The team provided an overall ‘reasonable’ assurance rating on the adequacy and effectiveness of our arrangements for corporate governance, risk management and internal control. There were no significant weaknesses in controls that threatened the achievement of our objectives. Where the team identified areas for improvement, managers have agreed how they will improve controls.

We also act on the recommendations made by:

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

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

5.3 Stewardship assurance

To enhance the system of internal control, we continue to use Executive Director stewardship statements. These operate on a quarterly basis, supported by evidence from leaders who report directly to Executive Directors. Assurance has been provided during the year on topics including:

- flexible working and time recording
- internal change programmes
- the way we respond to customer complaints and correspondence
- the management of discretionary reward payments
- performance management
- records management

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

6. Significant risks and actions

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

- risk management processes
- stewardship reporting
- risk reporting
- quarterly management and performance reviews
- internal and external audit reports
- specific investigations and reviews carried out by the Corporate Security team, Finance, Procurement and Human Resources (HR) teams, the Fraud Steering Group, and risk management and corporate performance reporting staff

6.1 Flood incidents and maintenance of assets

We were involved in responding to a number of significant tidal and river flooding events during the winter of 2013 and it was vital that we invested the correct resources to ensure the impacts of these events were minimised during the current year and that flood defences were restored to an effective level as soon as possible. Our defences protected over 1.4 million properties during these flood events.

At the start of April 2014, 94% of our flood risk management assets were at or above target condition in high consequence system (where the impacts of flooding would cause the most damage to people or property). The combined effects of the east coast tidal surge in December 2013 and subsequent coastal and inland flooding in early 2014 resulted in significant asset deterioration but we carried out an emergency programme of asset repairs, and with the additional funding from government we have seen significant improvement in the condition of our assets during this year.

By 31 October 2014, all of the flood risk management assets that were damaged during the winter storms had been restored to the pre-winter 2013 standards of protection, protecting over 200,000 households. Currently 96.6% of our flood risk management assets are at or above target condition.

We continue to review our maintenance activities to ensure we spend our reduced revenue funding on the areas of greatest potential flood risk benefit. The improvements we have made to our processes and IT tools for asset management, such as the Asset Information Management System (AIMS) which makes looking at and editing asset information quick and easy, have proven to be very beneficial.

6.2 Recovery in Somerset and elsewhere, from the winter floods

In early 2014, prolonged and persistent rainfall caused flooding on the Somerset Levels. Flood risk management assets protected over 200 square kilometres (km^2) of land and 3,500 properties, but around 180 homes and $65km^2$ of land remained flooded for 3 months. We used an extensive array of permanent and temporary pumps to remove over 100 million tonnes of water from land.

Funds were made available by Defra to dredge an 8km stretch of the Rivers Parrett and Tone. The dredging was completed in October 2014. During the winter of 2014 we installed a dry run pump to test the effectiveness of our response at Northmoor and Saltmoor Pumping Stations to ensure we can install these quickly and effectively with the new temporary pumping infrastructure in place. More pumps for local use were delivered at the end of March 2015, providing extra capacity for any future incidents.

6.3 Onshore oil and gas

We are the environmental regulator for onshore oil and gas operations in England. We take the potential risks arising from shale gas extraction very seriously and regulate to ensure that oil and gas operations are conducted in a way that protects people and the environment. We regulate water use, groundwater protection and the management of wastes such as drilling muds, flow back fluid, gases and any naturally occurring radioactive materials. We regulate to ensure operators comply with their permit conditions.

6.4 Water quality and resources

Over the last three years we've helped create over 100 new catchment based partnerships to look after the water environment.

We have carried out a substantial programme of investigations since 2010 and we probably know more about the water environment and the pressures on it than ever before. This has helped us to set out priorities for action and who needs to act.

Our newly built catchment planning system helps us share our data more readily with others.

The catchment restoration fund enables investment to reduce diffuse pollution and restore habitats. We’ve also been able to take forward projects to reduce and consider the impact of pollution from abandoned mines and invasive non-native species. Projects funded thus far have protected 3,347km of water.

6.5 Waste fires

Major changes in waste management practices over the last 10 years have led to a significant increase in the number of waste sites. This has resulted in significant increases in the storage of combustible materials which have an inherent high fire risk. It is vital that site operators have adequately assessed the fire risk, the potential impact on the local community, neighbouring critical infrastructure and the surrounding environment, and to have plans in place to minimise any fire risk and potential impact. We ensure that sites and risks are properly managed through permit conditions and compliance activities. We are also taking a tougher enforcement approach and are enhancing our work with other regulators, incident responders and landowners.

Local media, stakeholders, MPs and politicians are all interested in how we, local authorities and local fire and rescue services are tackling the risks associated with these fires. The number of serious and significant waste fires in the last 4 years has been relatively constant, at 12 to 20 each year. However the profile of these incidents has risen significantly in recent months. We are alerted to approximately 2,600 fires each year and, of there around 300 are linked to waste activities of which up to 20 have the potential to have significant impacts.

Our common incident classification scheme helps us to classify and record the environmental incidents which we respond to. It measures both the environmental impact of an incident, and its impact on our resources, categorising them from 1 to 4, with 1 being the most severe.

Since January 2014 there have been 245 fires at regulated waste sites and of these, 19 were classified as serious or significant incidents (category 1 or 2).

We are managing this using a single operational and strategic response. Cross business teams have also been established to ensure we can quickly share experiences and learning across teams and provide government with useful information. Our target is to have all current high risk sites showing long term compliance with the permit and following minimum standards for fire prevention.

We are maximising the use of our existing powers and introduced a set of compliance checks to further reduce the risk of fires on 1 January 2015. We launched a joint action plan with Defra to tackle waste crime and poor performance on 28 November 2014. We are also working with Defra on the development of enhanced regulatory requirements.

6.6 Partnership funding

Partnership funding was introduced in 2011 to enable local contributions towards flood and coastal erosion risk management (FCERM) schemes and in turn support the likelihood of receiving government grant, thereby increasing both the likelihood and the number of projects. In 2014 to 2015, partnership funding contributions to Environment Agency-led FCERM scheme expenditure totalled an estimated £19 million. This takes the total partnership funding contributions to Environment Agency led schemes to £57 million since April 2011. In addition to the schemes led by the Environment Agency, partnership funding is raised by other Risk Management Authorities towards schemes which they deliver. The Environment Agency has a strategic overview role regarding the total amount partnership funding secured by all authorities, which to the end of 2014 to 2015 stood at £134 million.

Government grant income is provided for FCERM projects that meet a targeted cost benefit ratio. Projects that are expected to achieve a cost benefit ratio lower than this target require partnership funds. For the 2015 to 2016 – 2020 to 2021 programme, one of the targets specifies that partnership funding contributes 15% of the investment in flood risk management schemes. There is a risk that insufficient partnership funds are raised which would reduce the ability to complete the future programme of planned investments. To mitigate this risk, we are working to identify all potential contributors and beneficiaries of the FCERM program.

6.7 Workforce planning

Ensuring we have the right people with the right skills in the right place is an important issue for us to manage. Workforce planning is integral to the way we work and our business planning. Heads of business are accountable for having strategic workforce plans in place and maintaining skills resilience. A Corporate Business Board oversees and leads the framework for strategic workforce planning. During the current year, the Corporate Business Board has looked at:

- designing and implementing a national and local delivery model, concentrating on structures, roles and having the right number of people to achieve our priority environmental outcomes
- improving our leadership, managerial and technical capabilities
- increasing our organisation's diversity

6.8 Health, safety and wellbeing

We are committed to the health, safety and wellbeing of our staff and the general public. As part of our commitment, we have a Health, Safety and Wellbeing sub group of the board, to scrutinise and challenge our processes. Our goal remains to have no injuries and instances of preventable ill health.

