Environment Agency

Annual report and accounts for the financial year 2016 to 2017

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

We help people and wildlife adapt to climate change and reduce its impacts, including flooding, drought, sea level rise and coastal erosion.

We improve the quality of our water, land and air by tackling pollution. We work with businesses to help them comply with environmental regulations. A healthy and diverse environment enhances people's lives and contributes to economic growth.

We can't do this alone. We work as part of the Defra group (Department for Environment, Food & Rural Affairs), with the rest of government, local councils, businesses, civil society groups and local communities to create a better place for people and wildlife.

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Chair's foreword

Our economy, our ways of living and our country all rely on a healthy environment. As we prepare to leave the European Union, we are presented with the opportunity to design a better system to protect and enhance the environment. The Environment Agency is key to delivering these: we exist to support sustainable development and create a better place for people and wildlife.

This report sets out how we have become even more efficient and effective. In the last year, we reduced flood risk to a further 42,000 properties as part of the 6 year flood investment programme - a flagship example of how the Environment Agency works with Defra and other partners to put long term spending commitments to good use.

Environment Agency staff, our local partners and volunteers are central to responding to flooding. In January, a tidal surge and waves as high as 7 metres threatened our east coast. During the surge over 500,000 properties were protected by flood defences. I visited Hull where the tidal barrier protected 17,000 of these. In the incident rooms in York and Leeds I saw how we coordinated the response which included police, armed forces and businesses - the logistics firm Eddie Stobart helped us transport equipment. Together, we deployed 700 staff and moved 8,000 metres of temporary barriers. I was able to see these put into practice in South Ferriby, Lincolnshire. The incident was an important example of how we are prepared to respond to the most severe weather.

England is a much cleaner and greener place as a result of our regulation and we're engaging with water companies, waste businesses and the agriculture sector to further improve performance. We have simplified and focussed on work that addresses higher risks including poor performing sites. We will better support and reward responsible businesses and provide a transparent, stable and consistent charging framework to deliver sustainable growth and environmental protection.

We have also improved how the Environment Agency's Board supports engagement with business partners. In October, the Board held a meeting with retail, energy and water companies to discuss how our services and investment programmes could help them identify risks to their premises, products, customers and supply chains.

Partnership is essential to our work. The Property Flood Resilience Action Plan, written following the devastating flooding of 2015 to 2016, suggested ways businesses can make it easier for people to protect their homes from flood damage. We know it is more cost-effective to make properties resilient than pay to repair damage, so together with industry we are now developing a voluntary code for flood resilience measures for properties at high flood risk.

It is a great privilege to meet colleagues around the country and hear their stories of dedication, courage and innovation. To celebrate them, we held the first ever Environment Agency awards in April. I gave the Chair's Award for Diversity to James Trout from our Starcross Laboratory in Devon. James developed and runs a project to recruit laboratory assistants through the Down's Syndrome Associations Workfit Programme. This work strengthens our organisation and is an important example in the community.

Green spaces are much more than just a place of work and it is through sport and recreation that many people feel most connected with nature. We work with the Angling Trust all year round to encourage more people to get outdoors and give fishing a go. In November, we introduced free fishing licences for junior anglers.

By creating a healthy environment and improving public safety, the Environment Agency plays a key role in society. As we enter the Brexit negotiations I look forward to demonstrating how the natural capital of this country underpins our industrial strategy through sustainable development. We work to ensure that this will continue to bring prosperity for generations to come.

Emma Howard Boyd, Chair

Date: 28 June 2017

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Chief Executive's statement

Creating a better place for people and wildlife, whilst promoting sustainable development, is what we do.

Over the last financial year alone we have protected over 42,000 more homes from flooding. This means even more people, businesses and communities as a whole are better protected from the devastation flooding can cause. We have more staff trained and ready to respond to major incidents. And we've repaired and improved the flood defences damaged in the testing winter of 2015 to 2016.

The January East Coast storm surge showed just how far we have come and the expertise we now have in our organisation. We ran our best ever incident response: staff up and down the country worked around the clock to prepare for strong winds overtopping defences. Alongside our partners, we evacuated around 9,500 properties, put up temporary barriers and kept the affected communities protected.

This year also saw work beginning on new flood schemes as part of the 6-year flood and coastal risk management investment programme, driven by the use of innovative measures and natural flood management. Good examples of schemes completed include those at Willerby and Derringham, and Littlestone Beach, helping to protect over 10,000 homes.

Illegal waste operations continue to be a blight on our communities. We have been shutting them down country-wide, ending the nightmare people experience from their daily impact: fire, dust, noise and smell. This work not only protects the environment and people from further harm but helps to benefit legitimate business. Fighting waste crime will remain a high priority for us.

We've made our rivers, lakes and coastal waters healthier than they were a year ago. The number of serious and significant pollution incidents is now at its lowest level in 6 years, and we've seen harsher penalties for polluters. Now, over 98% of our bathing waters pass the required water quality standards. This all helps to boost local economies, enhance people's enjoyment at our beaches and improve the environment generally.

In the last 12 months we have turned most of our Key Performance Indicators green. But we want to do better and we will – we have even more ambitious targets for 2017 to 2018. We will continue to play our part in making a success of the Defra group, because by joining together we can better serve the people and places that truly need us.

The coming months will be challenging but we will harness the dedication, passion and knowledge of the fantastic people who work for the Environment Agency to ensure we continue to create a better place for people and wildlife.

J.D. Bevan

Sir James Bevan, Chief Executive

Date: 28 June 2017

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 erosion risk management
- water, land and biodiversity
- regulated business

We work with government, local councils, businesses, civil society groups 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 2017 we had around 11,000 full time equivalent employees. Our annual expenditure for the financial year ending 31 March 2017 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

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

Our plan sets out how our work will support the Defra strategy that we helped to develop, and contains our success measures.

We use 3 principles to inform all our choices:

- **Put people and wildlife first:** our goal is to create a better place for them.
- **80/20:** focus on the 20% of things that make 80% of the difference.
- **Support local priorities:** every place and community has its own needs.

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

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

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

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

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

The Defra strategy

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

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

Our goals are focused on four impact objectives, which explain our ambitious, long term aims, and the positive differences we will make to the UK by 2020. We have one delivery objective, which describes the high levels of service and value for money for the taxpayer which we will strive for.

The strategy sets out two organisational objectives outlining how we organise ourselves to deliver, and what Defra will be like: a Defra that will act together, be simpler, avoid duplication, maximise impact, and embrace digital and data

About the performance report

This performance report outlines the Environment Agency's performance against our priorities for the financial year from 1 April 2016 to 31 March 2017 (referred to throughout as 'this financial year'). It follows the structure of our corporate scorecard, and includes examples of how we are meeting our objectives. Our Action Plan and corporate scorecard (reported quarterly) are on GOV.UK (www.gov.uk).

A cleaner, healthier environment, benefiting people and the economy

Our measures of success are:	Our performance:
Rivers, lakes and coastal waters are healthier	✓
We protect people, the environment and wildlife by reducing serious pollution incidents	✓
We create new habitats	✓
We reduce the number of high risk illegal waste sites	—

Rivers, lakes and coastal waters are healthier

We have exceeded our target for this financial year thanks to a range of projects, including the restoration of river habitats, removal of barriers to fish migration and improvements to water quality. This includes work done with and by catchment partners and other stakeholders. We've concentrated our work on the places identified for improvement in the updated river basin management plans. We have also worked hard to prevent deterioration and maintain the quality of the water environment. This is a significant commitment and represents a real long-term challenge.

We are building on the experience of this first year of reporting and have set more stretching targets for next year. This will help us work with others to reach the longer-term target of enhancing at least 8,000km of rivers between the publication of the updated river basin management plans and the end of 2021.

We protect people, the environment and wildlife by reducing serious pollution incidents

The number of serious and significant pollution incidents (known as category 1 and 2) has reduced this financial year. These incidents are now at the lowest levels since 2011. This is as a result of us concentrating on reducing incidents in the 'top 5' regulatory sectors (water companies, agriculture, non-hazardous waste, biowaste treatment and use and landfill) which together account for 32% of all category 1 and 2 pollution incidents.

We have seen significant improvements in the performance of the landfill sector through our proactive compliance work. This included targeted audits of landfill gas management systems to ensure operators were following the industry code of best practice. We've also taken a more rigorous approach to the regulation of leachate management, with a consistent approach to compliance assessment and enforcement. As a result, we are considering removing landfill from the 'Top 5' sectors.

Agricultural incidents dropped sharply this autumn, probably because of settled weather and low rainfall, however the long term trend is increasing overall. We are working with the agriculture sector to look at ways to reduce the number of serious and significant pollution incidents.

We create new habitats

We created 424 hectares of priority habitat this financial year against our target of 400 hectares. This was achieved through working with a wide range of external organisations including wildlife and rivers trusts, Natural England, local authorities, national parks, RSPB, National Trust, and water companies.

This year our projects included the Ouse Washes habitat creation project in Cambridgeshire, where we worked with RSPB to create coastal and floodplain grazing marsh to support breeding birds such as waders and overwintering wigeon. Another project involved working with the Wildlife Trust in the River Rother and River Don areas, where we restored and created coastal and floodplain grazing marsh, wet woodland, lowland deciduous woodland and lowland meadows and reed beds. Not only will these measures bring cleaner water to the area, but they will also provide natural flood storage, promote enhanced biodiversity and provide opportunities for local communities.

We reduce the number of high risk illegal waste sites

We have reduced the number of high risk illegal waste sites by 8% from 272 to 253 against a target of 242. We achieved this through a wide range of actions, including the introduction of a National Prevention and Disruption Team, who trialled alternative methods of enforcement on sites over 2 years' old where traditional methods had been unsuccessful. We have concentrated on stopping new illegal sites more quickly and giving clear advice and guidance on applying for a permit and highlighting the consequences of continuing to trade illegally. As a result, we have stopped 54% of new sites in less than 90 days.

Packing a punch with leaky dams

Suffolk Punch horses – a rare breed of heavy horse traditionally used to transport wood products – have helped us move felled trees in preparation for the first natural flood defence of its kind in Essex.

The project, run in partnership with Essex County Council, will reduce the risk of flooding and improve wildlife habitats in Thaxted. The use of heavy horses means we have reduced our environmental impact and preserved a great tradition.

The felled trees and woody debris transported by the horses have been attached to a river bank to create a series of ‘leaky dams’. Now, during times of flooding, the water flow will be slowed. When water levels are normal, the water flows freely as it did before.

Leaky dams prevent flood water from washing away soil and silt from eroded river banks. They also provide food sources and a more variable habitat for wildlife including shelter, spawning and nesting ground, rooting habitat, and surfaces for microbes and algae to colonise.

We hope to replicate this project in other areas of the country to benefit people and the environment.

A nation better protected against floods, animal and plant diseases and other hazards, with strong response and recovery capabilities

Our measures of success are:	Our performance:
We reduce the risk of flooding for more households	
We maintain our flood and coastal risk management assets at or above the target condition	
We have a first class incident response capability	

We reduce the risk of flooding for more households

Projects to reduce flood risk have better protected 42,517 homes during 2016 to 2017. This means that we have better protected 96,986 homes since the start of our 6 year capital programme in April 2015.

One of the most significant projects completed this financial year was the Willerby and Derringham Flood Alleviation Scheme, which protected 6,695 homes. Previously, during extreme rainfall, the accumulation of agricultural runoff in the valley combined with the volume of water in the open watercourse would cause the local homes and businesses to flood. The scheme introduced storage reservoirs and lagoons in the valley to manage excessive flows, releasing the water into the urban drainage system at a slower rate to avoid flooding. Another major project completed this year was the Littlestone Beach Recharge, where we built up the beach bank to protect the sea wall from damage, protecting over 3,800 homes.

This objective was supported during the 2016 Flood Action Campaign which concentrated on making people aware that they live in an area that floods and supporting them to become more resilient and reduce their flood risk. The campaign resulted in nearly 78,900 new registrations to Floodline Warnings Direct, over 24,500 visits to our materials on GOV.UK and targeted social media content which had an audience reach of 4.5 million.

We maintain our flood and coastal risk management assets at or above the target condition

We have achieved our national target of 97% of Environment Agency maintained flood defence assets at the required condition in high consequence systems. The 3% of assets that are below target condition continue to provide protection against flooding and we will continue to monitor them closely until they are repaired. A high consequence system is a group of flood defence assets in a location where there would be significant impacts to people and property if the assets failed. Flood defence assets include embankments, storage areas, flood gates and sluices.

We have increased the number of assets above the required condition by over 300 this financial year. This is a result of increased funding in flood defence asset management and directly allocating this funding to where it has the greatest benefit, such as assets that are below the required condition.

Following the flooding during the winter of 2015 to 2016, we undertook an extensive programme of recovery work. By the end of September 2016 all of the flood and coastal erosion risk management assets that were damaged during the winter storms had either been restored to the pre-December 2015 standards of protection or had robust contingency measures in place.

We have a first class incident response capability

Our Major Incident Ready initiative during 2016 has helped us to become better prepared for future major incidents such as a flood. We now have over 6,700 people trained and ready to respond to incidents. Of these, 600 were trained since April 2016, and a further 1,000 staff are currently undergoing training. We have created new roles such as flood support officers who provide advice and support to local communities during and after a flood incident. We have improved our capability to plan and prepare for incidents and are able to move more staff to communities at risk using our updated technology.

We saw the benefits of our incident response capability last winter during storms Angus and Doris. We demonstrated our principle of thinking big and acting early in our response to the east coast surge in January 2017, which threatened thousands of homes, preparing in advance based on the forecast 4 days before the surge. Over the following 3 days, we deployed 8km of barriers, 26 pumps and over 700 staff to protect and support communities at risk. Our visibility and situation reporting provided a near-live picture of what was happening on the ground.

