



Department  
for Environment  
Food & Rural Affairs

# Accounting Officer System Statement

September 2017



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PB14457

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# Contents

1	Scope of the accountability system.....	1
2	Responsibilities within the department and across the Defra group .....	4
3	Relationships with ALBs .....	9
4	Local funding arrangements .....	14
5	Third party delivery partnerships .....	15
6	Grants to private and voluntary sector bodies .....	16
7	Major contracts and outsourced services .....	18
8	Investments, joint ventures and other assets.....	20
	Annex A – Sources of ALB Funding .....	21

# 1 Scope of the accountability system

## Principal Accounting Officer's statement

As Permanent Secretary, I am appointed by HM Treasury as the Principal Accounting Officer for the Department for Environment, Food and Rural Affairs (Defra). This system statement sets out all of the accountability relationships and processes within my department, making clear who is accountable for what at all levels of the system.

My department has policy responsibility for the environment, food and farming, animal and plant health and rural affairs.

The Secretary of State for Defra has overall responsibility for the department and is supported by junior Ministers from the House of Commons and a Lords Minister. Each member of the Ministerial team has specific roles and responsibilities within the department. They have a duty to Parliament to account, and be held to account, for the policies, decisions and actions of this department and its agencies. They look to me as the department's Accounting Officer to delegate within the department to deliver their decisions and to support them in making policy decisions and handling public funds.

As Accounting Officer, I am personally responsible for safeguarding the public funds for which I have been given charge under the Defra Estimate. I am accountable to HM Treasury for ensuring that Defra spends its resources in a manner which ensures regularity, propriety and value for money. Where I have appointed additional Accounting Officers, their responsibilities are also set out in this system statement.

It covers my core department, its arm's length bodies and other arm's length relationships. It describes accountability for all expenditure of public money through my department's Estimate, all public money raised as income, and the management of shareholdings, financial investments and other publicly owned assets for which I am responsible.

This system statement helps me ensure that I am fulfilling my responsibilities as an Accounting Officer, in accordance with the Treasury's guidance set out in *Managing Public Money*.

This system statement describes the accountability system which is in place at the date of this statement, and which will continue to apply until a revised statement is published.

## Scope of the system

1.1 A significant percentage of Exchequer funding is distributed to Executive Agencies, Non-Departmental Public Bodies (NDPBs) and Non-Ministerial Departments. These are Defra's delivery bodies, known collectively with core Defra as the Defra group. The Defra group also includes a number of advisory and mostly self-financing bodies.

1.2 Delivery bodies within the Defra group have their own systems of accountability which specify how each individual Accounting Officer oversees the use of their organisation's resources.

1.3 Defra group accountability is provided through a clear, evidence-based business planning process, supported by governance, monitoring, audit and assurance and risk processes.

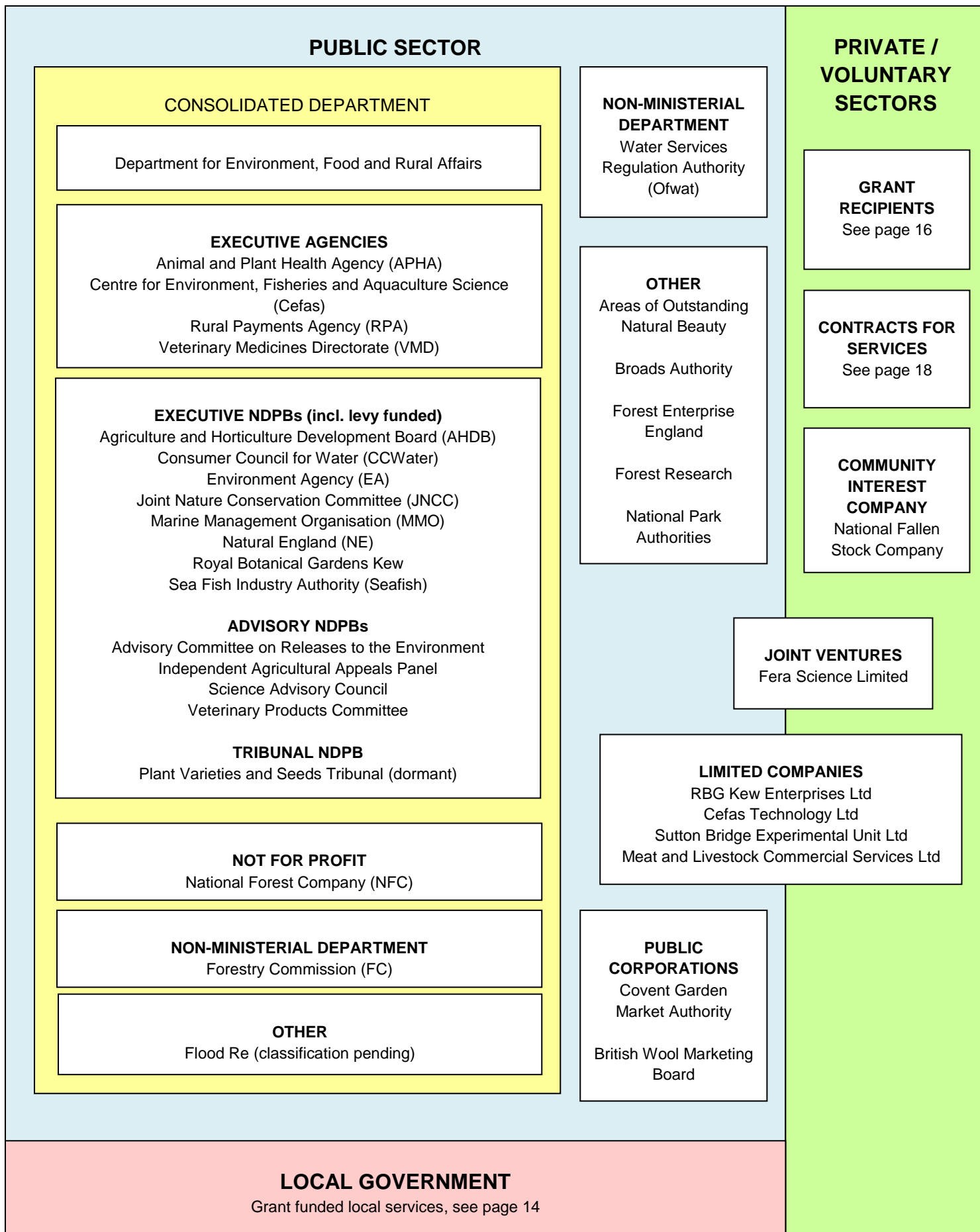
1.4 Core Defra Directors and Accounting Officers of Defra group delivery bodies have the delegated authority to commit resources within predefined limits, together with the responsibility for proper stewardship of these resources and compliance with the requirements of HM Treasury's [Managing Public Money](#) guidance. Accountability is formalised through Delegated Authority Documents (DADs) at the start of the financial year. Directors are accountable to the Permanent Secretary for ensuring that they deliver their priorities within these delegations.