We monitor our performance carefully. We have recently updated our management approach to health, safety and wellbeing to ensure it supports the culture we want. This will help our staff understand what is required of them and encourage them to report incidents freely. We continue to learn from the incidents reported, particularly those we term 'safety critical incidents'. We recognise the importance of wellbeing and have carried out a series of campaigns and other initiatives on this subject.

We prioritise our staff's learning and development so that they are competent in safety critical roles. We will continue to invest in our staff so they can develop the confidence they need and the technical, managerial and leadership skills to be the best that they can.

We use employee surveys to understand how our staff feel about our health, safety and wellbeing culture. The latest survey shows that the vast majority of employees see the Environment Agency as a safe organisation to work for, and one that cares about the health, safety and wellbeing of its employees. The results also show where we need to concentrate, in areas such as clearer career progression and better IT computer systems.

6.9 Security issues

We remain compliant with the principles of the government's Security Policy Framework. We are reviewing our approach to ensure that we follow government guidelines to make greater use of data and data sharing, reduce IT costs and comply with the new security classifications, whilst ensuring we protect our data appropriately.

The transfer of our most sensitive data to more secure environments is almost complete and we are working with Natural Resources Wales to ensure that we maintain our security whilst completing the separation of our IT and other systems.

We are also managing the security implications associated with the transfer of our HR and Finance functions to the shared service provider SSCL.

Since April 2014 to date we have had no reportable security incidents.

6.10 Fraud

In 2014, The Chartered Institute of Public Finance and Accountancy launched a new code of practice for fraud risk management. The Environment Agency is considering adopting this standard.

The following actions will ensure that our management of fraud risk meets all the principles set out in the code of practice. These include:

- ensuring fraud risks are routinely considered as part of our risk management
- ensuring the organisation evaluates the harm to our aims and objectives and service users that different fraud risks can cause. In January 2015 key fraud risk managers in the organisation met to re-evaluate all fraud risks and reassess controls
- producing a strategy for counter fraud and corruption
- ensuring that counter fraud staff (investigators) have unhindered access to our employee information and other resources for investigation purposes
- making sure that our existing policy framework supports the implementation of the counter fraud strategy by developing communications to increase awareness for staff (e.g. whistle blowing) and reviewing others to ensure issues are explicitly addressed and implications included in our Code of Conduct.

6.11 Programme and project management

During the year we continued to improve the way we manage projects and programmes, in particular how we learn lessons and developing a long term investment planning approach for our portfolios.

We completed a major review of how project assurance is carried out. We launched the National Project Assurance Service in December 2014 which now provides an efficient, proportionate and robust assurance service to our organisation. The advice provided helps us to improve how we manage and deliver our projects and programmes. In addition executive directors scrutinise major projects and programmes at the Major Projects Assurance Group, including those which are part of the government's major projects portfolio and subject to assurance by the Major Projects Authority.

The Major Projects Authority works with HM Treasury and other government departments to provide independent assurance on major projects. It also supports colleagues across departments to build skills and improve the way we manage and deliver projects. The Major Projects Authority is part of the Efficiency and Reform Group in the Cabinet Office.

During the year a number of independent reviews were carried out on our project management capability. An internal audit was completed in June 2014 which found that project management processes were sound and generally complied with. A small number of recommendations were made around improving the assurance framework and analysing reasons for project overspends. Both these actions have now been completed.

We continue to work with the Major Projects Authority regarding specific projects they are overseeing, and as part of the Project Delivery Heads of Profession network we took part in a pilot of project management shadowing which helped share good practice across government, and aligned the governance of our major projects with Major Projects Authority best practice.

In December 2014 we announced our 6 year flood risk management investment programme, setting out which projects, schemes and improvements to flood defences and other critical services will receive government funding. As part of this, we worked with Infrastructure UK on assessing our capability and capacity for delivering the programme.

Infrastructure UK is a unit within the Treasury that works on the UK's long-term infrastructure priorities and secures private sector investment. They are responsible for:

- co-ordinating and simplifying the planning and prioritisation of investment in UK infrastructure
- improving UK infrastructure by achieving greater value for money on infrastructure projects and transitions

6.12 Shared Services

On 1 November 2013, we outsourced our finance and HR transactional processing activities to Shared Services Connected Ltd (SSCL), a joint enterprise owned by Sopra Steria (75%) and the government (25%). Audits carried out by independent auditors, Grant Thornton, concluded that there were no significant issues that affect the reporting of our financial performance in this document.

Shared services, whilst giving us a greater opportunity to be efficient, also produces risks that continue to be actively managed. We regularly monitor and assure the quality of service we receive from this venture through routine service management meetings. We monitor the standard of service we're getting through service level agreements and key performance indicators. If SSCL fail on any of these measures, they can be given a financial penalty.

We have been working hard with SSCL on the Transformation Delivery program, which will result in an upgraded Oracle system that can be used across a number of other government organisations.

Whilst a number of issues have occurred that have delayed this programme, these have been resolved and we are planning to move to the new Single Operating Platform during Summer 2015.

6.13 Information systems improvements

Our contract with our IT providers, Capgemini, ends in 2017. We've started to plan for a replacement service following the government's IT strategy of using smaller suppliers and introducing more digital services. We are working closely with Defra to create an IT operating model that can be used across the Defra network.

As part of this work, we are:

- modernising our systems to reduce future costs and to increase the resilience and reliability of our core applications, such as email and file storage

- maintaining our focus on cyber security
- putting in place a secure network to support the SSCL roll-out of an upgraded Oracle system
- introducing a new telephony system, providing a flexible, integrated and resilient service that will save money and carbon dioxide emissions
- rationalising our system applications to reduce support costs and minimise the size of the IT estate. This will reduce cost of the transition to new suppliers in the future
- finalising the separation of Natural Resources Wales services from the Environment Agency's systems

6.14 Procurement and contract management

Procurement staff have a close working relationship with project managers who use our major frameworks and contracts. This ensures that all the procurement options are fully considered and the right contracting route is chosen which best meets the requirements of each particular project or programme of work.

One of our major framework arrangements, The Water and Environment Management Framework, is being used to set the standard for establishing clear and consistent ways of working, in particular for procuring programmes of flood risk management work. We have used the Project Initiation Route map process, developed by government, to clearly assess and improve our capability to deliver our future flood risk management capital programme. Our recent review of contract management has secured our organisation’s commitment to further improve our contract management skills.

The move towards centralised procurement of goods and services has highlighted a need for clear governance arrangements where we use cross-government contracts. We are working with other government organisations to strengthen relationships and define clear roles.

We embed supply chain sustainability through our procurement activities and have targets and a plan to achieve this.

6.15 Financial management

This year our priority areas for financial management have been to improve the policy and processes around debt and put in place the improvements we've made accounting for fixed assets.

We are reviewing our debt recovery processes including:

- updating our policy with our new approach and strategic direction
- clarifying what the main income stream leads in the organisation are responsible for
- identifying and making people aware of best practice to resolve disputes to address delayed payments promptly
- improving our debt collection and dispute resolution processes

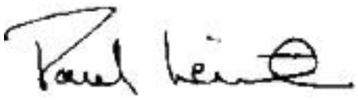
We have also completed an exercise to reconcile our fixed asset register to the operational asset database and all new assets added to our fixed assets register are linked to operational asset databases. This has significant benefits, as for example, we are now able to use the results of the post floods asset condition reviews within the flood risk management database to inform our valuation of our fixed assets in the register.