Excellent delivery, on time and to budget and with outstanding value for money

Our measures of success are:	Our performance:
We manage our money efficiently	
We respond to planning application consultations within 21 days	
We reduce the regulatory burden on business	Measure not available

We manage our money efficiently

We report on this measure by monitoring the percentage of budget that we have spent. The higher the percentage of budget we spend, the more we can achieve for the environment. The measure complements our other performance targets. This financial year we spent 99.8% of our full year budget.

We have a major capital and revenue programme of investment projects and carry out detailed planning to ensure these investments are prioritised appropriately. We follow strict financial and governance rules to protect our investments. This can provide a challenge in delivering the programme of expenditure.

During 2016 our internal auditors tested whether our programme expenditure controls were operating effectively. The auditors tested the level of technical expertise used in our assurance reviews of investment projects. They also looked at the objectivity and independence of project assurers and whether the assurance framework is helping us to continuously improve our project management.

The audit concluded that governance, risk management and internal controls on project assurance are operating effectively. It found that our project assurance framework reflects government best practice. The audit also identified good alignment between our integrated approvals and assurance strategy, business case guidance and HM Treasury’s The Green Book on investment appraisal.

We respond to planning application consultations within 21 days

We responded to 96% of planning application consultations and pre-application enquiries within 21 days. This is above our target of 95% and represents a 4% improvement on last year. We achieved this through improving our processes, including working with local planning authorities to ensure we were only consulted on applications within our remit, and increasing the amount of standard advice given to applicants. To sustain this level of timeliness, in future we are likely to have to restrict our bespoke advice to those submitting higher-risk applications. We are continuing to look for further improvements to our processes, including working with Defra to be more efficient.

We reduce the regulatory burden on business

Our aim is to always reduce the burden on businesses from regulation, so whenever we change the way we regulate, we assess the impact of this on businesses. This contributes to the government’s overall business burden reduction target, known as the business impact target. Our impact assessments, and Defra’s (which we contribute to), are independently verified by the Regulatory Policy Committee.

At the time of publication the Regulatory Policy Committee had not given us final figures for 3 assessments so we cannot report a total figure for this measure.

Improved rain gauge technology to save carbon and money

This financial year we introduced some innovative new measuring equipment, paid for by the carbon reduction fund. The fund pays for innovative projects that aim to reduce the carbon emissions from our activities.

Pluvio rain gauges were installed at 75 sites across the country, replacing our old rain gauges. The new gauges can give us readings on all types of weather, including snow and hail as well as rain. They have no moving parts and are more reliable and accurate. As a result, they only require 1 - 2 visits a year for each site compared to 8-12 times a year for each site with the old rain gauges. The reduction in mileage and staff time is already saving us a significant amount of money and carbon.

An organisation continually striving to be the best, focused on outcomes and constantly challenging itself

Our measures of success are:	Our performance:
We use and share the right data to deliver outcomes	
We reduce our carbon footprint	
We work in partnership with others	

We use and share the right data to deliver outcomes

Open Data is data that has been made available free of charge so anyone can use it. It helps us achieve environmental improvements through others who use the data. We published 1,932 datasets as Open Data between June 2015 and the end of June 2016, exceeding our target of 1,500. These ranged from data on our commercial vehicle holdings to aerial photography, flood risk, regulatory compliance and enforcement. We publish all data as ‘Open’ unless there is a very good reason not to, for example data that contains personal or confidential information. We have continued to publish data as part of our commitment to be an Open organisation and now have over 2,200 open datasets available through data.gov.uk.

Making our data available in this way provides a fantastic opportunity to extend the reach of our valuable information. We have already seen some great uses of our data by others, such as mobile phone applications to warn and inform individuals about their risk of flooding or the quality of their local bathing water, to visualisations of the height of the land for use in town planning.

We reduce our carbon footprint

Managing our own environmental impact reduces our costs and makes us more resilient to a changing climate. This financial year we reduced our carbon footprint by 42% against our 2006 to 2007 baseline year, compared to our target of 41%.

We achieved this through a wide range of initiatives, including the installation of solar photo-voltaic panels on our buildings and assets, LED lighting inside our buildings, and air source heat pumps at some sites. We also continued to replace our fleet with low carbon alternatives and now have more electric and plug-in hybrid vehicles than ever before. This year carbon emissions from our fleet of badged vehicles is 4,142 tonnes, a 14% reduction compared to last financial year. Our performance was recognised at the Commercial Fleet Awards 2016 where we won the award for Commercial Fleet of the Year in the Public Sector and Blue Light category.

In April we launched our 2020 sustainability plan, 'e-Mission'. We're working to achieve a 45% reduction in our carbon emissions by March 2020 compared to our baseline year of 2006 to 2007.

We work in partnership with others

We are continuing to work in partnership with other risk management authorities to deliver our 6-year capital investment programme to reduce flood risk to people and property. The programme aims to better protect at least 300,000 households, up to 700,000 acres of agricultural land, over 200 miles of railway and 340 miles of roads. We have achieved £100 million in partnership funding for flood and coastal risk management projects this financial year. Together with £445.9m of expenditure of capital Flood Defence Grant-in-Aid budget, the partnership funding will contribute towards better protecting an estimated 42,500 homes from flooding in 2016 to 2017.

Fleet: a lifecycle approach

We use a range of agricultural and construction machinery in our work, which we refer to as 'plant'. During 2016, we re-let three of our plant contracts.

We already had high environmental standards in place for buying plant, for example, making sure it's fuel-efficient and meets air emission standards. But, this year we decided to set the bar even higher. In line with our 'e:Mission' sustainability plan and our certified environmental management system, we asked suppliers to consider environmental impacts throughout the lifecycle of the plant, including during the plant's manufacture. This includes the energy used to produce the plant and measures taken to reduce this.

This lifecycle approach means we can work towards reducing the total impact of our purchases, not just those impacts that occur while we use them. This should result in a greater benefit to the environment.

As a result of our efforts, our plant not only meets the latest air quality standards for pollutant emissions but our suppliers also have a better understanding of the importance of reducing their environmental impact during the manufacturing process.

An inclusive, professional workforce where leaders recognise the contribution of people, and build capability to deliver better outcomes

Our measures of success are:	Our performance:
We have a diverse workforce **a) The proportion of our staff who are from a Black, Asian and Minority Ethnic (BAME) background** **b) The proportion of our executive managers who are female**	 
We provide a safe place to work	

We have a diverse workforce

a) The proportion of our staff who are from a Black, Asian and Minority Ethnic (BAME) background
b) The proportion of our executive managers who are female

In common with other leading employers, we have set targets which show our desire to have a workforce which reflects the UK economically active population. We have continued to run our cross-organisational coaching and mentoring programmes for our Black, Asian and Minority Ethnic (BAME), disabled, female, and lesbian, gay, bisexual and transgender (LGBT) employees. To complement these programmes, we ran personal skills, confidence and development workshops for these employee groups. We delivered learning sessions through our growing number of employee networks, including mock interview training. We also facilitated external cross-organisational networking for members of these networks, and continued our membership of the '30% Club' mentoring scheme, which offers cross-company, cross-sector mentoring to women.

We have launched many new initiatives across our organisation including a 2017 to 2020 Equality, Diversity and Inclusion Strategy and a Race Action Plan. We have also increased our engagement with BAME communities by developing relationships with universities with a significant proportion of BAME undergraduates, executive director-led mutual mentoring, and further work on unconscious bias awareness including blind sifting of CVs, where candidates' names are removed. Our recent FCRM recruitment campaign attracted 7.5% new BAME employees. However, because we have relatively low external recruitment levels, only 3.8% of our workforce are from BAME backgrounds against our stretching target of 14%. We chose to have a demanding target that reflected the BAME proportion of the population of England, rather than a lower one reflecting the mix of our locations across England. The proportion of our executive managers who are female has increased from 32% 3 years ago to 37% against our 50% target.

We provide a safe place to work

We have continued our Safe and Well programme, re-launching key components of our health, safety and wellbeing management arrangements. This has included 'challenge', where we encourage colleagues to look out for others and step in where they see unsafe practices. We have also refreshed dynamic risk assessment. These overarching themes have been supported by more specific improvements, such as controls on how we work near water with heavy plant, managing the risks to lone workers and ensuring safety during incident response. We've also improved the way we manage instances of violence or aggression towards our staff, promoting our zero tolerance approach to threatening behaviour and providing better guidance and safety measures for staff who are on site.

We have continued to improve how we manage health and wellbeing risks. We published ‘Our wellbeing ambition’, which sets out our vision for health and wellbeing in our organisation. We also improved health checks for people undertaking certain activities, extending who is covered, and increasing the rigour with which the programme is managed. This has significantly reduced the number of people opting out, so we can be more confident that we are managing health risks well. These actions and others are helping us maintain our lost time incident rates at historically low levels.

Making contact with hard-to-reach communities

We have been working with local community groups and partners to clean up areas next to watercourses in Bury, Rochdale and Bolton. Alongside our staff, who cleared debris from the rivers, volunteers from Faiths4Change, Bury Asian Womens’ Network, Bolton Council of Mosques and local councils picked up litter on the river banks.

The work took place in areas where we have had difficulty contacting communities and getting our messages across. It was a great opportunity for us to talk about and answer questions on flooding and invasive species, while local authorities were on hand to discuss recycling.

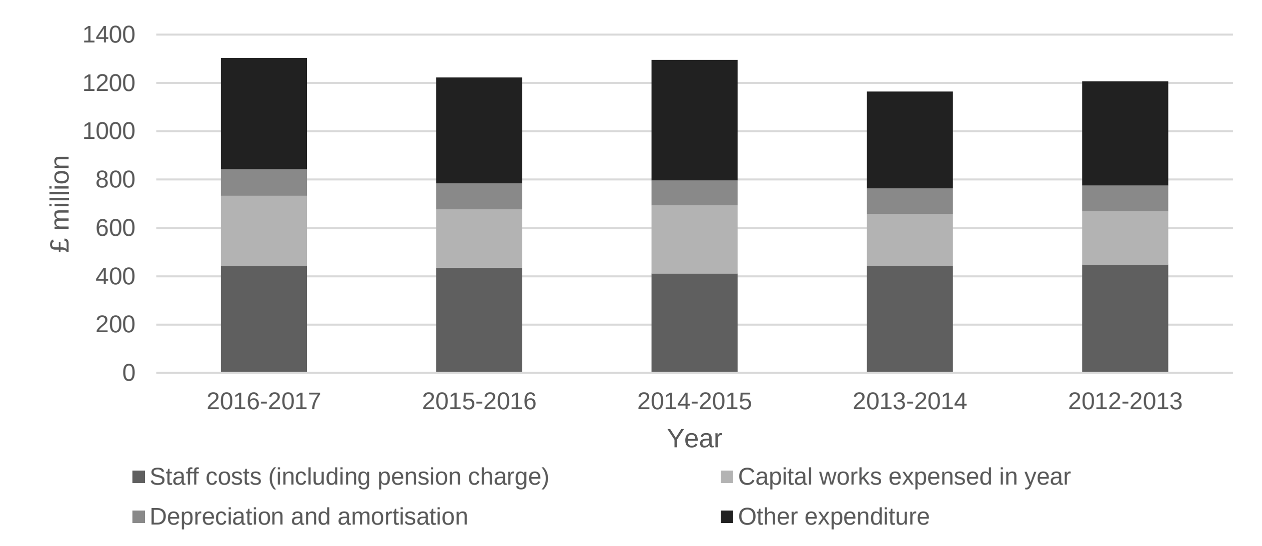
The work was very successful in getting our messages out to these groups and, through them, to the wider community.

Review of financial performance and funding

Our total gross expenditure for the financial year ended 31 March 2017 year was £1.3 billion. This was an increase of £80 million on the previous year (as shown in the Statement of comprehensive net expenditure). Of our total expenditure, £422m (32%) was funded from external income with the remaining funding coming in the form of grant in aid from Defra.

Net expenditure for the year was £897 million. We are required to treat grant-in-aid cash receipts from Defra as a financing contribution as it is from our sponsoring body. Therefore we credit this directly to the general reserve and do not include it in our net expenditure in the financial statements.

Figure 1: 5-year summary of our expenditure as reported in the financial statements

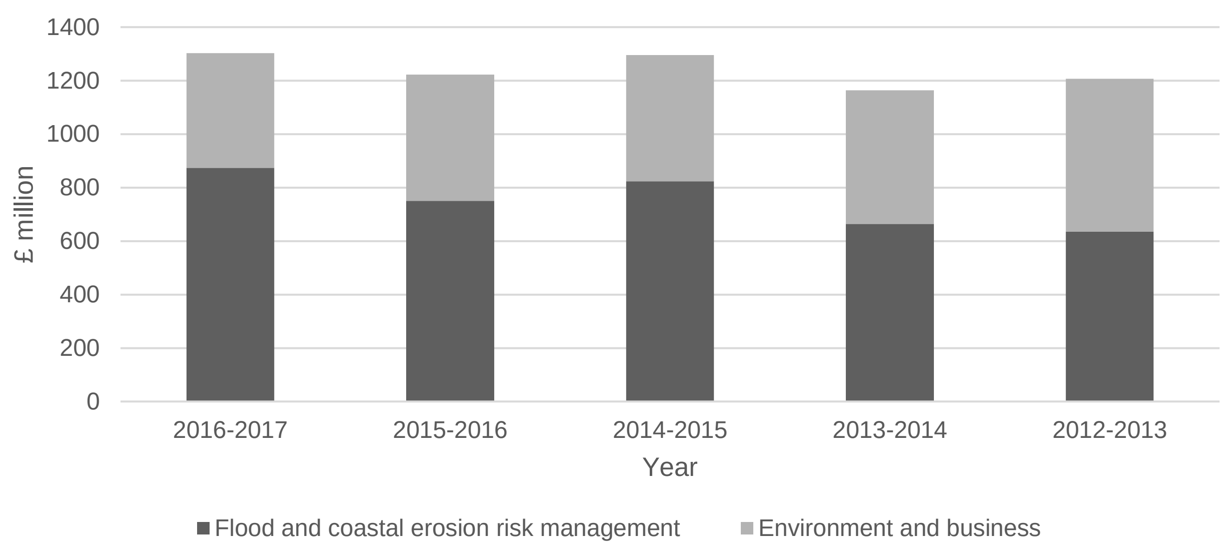


More detail on staff costs, capital works expensed in year and other expenditure is provided in the financial statements in notes 3, 4 and 5 respectively.