1.5 The Permanent Secretary confirms the appointment of the Chief Executive Officers (CEOs) of the department's delivery bodies as the Accounting Officers for these bodies.

1.6 The Defra group strategy sets out the group's vision and objectives. It is developed with, and approved by, the Secretary of State. In alignment with the strategy, the Defra group Single Departmental Plan sets out the priorities, success measures and resource allocations to deliver the strategic objectives. It is in turn supported by action plans for each of the policy clusters and delivery bodies. Directors and CEOs report on delivery of their action plans through the performance reporting framework, and report on maintaining forecasted financial positions within budget limits. Where relevant, they are responsible for ensuring that their activities have been through an internal assurance process and/or Government Major Projects Portfolio Gateway process.

1.7 Management Information on the progress against Defra group business plans is collated quarterly, and is being further developed to identify significant group risks or issues, and setting out performance against budget forecasts.

**Figure 1: Diagram showing the scope of Defra's Accountability System**



## 2 Responsibilities within the department and across the Defra group

2.1 Most of the functions of the department are now coordinated across the Defra group.

### Operating as the Defra group

2.2 The Defra group comprises a range of public bodies operating at various lengths from the core department. This includes **Executive Agencies, Non-Departmental Public Bodies (NDPBs), Non-Ministerial Departments (NMDs)** and **other public bodies**.

2.3 The Defra group has, since autumn 2016, adopted an outcome systems approach to organising activity undertaken within the group. This approach recognises that the group is focused on delivering outcomes for customers, and for society more broadly. While the Defra group is structured as a number of separate organisations, many of which are legal entities, successful delivery of these outcomes depends on input from multiple organisations and on joining up end-to-end, from policy to operations.

2.4 The Defra group delivers a wide range of outcomes through the services we provide and the policies we are responsible for. These have been grouped into **outcome areas** by clustering related activities. Whether this is done on the basis of direct service delivery (which 80% of people in the group are involved in) or policy areas, the same six broad outcome areas emerge:

- Food and farming
- Biosecurity (animal & plant health)
- Floods and water
- Environmental quality
- Natural environment and rural
- Marine and fisheries

2.5 For each outcome area, the **outcome system** is made up of everyone involved in delivering outcomes for that area. Each outcome system includes policy and operational delivery teams from multiple organisations. Some delivery bodies are represented in several different outcome systems, reflecting the fact that their activity contributes to multiple outcome areas. Core Defra is represented in all six outcome areas.

2.6 Outcome systems are not organisations, structures or separate entities. Responsibility for service provision and policy responsibility rests with individual teams within the outcome systems, and the organisations that they belong to. Budgets are allocated to, and people employed by, Defra group bodies and not the outcome system. The outcome systems approach does not aim to second-guess actions that belong properly to a single organisation, such as the preparation of annual accounts.

2.7 Each outcome system has a system leader who manages, guides and coordinates the system to deliver the outcomes in that area. Each system leader is responsible for two systems. In line with the outcome systems approach, the system leader does not supplant the organisational leadership of the delivery bodies within that outcome system. But on issues that are considered at the outcome system level, the system leader convenes the different organisations and teams involved to explore the issue and reach a collective view on how to proceed.

2.8 Outcome systems do not have their own formal governance as they are not separate entities. The outcome systems approach is, however, reflected in the governance arrangements for the Defra group. The three system leaders are members of the Executive Committee (ExCo), providing a direct connection to all the delivery bodies within the Defra group. Three system committees also support ExCo by ensuring alignment of plans and activities, and identifying synergies and areas for improvement.

2.9 System committees bring together leaders from the organisations represented in the outcome system together with key partners who can support the group in looking across the whole outcome system. They provide strategic direction for the development of outcome systems and are the key forum for discussion at the outcome system level, for example, to agree prioritisation and resource allocation. System committees ensure that outcome level views, and the perspective of delivery bodies, are fully reflected in decision-making at the Defra group level. In order to discharge their role effectively they receive key management information relating to the system as a whole, drawn from that produced by individual organisations.

2.10 The underlying principle behind the outcome systems approach is that we maximise our opportunity to achieve the best outcomes by taking an open approach and looking across the whole range of organisations involved in delivering those outcomes. The new approach, along with other well established practices and processes, demonstrate Defra group's alignment with the principles set out in the Cabinet Office's [Partnership between departments and arm's length bodies: Code of Practice](#).