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

We provide grants to local councils and internal drainage boards for flood and coastal erosion risk management and contaminated land remediation. Since April 2012 we have also provided £23.6 million in grants to civil society groups and charities for catchment restoration work. We administer other grants on behalf of the Secretary of State where we have Section 31 of the Local Government Act 2003 agreements in place.

All the grants are made available following an open bidding process where groups put forward proposals for local projects. We assess and prioritise the bids and publish a list of grant awards and allocations. We use the same processes and standards as we use for Environment Agency projects when assessing projects to receive grants.

Using the Government Digital Service, we have updated all our documentation and grant memoranda to achieve the Crystal Mark seal of approval, demonstrating how well they are written. This helps government make digital services and information simpler, clearer and faster, putting users' needs before the needs of government.



Paul Leinster

Accounting Officer

23 June 2015

Remuneration report

The Remuneration Committee

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

i. 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 Defra.
ii. The Remuneration Committee will consider and advise the Environment Agency board generally on matters relating to Human Resources.
iii. 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.

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.

Business conducted in year

The Remuneration Committee met five times during the year ended 31 March 2015. It agreed the Chief Executive's performance rating for 2014 to 2015 and objectives for 2015 to 2016.

During the year, the Committee also:

- endorsed the Environment Agency's general approach to the pay award
- examined executive directors pay
- discussed succession planning including the recruitment of a successor to the current Chief Executive

Remuneration of non-executive board members

Under Section 1 of the Environment Act 1995, board members are appointed by the Secretary of State for the Environment, Food and Rural Affairs. The Act provides for the Environment Agency to pay its board members such remuneration as may be determined by the appropriate Minister. The level of remuneration is subject to review in the context of decisions taken by Ministers from time to time in relation to salaries of this type. Non-executive board members are not eligible for membership of the Environment Agency pension scheme or compensation for loss of office. Board members' appointments may be terminated at any time upon giving 3 months' notice in writing.

Remuneration of Executive Directors

The Environment Agency employs 6 executive directors in addition to the Chief Executive. Detailed below are the executive directors and their period of service (including date of appointment):

Position	Executive Director	Period of appointment
Chief Executive*	Dr Paul Leinster	1 Nov 2008 – present
Executive Director of Environment and Business	Mr Ed Mitchell	1 Apr 2010 – present
Executive Director of Operations**	Mr David Jordan	1 Jun 2008 – 31 Mar 2015
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	Dr Mark McLaughlin	22 Jun 2009 – present
Executive Director of Flood and Coastal Erosion Risk Management	Mr David Rooke	1 Nov 2011 – present

* Paul Leinster has announced his departure as Chief Executive, he will leave the Environment Agency in September 2015

** Toby Willison was appointed Executive Director of Operations on 1 April 2015

The notice period for Directors is at least 3 months.

Board members' remunerations (audited)

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

Board member	Subcommittee member	Date of appointment or re-appointment	Period of appointment (years)	Time commitment (days per month)	Remuneration in 2014 to 2015 (£)	Remuneration in 2013 to 2014 (£)
Sir Philip Dilley (Chairman from 08 Sep 2014) (i)	RC, FCRM	08-Sep-14	3	2-3 per week	56,301	-
The Rt Hon Lord Smith of Finsbury (Chairman to 08 Sep 2014) (ii)	RC, FCRM	14-Jul-11	3	3 per week	39,654	92,496
Councillor Robert Light (Deputy Chair)	RC, PC, EB	01-Jul-12	3	5	25,201	25,201
Mr Peter Ainsworth	FCRM, EB	01-Sep-12	3	4	16,802	16,802
Ms Karen Burrows	ARAC, RC, EB	01-Sep-12	3	5	21,003	21,003
Dr Clive Elphick	ARAC, PC, EB	01-Aug-14	3	6	25,203	25,203
Professor Lynne Frostick (iii)	FCRM	16-Mar-15	3	4	700	-
Ms Emma Howard Boyd (iv)	ARAC, PC, FCRM	01-Jul-12	4	6	19,987	18,202
Mr Richard McDonald	ARAC, FCRM	01-Jun-13	3	4	16,802	12,602
Mr Richard Leafe	ARAC	01-Sep-12	3	4	16,802	16,802
Mr John Varley	PC, RC, EB	01-Oct-12	3	5	21,001	21,001
Mr Jeremy Walker	RC, EB, FCRM,	22-Jun-12	3	6	25,203	25,203
Ms Gill Weeks (v)	EB , PC	08-Sep-14	3	4	9,460	-
Total					**294,119**	**274,515**

ARAC – Member of Audit and Risk Assurance Committee at 31 March 2015

RC – Member of Remuneration Committee at 31 March 2015

PC – Member of Pensions Committee at 31 March 2015

FCRM – Member of Flood and Coastal Risk Management Committee at 31 March 2015

EB – Member of Environment and Business Committee 31 March 2015

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

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.

Notes:

i. Sir Philip Dilley was appointed as Chairman from 8 September 2014. His whole year equivalent pay was £100,000.
ii. Rt Hon Lord Smith of Finsbury's term as Chairman ended on 8 September 2014. His whole year equivalent pay was £90,983.
iii. Professor Lynne Frostick was appointed from 16 March 2015. Her whole year equivalent pay was £16,802.
iv. Ms Emma Howard Boyd was re-appointed to 30 June 2019 on the 1 July 2015. She increased her time commitment from 1 day per week on 1 January 2015.
v. Ms Gill Weeks was appointed from 8 September 2014. Her whole year equivalent pay was £16,802.

Executive directors' emoluments (audited)

Total emoluments and benefits in kind of executive directors in the last 2 financial years

Executive Director	Emoluments (£000 banded range)		Benefits in kind (to nearest £100)		Pension benefits (to the nearest £1000)		Total (£000 banded range)	
	2014 to 2015	**2013 to 2014**	**2014 to 2015**	**2013 to 2014**	**2014 to 2015**	**2013 to 2014**	**2014 to 2015**	**2013 to 2014**
Dr Paul Leinster	195-200	195-200	2,800	2,500	-	46,000	200-205	240-245
Mr David Jordan	160-165	160-165	2,900	2,400	-	-	165-170	160-165
Ms Miranda Kavanagh	140-145	140-145	4,000	3,800	45,000	37,000	190-195	180-185
Dr Mark McLaughlin	145-150	145-150	2,700	2,000	46,000	32,000	195-200	180-185
Mr Ed Mitchell	135-140	135-140	-	-	34,000	48,000	170-175	185-190
Mr Jonathan Robinson	140-145	130-135	-	-	80,000	55,000	220-225	185-190
Mr David Rooke*	150-155	130-135	3,700	4,000	238,000	67,000	395-400	200-205

NB – Total emoluments include gross salaries. On a voluntary basis by executive directors, no payments were received for performance related pay for the 2013 to 2014 financial year.

* Mr David Rooke's total emoluments for 2014 to 2015 include gross salary of £140,000 - £145,000 (2013 to 2014 - £130,000 to £135,000) and performance related pay of £10,000 - £15,000 (2013 to 2014 – nil). This additional payment has increased David Rooke's reported pension benefits which are calculated using standard pension disclosure assumptions. The principal assumption is that an increase in pension liability is twenty times an increase in pensionable pay.