Expenditure

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

Figure 2: Expenditure by business area



The increase in total expenditure over the period is due to work we have done in response to the severe flooding during the winter of 2015 to 2016. The government provided £70 million of additional recovery funding to repair damaged assets. This was spread over the financial years 2015 to 2016 and 2016 to 2017. We also received £160m of additional funding for the maintenance of flood risk management assets. Therefore flood and coastal erosion risk management therefore represents an increased proportion of total spend.

Non-current assets

Non-current assets, which includes both operational assets such as flood barriers and monitoring equipment and corporate assets, such as property and IT, in the year have increased in value by £119 million. The value of our non-current asset base is £3.0 billion.

We are required to carry out an independent 5-yearly revaluation of our non-operational land and buildings. A revaluation was carried out in March 2016 and we have used indices to revalue our assets to March 2017 values. We consider that the value of assets held in our accounts is not significantly different to their market value. Where there is no market value for the asset, for example for the Thames Barrier, we use a depreciated replacement cost to give the most appropriate valuation of these operational assets.

Going concern

The Statement of financial position at 31 March 2017 shows taxpayers' equity of £2.3 billion (at 31 March 2016 this was £2.2 billion). In common with other government non-departmental public bodies, the future funding for our liabilities will be as grant-in-aid from Defra and other income. Parliament approves this funding annually.

We have already received approval for our grant-in-aid funding for next year and for nearly all of our required funding in the current spending review period (2016 to 2017 to 2019 to 2020). We have prepared these financial statements on a going concern basis.

J D Bevan

Sir James Bevan, Accounting Officer Date: 28 June 2017

Accountability report

Corporate governance report

Statement of Accounting Officer's responsibilities

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

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

The Accounting Officer of Defra has designated the Chief Executive as Accounting Officer of the Environment Agency. The responsibilities of an Accounting Officer are set out in 'Managing Public Money' published by HM Treasury. These include 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.

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 2017, the same as in the previous year. The fee for the statutory audit was £164,500 (2015 to 2016 - £170,000).

As far as the Accounting Officer is aware, there is no relevant audit information of which the Environment Agency's auditor is unaware. The Accounting Officer has taken all steps to make himself aware of any relevant audit information and to establish that the Environment Agency's auditor is aware of that information. The Accounting Officer confirms that the annual report and accounts as a whole is fair, balanced and understandable and takes personal responsibility for the annual report and accounts and the judgments required for determining that it is fair, balanced and understandable.

Governance statement

1. Introduction

The Chief Executive is responsible for maintaining a good system of internal control that supports our aims and objectives.

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

2. Effectiveness of governance arrangements

2.1 The governance framework

The Environment Agency is led by a non-executive Board appointed by the Secretary of State for Defra. The Board ensures that:

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

The governance arrangements between the Environment Agency and Defra are defined in a Financial Memorandum. This will in 2017/18 be superseded by a Framework Document.

As of March 2017, ten independent non-executive Board members, including the Chair, sit on the Board. The Board, Executive Directors' team and senior managers review our performance across all our activities and discuss it with Defra. The Chair and Chief Executive meet with the Secretary of State and other Defra ministers regularly. This financial year, the topics discussed during ministerial meetings included:

- flood risk management, maintenance and recovery
- incident response to both flooding and pollution incidents
- illegal waste and targeting of major problem sites
- water resource management and water quality
- EU exit
- budgets
- Defra group transformation

2.2 Committee structure, including Regional Flood and Coastal Committees

The Board has established 5 committees to help shape and steer our operational duties and functions. Our committee structure is included in Figure 3. The chair of each committee gives an update at Board meetings and raises specific issues to the Board as necessary. The remuneration report lists the members of each committee and Appendix E shows Board members' attendance at meetings, which remains high.

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

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

2.3 Executive Directors' team (EDT)

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

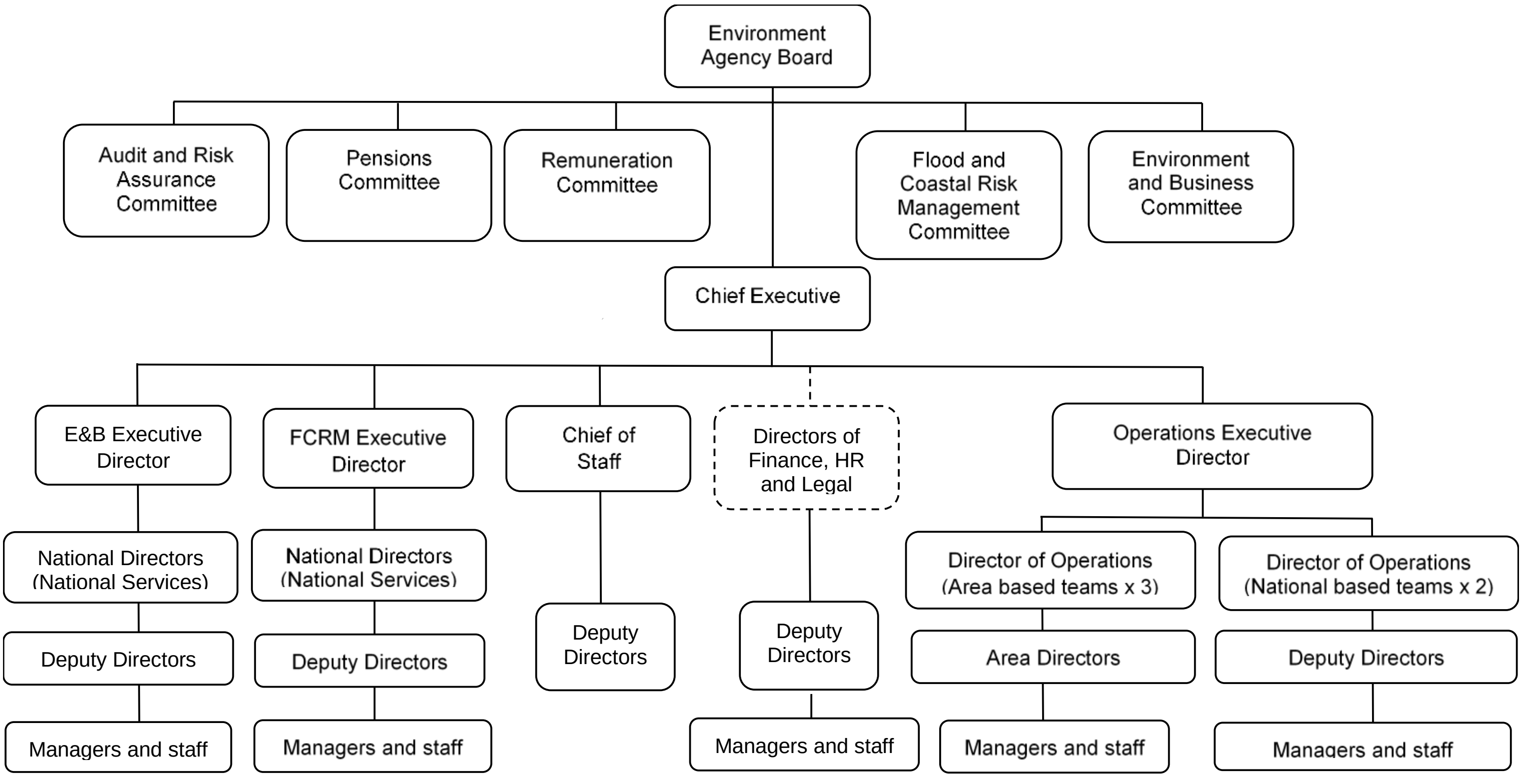
- Flood and Coastal Risk Management
- Environment and Business
- Operations

The Chief of Staff reports to the Chief Executive and is responsible for the Chief Executive's directorate.

The Chief of Staff, who replaced the role of Deputy Chief Executive in November 2016, also attends Executive Directors' team meetings. EDT has been expanded to include the Directors of Finance, Legal Services, HR and Deputy Directors of Communications and Sponsorship and Secretariat. In addition, three new 12 month development opportunities for senior leaders have been created to join and fully contribute to our EDT meetings. The first three places have been taken by senior women.

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

Figure 3: Environment Agency reporting lines, including committee board structure



2.4 Changes to our structure

In 2016 to 2017 we have continued to improve our structures and have aligned our geographical boundaries with Natural England and Forestry Services England, moving to 14 common areas. This has already improved our ability to prioritise locally, working to integrated local plans and better deliver outcomes for people and the environment, and will continue to enable future transformation across Defra for our customer management, field activity and licensing and permitting activity in the coming years.

We have also reached agreement with Defra to share a group corporate services function which will mean most of our corporate services including the related people will move to Defra during 2017 to 2018. Many of our directors and deputy directors are involved in designing the shape of this new service. When fully implemented, it will support all larger organisations in the Defra group.

2.5 Compliance with the corporate governance code

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

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

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

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

In June 2016, the Board conducted its annual evaluation exercise, in line with good governance practice, which included a survey of key attendees of Board meetings. The findings were presented to the Board, to help evaluate and review the way the Board works, and to consider strategic and external issues relevant to the organisation, alongside top corporate risks.

The Board agreed the following areas to improve its own performance and that of its committees. The Board decided to:

- review Board members' roles in supporting the organisation during incidents
- commission each of the Board committees to review their role in making formal decisions, to enable the Board to consider more strategic issues
- build in opportunities for the Board to engage interactively with priority stakeholders on significant issues, including inviting external guests to meet the Board more regularly
- make more time to discuss fast developing issues with the Executive around the formal meetings

3.1 Data quality

The Board is satisfied with the quality of information provided to it, based on its own review and use of the data, as well as comfort provided from internal audits during the year and conclusions of the NAO in year end audit completion reports.

4. Effectiveness of risk management

4.1 Risk management framework

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

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

As we move towards closer working relationships across the Defra group, we have adapted our risk management approach to fit with a new approach the group is taking to strategic risks that are relevant across the whole group. This includes a common risk language and consideration of legal, operational, policy, financial and reputational risks as well as opportunities.

4.2 Effectiveness of risk management

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

During 2016 to 2017, we have refreshed our guidance on risk management to reinforce consistency of approach between Defra's new strategic approach, the way we present corporate risk information to the Executive Director's Team and the information held on other risk registers. This update was partially driven by the adoption of the new ISO9001 standards, which require us to manage opportunities as well as risks more consistently. The revised risk guidance puts much more emphasis on this positive aspect of risk management.

The results of our annual cross-organisation risk review were analysed and checked against the corporate risks. The results were reported to the Executive Directors' team and the ARAC, to test the completeness of the corporate risk register. The review concluded that the corporate risk register was an appropriate reflection of the major risks facing the organisation.

4.3 Organisational risk profile

Over the course of 2016 to 2017, we have successfully managed the Water Framework Directive, bathing waters and data integrity corporate risks and it has been possible to delegate these to the appropriate directorate leadership team for future management. New risks relating to our strategic review of charges and meeting our ambitions from EU exit were escalated to the corporate risk register. As a result, the Executive Directors' team is currently managing 7 risks. These are described in Section 6 of this statement.

Other risks are managed by individual Executive Directors and their leadership teams.

5. Effectiveness of the internal control system

5.1 Overview of the internal control system

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

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

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

5.2 Audit assurance

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

The Accounting Officer is advised on internal control matters through audit reports (and other papers and presentations at Executive Directors' meetings). The ARAC also reviews and acts on our internal audit reports. A large number of audit reports within the audit programme consider matters of compliance and propriety and provide assurance on good governance.

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

The Internal Audit team provided assurance on the management of risks associated with over 35 business work areas between 1 April 2016 and 31 March 2017. The team provided an overall 'moderate' assurance rating on the adequacy and effectiveness of our arrangements for corporate governance, risk management and internal control. 'Moderate' means that some improvements are required to enhance the adequacy and effectiveness of the framework of governance, risk management and control.

The SSCL audit report following the International Standard on Assurance Engagements (ISAE 3402) was qualified due to exceptions found in the operation of 29 controls, 12 of which related to Environment Agency controls. 9 of the 12 exceptions relate to availability of an audit trail to evidence the operation of certain controls. 3 of the exceptions relate to IT system access where there was the possibility of inappropriate access by certain SSCL employees. A comprehensive assurance framework (including 'end to end' internal audits) will be required to help ensure that such issues are being urgently investigated and appropriate solutions identified to prevent repetition during 2017 to 2018. There are no other significant weaknesses that fall within the scope of issues that should be reported in the Governance statement and that threaten the achievement of our objectives. Where the audit team identified areas for improvement, managers have agreed how they will improve controls.

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

This financial year in February 2017, external auditors Societe Generale de Surveillance (SGS) assessed us against the revised ISO 2015 requirements of the external certifications we hold for ISO 9001:2015 Quality Management Standard and ISO 14001:2015 Environmental Management Standard. We continue to hold registrations for ISO9001 and ISO14001. ISO14001:2015 has strengthened what an organisation needs to deliver on environmental management, including a focus on leadership and actual environmental improvement. As a result the Environment Agency can now assure itself and its stakeholders of its commitment and robustness in environmental management through ISO14001:2015 alone, enabling withdrawal from the European Eco-Management and Audit Scheme and so avoiding any unnecessary duplication with two standards.