## **Governance**

2.11 The governance arrangements for the Defra group are designed to balance three elements:

- The need for simple and effective decision making across the group.
- Respect for the statutory powers and duties of Non-Departmental Public Bodies (NDPBs) and Non-Ministerial Departments (NMDs).
- Requirements of Parliamentary accountability and the budgetary framework.

2.12 As a general principle, decisions that are specific to a single organisation within the group are taken by that organisation in accordance with established procedures and delegated authority. Decisions which affect more than one organisation are taken by a



group governance body, and the organisations affected are fully engaged in the decision process. Chief Executives ensure that their Boards are part of this process, and specific agreement is sought from Boards where a decision impacts on their formal responsibilities.

2.13 Delivery bodies maintain their own governance structures and processes appropriate to their business and scale which serve as an important strand of assurance. These arrangements are detailed in framework documents, including the responsibilities of the Board and requirement for an Audit and Risk Assurance Committee (ARAC) to be established. An Accountability and Governance central function has been established to provide support to the Principal Accounting Officer and provide group wide support and oversight for accountability, governance, risk and assurance matters.

## **Risk**

2.14 A new risk management approach for the Defra group has been developed over the course of 2016/17 and is in the early stages of implementation. This aims to embed a consistent approach to risk identification and management, with ownership and review at the right levels. This integrated approach collates risks across the Defra group to produce a set of key strategic risk themes and risks for the group. These risks are escalated from across the group to ExCo through the ExCo sub-committees. While good progress has been made in designing and implementing the approach, it is still maturing and further work is underway to embed this across core Defra and delivery bodies. This includes developing a group wide risk strategy, refining risk guidance and setting a clear and stable escalation route through ExCo's sub-committees.

## **Counter Fraud**

2.15 Risk of fraud extends across all the activities of the Defra group. Overall responsibility for fraud risk sits with the Principal Accounting Officer (PAO), supported by the DG for Strategy, EU Exit and Finance who is the designated ExCo / Board lead for fraud (including bribery and corruption) and error.

2.16 The coordination of counter fraud activities across the department is important. A key part of that is ensuring people have clarity about their roles and responsibilities and an understanding of what they are accountable for. Within the core department, ownership of specific fraud risks are identified at director level, and within delivery bodies responsibility for fraud risk is delegated to local Accounting Officers.

2.17 Coordination also includes making sure the department can demonstrate compliance with relevant central government initiatives in a joined up and consistent manner, including the new cross-government counter-fraud professional standards. The counter-fraud hub within Defra's Accountability and Governance Team supports the PAO and DG for Strategy, EU Exit and Finance by developing counter-fraud policy and strategy for the Defra group. It also provides an oversight function on Defra group fraud risks and

activities, as well as a single point of engagement with the Cabinet Office Fraud and Error Team.

## **Audit**

2.18 Delivery body Audit and Risk Assurance Committees (ARACs) advise management boards on governance, control and risk management for most bodies. A representative of the Defra internal audit function regularly attends ARAC meetings for those bodies with a more significant budget share and associated risk. Their attendance informs assurance to Defra's PAO and ensures that central assurance needs from the delivery bodies are considered.

2.19 Internal audit is provided by Defra's Group Internal Audit function which forms part of the Government Internal Audit Agency (GIAA). There is a single consolidated audit plan, which includes cross-cutting group audits, as well as the continuation of organisational specific audits. The programme of risk-based internal audits and advisory work provides assurance to the Permanent Secretary as PAO, the Defra group ARAC and the Defra Board on the overall adequacy and effectiveness of the department's framework of governance, risk management and control. The Defra group ARAC is chaired by a Defra Board Non-Executive and the members are Non-Executive ARAC Chairs of key group delivery bodies. The annual group audit plan is signed off by the group ARAC and the Executive Committee.

2.20 External Audit is provided by the National Audit Office (NAO) which is responsible on behalf of Parliament for holding Defra to account for the way it uses public money, thereby safeguarding the interests of taxpayers. This is achieved through the independent audit of Defra's annual financial statements on behalf of Parliament and through its programme of value for money reviews.

2.21 The governance statement in Defra's consolidated Annual Report and Accounts (ARA) evaluates the effectiveness of the department's governance arrangements, risk management, and the system of internal control throughout the relevant financial year. In deciding the specific issues to cite in the governance statement, advice is provided by colleagues within the department leading significant projects, supported by the information within Director Assurance Statements (self-assessments carried out by each Director). The Head of Internal Audit's Annual Opinion also informs the governance statement. The statement reflects upon significant issues that affect the Defra group, recognising that Defra's Agencies and NDPBs also publish their own governance statements which evaluate in more detail the effectiveness of their governance, risk management and internal controls. Separate governance statements for delivery bodies are included in their individual ARAs.

## **Accountability**

2.22 The relationship between the core department and arm's-length bodies (ALBs), and respective accountabilities, are defined in framework documents. These are being reviewed and updated or written for all organisations which come within the Defra group accounting boundary. Some other bodies within the group have also elected to create or update a framework document as part of their good governance. Any delegated authorities will be set out and updated in a separate delegation document.

## **Performance**

2.23 Financial planning and performance reporting is integrated across the group. The performance reporting model is based on Defra group's strategic objectives and outcome systems.

2.24 A single quarterly performance report, aligned to the Defra group business plan and bringing together contributions made by ALBs and core directorates, is provided to both the Defra Board and Executive Committee (ExCo).

2.25 ExCo oversees the performance of the group as a whole and intervenes where performance issues require a cross-departmental approach. More frequent (monthly) detailed financial management information is also provided to ExCo.