The pension benefits of executive directors during the last 2 financial years

Executive Director	Accrued pension at 31 March 2015 (£5,000 range)	Increase in accrued pension during year (£2,500 range)	Accrued lump sum at 31 March 2015 (£5,000 range)	Increase in lump sum during year (£2,500 range)	CETV at 31 March 2014 (£000's)	CETV at 31 March 2015 (£000's)	Real increase in CETV (£000's)
Dr Paul Leinster (i)	–	–	–	–	-	-	-
Mr David Jordan (ii)	–	–	–	–	-	-	-
Ms Miranda Kavanagh	15-20	2.5-5.0	–	–	165	214	26
Dr Mark McLaughlin	85-90	2.5-5.0	–	–	1,043	1,120	26
Mr Ed Mitchell	30-35	2.5-5.0	40-45	(0.0-2.5)	323	359	8
Mr Jonathan Robinson	55-60	2.5-5.0	–	–	605	683	37
Mr David Rooke	75-80	10.0-12.5	175-180	20.0-22.5	1,391	1,699	239

The accrued pension at 31 March 2015 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 2015.

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).

Notes

i. Paul Leinster, Chief Executive, was an ordinary member of the Environment Agency's Active Fund pension scheme, and the Environment Agency paid employer's pension contributions into the Active Fund at the same rate as for other participants until he opted out of the pension scheme on 31 December 2013. His CETV value at the time of opting out was £1,498,000

ii. 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

Pay multiples

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

The banded remuneration of the highest paid employee in the financial year 2014 to 2015 was £200,000-£205,000 (financial year 2013 to 2014, £195,000-£200,000). This was 6.6 times (financial year 2013 to 2014, 6.4 times) the median remuneration of the workforce, which was £30,640 (financial year 2013 to 2014, £31,027). For the reporting periods 2013 to 2014 and 2014 to 2015, the highest paid employee was the Chief Executive and Accounting Officer.

Paul Leinster

Accounting Officer

23 June 2015

Statement of Accounting Officer's responsibilities

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

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

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

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

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

I certify that I have audited the financial statements of the Environment Agency for the year ended 31 March 2015 under the Environment Act 1995. The financial statements comprise: the Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the remuneration report that is described in that report as having been audited.

Respective responsibilities of the Accounting Officer and Auditor

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

Scope of the audit of the financial statements

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

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

Opinion on regularity

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

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the Environment Agency's affairs as at 31 March 2015 and of the net expenditure for the year then ended; and
- the financial statements have been properly prepared in accordance with the Environment Act 1995 and Secretary of State directions issued thereunder.

Opinion on other matters

In my opinion:

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

Matters on which I report by exception

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

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

Report

I have no observations to make on these financial statements.

Sir Amyas C E Morse 1 July 2015

Comptroller and Auditor General

National Audit Office

157-197 Buckingham Palace Road

Victoria

London

SW1W 9SP

Financial statements

Statement of Comprehensive Net Expenditure

For the year ended 31 March 2015		2014 to 2015	2013 to 2014
	Note	£ million	£ million
Expenditure			
Staff costs	3	411.3	443.6
Capital works expensed in year	4	281.1	214.7
Depreciation and amortisation	7,8	102.8	104.8
Other expenditure	5	499.3	400.6
		1,294.5	**1,163.7**
Income			
Income from activities		(387.9)	(409.1)
Capital grants and contributions		(21.8)	(18.7)
	6	**(409.7)**	**(427.8)**
Net expenditure	2.1	**884.8**	**735.9**
Gain on disposal of assets		(0.3)	(2.9)
Net interest on pension scheme assets and liabilities	15.3	19.8	15.0
Gain on transfer of Natural Resources Wales	18	-	(34.9)
Net expenditure after interest		**904.3**	**713.1**
Other comprehensive expenditure			
Re-measurements recognised on pension scheme assets and obligations	15.3	221.2	98.6
Net (gain) on revaluation and impairment of property, plant and equipment	7,9	(109.1)	(105.5)
Net (gain) or loss on revaluation of intangible assets	8,9	(2.3)	0.9
Total comprehensive net expenditure for the year		**1,014.1**	**707.1**

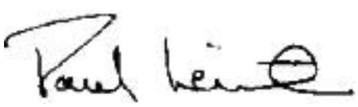
All of the Environment Agency's income and expenditure for the year was derived from continuing activities.

The notes on pages 85 to 118 form part of these accounts.

Statement of Financial Position

At 31 March 2015		31 March 2015		31 March 2014	
	Note	£ million	£ million	£ million	£ million
Non-current assets					
Tangible assets	7	2,616.7		2,506.0	
Intangible assets	8	117.0		136.6	
Total non-current assets			**2,733.7**		**2,642.6**
Current assets					
Assets held for sale		9.7		7.0	
Trade and other receivables	10	93.4		110.3	
Cash and cash equivalents	11	105.9		72.0	
Total current assets			**209.0**		**189.3**
Total assets			**2,942.7**		**2,831.9**
Current liabilities					
Trade and other payables	12	(286.2)		(305.4)	
Total current liabilities			**(286.2)**		**(305.4)**
Total assets less current liabilities			**2,656.5**		**2,526.5**
Non-current liabilities					
Trade and other payables	12	(1.5)		(1.7)	
Provisions		(9.5)		(8.7)	
Deferred capital grants		(0.1)		(1.2)	
Pension liabilities	15.3	(707.3)		(452.7)	
Financial liabilities	16.1	(141.6)		(141.6)	
Total non-current liabilities			**(860.0)**		**(605.9)**
Assets less liabilities			**1,796.5**		**1,920.6**
Taxpayers' equity					
Revaluation reserve		1,686.2		1,624.9	
General reserve		817.6		748.4	
Pensions reserve		(707.3)		(452.7)	
Total taxpayers' equity			**1,796.5**		**1,920.6**

The notes on pages 85 to 118 form part of these accounts. The financial statements on pages 81 to 84 were approved by the board on 23 June 2015 and signed on its behalf by:



Paul Leinster (Accounting Officer)

23 June 2015

Statement of Cash Flows

For the year ended 31 March 2015		2014 to 2015		2013 to 2014	
	Note	£ million	£ million	£ million	£ million
Cash flows from operating activities					
Net expenditure after interest		(904.3)		(713.1)	
Gain on transfer of Natural Resources Wales	18	–		(34.9)	
Depreciation and amortisation	7,8	102.8		104.8	
Impairment of non-current assets	9	8.8		13.2	
Amortisation of grants received		(1.1)		-	
Gain on disposal of assets		(0.1)		(2.9)	
Decrease (increase) in trade and other receivables	10	16.9		(9.1)	
(Decrease) increase in trade and other payables	12	(19.4)		32.8	
Increase (decrease) in provisions		0.8		(4.8)	
Net non cash transfer to Natural Resources Wales	18	–		57.1	
Cash transfer to Natural Resources Wales	18	–		(6.0)	
Pension adjustment	13.1	33.4		(23.8)	
Net cash outflow from operating activities			**(762.2)**		**(586.7)**
Cash flows from investing activities					
Purchase of property, plant and equipment	7	(83.7)		(90.4)	
Purchase of intangible assets	8	(11.8)		(12.8)	
Proceeds of disposal of property, plant and equipment		1.6		13.4	
Capital grants and contributions for the purchase of property, plant and equipment		–		0.8	
Net cash outflow from investing activities			**(93.9)**		**(89.0)**
Cash flows from financing activities					
Grant from sponsoring body		890.0		651.9	
Net cash inflow from financing activities			**890.0**		**651.9**
Net increase (decrease) in cash and cash equivalents in the year	11		**33.9**		**(23.8)**
Cash and cash equivalents at the beginning of the year	11		72.0		95.8
Cash and cash equivalents at the end of the year	11		**105.9**		**72.0**

The notes on pages 85 to 118 form part of these accounts.