TEAM2100, the team managing the tidal flood defences of the Thames Estuary for the Environment Agency, has become the first major UK programme to achieve ISO 55001 - Asset Management certification. The certification provides independent assurance that the management system used within the Thames Estuary to assess, programme and deliver works to flood defence assets meets international good practice. As well helping the TEAM2100 identify how we can continue to improve, the auditor also highlighted areas of our management system that should be considered world class.

5.3 Stewardship assurance

Stewardship assurance has been provided during the year. Executive Directors report on their stewardship over selected work topics to the Chief Executive. These stewardship reports provide evidence from across the business to support this governance statement.

This financial year's stewardship topics were:

- Internal Environmental Management
- Health, Safety and Wellbeing
- Payroll [compliance with SSCL / EA systems]
- Engagement with staff and stakeholders

Where the level of assurance is not considered sufficient, stewardship reports provide detail on the actions required to increase assurance to an acceptable level. During the year, stewardship reports have shown that all of the areas looked at were given either 'moderate' or 'substantial' assurance ratings. The reports highlighted numerous examples of good practice and where appropriate, detailed improvement plans.

Substantial assurance means that appropriate controls have been established to mitigate the risks and that they are operating effectively. Moderate assurance means that any weaknesses identified in the controls established do not significantly threaten the achievement of relevant objectives. Where appropriate the stewardship reports detail the actions proposed to address these weaknesses.

5.4 Assurance over SSCL controls

In order to give users of the services of SSCL greater assurance about the quality of SSCL's processes and controls, Cabinet Office engaged PricewaterhouseCoopers LLP (PwC) to review the controls and deliver an independent third party opinion of their design and operating effectiveness. PwC's audit was conducted following the International Standard on Assurance Engagements (ISAE 3402). The report for the year ended 31 March 2017 was qualified due to finding exceptions, 12 of which related to Environment Agency processes.

Nine of the twelve exceptions are over availability of audit trail to evidence that certain control processes were undertaken. The exceptions were found during an interim audit and by the time of the final audit there were no such exceptions, with evidence duly filed ready for audit. Three of the exceptions were over IT system access where there was the possibility of inappropriate access by certain SSCL employees. We have sought and received evidence that there was no such access and that there is an appropriate mitigation going forwards.

We have considered the impact of these exceptions on our reliance on the accuracy and completeness of the financial transactions included in our financial statement for the year ended 31 March 2017. We have conducted testing on the exceptions to enable us to judge the consequence of them on the accounts. We conclude that there is no material impact on the financial statements.

In 2015/16 the SSCL service was below expectations on payroll and credit control. During 2016/17 the credit control service has improved to a satisfactory level however there has remained an ongoing challenge dealing with the consequences of the payroll problems that arose in late 2015/16. The “business as usual” service on payroll and pensions has improved but remains an area of focus for SSCL with a need for further improvement.

6. Significant risks and actions

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

6.1 Adverse impacts of major flooding

A new “Winter Readiness” initiative saw us better prepared than ever for winter flooding, with 6500 staff trained for incident roles, and the rollout of improved planning and logistics procedures. The impacts of climate change on flooding continues to be better understood and aids improvement to our modelling, and our response to the risks faced each year. Our flood warning service now reaches 62% of those at high risk, up from 57% in 2015. We are developing a new flood forecasting system. In September 2016, the government published its national flood resilience review (NFRR). The NFRR looks at how the country can be better protected from future flooding and extreme weather events, the effects of flooding on communities and the impacts on infrastructure, for example, electricity distribution, telecommunications and water supply. We contributed to many aspects of the NFRR, including using data provided by the Met Office to verify the extent that communities may be affected by extreme floods in the coming years and working with utility companies to provide information on flood depths. We also reviewed the suitability of temporary defences in protecting infrastructure and completed an assessment of our own flood risk assets and identified where measures were needed to improve their resilience.

We have implemented a number of the recommendations of the NFRR. We invested £8.5m in temporary defences and so increased the number of temporary barriers extending their coverage from 8kms to 40kms, increased the number of mid-range pumps available from 170 to 250 and developed 77 temporary deployment plans to better protect areas that may be at risk. These barriers and pumps are stored in a number of strategic locations to allow for prompt deployment across the country as required.

These measures, together with the government’s long term financial commitment via our six year capital programme reduces the likelihood and impact of major flooding. However it is not possible to prevent all flooding. Therefore we continue to provide support in a range of areas including the implementation of the Property Level Flood Resilience Action Plan released by Defra in September 2016.

6.2 Onshore oil and gas sector regulation

There are both environmental and business risks relating to the regulation of onshore oil and gas exploration and production, including fracking. We have rebalanced resources to ensure we can meet local compliance pressures including oil and gas.

We are confident in our regulatory approach and are prepared to regulate the expected increase in oil and gas exploration. We received good feedback from people interested in our role after our proactive local community engagement in 2016 to 2017 following the announcement of areas where oil and gas may be explored. We now expect to receive many more permit applications for oil and gas exploration so our future engagement will focus on local authorities and communities around applications and permitted sites. We will manage the high public interest through our

incident management process where appropriate. We are advising holders of the first shale gas permits on the sub-surface and surface monitoring requirements to comply with pre-operational conditions in their permits.
The Department of Business, Energy and Industrial Strategy has produced guidance on how to obtain the new consent to hydraulic fracture under the Infrastructure Act. Our role is agreed and clear.

At present, we have no formal legal challenges to our permits and we continue to correspond with protest groups to ensure they understand our role and approach.

6.3 Illegal waste sites

We have now completed a comprehensive period of staff training, external consultation and review of our regulatory guidance relating to waste fires, which allows us to transition work on such fires to business as usual.

However, the profile of illegal waste sites continues to attract media attention. We are undertaking a series of projects and activities under the waste enforcement programme. We are also working with Defra on their second consultation on tackling poor performance and illegality at waste sites, to secure legislative change which will enable us to regulate more effectively.

6.4 Staff effectiveness

If we do not have the right people in the right places and with the right skills, this could impact on good health and safety performance or good staff morale and so on our capacity to deliver.

There are a variety of controls to mitigate these risks. Our Corporate Business Forum leads on cross cutting themes for strategic workforce planning, which is reviewed quarterly. We are reviewing the way we report people information and focussing on affordability, scenario modelling, strategic resourcing and skills and capabilities, including professional qualifications. We are improving the data provided to business boards, to give them greater confidence in forecasting, for instance on use of contractors and temporary staff. We are also developing approaches to tracking learning and capabilities, via our “Learning Zone”.

The results of our latest staff survey are mostly buoyant in relation to the key indicators of engagement but we have identified key themes for further management action, including managing change, using people’s full skill set and behaviours at work.

6.5 Defra transformation

The scale and complexity of the Defra group transformation and organisational change proposals together with cross-government initiatives continue to pose a variety of risks and opportunities for our normal day-to-day business. These include realisation of financial and non-financial benefits, managing capacity for change to maintain morale and pacing change to ensure we maximise opportunities to learn and work better together with more generic, shared systems and processes.

We are overseeing the planning, scheduling and delivery of change to manage risks and dependencies and maximise opportunities. Several of our managers are leading specific transformation programmes across the Defra group and employees are encouraged to get involved to help shape thinking and provide technical expertise and design solutions.

The largest change being managed currently is the transfer of over 900 Environment Agency people to Defra Corporate Services in 2017/18 and the subsequent transformation within Defra. Communications are co-ordinated across the Defra group for consistency. We make sure employees are aware of what is happening during change and work to reduce the risks of losing critical knowledge, skills and experience. In response to the Employee Survey we have developed a programme of support for corporate services managers to help them better lead the corporate services transfer.

6.6 Strategic review of charges

The Environment Agency is dependent on charges income to fund many of its responsibilities. This income is the result of a range of chargeable schemes, which have evolved over time, with many charges based on historical decisions. Many charges have been fixed for at least six years, while additional duties and responsibilities have been undertaken without additional funding being provided. Services have needed to be reduced to accommodate this. In addition, we have seen reductions in grant in aid income through the spending review. Reductions in grant in aid income mean a reduced capacity at the same time as EU exit which increases the demand on our expertise.

To ensure our charges income is covering all chargeable regimes, we are conducting a strategic review of charges and are currently preparing for the formal consultation due to be launched in early Autumn 2017.

This review was agreed by the Secretary of State, and once we have finalised our proposals, we will discuss these with the new ministerial team. As part of the preparation for the formal consultation, we will carry out detailed modelling and engagement with stakeholders to identify the potential impacts on customers. We are working closely with the Defra fees and charges group and HM Treasury. We are also consulting with business. We will develop clarity on what we can and cannot do with the grant in aid available to us, and keep priorities and phasing of work under review.

6.7 New: EU exit

In June 2016, the European Union referendum took place and the people of the United Kingdom voted to leave the EU. Until exit negotiations are concluded, the UK remains a full member of the EU and all the rights and obligations of EU membership remain in force. During this period the government will continue to negotiate, implement and apply EU legislation. The outcome of these negotiations will determine what arrangements apply in relation to EU legislation in future once the UK has left the EU.

The UK has a long history of environmental protection and alongside the Government, the Environment Agency is committed to safeguarding and improving these as we leave the EU. We are working closely with Defra and the Department for Exiting the European Union, and engaging with wider stakeholders, to build a detailed understanding of how withdrawal will affect domestic policies and to ensure we are prepared both for a negotiated settlement but also for the unlikely scenario in which no mutually satisfactory agreement can be reached.

We are developing plans to ensure we are ready to support continued effective environmental regulation from the point of EU exit. This includes maintaining standards that underpin trade and continuing to deliver on the UK’s international commitments. We are also providing evidence to support Defra and other departments’ short-term and long-term planning for exit. Our people are actively engaged in Defra’s EU exit programme – including many on assignment into Defra – and we are also working with other, targeted departments, such as the Department for Business, Energy and Industrial Strategy and the Department for Communities and Local Government.

Through Defra, we are equipping ourselves with the resources we need to support the UK’s exit from the European Union. We have already put in place central arrangements, governance and resources for a core EU Exit team and programme and will continue to ensure sufficient resource is available for business as usual.

7. Ministerial directions

During 2016 to 2017, we received one ministerial direction: The Groundwater (Water Framework Directive) (England) Direction 2016, for the implementation of Articles 3, 4 and 5 of the Groundwater Directive.

The direction provides new proposals for, and revisions to, threshold values for chemicals, where these are needed to safeguard human health and the environment and principles for the determination of background levels of chemicals in groundwater. Where monitoring data indicates a body of groundwater is no longer at risk, the direction sets out how a revocation of the relevant approved threshold value may be applied for.

The direction sets out criteria for assessing groundwater status and the Environment Agency's obligations regarding identification of significant and sustained upward trends in pollution concentrations and the starting point for trend reversal and revision of such identifications.

The direction also sets out requirements to co-operate with the Scottish Environmental Protection Agency and Natural Resources Wales (NRW) in border river basin districts in order to secure the assessment of groundwater chemical status, identification of significant and sustained upward trends in pollution concentrations and determination of how to reverse the trend in these catchments. There are also requirements relating to provision of information to be provided in river basin management plans.

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

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

All grant recipients submit interim claim forms to draw down their grant. At the end of the project we request a project completion form and within two years of project close a final statement of accounts. The project completion form shows how the aims of the project were met and is signed off by the Area Flood and Coastal Risk Management Manager and the final statement of accounts shows that the grant has been spent to budget to deliver the project outcomes.

Since April 2012 we have also provided a total of £27.9 million in grants to civil society groups and charities for work delivering the Water Framework Directive, supporting the delivery of water catchment outcomes.

In 2016 to 2017 £1.7 million of grants were made available to each catchment partnership by the Water Environment Improvement Fund to facilitate activities towards hosting the partnerships. These host organisations were selected following an open bidding process as part of setting up the original Catchment Restoration Fund in 2013. The project manager for the fund is responsible for its assurance. We require summary reports each year to ensure that hosting and capacity building is being delivered within the financial year for which the funding is provided.

9. Whistleblowing

Our arrangements for whistleblowing remain unchanged, although our policy has seen some updates this year including revised contact details for key staff. Clear information is provided to all employees on how any disclosure can be made and what protections are in place. Reassurance regarding our approach is provided to our ARAC on a regular basis. During 2016, seven whistleblowing concerns were reported. All of these have been fully investigated with no evidence found to support the claims.

10. Data security

We had no incidents involving loss of personal data in 2016 to 2017.

However, we did suffer a series of "robot scrape" attacks on the Addressbase data used by our flood warning system. This resulted in some financial loss to the Environment Agency but no loss of sensitive data. We have agreed measures with the data provider to limit our financial exposure to future attacks and are working on measures which would reduce the vulnerability of this system. We also have robust processes in place for penetration testing and disaster recovery testing. In 2016 to 2017, we had to postpone our disaster recovery test; poor weather made it essential that we were running with fully resilient critical flood forecasting and warning IT services at such a time.

The Environment Agency has identified data custodians to safeguard the value of its data. Data custodians look after the data, maps, models, information, and IT systems for their business area. There are three levels of Custodian - Executive, National and Local Custodians. These are senior grade executive managers.

Directors' report

Board and Executive Directors

We employ 3 Executive Directors in addition to the Chief Executive.

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

The Board members and Executive Directors had no company directorships or other significant interests which may conflict with their responsibilities in the financial year 2016 to 2017.

Pensions

We are a statutory member of the Local Government Pension Scheme (LGPS). We are the administering and employing authority for the Environment Agency's Active Fund. The Environment Agency Active Fund was created in 1989 for employees of the National Rivers Authority. It now provides final salary pension benefits to around 25,000 people, who are current and former employees of the Environment Agency, Natural Resources Wales and Shared Services Connected Limited (SSCL). For the financial year 2016 to 2017, the Active Fund received contributions equivalent to 18.5% from the Environment Agency and between 5.5% and 12.5% from its employees.