2.26 Responsibility for managing performance continues to lie with the relevant delivery organisation and/or policy director. Further details of the underlying organisational performance indicators, outputs and resources are set out in Action Plans which ensure a clear line of sight from policy through to front-line delivery.

2.27 This approach strikes a balance by ensuring that organisations retain their accountability and autonomy to deliver within the performance framework, while also providing opportunities for strategic planning, prioritisation and decisions on allocation of resources so that activities can be best organised to optimise outcomes.

## **The distribution of funding**

2.28 Defra's annual funding is agreed by Parliament. The Permanent Secretary is accountable for ensuring the established control totals are not breached. In addition, the department administers the payment of EU CAP funding and charges for some services in accordance with HM Treasury fees and charges legislation.

2.29 There are separate control totals set out in the department's estimate for the net resource DEL requirement; the net capital DEL requirement; the net resource AME requirement; the net capital AME requirement; the net non-budget requirement and the net cash requirement (NCR) for the estimate as a whole. A breach of any of these voted limits (not all DEL or AME spending is voted) would result in an Excess Vote. Additional controls exist on some budgets that are ring-fenced for specific purposes (e.g. depreciation and

specific programme ring-fences such as CAP disallowance). On an annual basis, HM Treasury issues the main estimate, providing the annual breakdown of the department's overall funding settlement. There is an opportunity to redistribute funds between control totals once a year through the supplementary estimate process, if agreed by HM Treasury. Beyond this, it is the Permanent Secretary's responsibility as Principal Accounting Officer for the department to delegate the authority to commit these resources, together with the responsibility for proper stewardship of these resources and compliance with the requirements of *Managing Public Money*. Ministers determine the allocation in accordance with the department's funding settlement from HM Treasury and to reflect government priorities.

## Resource and capital budgets - core department

2.30 Prioritisation for allocation of resource is decided by ministers on the basis of recommendations by the Defra Board and the Executive Committee (ExCo).

2.31 Within the core department authority is delegated to directors to commit the resource allocation of the Main Estimate and any subsequent changes following the Supplementary Estimate, which includes administration budgets. Further details are explained in paragraph 1.4.

2.32 Directors' action plans align allocation of resources to reflect the prioritised outcomes of the department, as agreed with the Secretary of State.

## Resource and capital budgets – delivery

2.33 The Permanent Secretary confirms the appointments of the Accounting Officers of Defra group's Executive Agencies and NDPBs. Each delivery body Accounting Officer receives a Delegated Authority Document (DAD) delegating budgets and authority to commit resources and outlining expectations and areas of responsibility and accountability.

# 3 Relationships with ALBs

## Purpose, roles and objectives

3.1 The Defra group **strategy** sets out a shared vision and strategic objectives for the group. The strategy is overarching and identifies priority areas. It is supported by a number of other planning products which provide a line of sight and help to manage the group at all levels:

- The **Defra group business plan** brings together the diverse range of outcomes and activities across the group into strategic objectives. This also serves as the Defra group **Single Departmental Plan (SDP)**.

- Action plans are more detailed business plans, one level down from the group business plan:
  - a) **Business unit action plans** for each delivery body, core Defra team and corporate services (there are 19 business unit action plans in total) – these are produced by business units and ALBs and are inputs to the group business plan.
  - b) **Area integrated plans** which cover the 14 geographical areas shared between the Environment Agency, Natural England and Forest Services (part of the Forestry Commission) – these are produced by area teams and used by the three bodies to efficiently deliver joint local priorities.

3.2 While the strategy and group business plan apply directly to the core department and 10 delivery bodies<sup>1</sup> specifically, all of Defra’s public bodies – regardless of their role and positioning – act together on a shared agenda in contributing to the single vision of creating a great place for living.

3.3 Annex A provides detail on the sources of funding for ALBs in 2016/17<sup>2</sup>.

## Executive Agencies

3.4 Defra’s Executive Agencies operate within a framework of direct accountability to the department and to ministers who remain accountable for their overall performance. They are part of the department; the Chief Executive Officer (CEO) is appointed by the Principal Accounting Officer as the Accounting Officer for each agency.

3.5 Defra’s four Executive Agencies are:

- **[Animal and Plant Health Agency](#)** (APHA): launched on 1 October 2014, merging the former Animal Health and Veterinary Laboratories Agency (AHVLA) with the parts of the former Food and Environment Research Agency (Fera) responsible for plant and bee health to create a single agency responsible for animal, plant and bee health.
- **[Centre for Environment, Fisheries and Aquaculture Science](#)** (Cefas): is a world leader in marine science and technology, providing innovative solutions for the aquatic environment, biodiversity and food security. It provides the UK’s most diverse centre for applied marine and freshwater science and research, covering an unrivalled breadth of specialist areas to provide a fully integrated, multi-disciplinary approach to all its customers’ needs.

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<sup>1</sup> Rural Payments Agency; Animal and Plant Health Agency; Veterinary Medicines Directorate; Natural England; Environment Agency; Marine Management Organisation; Forestry Commission; Centre for Environment, Fisheries and Aquaculture Science; Joint Nature Conservation Committee; Kew

<sup>2</sup> Covering ALBs whose funding is included in the Defra group accounts.

- [Rural Payments Agency](#) (RPA): is the paying agency for the EU's Common Agricultural Policy (CAP) schemes in England. It makes payments to farmers, traders and land owners. It manages over 40 schemes to help ensure a healthy rural economy and strong rural communities.
- [Veterinary Medicines Directorate](#) (VMD): its role is to protect public health, animal health and the environment and promote animal welfare by assuring the safety, quality and effectiveness of veterinary medicines.