Statement of Changes in Taxpayers' Equity

For the year ended 31 March 2015	Note	Revaluation reserve	General reserve	Pension reserve	Total
		£ million	£ million	£ million	£ million
Balance at 1 April 2013		**1,593.4**	**760.3**	**(377.9)**	**1,975.8**
Net gain on revaluation of property, plant and equipment	7,9	105.5	–	–	**105.5**
Net loss on revaluation of intangible assets	8,9	(0.9)	–	–	**(0.9)**
Re-measurements recognised on pension scheme assets and obligations	15.3	–	–	(98.6)	**(98.6)**
Transfers between reserves	13	(73.1)	49.3	23.8	**–**
Net expenditure after interest		–	(713.1)	–	**(713.1)**
Total recognised income and expense		**1,624.9**	**96.5**	**(452.7)**	**1,268.7**
Grant from sponsoring body	17	–	651.9	–	**651.9**
Balance at 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**
Re-measurements 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)**
Total recognised income and expense		**1,686.2**	**(72.4)**	**(707.3)**	**906.5**
Grant from sponsoring body	17	–	890.0	–	**890.0**
Balance at 31 March 2015		**1,686.2**	**817.6**	**(707.3)**	**1,796.5**

The notes on pages 85 to 118 form part of these accounts.

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

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

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

1. Notes to the financial statements

1.1. Statement of accounting policies

The financial statements have been prepared in accordance with the 2014 to 2015 government financial reporting manual (FReM) issued by HM Treasury and are in accordance with the accounts direction issued by the Secretary of State for Environment, Food and Rural Affairs and HM Treasury under Section 45 of the Environment Act 1995.

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

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

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

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

- Pension liabilities (reported in note 15). Independent and qualified actuaries assess the specific factors that influence the pension fund position, such as life expectancy and age of scheme members, prevailing interest and inflation rates, and projected returns on invested funds.
- The useful economic lives of assets that form the basis of periods over which property, plant and equipment is depreciated (reported in notes 1.5 and 7) and intangible assets are amortised (reported in notes 1.6 and 8).
- The impairment of property, plant and equipment, and intangible assets (reported in note 5 and 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 notes 1.9 and 6.1).

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 water companies and 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. A summary of water resources balances is included in Appendix D.

1.10. Leases

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

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

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

1.11. Cash and cash equivalents

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

1.12. Provisions

The Environment Agency provides for obligations arising from past events where there is a present obligation at the date of the Statement of Financial Position, if it is probable that we will be required to settle the obligation and a reliable estimate can be made, in line with the requirements of IAS37.

1.13. Financial instruments

Financial assets and liabilities

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

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

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

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

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

1.14. Value added tax

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

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

1.15. Employee benefits

Pensions

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

Other employee benefits

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

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

1.16. Internal drainage boards (IDBs) under common control

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

The Environment Agency board approves the accounts of the IDBs.

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

Name of IDB	Income	Expenditure	(Surplus) or deficit	Net assets or (liabilities)
	£ million	£ million	£ million	£ million
River Adur	(0.1)	0.1	-	-
River Arun	(0.1)	0.1	-	-
South West Sussex	(0.1)	0.1	-	-
Pevensey Levels	(0.3)	0.3	-	-
River Cuckmere	-	-	-	-
River Ouse	(0.2)	0.2	-	-
West of Gravesend	(0.1)	0.1	-	-
East of Gravesend	(0.1)	0.1	-	-
Total 2014 to 2015	**(1.0)**	**1.0**	-	-
Total 2013 to 2014	**(1.0)**	**1.0**	-	-

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

1.17. Adoption of new and revised IFRS or FreM interpretations

IFRS

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

IFRSs not yet effective	Environment Agency impact
IFRS 13 (Fair Value Measurement) EU adopted, effective from 1 April 2015 and FreM 1 April 2015	Although IFRS 13 is applied without adaptation, IAS 16 and IAS 38 have been adapted and interpreted for the public sector context to limit the circumstances in which a valuation is prepared under IFRS 13. The Environment Agency has commented on the consultations on these changes and doesn't believe that IFRS 13 will have a material impact on its financial reporting
IAS 36 - 'Impairment of assets' on recoverable amount disclosures (amendment) EU adopted, effective from 1 January 2014 and FreM 1 April 2015	Will be considered by HM Treasury with the expectation that it will be applied when IFRS 13 is introduced in the FReM. Any adaptations or interpretations will follow due process and be included in the final version of 2015 to 2016 FReM. The Environment Agency will consider the 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 changes which will affect the Environment Agency.

2. Segmental reporting

2.1. Analysis of net expenditure by segment

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

Definition of segments and other segmental information

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

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

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

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

Expenditure by segment

Statement of Comprehensive Net Expenditure line	FCERM	E&B charges	E&B other	Total 2014 to 2015	Total 2013 to 2014
	£ million	£ million	£ million	£ million	£ million
Staff costs	163.9	170.0	77.4	**411.3**	443.6
Capital works expensed in year	277.6	0.9	2.6	**281.1**	214.7
Depreciation and amortisation	68.7	10.2	23.9	**102.8**	104.8
Other expenditure	313.3	123.3	62.7	**499.3**	400.6
Gross expenditure	**823.5**	**304.4**	**166.6**	**1,294.5**	**1,163.7**
Income	(68.0)	(304.6)	(37.1)	**(409.7)**	(427.8)
Net expenditure	**755.5**	**(0.2)**	**129.5**	**884.8**	**735.9**

3. Staff costs

	2014 to 2015	2013 to 2014
	£ million	£ million
Wages and salaries	313.2	330.2
Social security costs	26.3	28.5
Normal contributions to the Active Pension Fund	40.1	41.6
Total Environment Agency-employed staff costs	**379.6**	**400.3**
Employment agency staff wages and salaries	7.1	9.6
Other staff-related costs	19.4	23.7
Exit package costs (note 3.2)	4.8	9.2
Special contributions towards past service deficit in Active Pension Fund	14.0	14.0
Less amounts already included within the IAS 19 pension charge	(59.7)	(55.6)
Pension service cost (note15.3)	74.2	70.3
Less amounts charged to capital projects	(28.4)	(28.2)
Amounts payable to board members	0.3	0.3
Total staff costs	**411.3**	**443.6**

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

3.1. Staff numbers

Average number of full time equivalent staff employed during the year

	2014 to 2015			2013 to 2014		
	Permanent	**Temporary**	**Total**	**Permanent**	**Temporary**	**Total**
Directly employed	9,760	151	**9,911**	10,372	314	**10,686**
Contractors	-	446	**446**	-	513	**513**
Total	**9,760**	**597**	**10,357**	**10,372**	**827**	**11,199**

The number of staff employed on capital projects and capitalised was 1,072 (1,141 in the financial year 2013 to 2014).

3.2. Reporting of compensation schemes

Exit packages in the year ended 31 March 2015

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**

Exit packages in the year ended 31 March 2014

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

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

4. Capital works expensed in year

Type of capital works	2014 to 2015	2013 to 2014
	£ million	£ million
Beach recharges	10.3	13.3
Culverts and channel improvements	19.4	14.6
Embankments	78.8	70.9
Flood risk management strategies	6.6	2.3
Flood mapping	34.7	34.1
Piling	1.8	3.4
Restoration and refurbishment	75.3	51.0
Rock groynes and sea walls	29.9	11.9
Other	24.3	13.2
Total	**281.1**	**214.7**

The above analysis includes £8.5 million (£7.9 million in 2013 to 2014) 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	2014 to 2015	2013 to 2014
	£ million	£ million
Grants awarded to local councils and IDBs	151.0	70.9
Outsourced IT costs	60.7	62.6
Hired and contracted services	58.2	33.7
Reservoir operating agreements (note 5.2 and 16.1)	21.2	20.3
Fees and commissions	20.4	28.4
Operating leases - plant and machinery	17.2	17.1
Utilities	16.2	13.1
Transport and plant	16.0	17.0
Information technology	15.8	12.7
Grants and contributions	14.9	18.7
Travel and subsistence	14.7	16.0
Building costs	14.1	11.5
Operating leases - other	9.7	10.9
Consumables and materials	8.5	7.6
Maintenance	7.7	6.9
Training	5.6	7.2
Environmental improvement unit charges compensation payments	2.7	4.5
Administration	2.5	2.5
Contaminated land grants	0.6	1.5
External Auditor's remuneration (note 5.1)	0.2	0.2
Other	28.9	22.5
Impairment of non-current assets (note 9)	8.8	13.2
Bad debts written off	7.3	4.9
(Reduction) in provision for bad and doubtful debts	(3.6)	(3.3)
Total	**499.3**	**400.6**

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 from 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 £175,000 (2013 to 2014 fees, £185,000). 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 Retail Prices Index. See note 16.1.