Every three years, the Fund undertakes a valuation in conjunction with the Scheme Actuary. Our 31 March 2016 valuation assessed the Fund's financial position with a funding level of 103% (2013: 90%). Investment performance exceeded assumptions by £260 million over the valuation period. We understand this is one of the highest in the Local Government Pension Scheme (LGPS), and the EAPF has been ranked as a joint top Fund by the Scheme Advisory Board (SAB) for its valuation results. The SAB encourages best practice within the LGPS and produced these rankings on a like for like basis with other LGPS Funds. We're delighted by these results and the recognition received for the overall success of the Fund.

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

The Fund received recognition from a number of quarters in 2016 -17.

The Fund is currently ranked at number 2 in the World Index as part of the Global Climate 500 report and we have maintained our AAA rating for 4 years in a row.

The French Ministry of Environment and 2° investing initiative awarded the EAPF the best reporting award for the assessment of climate risks and saw the Fund shortlisted at the Pension Age awards for Best Pension Scheme Communications.

The Fund also won 'Best approach to Responsible Investment' at the Local Government Chronicle (LGC) Awards, maintaining its leadership in this area.

The Government has introduced regulations that require Local Government Pension Scheme (LGPS) funds to pool investments with the aim to reduce the costs of running LGPS Funds, improve their performance, and create greater capacity for them to invest in infrastructure. For many years the EAPF has collaborated with other South West funds, and it was natural to start looking at pooling together. Oxfordshire and Buckinghamshire have also joined this proposed pool of 10 Funds, which is called the 'Brunel Pension Partnership'. The Pension Fund prepared a full business case on its proposals, and this was sent to the Pension Committee and EA Board for scrutiny in December 2016.

The full business case was approved with the recommendation to continue to develop the Brunel Pension Partnership pooling proposal. This approval was made on condition that members' pensions are not put at risk, there are long-term financial benefits to the Fund, and that our approach to Responsible Investment continues. The Pensions Committee and Environment Agency Board will be monitoring the progress of the pooling proposals through the spring of 2017, before a final decision is taken on entry into the Brunel Pension Partnership.

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

Creditor payment policy and statistics

We aim to meet the level of performance for paying creditors in 'British Standard 7890: Method for achieving good payment performance in commercial transactions' and relevant HM Treasury guidance. During the year we paid over 80% of invoices from suppliers within 10 days of receipt and registration, compared to 89% in the previous year. Creditor days, calculated on an average basis for the year, were 6 days.

Protect personal data

We had no reportable security incidents between 1 April 2016 and 31 March 2017, the same as in the previous financial year.

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

Research and development expenditure

We run 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 within our statement of financial position.

Remuneration and staff report

The Remuneration Committee

The Remuneration Committee comprises 6 non-executive Board members and is chaired by the Environment Agency's Chair. Its terms of reference were updated in 2015 and were derived from the Greenbury Code of Best Practice on Directors' Remuneration. These were adapted to the circumstances of the Environment Agency as a non-departmental public body and are as follows:

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

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

3. The Remuneration Committee will:

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

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

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

d. consider and approve any performance-related pay to Executive Directors based upon recommendations from the Chief Executive, approve the broad salary bands for Executive Directors and approve the specific remuneration of any executive director proposed to be appointed outside of those bands or with any special conditions

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

f. review the framework for succession planning for key posts

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

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

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

The Remuneration Committee met 4 times during the financial year ended 31 March 2017. It agreed the Chief Executive's performance rating and objectives.

During the year, the committee also considered:

- pensionable pay and Pension Fund Actuarial Valuation and Employee Contribution rates
- executive team structure and Executive Directors' pay
- voluntary early release scheme payments
- reward framework issues
- succession planning
- the work of the committee and reviewed its planned work for next year
- the Board's own expenses

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

Remuneration of Executive Directors

We employ 3 Executive Directors in addition to the Chief Executive. Detailed below are the Executive Directors and their period of service (including date of appointment).

Table 3: Executive Directors' periods of service

Position	Executive director	Period of appointment
Chief Executive	Sir James Bevan KCMG	30 Nov 2015 – present
Executive Director of Operations	Dr Toby Willison	1 Apr 2015 – present
Executive Director of Environment and Business (i)	Mr Harvey Bradshaw	26 Sept 2015 – present
Executive Director of Flood and Coastal Erosion Risk Management (ii)	Mr John Curtin	19 Sept 2015 – present

(i) Harvey Bradshaw was appointed Executive Director of Environment and Business on 1 April 2016. He had been Acting Executive Director since 29 September 2015

(ii) John Curtin was appointed Executive Director of Flood and Coastal Erosion Risk Management on 1 April 2016. He had been Acting Executive Director since 29 September 2015

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

Board members' remunerations (audited)

Table 2: The appointment and emoluments of Board members who have received emoluments in the last 2 financial years

Board member	Subcommittee member	Latest date of appointment or re-appointment	Period of appointment (years)	Latest time commitment (days)	Remuneration in 2016 to 2017 (£)	Remuneration in 2015 to 2016 (£)
Emma Howard Boyd (Chair) (i,ii)	ARAC, PC, FCRM, RC	19 Sept 2016	3	3 per week	100,000	40,116
Richard Macdonald (Deputy Chair) (iii)	ARAC, RC, FCRM	1 Jun 2016	4	5 per month	25,201	20,302
Peter Ainsworth	FCRM, EB	1 Sept 2015	3	4 per month	16,802	16,802
Karen Burrows (iv)	ARAC, PC, RC, EB	1 Sept 2015	3	7 per month	29,400	22,402
Dr Clive Elphick	ARAC, PC, RC, EB	1 Aug 2014	3	6 per month	25,203	25,203
Professor Lynne Frostick (v)	FCRM, EB	16 Mar 2015	3	6 per month	23,801	18,239
John Varley (vi)	EB	1 Oct 2015	4	3 per month	12,597	16,799
Gill Weeks (vii)	ARAC, EB	8 Sept 2014	3	6 per month	23,801	19,252
Maria Adebowale-Schwarte (viii)	PC, RC, EB	1 Jul 2016	3	5 per month	15,051	-
Joanne Segars	ARAC, PC, RC, FCRM	1 Mar 2017	3	5 per month	1,750	-
Sir Philip Dilley (Former Chairman) (ix)		8 Sept 2014	3	2-3 per week	-	83,333
Councillor Robert Light (Former Deputy Chair) (x)		1 Jul 2012	3	5 per month	-	6,300
Richard Leafe (xi)		1 Sept 2012	3	4 per month	-	7,001
Jeremy Walker (xii)		22 Jun 2012	3	6 per month	-	5,651
Total					**273,606**	**281,400**

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

ARAC – Member of Audit and Risk Assurance Committee at 31 March 2017

RC – Member of Remuneration Committee at 31 March 2017

PC – Member of Pensions Committee at 31 March 2017

FCRM – Member of Flood and Coastal Risk Management Committee at 31 March 2017

EB – Member of Environment and Business Committee 31 March 2017

Notes:

i. Emma Howard Boyd was re-appointed on 1 July 2015 for a further term to conclude on 30 June 2019, when she was appointed as Deputy Chair (6 days per month), her full time equivalent pay for this period was £29,399.
ii. Emma Howard Boyd was appointed Chair from 19 September 2016. She had been acting Chair from 1 February 2016.
iii. Richard Macdonald was appointed Deputy Chair from 22 October 2016. He had been Acting Deputy Chair from 1 March 2016.
iv. Karen Burrows' time commitment increased from 5 to 7 days per month with effect from 1 February 2016.
v. Lynne Frostick's time commitment increased from 4 to 5 days per month with effect from 1 February 2016 and from 5 days to 6 days per month from 1 August 2016.
vi. John Varley's time commitment decreased to 3 days per month with effect from 1 October 2015.
vii. Gill Weeks' time commitment increased to 5 days per month with effect from 15 September 2015 and from 5 days to 6 days per month from 1 August 2016.
viii. Maria Adebowale-Schwarte's time commitment increased from 4 days to 5 days per month from 1 November 2016.
ix. Sir Philip Dilley was Chair from 8 September 2014 until 31 January 2016. His whole year equivalent pay was £100,000.
x. Robert Light's term ended on 30 June 2015. His whole year equivalent pay was £25,200.
xi. Richard Leafe's term ended on 31 August 2015. His whole year equivalent pay was £25,200.
xii. Jeremy Walker's term ended on 21 June 2015. His whole year equivalent pay was £25,200.

Executive Directors' emoluments (audited)

Table 3: 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 £)		Total (£000 banded range)	
	2016 to 2017	2015 to 2016	2016 to 2017	2015 to 2016	2016 to 2017	2015 to 2016	2016 to 2017	2015 to 2016
Sir James Bevan (i)	185-190	60-65	-	-	43,211	11,000	225-230	70-75
Dr Toby Willison (ii)	140-145	140-145	3,700	3,200	41,408	215,145	185-190	360-365
Harvey Bradshaw (iii)	135-140	55-60	-	-	287,577	28,406	425-430	85-90
John Curtin (iv)	130-135	55-60	2,800	1,200	239,107	71,234	370-375	130-135
David Rooke (v)	90-95	145-150	2,300	3,700	(44,101)	25,867	45-50	175-180
Miranda Kavanagh (vi)	95-100	140-145	2,400	4,600	19,795	45,751	115-120	190-195
Jonathan Robinson (vii)	145-150	140-145	-	-	15,041	65,271	160-165	205-210
Dr Paul Leinster (viii)	-	95-100	-	100	-	-	-	95-100
Dr Mark McLaughlin (ix)	-	70-75	-	1,600	-	21,293	-	95-100
Ed Mitchell (x)	-	130-135	-	-	-	45,919	-	175-180

Note: Total emoluments include gross salaries. On a voluntary basis by Executive Directors, no payments were received for performance-related pay for the 2016 to 2017 financial year.

i. Sir James Bevan became Chief Executive on 30 November 2015. Sir James Bevan is an employee of the Foreign and Commonwealth Office (FCO) who is seconded to the Environment Agency. The amounts shown above are the amounts reimbursed to the FCO, exclusive of VAT which is recoverable by the Environment Agency. The pension benefits disclosed above represent the reimbursement of the contributions the Environment Agency makes to the FCO in respect of Sir James Bevan's pension in the Principal Civil Service Pension Scheme. All other Executive Directors were members of the Environment Agency Pension Fund.

ii. Toby Willison was appointed Executive Director on 1 April 2015. This increased the level of his pensionable pay for 2015-16. The pension benefit of £215,000 reported in table 4 is calculated using standard pension disclosure assumptions with the principal assumption that an increase in pension benefit is approximately 20 times an increase in accrued pension.

iii. Harvey Bradshaw was appointed Acting Executive Director of Environment and Business on 26 September 2015. He was appointed permanently on 1 April 2016. This increased the level of his pensionable pay and resulted in an increase in his accrued pension of between £12,500 - £15,000, as disclosed in table 4. The pension benefit of £288,000 reported in table 3 is calculated using standard pension disclosure assumptions with the principal assumption that an increase in pension benefit is approximately 20 times an increase in accrued pension.

iv. John Curtin was appointed Acting Executive Director of Flood and Coastal Erosion Risk Management on 19 September 2015. He was appointed permanently on 1 April 2016. This increased the level of his pensionable pay and resulted in an increase in his accrued pension of between £10,000 - £12,500, as disclosed in table 4. The pension benefit of £239,000 reported in table 3 is calculated using standard pension disclosure assumptions with the principal assumption that an increase in pension benefit is approximately 20 times an increase in accrued pension

v. David Rooke held the position of Acting Chief Executive for the period 1 October 2015 to 29 November 2015 and Deputy Chief Executive from 30 November 2015 until he left the Environment Agency on 31 October 2016. His whole year equivalent pay was between £140,000 - £145,000

vi. Ms Kavanagh left the Environment Agency through a Voluntary Early Release Scheme on 30 September 2016. She received compensation as part of the early release scheme of between £120,000 - £125,000, including additional pension costs. Her whole year equivalent pay, excluding early release, was between £140,000 and £145,000..

vii. Jonathan Robinson left the Environment Agency through a Voluntary Early Release Scheme on 17 August 2016. He received compensation as part of the early release scheme of between £85,000-£90,000. His whole year equivalent pay, excluding early release, was between £140,000 and £145,000.

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

ix. Dr Mark McLaughlin was appointed the Chief Finance Officer for Defra on 1 October 2015. He remained an employee of the Environment Agency, and is seconded to Defra. His whole year equivalent was between £145,000 - £150,000. He ceased to conduct the duties of Executive Director of Finance for the Environment Agency on that date.

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

Table 4: Pension benefits of Executive Directors during the last 2 financial years (audited)

Executive director	Accrued pension at 31 March 2017 (£5,000 range)	Increase in accrued pension during year (£2,500 range)	Accrued lump sum at 31 March 2017 (£5,000 range)	Increase in lump sum during year (£2,500 range)	CETV at 31 March 2016 (£000s)	CETV at 31 March 2017 (£000s)	Real increase in CETV (£000s)
Sir James Bevan (i)	–	–	–	–	–	–	–
Dr Toby Willison	50-55	2.5-5.0	95-100	0.0-2.5	837	900	17
Mr Harvey Bradshaw	55-60	12.5-15.0	110-115	22.5-25.0	782	1051	225
Mr John Curtin	45-50	10.0-12.5	80-85	17.5-20.0	514	702	155
Mr David Rooke	75-80	(2.5)-0.0	170-175	(5.0)-(7.5)	1,726	1,671	(45)
Ms Miranda Kavanagh	15-20	0.0-2.5	-	-	269	298	12
Mr Jonathan Robinson	60-65	0.0-2.5	-	-	763	778	6
Dr Paul Leinster (ii)	–	–	–	–	–	–	–
Dr Mark McLaughlin (iii)	-	-	-	-	-	-	-
Mr Ed Mitchell (iv)	-	-	-	-	-	-	-

The Environment Agency remunerates its employees in line with standard public sector pay and pension policies. The accrued pension at 31 March 2017 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 2017.