3.6 Agencies report on their financial performance and provide details of any charging schemes in their annual reports.

3.7 Each agency has a management board which may be chaired by either the agency CEO or lead NED, and includes other NEDs and the agency senior team. A senior Defra official is also a member of each Executive Agency's management board, bringing an understanding of Defra and wider government policy to the agency.

## Non-Departmental Public Bodies (NDPBs)

3.8 Defra has two types of NDPB – **Executive (including levy)** and **Advisory** - and the governance for each one reflects the nature, responsibilities and risks of that body.

### Executive NDPBs

3.9 Defra's Executive NDPBs are [Natural England](#), [Environment Agency](#), [Marine Management Organisation](#), [Royal Botanical Gardens Kew](#), [Joint Nature Conservation Committee](#), [Consumer Council for Water](#), [Agriculture and Horticulture Development Board](#) and [Sea Fish Industry Authority](#)<sup>3</sup>. They are created through legislation, which specifies their purpose and functions, what powers are invested in them, and how they should be financed. NDPB Accounting Officer responsibilities include providing a signed governance statement in the entity's annual report and accounts, as well as reporting on the operation and effectiveness of its governance arrangements throughout the financial year.

3.10 Each NDPB has its own independent Board, Chair and executive management team, with the Chief Executive Officer (CEO) designated by the Principal Accounting Officer as the Accounting Officer for that organisation.

3.11 NDPBs operate with statutory independence and are not under day-to-day ministerial control. Nevertheless, ministers are ultimately accountable to Parliament for NDPBs'

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<sup>3</sup> *The Agriculture and Horticulture Development Board and Sea Fish Industry Authority are levy funded bodies.*

efficiency and effectiveness. The Secretary of State appoints the Chair and board members and they are directly responsible to the Secretary of State. The NDPB's Board appoints the Chief Executive, in agreement with the Secretary of State. For larger bodies, the Secretary of State holds performance reviews with the Chair to consider progress against the organisation's business unit action plan and Defra's ministerial priorities.

3.12 A Delegated Authority letter from the Principal Accounting Officer to the Chief Executive confirms the Chief Executive's delegated budget and responsibilities as Accounting Officer for that organisation and for ensuring delivery of their action plan.

3.13 Ministers agree funding and key objectives for each NDPB and hold them to account. The Chief Executive is responsible for establishing appropriate governance, control and risk management measures in their organisation.

3.14 A designated core Defra Policy Director from within the appropriate system acts as the relationship lead for each NDPB. Relationship managers, with support from policy teams where appropriate, are in day-to-day contact with delivery counterparts in the NDPB and help to ensure that business plan targets deliver agreed policy outcomes. CEOs of the larger public bodies, together with agency CEOs, are part of the relevant systems governance and also meet formally with ExCo at least quarterly.

3.15 The NDPB Board and Accounting Officer receive advice on governance, control and risk management from their Audit and Risk Assurance Committees (ARAC), which are advisory committees comprised of non-executives. The minutes of the NDPB ARAC are shared with core Defra. NDPB ARAC Chairs meet periodically with the Defra ARAC Chair, individually and as a group.

## Advisory NDPBs

3.16 Defra's **Advisory NDPBs** are the [Advisory Committee on Releases to the Environment](#), [Independent Agricultural Appeals Panel](#), [Science Advisory Council](#) and [Veterinary Products Committee](#). Advisory NDPBs receive minimal or no funds from Defra, usually limited to the fees and expenses of the members. Governance arrangements reflect this via a risk based approach. Some have a Board and Framework Document (Advisory Committee on Releases to the Environment); some are accountable through other bodies (e.g. Independent Agricultural Appeals Panel via the Chief Executive of the Rural Payments Agency).

## Non-Ministerial Departments and Public Corporations

3.17 The [Forestry Commission](#) is a Non-Ministerial Department included in Defra's Estimate and falls inside the departmental accounting boundary. Defra ministers also have lead policy responsibility for the [Covent Garden Market Authority](#) (a Public Corporation) and [Ofwat](#) – the Water Services Regulation Authority (a Non-Ministerial Department) both

of which fall outside the accounting boundary. The [British Wool Marketing Board](#) is also a Public Corporation which falls outside of the accounting boundary.

3.18 The Forestry Commission has a Royal Charter. It is the body through which the Forestry Commissioners discharge their forestry functions. The Commissioners and their functions are derived from statute, principally the Forestry Act 1967. Defra's Secretary of State is responsible for recommending who should be appointed (by Royal Warrant) as Chair of the Board of Forestry Commissioners. The Forestry Commission Director England is the Accounting Officer for the funding provided through core Defra. The Forestry Commission has two Executive Agencies. These are the research agency *Forest Research* and *Forest Enterprise*, which manages the nation's forest estate. The latter is also classed as a Public Corporation for accounting purposes.

3.19 The *Covent Garden Market Authority* (CGMA) is responsible for the stewardship of CGMA's funds and management of its assets. The CGMA Chief Executive is appointed by the CGMA Chair and Board in conjunction with the Secretary of State, who appoints the CGMA Chair and Board members. Defra's Principal Accounting Officer confirms the Chief Executive as the Authority's Accounting Officer. The CGMA's Accounting Officer is responsible for ensuring that systems are in place to monitor CGMA's activities, its financial management and decision-making procedures, so that they meet high standards of corporate governance at all times.