5.3. Losses and special payments

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

Losses and special payments by category

	2014 to 2015		2013 to 2014	
Category or type of loss	Number	£ million	Number	£ million
Write-off of irrecoverable debts	1,740	4.0	1,053	1.6
Loss of assets	171	0.1	292	0.4
Other (cash losses, fruitless payments, unenforceable claims, special payments or gifts)	437	3.9	160	0.4
Total	**2,348**	**8.0**	**1,505**	**2.4**

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

Losses individually over £300,000

In the financial year 2014 to 2015, there were 3 losses and special payments in excess of £300,000 (in the financial year 2013 to 2014 there were no losses or special payments over £300,000, as reported to the previous requirements):

Authorisation and Authentication project (A&A): £1,606,000 to write off the capitalised cost from 2011 to 2012 & 2012 to 2013. Since business case approval there is now a new Government central Public Services Network (PSN) being delivered outside the Environment Agency. Therefore this solution became obsolete.

Medmerry Park: £900,000 for full and final settlement for insured losses incurred in June 2012 during the Medmerry Managed Realignment Scheme construction.

Medmerry Caravan Park: £440,000 for insured losses incurred during the Medmerry Managed Realignment Scheme construction.

6. Income

Type of income	FCERM	E&B charges	E&B other	Total 2014 to 2015	Total 2013 to 2014
	£ million	£ million	£ million	£ million	£ million
Abstraction charges	-	(116.1)	-	**(116.1)**	(118.5)
Navigation licences	-	(8.2)	-	**(8.2)**	(8.1)
Fishing licences	-	(21.2)	-	**(21.2)**	(21.3)
Environmental Permitting Regulations (EPR) water quality	-	(54.3)	-	**(54.3)**	(53.9)
EPR installations	-	(25.3)	-	**(25.3)**	(24.0)
EPR waste	-	(27.7)	-	**(27.7)**	(31.1)
Hazardous waste	-	(15.6)	-	**(15.6)**	(23.7)
Emissions trading and Carbon Reduction Commitment Energy Efficiency Scheme	-	(6.8)	-	**(6.8)**	(8.1)
Nuclear regulation	-	(14.3)	-	**(14.3)**	(14.3)
Other environmental protection charges	-	(13.3)	-	**(13.3)**	(14.9)
Total income from fees and charges	**-**	**(302.8)**	**-**	**(302.8)**	**(317.9)**
Flood risk levies	(28.1)	-	-	**(28.1)**	(33.1)
IDB precepts	(8.1)	-	-	**(8.1)**	(7.9)
Environmental improvement unit charges	-	(0.5)	-	**(0.5)**	(1.3)
EU grants	(0.2)	-	(1.8)	**(2.0)**	(1.3)
Other grants	(0.4)	(0.1)	(4.2)	**(4.7)**	(6.4)
Other income	(9.4)	(1.2)	(31.1)	**(41.7)**	(41.2)
Income from activities	**(46.2)**	**(304.6)**	**(37.1)**	**(387.9)**	**(409.1)**
Grants for capital works expensed in year	(20.8)	-	-	**(20.8)**	(18.7)
Deferred grants released	(1.0)	-	-	**(1.0)**	-
Capital grants and contributions	**(21.8)**	**-**	**-**	**(21.8)**	**(18.7)**
Total income	**(68.0)**	**(304.6)**	**(37.1)**	**(409.7)**	**(427.8)**

6.1. Analysis of fees and charges

	Expenditure	Income billed	Deficit or (surplus)
	£ million	£ million	£ million
Abstraction charges	122.0	(120.4)	**1.6**
Navigation licences	8.4	(8.2)	**0.2**
Fishing licences	21.4	(21.2)	**0.2**
EPR water quality	54.5	(57.3)	**(2.8)**
EPR installations	27.5	(28.9)	**(1.4)**
EPR waste	28.6	(28.9)	**(0.3)**
Hazardous waste	15.6	(17.8)	**(2.2)**
Emissions trading and Carbon Reduction Commitment Energy Efficiency Scheme	6.8	(6.5)	**0.3**
Nuclear regulation	14.3	(13.6)	**0.7**
Other environmental protection charges	13.6	(14.5)	**(0.9)**
Total 2014 to 2015	**312.7**	**(317.3)**	**(4.6)**
Total 2013 to 2014	**332.5**	**(318.4)**	**14.1**

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

Expenditure funded by grant-in-aid has been excluded from the table above, except for fisheries and navigation where the deficit after charges is funded by grant-in-aid. The table does not include the effect of IAS 19 pension adjustments as these are not passed on to charge payers. The financial objective for the above Environment and Business charging schemes is full cost recovery taking one year with another, based on all costs including current cost depreciation and a rate of return on relevant assets.

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

Main activities of the Environment and Business operating units

Environment and Business charges

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

Environment and Business grant-in-aid

- Strategic direction for delivery and support to Defra.
- Setting the Environment Agency's direction on environmental protection to help create a better place for people and wildlife.
- Provision of technical leadership.
- Advice to government and other organisations in England 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.
- Working with local partners, communities and government.
- Town and country planning advice

7. Tangible assets

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**
Reclassification	–	–	–	–	–	–	–	–	–	–
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**

Tangible assets at 31 March 2014

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

Details of valuation

All of the Environment Agency's assets are owned and none are held under finance leases. All of the Environment Agency's administrative land and buildings, including dwellings, except assets under construction, were revalued at 1 April 2011 by external independent chartered surveyors, King Sturge, on the basis of open market value for existing use. Intangible assets, plant and machinery, furniture and fittings, and operational assets were revalued internally at 31 March 2015 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 £79.9 million (31 March 2014, £23.9 million) for land that forms an essential element of certain operational assets and has significantly changed its nature as a result. The increase in the operational assets in the financial year 2014 to 2015 is mainly due to the completion of the managed habitats at Steart and Medmerry which cost £39.1 million in the financial year 2014 to 2015. The land is being written down to net realisable value over the life of the operational assets of which it forms a part. Operational assets include the Thames Barrier which is valued at £1,061 million (31 March 2014, £1,049 million) reflecting its depreciated replacement cost.