CETV - cash equivalent transfer value. This is the amount an individual's pension would represent if transferred to a private pension scheme. The real increase in CETV reflects the increase funded by the employer. It does not include the increase in accrued pension due to inflation or contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement).

i. Sir James Bevan is on secondment from the FCO since 30 November 2015. He is a member of the Principal Civil Service Pension Scheme, his pension arrangements would be accounted for in the FCO and the amounts paid to the scheme are reimbursed to the FCO.
ii. Dr Paul Leinster left the Environment Agency on 30 September 2015.
iii. Dr Mark McLaughlin left his Executive Director role at the Environment Agency on 30 September 2015 but remains an employee and therefore a member of the Environment Agency's Active Fund pension scheme. His pension benefits are disclosed within Defra annual report and accounts
iv. Ed Mitchell left the Environment Agency on 7 March 2016.

Staff report

Staff numbers (staff costs are disclosed in note 3 to the financial statements)

Table 5: Audited average number of full time equivalent staff employed during the year

			2016 to 2017			**2015 to 2016**
	Permanent	Temporary	Total	Permanent	Temporary	Total
Directly employed	9,577	181	**9,758**	9,593	151	**9,911**
Contractors	-	860	**860**	-	446	**446**
Total	**9,577**	**1,041**	**10,618**	**9,593**	**597**	**10,357**

The number of staff employed on capital projects was 992 (1,218 in 2015 to 2016).

In March 2017, the Environment Agency employed 118 executive managers (equivalent to senior civil servant grades). The breakdown of these by level is shown in table 6.

Table 6: Executive manager breakdown on 31 March 2017

	Headcount
Chief Executive	1
Executive Directors	3
Directors	24
Deputy directors	90
Total	**118**

All of the above are Environment Agency employees, with the exception of the Chief Executive, who is on a five year secondment from Foreign and Commonwealth Office. One executive director, Mark McLaughlin is on secondment to Defra, and is therefore excluded as an executive director in tables 6 and 7.

Gender

We monitor the gender split of our workforce and have included the current numbers in table 9. This year we have again seen an improvement in the balance of men and women at each grade.

Table 7: Gender split on 31 March 2017

Headcount	**Male**	**Female**
Chief Executive	1	-
Executive Directors	3	-
Directors and Deputy Directors	71	43
All other staff	6,578	4,838
Total	**6,653**	**4,881**

Disability

This is the first year of our 2016 to 2020 equality, diversity and inclusion action plan, which is our response to the Equality Act's Public Sector Equality Duty. During 2016, we have launched more "mutual support" employee networks, and they are our critical friends supporting our plans to remove all potential barriers which might prevent employees achieving their full potential in our workplace. We now have separate networks for cancer, chronic pain, dyslexia, hearing loss, fatigue, inflammatory bowel disease, mental health, physical mobility, visual impairment as well as other groups.

We are putting in place a 2017 to 2018 Disability Action Plan based on the feedback of disabled colleagues in our 2016 employee engagement survey and reflecting the aims of the Defra group Equality, Diversity & inclusion strategy. The plan addresses our continuing commitment where we champion the career development, career progression and retention of our disabled employees and we carry out reviews to make sure we do not discriminate against our employees. We have continued to make sure we make workplace adjustments for employees with a disability or impairment. In addition, our guaranteed interview scheme means that if an external or internal candidate declares that they have a disability or impairment and they meet the minimum criteria for the job, they will be offered an interview.

Employment of consultants and contractors

The nature of our work means we require the expertise of temporary workers as well as those we employ directly. Table 10 shows how much we've spent on temporary workers and consultants over the past 2 years (Table 8 shows the numbers employed). In 2016 to 2017, the spend increased due to work on recovery following the 2015 to 2016 winter flooding and as a result of a major IT programme, Unity, which aims to integrate the Defra group's core IT services, including ours.

Table 8: Expenditure on temporary workforce

	2016 to 2017	2015 to 2016
	£ million	£ million
Consultancy	17.6	9.2
Temporary workers and contractors	30.1	15.1
Total	**47.7**	**24.3**

Sickness absence data

We monitor staff sickness absences and have policies in place to minimise them. An average of 6 days per full time equivalent employee was lost to sickness absence in 2016 to 2017 (2015 to 2016 - 7 days)

Tax arrangements of public sector appointees

We are obliged to provide information about appointments of consultants or staff that last longer than 6 months and earn more than £220 per day, where we pay by invoice rather than through the payroll. We only use these arrangements where we cannot avoid them and minimise their use. We include contractual clauses in the appointment documents to enable us to receive assurance that the individual or their employer is managing their tax and national insurance affairs appropriately.

Table 9: Off-payroll appointments at 31 March 2017, for more than £220 per day and that last longer than 6 months

Length of appointment at 31 March 2017	Number of appointments
Less than 1 year	82
1 to 2 years	36
2 to 3 years	14
3 to 4 years	4
4 years or more	20
Total	**156**

During this financial year, we made 92 new off-payroll appointments lasting more than 6 months. All of these included contractual clauses giving us the right to request assurance for income tax and National Insurance obligations, and for all of these we have requested and received such assurance.

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

There were 17 Board members or senior officials with significant financial responsibility over the organisation during the financial year 2016 to 2017. We did not pay any of them via off-payroll arrangements.

Reporting of compensation schemes (audited)

There may be occasions when external or internal changes have an impact on our staffing requirements. In these situations, we will use our Voluntary Early Release Scheme to avoid compulsory redundancies wherever possible. Our scheme supports business needs and fits in with our overall human resources strategy. Over the past two financial years, the average payback period of these exit packages was 1.2 years, and we expect to achieve £9.5 million of savings per annum.

Redundancy and other departure costs are paid in accordance with our compulsory redundancy and voluntary early release schemes. Both schemes are based on the statutory redundancy scheme and take account of the Local Government (Early Termination of Employment) (Discretionary Compensation) (England and Wales) Regulations 2006. Exit costs are accounted for in full when official notice has been served. A summary of exit costs in the past 2 financial years is shown in tables 12 and 13. In 2016 to 2017, we approved 5 packages which totalled more than £100,000, most of which were only marginally over £100,000 and the highest being between £120,000 and £125,000. This included amounts for the cost of paying into the pension fund to ensure it can meet the future pension costs of the individual as if they had not left their employment before the official retirement date.

Table 10: Exit packages for the financial year 2016 to 2017 (audited)

Category	Compulsory redundancy	Other departures*	Total	Compulsory redundancy	Other departures	Total
	Number	Number	Number	£ million	£ million	£ million
Under £10,000	2	4	6	-	-	-
£10,000 - £25,000	-	23	23	-	0.4	0.4
£25,001 - £50,000	-	48	48	-	1.9	1.9
£50,001 - £100,000	1	67	68	0.1	5.3	5.4
£100,001 - £150,000	-	5	5	-	0.5	0.5
Total	**3**	**147**	**150**	**0.1**	**8.1**	**8.2**

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

Table 11: Exit packages for the financial year 2015 to 2016 (audited)

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

Where we have agreed to a colleague taking early retirement, any additional costs have been paid by us rather than the Environment Agency Pension Fund. Ill-health retirement costs are covered by the pension scheme and are not included in the table. Redundancy and other departure costs for Executive Directors are also included in the Remuneration and staff report.

Pay multiples (audited)

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

The banded remuneration of the highest paid executive director, as disclosed in the Remuneration and staff report, for the financial year 2016 to 2017 was £185,000 - £190,000 (financial year 2015 to 2016, £195,000 - £200,000). This was 6 times (financial year 2015 to 2016, 6 times) the median remuneration of the workforce, which was £31,674 (financial year 2015 to 2016, £32,810). The range of banded remuneration for employees was £10,000 to £15,000 up to £185,000 to £190,000 (financial year 2015 to 2016, £10,000 to £15,000 up to £195,000 to £200,000).

Parliamentary accountability and audit report

Main activities of the Environment and Business operating units

Environment and Business charges

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

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

Environment and Business grant-in-aid

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

- strategic direction for delivery and support to Defra
- setting our direction on environmental protection to help create a better place for people and wildlife
- provision of technical leadership
- advice to government and other organisations in England that are involved in environmental protection
- monitoring, including water quality
- strategic environment planning, including river basin and catchment restoration plans
- investigations and improvement under the Water Framework Directive
- enforcement and environmental crime work including waste crime
- incident management
- navigation and fisheries work not covered by charges
- work with local partners, communities and government
- town and country planning advice
- administration of energy efficiency/carbon reduction schemes, including the Energy Savings Opportunities Scheme (ESOS)

Analysis of fees and charges

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

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

Table 12: fees and charges income (audited)

Type of charge	Expenditure (£ million)	Income billed (£ million)	Deficit or (surplus) (£ million)
Abstraction charges	118.7	(115.6)	**3.1**
Navigation licences	9.0	(8.5)	**0.5**
Fishing licences	21.2	(20.5)	**0.7**
EPR water quality	56.3	(56.7)	**(0.4)**
EPR installations	30.6	(30.6)	**-**
EPR waste	26.1	(28.7)	**(2.6)**
Hazardous waste	14.8	(15.3)	**(0.5)**
Emissions trading and CRC Energy Efficiency Scheme	6.7	(6.2)	**0.5**
Nuclear regulation	14.8	(14.8)	**-**
Other environmental protection charges	17.8	(17.1)	**0.7**
Total 2016 to 2017	**316.0**	**(314.0)**	**2.0**
Total 2015 to 2016	**319.9**	**(320.5)**	**(0.6)**

Losses and special payments (audited)

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

Table 13: Losses and special payments by category

	2016 to 2017		2015 to 2016	
Category or type of loss	Number	£ million	Number	£ million
Write-off of irrecoverable debts	308	1.5	2,663	5.1
Loss of assets	187	0.3	145	0.2
Special Payments	17	3.6	19	0.2
Other (cash losses, fruitless payments, unenforceable claims or gifts)	181	0.3	413	0.4
Total	**693**	**5.7**	**3,240**	**5.9**

Losses are estimated at fair value and include costs incurred in previous years. We pursue all debts and refer unpaid invoices to a debt collection agency after a certain period. Some debts become irrecoverable and need to be written off such as those due from businesses and individuals which have become insolvent.

Losses and special payments individually over £300,000

This financial year, there was 1 loss and special payment in excess of £300,000 (in the financial year 2015 to 2016 there were 3 losses or special payments over £300,000).

A special payment over £300,000 was made in the year but the details of which are not disclosed due to ongoing legal proceedings.

J.D. Bevan

Sir James Bevan, Accounting Officer   Date: 28 June 2017

The Certificate and Report of the Comptroller and Auditor General to the House of Commons

I certify that I have audited the financial statements of the Environment Agency for the year ended 31 March 2017 under the Government Resources and Accounts Act 2000. The financial statements comprise: the Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration and Staff Report and the Parliamentary Accountability Report that is described in those reports and disclosures 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 Chief Executive as 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 Government Resources and Accounts Act 2000. 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 Foreword, Performance Report and Accountability Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

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

Opinion on regularity

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

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the Environment Agency's affairs as at 31 March 2017 and of the net expenditure for the year then ended; and

- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

Opinion on other matters

In my opinion:

- the parts of the Remuneration and Staff Report and the Parliamentary Accountability Report to be audited have been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000; and

- the information given in the Foreword, Performance Report and Accountability Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

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

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or

- the financial statements and the parts of the Remuneration and Staff Report and the Parliamentary Accountability 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 | Date: 13 July 2017

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

Financial statements

Statement of comprehensive net expenditure

For the period ended 31 March 2017		2016 to 2017	2015 to 2016
	Note	£ million	£ million
Expenditure			
Staff costs	3	441.6	435.1
Capital works expensed in year	4	291.4	241.0
Depreciation and amortisation	7,8	109.9	108.4
Other expenditure	5	459.6	438.4
		1,302.5	**1,222.9**
Income			
Income from activities	6	(390.4)	(391.0)
Capital grants and contributions	6	(31.7)	(31.4)
	6	**(422.1)**	**(422.4)**
Net expenditure	2	**880.4**	**800.5**
Gain or (loss) on disposal of assets		(0.1)	1.2
Net interest on pension scheme assets and liabilities	15.3	16.5	23.1
Net expenditure after interest		**896.8**	**824.8**
Other comprehensive expenditure			
Remeasurements recognised on pension scheme assets and obligations	15.3	(92.4)	(299.1)
Net (gain) on revaluation and impairment of property, plant and equipment	7,9	(104.1)	(195.6)
Net (gain) on revaluation and impairment of intangible assets	8,9	(4.6)	(1.2)
Total comprehensive net expenditure for the period		**695.7**	**328.9**

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

The notes on pages 52 to 78 form part of these accounts.