3.20 *Ofwat* is primarily resourced by licence fees. Fees are charged to companies that *Ofwat* regulates and additional licence fees are payable by certain companies for specific work on the Thames Tideway Tunnel project and with respect to the Open Water Programme. *Ofwat* is directly accountable to Parliament for its financial expenditure and must report to Parliament on an annual basis through its Annual Report and Accounts which are laid by HM Treasury. *Ofwat*'s Accounting Officer and the *Ofwat* Board have responsibility for maintaining corporate governance that supports the achievement of *Ofwat*'s policies, aims and objectives, while safeguarding the public funds and departmental assets. The Accounting Officer is accountable to the Chair and Board for all aspects of *Ofwat*'s work. *Ofwat*'s duties are laid down by legislation, in particular the Water Industry Act 1991 and the Water Act 2003.

3.21 The *British Wool Marketing Board* is a non-profit making organisation which returns to producers the market price for their wool, less its own costs. It operates commercially and does not receive financial support.

## **Other public bodies**

3.22 [National Park Authorities](#) (NPAs) are established by orders under the 1995 Environment Act. Their purposes, powers and constitution are set out in legislation. They are not local authorities, although they are treated as such for certain purposes, particularly their role as planning authority for their area. They are independent bodies to which many of the statutory requirements that apply to local government are applied, including for the conduct of meetings and decision making, and for the external audit and



publishing of accounts. Each authority has a five year National Park Management Plan which sets out strategic objectives for the Park. They publish an Annual Report on their performance. NPAs receive the majority of their income in the form of grant-in-aid from Defra. All parks authorities are subject to the audit requirements set out under the Audit Commission Act 1998 and under The Accounts and Audit Regulations 2015, as Category 1 authorities, they are required to commission and publish audited annual accounts.

3.23 **The Broads Authority** was established by specific legislation, the Norfolk and Suffolk Broads Act 1988. Its purposes, powers and constitution are set out in this and the Broads Authority Act 2009. It is not a National Park Authority, but is treated in the same way. It is not a local authority but is the planning authority for the Broads and is an independent body to which the statutory requirements that apply to local government are applied. The Authority has a five year Management Plan which sets out strategic objectives for the Broads. They publish an Annual Report on their performance. The Authority receives most of its income via grant-in-aid from Defra and tolls paid by users of the Broads. As a relevant authority under The Accounts and Audit Regulations 2015 they are required to commission and publish audited annual accounts.

3.24 **Area of Outstanding Natural Beauty (AONB) Conservation Boards.** Section 86 of the Countryside and Rights of Way Act 2000 allows the Secretary of State to create a Conservation Board for an AONB by means of an Establishment Order. A Conservation Board is considered to be of most potential benefit to the larger AONBs whose area crosses a number of administrative boundaries. Conservation Boards assume responsibility for the preparation and publication of the AONB Management Plan setting out their policies for the management of the area. They are independent bodies to which many of the statutory requirements that apply to local government are applied, including for the conduct of meetings and decision making. They differ from National Park Authorities in having no statutory local planning function. The Boards receive most of their income via grant-in-aid from Defra, match-funded by constituent local authorities. They publish an annual Statement of Accounts, audited as appropriate to their size and turnover.

## 4 Local funding arrangements

4.1 For local authority services in which Defra has a policy interest, central government funding is generally provided either through the Revenue Support Grant (RSG) from the local government budget or through specific Defra revenue grants, from the Defra budget. Funds provided through RSG are several orders of magnitude greater than through specific Defra grants (billions versus millions). Defra and the Environment Agency also provide some minor capital grants to local authorities and local authorities fund some services and capital investments of policy interest to Defra from council tax or other receipts. The Department for Communities & Local Government (DCLG) Accounting Officer, as lead Accounting Officer across central government with respect to local government, provides the assurance that a core framework is in place requiring local

authorities to act with regularity, propriety and value for money in the use of all of these resources. For a more detailed breakdown of local accountability arrangements, see the [DCLG Accounting Officer System Statement](#).

4.2 Within this framework, local authorities are responsible and accountable for the legal use of funds, and every local authority has a responsibility to make arrangements for the proper administration of their financial affairs and to ensure that one of their officers is accountable for the administration of those affairs. A system of legal duties requires councillors to spend money with regularity and propriety. Local authorities are required to have an annual external audit, and the certification of authorities' annual accounts by the auditor provides general assurance that the totality of their expenditure is within their legal powers. Local authority auditors also assess whether authorities have used their resources effectively as part of their annual audit of accounts.

4.3 As well as the accountability provided through this framework, specific Defra grants (e.g. for flood prevention, waste infrastructure, waste recycling work etc.) are often provided in recognition of a statutory obligation on local authorities to perform a function or provide a service. Other Defra grants may be made to address a specific need, for example, reimbursing expenditure in areas where it is difficult to forecast or piloting new approaches or policies. In such cases, value for money is scrutinised in the relevant approvals process and outcomes are specified explicitly in the agreement and claim processes. These arrangements are established in a way that allows local authorities the flexibility to respond to local priorities, pursue balanced outcomes and choose their own methods of achieving desired outcomes, whilst taking into account Defra's policy intentions.

## 5 Third party delivery partnerships

5.1 There are four limited companies linked to bodies within the Defra group who report to those bodies. These are all private companies: **RBG Kew Enterprises Ltd (Kew)**, **Cefas Technology Ltd (Cefas)**, **Sutton Bridge Experimental Unit Ltd (AHDB)**, **Meat and Livestock Commercial Services Ltd (AHDB)**. The **National Fallen Stock Company** is an independently run non-profit community interest company.

5.2 **National Forest Company** is a charity and non-profit institution sponsored by Defra. It receives a small amount of funding from Defra which is monitored through reporting.

5.3 **Flood Re** is a non-profit flood reinsurance scheme run and managed by the insurance industry. In accordance with the requirements of the Government Resources and Accounts Act 2000 (Estimates and Accruals) (Amendment) Order 2015, it is consolidated into Defra's accounts. It is awaiting classification by Cabinet Office and the Office of National Statistics.