8. Intangible assets

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**

Intangible assets at 31 March 2014

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

9. Impairment

	2014 to 2015	2013 to 2014
	£ million	£ million
Tangible assets (Note 7.1)	2.9	7.1
Intangible assets	–	0.7
Total charged to the revaluation reserve	**2.9**	**7.8**
Tangible assets (Note 7.1)	5.6	10.5
Intangible assets (Note 8.1)	3.2	2.7
Total impairment charge to the Statement of Comprehensive Net Expenditure	**8.8**	**13.2**
Total impairment in accordance with the Statement of Financial Position	**11.7**	**21.0**

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 2015	31 March 2014
	£ million	£ million
Trade receivables	28.2	45.7
Less provision for bad and doubtful debts	(7.5)	(11.1)
Net trade receivables	**20.7**	**34.6**
VAT	30.8	22.7
Employee loans, such as for travel season tickets and the cycle to work scheme	0.2	0.2
Prepayments	19.3	23.6
Abstraction licences accrued income	6.0	4.1
Environment protection accrued income	4.5	13.6
Other accrued income	11.6	9.2
Other receivables	0.3	2.3
Total	**93.4**	**110.3**

10.1. Analysis of trade and other receivables by organisation type

Type of organisation	31 March 2015	31 March 2014
	£ million	£ million
Government departments	31.9	27.0
Local authorities	8.1	4.5
National Health Service bodies	-	0.1
Non-government entities and individuals	53.4	78.7
Total	**93.4**	**110.3**

11. Cash and cash equivalents

	31 March 2015	31 March 2014
	£ million	£ million
At 1 April	**72.0**	**95.8**
Net change in cash and cash equivalent balances	33.9	(23.8)
At 31 March	**105.9**	**72.0**

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

12. Trade and other payables

	31 March 2015	31 March 2014
Within 1 year	£ million	£ million
Other taxation and social security	7.7	11.7
Trade payables	15.7	20.7
Trade payables accrual	25.6	34.2
Holiday pay accrual	6.9	9.1
Capital payables	6.8	8.8
Capital payables accrual	69.9	60.1
Flood risk management deferred income	45.6	37.4
Abstraction licences deferred income	9.9	4.8
Environmental improvement unit charge deferred income	31.3	68.9
Environment protection deferred income	8.4	7.4
Customer deposits and receipts in advance	51.1	34.6
Other payables	5.3	6.6
Pension contribution liability	2.0	1.1
	286.2	**305.4**
More than 1 year		
Trade and other payables and accruals	**1.5**	**1.7**
Total	**287.7**	**307.1**

12.1. Analysis of trade and other payables by organisation type

	31 March 2015	31 March 2014
	£ million	£ million
Government departments	10.9	12.4
Local authorities	14.1	0.2
Public corporations	-	0.2
Non-government entities and individuals	262.7	294.3
Total	**287.7**	**307.1**

13. Transfers between reserves

13.1. 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)**	–

13.2. For the year ended 31 March 2014

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

14. Commitments

14.1. Capital commitments

	31 March 2015	31 March 2014
	£ million	£ million
Contracted for but not provided in the financial statements	69.9	53.8

The amounts above relate to both tangible and intangible fixed assets. Commitments on capital works expensed in year at 31 March 2015 totalled £127.3 million (31 March 2014, £92.2 million).

14.2. Financial commitments

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

Payments the Environment Agency is committed to	31 March 2015	31 March 2014
	£ million	£ million
Not later than 1 year	66.9	69.5
Later than 1 year and not later than 5 years	80.5	138.8
Later than 5 years	12.7	13.5
Total	**160.1**	**221.8**

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 £12.7 million, £16.8 million and £127.9 million (2014: £18.6 million, £15.3 million and £184.1 million).

14.3. Commitments under leases

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

Payments the Environment Agency is committed to	31 March 2015		31 March 2014	
	Land and buildings	**Other**	**Land and buildings**	**Other**
	£ million	£ million	£ million	£ million
Not later than 1 year	8.7	11.0	7.5	10.5
Later than 1 year and not later than 5 years	27.1	14.1	25.5	16.0
Later than 5 years	27.9	–	33.3	–
Total	**63.7**	**25.1**	**66.3**	**26.5**

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

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

The total pension charge for the Environment Agency was £72.1 million for the financial year 2014 to 2015 (£18.3 million in 2013 to 2014). 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 13.5% 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 94% of the value of liabilities in respect of past service benefits which had accrued to members. The Environment Agency has accepted the independent actuary's recommendation in respect of future employer contributions.

The annual report and financial statements for the EAPF report that that it had sufficient assets to meet 93% of its expected future liabilities at 31 March 2015 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 IAS19, 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 IAS19 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 0.6% 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 2.1% per annum. The estimated contribution payable by the Environment Agency, excluding any discretionary lump sum payments, for the year to 31 March 2016 will be approximately £43 million.

These financial statements include the disclosure requirements of IAS 19 for the current year in relation to the Environment Agency's Active Fund. All calculations have been made by a qualified independent actuary and are based on the most recent actuarial valuation of the fund at 31 March 2013 updated to 31 March 2015. The assumptions underlying the calculation of a net liability at 31 March 2015 are only used for accounting purposes as required under IAS 19. There is no requirement for the reported net liability to be met as a lump sum. Cash contributions paid by the Environment Agency to the pension fund will continue to be set by reference to assumptions agreed at each triennial actuarial valuation of the scheme.

15.1. Financial and longevity assumptions

Financial assumptions for the Environment Agency pension fund

Assumption	31 March 2015	31 March 2014
	% per annum	% per annum
Inflation and pension increase rate	2.1	2.5
Salary increase rate	3.5	3.8
Discount rate	3.2	4.3

Longevity assumptions: average future life expectancy at age 65

Scheme member	31 March 2015		31 March 2014	
	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 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 & 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**

We have won awards in recognition of our responsible investments, see the Director's Report for further details.

Fair value of assets for the year ended 31 March 2014 (restated)

Asset category	Active market quoted prices	Non-active market quoted prices	Total	% of total
	£ million	£ million	£ million	%
Equity securities				
Common Stock	856.4	0.1	856.5	41
Preferred Stock	4.7	-	4.7	-
Rights/Warrants	0.2	-	0.2	-
Debt Securities:				
UK Government Bonds	-	187.1	187.1	9
Corporate Bonds	-	179.8	179.8	9
Other	-	13.0	13.0	1
Pooled Investment Vehicles:				
Equities	0.2	318.9	319.1	15
Bonds	154.9	81.8	236.7	11
Funds - Common Stock	25.0	58.9	83.9	4
Funds - Real Estate	0.1	78.7	78.8	4
Funds - Venture Capital	0.1	1.9	2.0	-
Partnerships & Real Estate	-	80.1	80.1	4
Other Investment:				
Stapled Securities	3.2	-	3.2	-
Derivative Contracts:				
Equity Derivatives - Futures	0.1	-	0.1	-
Cash and Cash equivalents	-	46.1	46.1	2
Totals	**1,044.9**	**1,046.4**	**2,091.3**	**100**

The above analysis has been restated to reflect the way our asset managers present the valuation of the asset portfolio but has no impact on the total asset valuation of £2,091.3m as previously reported.

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

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 demographic assumptions	-		-		**-**	
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 re-measurements (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. There are no current unfunded obligations (there were also no unfunded obligations at 31 March 2014).

The defined benefit obligation comprises approximately £1.9 billion, £374.9 million and £891.9 million in respect of employee members, deferred pensioners and pensioners respectively as at 31 March 2015 (£1.4 billion, £305.7 million and £850 million at 31 March 2014).

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

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

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	367.6
1 year increase in member life expectancy	3	93.7
0.5% increase in salary increase rate	5	145.7
0.5% increase in pension increase rate	7	213.2

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 2014 to 2015	Amount paid in 2013 to 2014	Liability at 31 March 2015	Liability at 31 March 2014
	£ million	£ million	£ million	£ million
Northumbrian Water	17.2	17.8	129.2	129.2
Severn Trent Water	4.0	2.5	12.4	12.4
Total	**21.2**	**20.3**	**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.