Statement of financial position

As at 31 March 2017		31 March 2017		31 March 2016	
	Note	£ million	£ million	£ million	£ million
Non-current assets					
Tangible assets	7	2,908.5		2,795.8	
Intangible assets	8	110.7		104.9	
Total non-current assets			**3,019.2**		**2,900.7**
Current assets					
Assets held for sale		9.1		8.9	
Trade and other receivables	10	99.7		100.2	
Cash and cash equivalents	11	89.0		115.6	
Total current assets			**197.8**		**224.7**
Total assets			**3,217.0**		**3,125.4**
Current liabilities					
Trade and other payables	12	(339.6)		(299.8)	
Total current liabilities			**(339.6)**		**(299.8)**
Total assets less current liabilities			**2,877.4**		**2,825.6**
Non-current liabilities					
Trade and other payables	12	(1.4)		(1.6)	
Provisions		(7.2)		(9.4)	
Deferred capital grants		(0.2)		(0.2)	
Pension liabilities	15.3	(405.7)		(459.5)	
Financial liabilities	16.1	(141.6)		(141.6)	
Total non-current liabilities			**(556.1)**		**(612.3)**
Assets less liabilities			**2,321.3**		**2,213.3**
Taxpayers' equity					
Revaluation reserve		1,833.4		1,833.8	
General reserve		893.6		839.0	
Pensions reserve		(405.7)		(459.5)	
Total taxpayers' equity			**2,321.3**		**2,213.3**

The notes on pages 52 to 78 form part of these accounts. The financial statements on pages 48 to 51 were approved by the Board on 21 June 2017 and signed on its behalf by:

J.D. Bevan

Sir James Bevan (Accounting Officer) Date: 28 June 2017

Statement of cash flows

For the period ended 31 March 2017		2016 to 2017		2015 to 2016	
	Note	£ million	£ million	£ million	£ million
Cash flows from operating activities					
Net expenditure after interest		(896.8)		(824.8)	
Depreciation and amortisation	7,8	109.9		108.4	
Impairment of non-current assets	9	13.3		10.6	
Loss on disposal of assets		0.1		1.2	
Decrease / (Increase)in trade and other receivables	10	0.5		(6.8)	
Increase in trade and other payables	12	39.6		13.7	
Decrease in provisions		(2.1)		(0.1)	
Pension adjustment	13.1	38.6		51.3	
Non-cash recharges		1.4		1.7	
Net cash outflow from operating activities			**(695.5)**		**(644.8)**
Cash flows from investing activities					
Purchase of property, plant and equipment	7	(115.5)		(76.4)	
Purchase of intangible assets	8	(15.3)		(13.9)	
Proceeds of disposal of property, plant and equipment		(0.3)		0.8	
Net cash outflow from investing activities			**(131.1)**		**(89.5)**
Cash flows from financing activities					
Grant from sponsoring body	17	800.0		744.0	
Net cash inflow from financing activities			**800.0**		**744.0**
Net increase in cash and cash equivalents in the year	11		**(26.6)**		**9.7**
Cash and cash equivalents at the beginning of the year	11		115.6		105.9
Cash and cash equivalents at the end of the year	11		**89.0**		**115.6**

The notes on pages 52 to 78 form part of these accounts

Statement of changes in taxpayers' equity

For the period ended 31 March 2017		Revaluation reserve	General reserve	Pension reserve	Total
	Note	£ million	£ million	£ million	£ million
Balance at 1 April 2015		**1686.2**	**817.6**	**(707.3)**	**1,796.5**
Net gain on revaluation of property, plant and equipment	7	195.6	–	–	**195.6**
Net gain on revaluation of intangible assets	8	1.2	–	–	**1.2**
Remeasurements recognised on pension scheme assets and obligations	15.3	–	–	299.1	**299.1**
Non-cash recharges		-	1.7	-	**1.7**
Transfers between reserves	13.2	(49.2)	100.5	(51.3)	**-**
Net expenditure after interest		–	(824.8)	–	**(824.8)**
Grant from sponsoring body	17	–	744.0	–	**744.0**
Balance at 1 April 2016		**1,833.8**	**839.0**	**(459.5)**	**2,213.3**
Net gain on revaluation of property, plant and equipment	7	104.1	-	-	**104.1**
Net gain on revaluation of intangible assets	8	4.6	-	-	**4.6**
Non-cash recharges		-	3.7	-	**3.7**
Remeasurements recognised on pension scheme assets and obligations	15.3	-	-	92.4	**92.4**
Transfers between reserves	13.1	(109.1)	147.7	(38.6)	**-**
Net expenditure after interest		-	(896.8)	-	**(896.8)**
Grant from sponsoring body		-	800.0	-	**800.0**
Balance at 31 March 2017		**1,833.4**	**893.6**	**(405.7)**	**2,321.3**

The notes on pages 52 to 78 form part of these accounts

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

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

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

Notes to the financial statements

1.1. Statement of accounting policies

The financial statements have been prepared in accordance with the 2016 to 2017 government financial reporting manual (FReM) issued by HM Treasury and are in accordance with the accounts direction issued by the Secretary of State for Environment, Food and Rural Affairs and HM Treasury under Section 45 of the Environment Act 1995.

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

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

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

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

- Pension liabilities (reported in note 15). Independent and qualified actuaries assess the specific factors that influence the pension fund position, such as life expectancy and age of scheme members, prevailing interest and inflation rates, and projected returns on invested funds.
- The useful economic lives of assets that form the basis of periods over which property, plant and equipment is depreciated (reported in notes 1.5 and 7) and intangible assets are amortised (reported in notes 1.6 and 8).
- The impairment of property, plant and equipment, and intangible assets (reported in notes 5 and 9) and the categorisation of expenditure as capital works expensed in year, and tangible or intangible assets (reported in notes 4, 7 and 8).
- Within receivables and payables there are accrued and deferred income balances for fees and charges where there is a surplus or deficit. Charging schemes are required to break even over a reasonable period of time and judgment is required in assessing the factors behind whether the surplus or deficit will result in a break even position over this reasonable period (reported in notes 1.9, 10 and 12).

Please note that the actual future income, expenditure, assets and liabilities may differ from the estimates included in these 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 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 non water company 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. Charges are only raised where compensation has been assessed as likely to be paid in the future.

1.10. Leases

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

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

Operating leases and the rentals thereon are charged to the Statement of comprehensive net expenditure on a straight line basis over the term of the lease.

1.11. Cash and cash equivalents

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

1.12. Provisions

The Environment Agency provides for obligations arising from past events where there is a present obligation at the date of the Statement of financial position, if it is probable that we will be required to settle the obligation and a reliable estimate can be made, in line with the requirements of IAS 37.

1.13. Financial instruments

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

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

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

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

The Environment Agency is exposed to the risk of changes in the rate of inflation. The RPI has fluctuated significantly over the life of these financial liabilities. 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 2016. 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 historically administered 7 internal drainage districts (IDDs). These districts are separate legal entities which have their own budgets and reporting arrangements. Their administration is discharged through IDBs.

During 2016-2017 the necessary Statutory Instruments were finalised to on six of the remaining seven IDDs in the following way. On 22 August 2016 the East of Gravesend IDD was abolished and a new internal drainage district and board created under the name North Kent Marshes IDD and IDB on the same day. On 30 September 2016 the Pevensey Levels and River Cuckmere IDDs were abolished and a new combined internal drainage district and board created on the same day under the name Pevensey & Cuckmere Water Level Management District and Board. On 31 March 2017 Statutory Instruments took effect to abolish the River Adur, River Ouse (Sussex) and South West Sussex IDDs. The scheme for the future of the River Arun IDD remains under discussion.

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 (2016-2017 - £0.6m, 2015-2016 - £1.0m) and expenditure (2016-2017 - £0.6m, 2015-2016 - £1.0m) are not material to the Environment Agency's accounts and their results have not been consolidated.

1.17. Adoption of new and revised IFRS or FReM interpretations

IFRS

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

IFRS impacts

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

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

FReM

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

2. Segmental reporting

2.1. Analysis of net expenditure by segment

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

Definition of segments and other segmental information

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

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

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

The Environment Agency does not rely on any single individual customer to undertake its activities.

Expenditure by segment

Statement of comprehensive net expenditure line	FCERM	E&B charges	E&B grant-in-aid	Total 2016 to 2017	Total 2015 to 2016
	£ million	£ million	£ million	£ million	£ million
Staff costs	224.7	131.8	85.1	441.6	435.1
Capital works expensed in year	287.9	0.2	3.3	291.4	241.0
Depreciation and amortisation	76.4	18.1	15.4	109.9	108.4
Other expenditure	283.5	116.6	59.5	459.6	438.4
Gross expenditure	**872.5**	**266.7**	**163.3**	**1,302.5**	**1,222.9**
Income	(82.2)	(315.9)	(24.0)	(422.1)	(422.4)
Net expenditure	**790.3**	**(49.2)**	**139.3**	**880.4**	**800.5**

3. Staff costs

	2016 to 2017	2015 to 2016
	£ million	£ million
Wages and salaries	332.1	331.0
Social security costs	36.2	28.4
Normal contributions to the Active Pension Fund	44.9	43.6
Total Environment Agency-employed staff costs	**413.2**	**403.0**
Employment agency staff wages and salaries	11.4	8.1
Other staff-related costs	10.3	12.2
Exit package costs (table 12)	8.2	2.5
Special contributions towards past service deficit in Active Pension Fund	14.0	14.0
Less amounts already included within the IAS 19 pension charge	(61.2)	(58.2)
Pension service cost (note 15.3)	84.0	87.0
Less amounts charged to capital projects	(38.6)	(33.8)
Amounts payable to Board members	0.3	0.3
Total staff costs	**441.6**	**435.1**

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

4. Capital works expensed in year

	2016 to 2017	2015 to 2016
Type of capital works	£ million	£ million
Beach recharges	11.3	14.7
Culverts and channel improvements	19.4	18.4
Embankments	43.5	42.2
Flood risk management strategies	39.7	46.9
Flood mapping	4.3	2.2
Piling	2.5	2.6
Restoration and refurbishment	130.1	74.8
Rock groynes and sea walls	1.9	14.9
Other	38.7	24.3
Total	**291.4**	**241.0**

The above analysis includes £3.8 million (£8.5 million in 2015 to 2016) 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 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	2016 to 2017	2015 to 2016
	£ million	£ million
Grants awarded to local councils and Internal Drainage Boards	108.2	123.1
Outsourced IT costs	51.5	56.1
Hired and contracted services	73.9	50.2
Reservoir operating agreements (note 5.2 and 16.1)	21.9	21.2
Fees and commissions	34.2	21.7
Transport and plant	20.5	17.5
Utilities	16.0	16.8
Operating leases - plant and machinery	15.4	15.2
Travel and subsistence	15.7	14.7
Building costs	15.9	15.0
Impairment of non-current assets (note 9)	13.3	10.6
(Decrease) or increase in provision for bad and doubtful debts	(7.6)	3.5
Bad debts written off	12.3	0.5
Other grants and contributions	7.5	10.4
Operating leases - other	7.6	7.9
Consumables and materials	7.6	7.2
Information technology	9.6	8.4
Maintenance	4.8	5.0
Training	6.9	6.6
Administration	2.1	2.1
Compensation payments	3.5	0.6
Contaminated land grants	0.3	-
External auditor's remuneration (note **5.1**)	0.2	0.2
Other	18.3	23.9
Total	**459.6**	**438.4**

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

Compensation payments include environmental improvement unit charges compensation payments are made to compensate licence holders for revocation of abstraction licences due to excessive water abstraction from one location and any claims payable to parties as a result of Environment agency activity.

5.1. Auditor's remuneration

The external auditor's remuneration is the audit fee for the statutory audit of £164,500 (2015 to 2015 fees, £170,000). No payment was made to the external auditor for non-audit work.

5.2. Reservoir operating agreements

Expenditure under reservoir operating agreements includes 2 components. The first and smaller component is reimbursement to water companies of their net costs of operating certain reservoirs, after deducting any income generated from hydroelectric power. The second element represents annual payments fixed at the time of the related agreements (generally in 1989 upon privatisation of water companies) as compensation for a return on reservoir assets and indexed annually by the RPI. See note 16.1.

6. Income

Type of income	FCERM	E&B charges	E&B other	Total 2016 to 2017	Total 2015 to 2016
	£ million	£ million	£ million	£ million	£ million
Abstraction charges	-	(112.3)	-	**(112.3)**	**(119.6)**
Navigation licences	-	(8.5)	-	**(8.5)**	**(8.3)**
Fishing licences	-	(20.5)	-	**(20.5)**	**(21.1)**
Environmental Permitting Regulations (EPR) water quality	-	(56.1)	-	**(56.1)**	**(58.3)**
EPR installations	-	(30.4)	-	**(30.4)**	**(30.8)**
EPR waste	-	(25.6)	-	**(25.6)**	**(27.5)**
Hazardous waste	-	(14.8)	-	**(14.8)**	**(15.0)**
Emissions trading and Carbon Reduction Commitment Energy Efficiency Scheme	-	(6.6)	-	**(6.6)**	**(6.8)**
Nuclear regulation	-	(14.8)	-	**(14.8)**	**(14.5)**
Other environmental protection charges	-	(17.8)	-	**(17.8)**	**(15.3)**
Total income from fees and charges	**-**	**(307.4)**	**-**	**(307.4)**	**(317.2)**
Flood risk levies	(32.0)	-	-	**(32.0)**	**(22.6)**
IDB precepts	(8.0)	-	-	**(8.0)**	**(7.6)**
Environmental improvement unit charges	-	(0.3)	-	**(0.3)**	**(0.4)**
EU Grants	-	-	(0.2)	**(0.2)**	**-**
Other grants	(0.3)	(0.1)	(4.0)	**(4.4)**	**(2.9)**
Other income	(10.2)	(8.1)	(19.8)	**(38.1)**	**(40.3)**
Income from activities	**(50.5)**	**(315.9)**	**(24.0)**	**(390.4)**	**(391.0)**
Grants for capital works expensed in year	(31.7)	-	-	**(31.7)**	**(31.4)**
Capital grants and contributions	(31.7)	-	-	**(31.7)**	**(31.4)**
Total income	**(82.2)**	**(315.9)**	**(24.0)**	**(422.1)**	**(422.4)**

7. Tangible assets

Tangible assets at 31 March 2017

	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 2016	**4,239.8**	**38.2**	**24.8**	**53.7**	**492.7**	**49.4**	**71.5**	**63.6**	**124.1**	**5,157.8**
Capital expenditure	-	.-	-	-	6.7	5.1	3.5	1.8	98.4	**115.5**
Assets commissioned	28.7	-	-	-	-	-	-	-	(28.7)	**-**
Disposals	(0.1)	-	-	-	-	-	-	-	-	**(0.1)**
Reclassified as held for sale	1.3	(1.0)	(0.8)	0.3	-	-	-	-	-	**(0.2)**
Revaluation and indexation	237.7	-	7.3	20.8	0.2	1.6	0.6	4.6	-	**272.8**
Impairment	(31.3)	-	(3.1)	-	-	-	-	-	(12.4)	**(46.8)**
Reclassified and Transfers	3.3	(10.4)	12.7	(5.4)	-	0.2	1.9	(0.1)	(3.1)	**(0.9)**
At 31 March 2017	**4,479.4**	**26.8**	**40.9**	**69.4**	**499.6**	**56.3**	**77.5**	**69.9**	**178.3**	**5,498.1**
Depreciation										
At 1 April 2016	**1,832.4**	**-**	**4.2**	**10.5**	**402.0**	**31.1**	**41.2**	**40.6**	**-**	**2,362.0**
Provided during the year	62.7	-	0.8	2.6	11.0	5.3	5.5	5.4	-	**93.3**
Revaluation and indexation	135.1	-	7.3	20.8	0.5	1.1	0.5	3.4	-	**168.7**
Impairment	(31.3)	-	(3.1)	-	-	-	-	-	-	**(34.4)**
At 31 March 2017	**1,998.9**	**-**	**9.2**	**33.9**	**413.5**	**37.5**	**47.2**	**49.4**	**-**	**2,589.6**
Net book value at 31 March 2017	**2,480.5**	**26.8**	**31.7**	**35.5**	**86.1**	**18.8**	**30.3**	**20.5**	**178.3**	**2,908.5**

Tangible assets at 31 March 2016

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

Details of valuation

All of the Environment Agency's assets are owned and none are held under finance leases. All of the Environment Agency's administrative land and buildings, including dwellings, except assets under construction, were revalued at 1 April 2016 by external independent chartered surveyors, on the basis of open market value for administrative property and existing use for operational land. Indices have been used to update this value at 31 March 2017. Intangible assets, plant and machinery, furniture and fittings, and operational assets were revalued internally at 31 March 2017 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 £84.7 million (31 March 2016, £91.2 million) for land that forms an essential element of certain operational assets and has significantly changed its nature as a result. Operational assets include the Thames Barrier which is valued at £1,093 million (31 March 2016, £1,058 million) reflecting its depreciated replacement cost.