5.4 **WRAP (Waste and Resources Action Programme)** is a registered charity and company limited by guarantee, subject to the provisions of the Companies Act and audited within the provisions of that Act. It has an annual Grant Agreement with Defra, setting out the conditions on how the funding can be used. A detailed programme of delivery is agreed annually between Defra and WRAP, with performance against these deliverables monitored on a quarterly basis. WRAP operates according to the principles of Corporate Governance as set out in the [UK Corporate Governance Code](#). WRAP has an Audit Committee that considers the integrity of financial statements, the internal financial controls and risk management systems. The Committee reports to the WRAP Board. WRAP delivers some of its work through third parties. For larger areas of work, contracts are awarded according to EU procurement rules.

5.5 **Internal Drainage Boards (IDBs)** are locally funded and independent statutory public bodies, responsible for water level management in areas of special drainage need. They operate predominantly under the Land Drainage Act 1991 and have permissive powers to undertake work within their districts. They are funded largely by a mixture of drainage rates paid by farmers and by special levies on unitary and district local authorities. IDBs do not receive funding from Defra, although they may apply for grant-in-aid funding for specific flood risk management schemes through the partnership funding process. The Land Drainage Act 1991 requires IDBs to report annually on financial expenditure and other issues such as asset management and biodiversity action plans. The reports are submitted to Defra and special levy information is shared with the Department for Communities and Local Government (DCLG). Defra receives a report every year setting out the results of local government audited accounts, including those of IDBs. Where IDB accounts are qualified or delayed, Defra investigates to understand the reasons and reports back to the Accounting Officer. The Environment Agency has a supervisory duty in relation to flood/water operations for IDBs. The Association of Drainage Authorities (ADA), supported by Defra, has been taking action to share best practice and improve governance and accountability improvements across all IDBs in England.

## 6 Grants to private and voluntary sector bodies

6.1 Defra follows a defined process when awarding grants to other bodies such as voluntary organisations, private companies and charities. This complies with Defra's 'no PO (Purchase Order) no Pay' policy and provides decision trees to make sure that grant funding is appropriate and, if so, that it follows a competed or direct award route. Applications must include advice concerning state aid and fraud and error risk, in addition to the correct levels of delegated authority, including gateway approval. All grants are issued with either a grant funding agreement or Memorandum of Understanding to make sure that funding is controlled effectively, through regular reporting, payment against agreed milestones where appropriate and end of grant reporting in line with Managing Public Money and that, where necessary, funded activities are monitored.

6.2 Details of all grants can be found on the Cabinet Office (CO) Government Grant Information System (GGIS):

<https://cabinetoffice.force.com/datasolution/apex/DataSolutionLogin>. Currently there are around 90 different schemes, which include Waste PFI, Darwin Initiative, Canal and River Trust, Rural Development Programme for England, Woodland Carbon Fund and National Trails in addition to ad-hoc grants.

6.3 Defra disburses general grants in accordance with the standards laid down by the Cabinet Office, a copy of which can be found at:

<https://www.gov.uk/government/publications/grants-standards>.

6.4 As part of Defra's continuous improvement we aim to remain compliant with the standards.

6.5 The following set out the arrangements for key delivery partners in the private, public and voluntary sectors:

- **Keep Britain Tidy** is a registered charity and company limited by guarantee. It receives a minimal grant from Defra and is monitored via an annually updated Memorandum of Understanding.
- **Regional Flood and Coastal Committees (RFCCs)** are committees established by the Environment Agency under the Flood and Water Management Act 2010. RFCCs have a statutory duty to consult on and consent to the Environment Agency's regional Flood and Coastal erosion risk management investment programmes. They bring together members appointed by Lead Local Flood Authorities (LLFAs) and independent members with relevant experience.

6.6 During 2016/17 Defra's spend on grants, excluding EU and grant-in-aid, was in the region of c£450m (correct at the date of this statement).

6.7 EU funded grants are paid according to the regulations determined by the EU and fall outside the scope of the Cabinet Office standards.

6.8 As one of its key operational priorities, Defra continues to support delivery of the existing EU Common Agricultural Policy (CAP) scheme and associated programmes. This is a system of agricultural subsidies and programmes covering farming, environmental measures and rural development. CAP funding is provided in two ways: Pillar 1 for direct payments to farmers and market control measures; and Pillar 2 to promote rural development.

6.9 The Rural Payments Agency (RPA) administers schemes within Pillar 1 on behalf of Defra directly and on behalf of the Devolved Administrations under arrangements set out

in Framework and Agency Agreements<sup>4</sup>. For Pillar 2, Defra is the managing authority for the Rural Development Programme for England (RDPE). Detail on the management and control structure of the RDPE is set out in section 15 of the [RDPE programme document](#).

## 7 Major contracts and outsourced services

7.1 The Defra group has implemented a contract and supplier segmentation tool that defines the level of contract management based upon a risk / value analysis. The output of this segmentation exercise defines the level of contract management undertaken and allows the appropriate resources to be allocated to individual projects and contracts. The top five contracts are detailed in Table 1 below.

7.2 The most significant contracts are managed through a central Contract Management Team and are subject to additional rigour and testing. Defra adopted a gold, silver, bronze approach to contract management, with each level having its own scalable processes and due diligence. These are detailed in the Defra Contract Management Toolkit which is a hybrid of an award winning toolkit from within the public sector and Cabinet Office Contract Management Guidelines. Adopting a scalable contract management delivery process ensures that the right and appropriate levels of management are allocated to every contract awarded.