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

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

17. Related party disclosures

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

Controlling parties

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

Funding received from Defra	2014 to 2015	2013 to 2014
	£ million	£ million
Defra environment protection grant-in-aid	(145.0)	(109.5)
Defra flood defence grant-in-aid	(595.9)	(461.8)
Defra IDB or local authority grant-in-aid	(149.1)	(70.9)
Defra catchment restoration fund (CRF) *	-	(9.7)
	(890.0)	**(651.9)**

* CRF funding has been included in our environment protection grant-in-aid in 2014 to 2015.

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 report for further information on board members and Executive Directors.

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

18. Natural Resources Wales

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

Section of the Statement of Financial Position	Value of asset or (liability)	Where the transfer is reported (in the 2013 to 2014 financial year)
	£ million	
Non-current assets	56.1	Transfer included in the disposals figures in notes 7 and 8.
Current assets	10.4	Transfer included in the movement between years in notes 10 and 11.
Total assets	**66.5**	
Current and non-current liabilities	(9.5)	Transfer included in the movement between years in note 12.
Long-term liabilities - reservoir operating agreements	(39.9)	Transfer included in the movement between years in note 16.1.
Long-term liabilities - pension	(52.0)	Transfer reported in note 15 and recognised in the pension cost in note 3.
Total liabilities	**(101.4)**	
Net (liabilities) transferred	**(34.9)**	**Transfer reported as a movement in the Statement of Comprehensive Net Expenditure**.
Reserves transferred		
Revaluation reserve	(19.5)	Transfer reported in note 13.1.
Pension reserve	52.0	Transfer reported in note 13.1.

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

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

19. Events after the reporting date

Date of authorisation for issue

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

Appendix A – history of the Environment Agency

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

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

During the year to 31 March 2015, 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

Emissions, energy and business travel	Unit	2012 to 2013	2013 to 2014	2014 to 2015
Direct emissions (Scope 1)	tCO_2e	18,000	17,000	12,000
Emissions from purchased energy (Scope 2)	tCO_2e	33,000	24,000	18,000
Emissions produced by our suppliers (Scope 3)	tCO_2e	44,000	64,000	46,000
Total gross emissions	**tCO_2e**	**95,000**	**105,000**	**76,000**
Carbon intensity (per £ million expenditure)	**tCO_2e**	**83**	**95**	**61**

Business travel	Unit	2012 to 2013	2013 to 2014	2014 to 2015
Car and motorbike	tCO_2e	12,160	10,640	9,300
Rail	tCO_2e	1,710	1,880	1,470
Air	tCO_2e	70	80	120
Total business travel	**tCO_2e**	**13,940**	**12,600**	**10,890**
	£ million	**14.3**	**13.1**	**11.2**
Travel carbon intensity per full-time employee	**tCO_2e**	**1.2**	**1.1**	**1.1**

Non-office waste	Unit	2012 to 2013	2013 to 2014	2014 to 2015
Landfill	tonnes	20,000	20,000	10,000
	£	850,000	550,000	740,000
Reused or recycled	tonnes	430,000	140,000	200,000
	£	340,000	470,000	640,000
Total non-office waste	**tonnes**	**450,000**	**160,000**	**210,000**
	£	**1,190,000**	**1,020,000**	**1,380,000**

Office waste	Unit	2012 to 2013	2013 to 2014	2014 to 2015
Landfill	Tonnes	30	20	10
	£	150,000	80,000	60,000
Reused or recycled	Tonnes	400	300	310
Incinerated to produce energy	Tonnes	100	100	30
Reused, recycled or incinerated	£	320,000	240,000	260,000
Reused or recycled electronic or electrical equipment	Tonnes	100	40	10
Total office waste	**Tonnes**	**630**	**460**	**360**
	£	**470,000**	**320,000**	**320,000**
Waste intensity per full time employee	**kg**	**56**	**41**	**35**

Resource consumption	Unit	2012 to 2013	2013 to 2014	2014 to 2015
Purchased gas and purchased renewable electricity	million kWh	73	59	43
	£ million	6.7	5.9	4.7
Self-generated renewable energy	million kWh	0.4	0.4	0.4
Water supplied	Cubic metres	48,000	46,000	38,954
(Abstracted)		(16,000,000)	(21,600,000)	(28,000,000)
	£	230	220	210
Steel sheet piles	Tonnes	5,350	5,400	6,880
	£	4,470,000	5,260,000	5,540,000
Stones and aggregates from a primary source	Tonnes	190,000	320,000	860,000
Stones and aggregates from a secondary source (recycled)	Tonnes	940,000	910,000	430,000
Timber from a legal and sustainable source (directly purchased)	£	370,000	510,000	440,000
Timber from a legal and sustainable source (purchased by our suppliers)	Tonnes	410	590	2,020
Paper from renewable or recycled sources	Reams	51,000	48,000	43,000
	£	60,000	40,000	30,000

Pension fund investment	Unit	2012 to 2013	2013 to 2014	2014 to 2015
Pension fund assets	£ million	2,114	2,306	2,656
Investments in clean technology	%	12	13	26
Carbon footprint	tCO_2e per £ million	386	408	368

Appendix C – board member attendance

Member	Board meeting	ARAC	PC	FCRM	E&B	RC
	(10 meetings)	(5 meetings)	(4 meetings)	(5 meetings)	(4 meetings)	(5 meetings)
Sir Philip Dilley (Chairman from 8 Sept 2014)	6 of 6	n/a	n/a	3 of 3	1 (optional attendee)	3 of 3
The Rt Hon Lord Smith of Finsbury (Chairman to 8 Sept 2014)	4 of 4	n/a	n/a	1 of 2	n/a	2 of 2
Councillor Robert Light (Deputy Chair)	10 of 10	n/a	4 of 4	n/a	4 of 4	4 of 5
Mr Peter Ainsworth	10 of 10	n/a	n/a	4 of 5	4 of 4	n/a
Ms Karen Burrows	10 of 10	5 of 5	n/a	n/a	4 of 4	4 of 5
Dr Clive Elphick	9 of 10	3 of 5	4 of 4	n/a	4 of 4	n/a
Professor Lynne Frostick (appointed 16 March 2015)	0 of 0	n/a	n/a	0 of 0	n/a	n/a
Ms Emma Howard Boyd	9 of 10	5 of 5	4 of 4	4 of 5	n/a	n/a
Mr Richard Macdonald	10 of 10	4 of 5	n/a	4 of 5	n/a	n/a
Mr Richard Leafe	9 of 10	4 of 5	n/a	n/a	n/a	n/a
Mr John Varley	8 of 10	n/a	3 of 4	n/a	4 of 4	3 of 5
Mr Jeremy Walker	10 of 10	n/a	n/a	5 of 5	4 of 4	5 of 5
Ms Gill Weeks (appointed 8 Sept 2014)	6 of 6	n/a	n/a	n/a	2 of 2	n/a

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

Appendix D – Water resources balances

Region	SUC balance	EIUC balance water companies	EIUC balance non-water companies	Total Mar-15	Total Mar-14
	£ million	£ million	£ million	£ million	£ million
Anglian	(4.1)	(4.4)	(9.8)	**(18.3)**	(15.3)
Midlands	2.2	-	(2.7)	**(0.5)**	(9.7)
Yorkshire	0.6	-	(0.5)	**0.1**	0.8
Northumbria	1.8	-	-	**1.8**	2.3
North West	0.1	(6.8)	(1.8)	**(8.5)**	(11.2)
Southern	0.8	-	(2.9)	**(2.1)**	(2.3)
South West	0.5	-	(2.0)	**(1.5)**	(3.6)
Thames	(5.8)	-	(0.4)	**(6.2)**	(30.5)
Total	**(3.9)**	**(11.2)**	**(20.1)**	**(35.2)**	**(69.5)**

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