7.3 The Defra Supplier Relationship Management (SRM) programme has also identified the following suppliers as tier one, third party suppliers (i.e. gold suppliers). This listing includes Capita Property & Infrastructure Ltd, Interserve Ltd (facilities management), Cefas, Animal and Plant Health Agency (APHA), Shared Services Connected Ltd (SSCL), Ricardo-A E A Ltd, Food & Environment Research Agency, The Pirbright Institute, Bureau Veritas UK Ltd, Biotechnology and Biological Sciences Research Council, Ashurst LLP, Environment Agency, and National Physical Laboratory. Development of the SRM programme is ongoing.

7.4 As well as being a customer of Defra group Commercial, some of Defra's ALBs also have the capability and capacity to provide chargeable services back to the department under either contract or Memorandum of Understanding. These services vary but include research and development, and surveillance monitoring. The department engages with the ALB's through single sourcing where it is known that the capability only exists within the Network, or through a competitive approach.

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<sup>4</sup> Only School Milk is administered at the level of GB, the rest are administered for the whole of the UK. Some functions, such as certain inspections, are delegated back to Devolved Administrations under individual Service Level Agreements.

**Figure 2: Table showing value of major contracts**

Title	Main contractor	Total value of contract	Division name
Canal & River Trust Grant	Canal & River Trust	£800,000,000	Defra Evaluators
The Enabling Contract	IBM	£723,509,909	DGC - ICT and Telecoms
Thames Estuary Phase 1 Programme (TEP1)/TEAM2100 (Thames Estuary Asset Management 2100)	CH2M HILL	£310,000,000	DGC - FCRM & Major Projects (EA)
RITA	Accenture	£240,000,000	Rural Payments Agency
Interserve Contract Service	Interserve (Facilities Management) Ltd	£137,307,460	Defra Evaluators

7.5 The **Water and Environment Management (WEM) Framework** is a commercial agreement between the Environment Agency and 11 supply chain partners, with agreed terms for the award of individual contracts - to deliver projects, packages and programmes for Floods and Coastal Risk Management programme. It was signed in July 2013 and will expire in July 2019. The arrangements have already delivered £570m worth of contracts through delivery partners, with forecasted efficiencies of £57m (£30m already delivered). It is estimated to reduce the risk of flooding to circa 140,000 households over its operational period. The agreement is managed by the Environment Agency through a detailed performance management structure and balanced scorecard approach and delivers key sustainability benefits.

## 8 Investments, joint ventures and other assets

8.1 Defra has a limited number of delivery joint ventures / partnerships. One of the most significant is Fera Science Limited Joint Venture, which was formed on 1 April 2015. Following a competitive procurement exercise, Defra sold 75% of the Food and Environment Research Agency to Capita, forming a Joint Venture (JV), Fera Science Limited (Fera) as a private company. Core Defra appoints two Non-Executive Directors to sit on Fera's Board, which provides leadership, sets strategic aims and manage resources to ensure Fera meets its objectives. The Board also has a responsibility to Shareholders and customers and ensures that obligations and commitments are met.

8.2 As a minority owner, Defra has some limited rights of veto on company business as set out in a Subscription and Shareholder Agreement. A Shareholder function exists to monitor Defra's investment in FSL. The key elements are that as the debt/equity funder of the company, the shareholder is focused on managing financial risk and return with a focus on:

- Decisions on the buying or selling of the Defra shares.
- Defra's approval to any share or debt restructuring.
- Any other corporate change which is likely to have a major impact on shareholder value.
- The Defra Finance Director acts as shareholder representative on behalf of Defra.

8.3 On formation of the JV, Defra entered into a Framework Agreement with Fera to continue delivery of key services for five years, renewable up to a total of ten years. A number of Call-Off Agreements have been let under this framework for delivery of scientific services. The contracts are managed using Defra's routine contract management processes. Total spend under the framework in 2016/17 was circa. £14m.

## Annex A – Sources of ALB funding

2016/17 sources of ALB funding as a percentage of their total funding*															
	AHDB	APHA	CCW	Cefas	EA	FC	Flood Re	JNCC	Kew	MMO	NFC	NE	RPA	Seafish	VMD
<b>Defra funding (Total RDEL)</b>	0%	72%	0%	47%	65%	71%	0%	92%	33%	76%	80%	89%	5%	0%	26%
<b>Operating income</b>															
Sales of goods and services	11%	9%	0%	50%	3%	27%	0%	7%	6%	1%	3%	10%	0%	15%	0%
Fees, levies and charges	87%	5%	0%	0%	26%	0%	100%	0%	0%	0%	0%	0%	0%	80%	73%
EU funding	0%	1%	0%	4%	0%	0%	0%	1%	0%	9%	0%	0%	93%	0%	0%
Licences	0%	0%	100%	0%	2%	0%	0%	0%	0%	14%	0%	0%	0%	0%	0%
Other income	2%	14%	0%	0%	3%	2%	0%	0%	61%	0%	17%	0%	1%	5%	1%
<b>Total operating income</b>	100%	28%	100%	53%	35%	29%	100%	8%	67%	24%	20%	11%	95%	100%	74%
<b>Total</b>	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

\*Percentages have been rounded

**AHDB** Agriculture and Horticulture Development Board

**APHA** Animal and Plant Health Agency

**CCW** Consumer Council for Water

**Cefas** Centre for Environment, Fisheries and Aquaculture Science

**EA** Environment Agency

**FC** Forestry Commission

**Flood Re** Flood Re

**JNCC** Joint Nature Conservation Committee

**Kew** Royal Botanical Gardens Kew



**MMO** Marine Management Organisation

**RPA** Rural Payments Agency

**NFC** National Forest Company

**Seafish** Sea Fish Industry Authority

**NE** Natural England

**VMD** Veterinary Medicines Directorate