8. Intangible assets

Intangible assets at 31 March 2017

	Software licences	Websites	Other IT	Assets under construction	Total
Cost or valuation	£ million	£ million	£ million	£ million	£ million
At 1 April 2016	**60.2**	**62.7**	**103.0**	**28.6**	**254.5**
Capital expenditure	-	-	-	15.3	**15.3**
Assets commissioned in year	5.7	0.1	12.2	(18.0)	**-**
Revaluation and indexation	3.7	5.0	7.5	-	**16.2**
Impairment	-	-	-	(0.9)	**(0.9)**
Reclassified and Transfers	-	-	(0.1)	3.5	**3.4**
At 31 March 2017	**69.6**	**67.8**	**122.6**	**28.5**	**288.5**
Amortisation					
At 1 April 2016	**17.2**	**60.7**	**71.7**	**-**	**149.6**
Provided during the year	8.0	0.7	7.9	-	**16.6**
Revaluation and indexation	1.3	4.9	5.4	-	**11.6**
At 31 March 2017	**26.5**	**66.3**	**85.0**	**-**	**177.8**
Net book value at 31 March 2017	**43.1**	**1.5**	**37.6**	**28.5**	**110.7**

Intangible assets at 31 March 2016

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

9. Impairment

	2016 to 2017 £ million	2015 to 2016 £ million
Tangible assets (Note 7)	-	9.4
Intangible assets	-	-
Total charged to the revaluation reserve	**-**	**9.4**
Tangible assets (Note 7)	12.4	8.6
Intangible assets (Note 8)	0.9	2.0
Total impairment charge to the Statement of comprehensive net expenditure	**13.3**	**10.6**
Total impairment in accordance with the Statement of financial position	**13.3**	**20.0**

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 2017	31 March 2016
	£ million	£ million
Trade receivables	32.6	44.8
Less provision for bad and doubtful debts	(3.4)	(11.0)
Net trade receivables	**29.2**	**33.8**
VAT	35.1	24.7
Employee loans, such as for travel season tickets and the cycle to work scheme	1.1	0.6
Prepayments	14.3	12.2
Abstraction licences accrued income	3.0	7.2
Environment protection accrued income	-	1.6
Other accrued income	17.0	20.0
Other receivables	-	0.1
Total	**99.7**	**100.2**

11. Cash and cash equivalents

	31 March 2017	31 March 2016
	£ million	£ million
At 1 April	**115.6**	**105.9**
Net change in cash and cash equivalent balances	(26.6)	9.7
At 31 March	**89.0**	**115.6**

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

12. Trade and other payables

	31 March 2017	31 March 2016
Within 1 year	£ million	£ million
Other taxation and social security	9.2	8.5
Trade payables	19.2	13.0
Trade payables accrual	65.4	48.9
Holiday pay accrual	6.9	7.0
Capital payables	13.6	7.6
Capital payables accrual	62.0	50.2
Flood risk management deferred income	66.2	60.0
Abstraction licenses deferred income	3.7	11.0
Environmental improvement unit charge deferred income	20.8	20.8
Environment protection deferred income	8.9	7.6
Customer deposits and receipts in advance	54.9	56.6
Other payables	5.6	6.0
Pension contribution liability	3.2	2.6
	339.6	**299.8**
More than 1 year		
Trade and other payables and accruals	1.4	1.6
Total	**341.0**	**301.4**

13. Transfers between reserves

13.1. For the period ended 31 March 2017

	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	(109.1)	109.1	-	–
Net pension charge	-	38.6	(38.6)	–
Total	**(109.1)**	**147.7**	**(38.6)**	**–**

13.2. For the year ended 31 March 2016

	Revaluation reserve	General reserve	Pension reserve	Total
	£ million	£ million	£ million	£ million
Depreciation, amortisation and disposal charges to the Statement of comprehensive net expenditure relating solely to revalued cost	(49.2)	49.2	–	–
Net pension charge	–	51.3	(51.3)	–
Total	**(49.2)**	**100.5**	**(51.3)**	**–**

14. Commitments

14.1. Capital commitments

	31 March 2017	31 March 2016
	£ million	£ million
Contracted for but not provided in the financial statements	86.5	52.0

The amounts above relate to both tangible and intangible fixed assets. Commitments on capital works expensed in year at 31 March 2017 totalled £174.3 million (31 March 2016, £140.9 million).

14.2. Financial commitments

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

Financial commitments

Payments the Environment Agency is committed to	31 March 2017	31 March 2016
	£ million	£ million
Not more than 1 year	37.6	58.9
More than 1 year and not more than 5 years	33.9	14.8
More than 5 years	5.1	10.9
Total	**76.6**	**84.6**

The above commitments relate to the Broadland flood alleviation project, Pevensey Bay beach maintenance and an outsourced IT service contract with Capgemini. Contracted future commitments in relation to these 3 commitments are respectively £18.5 million, £12.8 million and £44.4 million (2016: 13.9 million, £13.7 million and £54.9 million).

14.3. Commitments under leases

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

Committed lease payments

Payments the Environment Agency is committed to	31 March 2017		31 March 2016	
	Land and buildings	Other	Land and buildings	Other
	£ million	£ million	£ million	£ million
Not more than 1 year	7.4	6.7	8.4	10.0
More than 1 year and not more than 5 years	21.2	7.1	23.7	10.0
More than 5 years	23.8	-	27.8	-
Total	**52.4**	**13.8**	**59.9**	**20.0**

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.

Defra Group bodies also occupy Environment Agency buildings, the full commitment of on the leases is included above but there are arrangements to recover the portion of the underlying rentals from Defra Group Bodies.

Other leases mainly comprise of leases for Environment Agency vehicles.

15. Pension obligations

The Environment Agency is a participating employer in the Environment Agency Pension Fund (EAPF), which is a multi-employer defined benefit pension fund. The funding arrangements for each employer in the EAPF comprise a primary rate (to meet the cost of future benefit accrual) and a secondary rate (an adjustment to get from the primary rate to the total contribution rate). The Environment Agency's funding arrangements for 2016-17 are to pay 14% of the monthly pensionable salary of members to the fund each month, and £14 million as a lump sum. Full details of how the primary and total rates are determined are given in the Funding Strategy Statement.

The two other employers, Natural Resources Wales (NRW) and Shared Services Connected Limited (SSCL) have their own rates. Under normal circumstances the Environment Agency will be liable for another employer's obligations only if a specific agreement to do so is in place. Currently, the Environment Agency is only responsible for the obligations of Shared Services Connected Limited in the EAPF under the risk sharing agreement in place between the two employers. The EAPF's Funding Strategy Statement describes in detail the approach for dealing with any employer which ceases to participate in the Fund.

The latest triennial actuarial valuation of the EAPF was at 31 March 2016. The assets taken at market value (£2.7 billion) were sufficient to cover 103% of the value of liabilities in respect of past service benefits which had accrued to members. The Environment Agency accepted the independent actuary's recommendation in respect of employer contributions. The total level of contributions determined at the 2016 valuation for the 3 year period from 1 April 2017 to 31 March 2020 is similar to that set at the 2013 valuation for the previous 3 year period. The estimated employers' contributions for the year to 31 March 2018 will be approximately £45.3 million

The annual report and financial statements for the EAPF estimated that that it had sufficient assets to meet 102% of its expected future liabilities at 31 March 2017 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, as required by IAS 19, to those used in the EAPF's annual report. This leads to a different funding level to that reported by the EAPF. The main difference in assumptions is the discount rate used to value pension liabilities. The EAPF funding discount rate is based on long-term UK government bond yields and assumes a level of future asset outperformance of the assets held by the EAPF.

The discount rate used in these financial statements, as required by IAS 19, is based on high quality corporate bond yields, with no additional asset outperformance assumption. The real terms discount rate used in these financial statements (0.5% p.a. as at 31 March 2017) is therefore lower than the real terms funding discount rate shown in the EAPF annual report (2.0% p.a. as at 31 March 2016). This lower rate results in a higher value being placed on the liabilities in these financial statements. The sensitivity analysis in note 15.4 indicates the sensitivity of the fund liabilities to a difference in discount rate.

15.1. Financial and longevity assumptions

Financial assumptions for the Environment Agency pension fund

	% per annum 31 March 2017	% per annum 31 March 2016
Inflation and pension increase rate	2.1	1.9
Salary increase rate	2.4	3.4
Discount rate	2.6	3.5

Longevity assumptions: average future life expectancy at age 65

Scheme member	31 March 2017		31 March 2016	
	Male (years)	Female (years)	Male (years)	Female (years)
Current pensioners	22.6	24.4	22.6	24.5
Future pensioners (people aged 65 in 20 years)	24.3	26.7	24.7	27.0

15.2. Fair value of assets

Fair value of assets at 31 March 2017

Asset category	Active market quoted prices	Non-active market quoted prices	Total	% of total
	£ million	£ million	£ million	%
Equity securities				
Common stock	909.4	4.6	914.0	31
Other equity assets	9.6	-	9.6	-
Debt securities:				
UK government bonds	-	303.3	303.3	10
Corporate bonds	-	236.9	236.9	8
Other	-	13.8	13.8	1
Pooled investment vehicles:				
Equities	-	476.6	476.6	16
Bonds	6.7	287.2	293.9	10
Funds - common stock	19.2	98.3	117.5	4
Funds - real estate	3.6	111.2	114.8	4
Partnerships and real estate	-	258.7	258.7	9
Other investment: Stapled securities	6.7	-	6.7	-
Derivative contracts: Forward FX	-	2.2	2.2	-
Cash and cash equivalents	-	212.7	212.7	7
Totals	**955.2**	**2,005.5**	**2,960.7**	**100**

Fair value of assets for the year ended 31 March 2016

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

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

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

*

Year ended 31 March 2017	Fair value of employer assets		Funded defined benefit obligations		Net (liability) or asset	
	£ million	£ million	£ million	£ million	£ million	£ million
Opening position at 1 April 2016		**2,462.3**		**(2,921.8)**		**(459.5)**
Pension benefits accrued by members during the year*	-		(74.2)		(74.2)	
Change in cost of pensions from previous years' service	-		(9.8)		(9.8)	
Total service cost (recognised in net expenditure)		**-**		**(84.0)**		**(84.0)**
Income on scheme assets	86.4		-		86.4	
Interest cost on defined benefit obligation	-		(102.9)		(102.9)	
Total net interest (recognised in net expenditure)		**86.4**		**(102.9)**		**(16.5)**
Employees' contributions	22.8		(22.8)		-	
Employer contributions	61.9		-		61.9	
Benefits paid	(68.8)		68.8		-	
Total cash flows		**15.9**		**46.0**		**61.9**
Expected closing position		**2,564.6**		**(3,062.7)**		**(498.1)**
Change in financial assumptions	-		(525.8)		(525.8)	
Other changes such as inflation rate	-		222.1		222.1	
Return on assets excluding amounts included in net interest	396.1		-		396.1	
Total remeasurements (recognised in Other comprehensive expenditure)		**396.1**		**(303.7)**		**92.4**
Closing position at 31 March 2017		**2,960.7**		**(3,366.4)**		**(405.7)**

Includes an allowance for administration expenses of 0.4% of payroll costs. There are no current unfunded obligations (there were also no unfunded obligations at 31 March 2016).

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

The defined benefit obligation comprises approximately £1.8 billion, £500 million and £1.1 billion in respect of employee members, deferred pensioners and pensioners respectively as at 31 March 2017 (£1.8 billion, £329 million and £812 million at 31 March 2016).

* 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	11	371
0.5% increase in salary increase rate	2	79
0.5% increase in pension increase rate	9	287

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 two 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 2016 to 2017	Amount paid in 2015 to 2016	Liability at 31 March 2017	Liability at 31 March 2016
	£ million	£ million	£ million	£ million
Northumbrian Water	18.9	17.2	129.2	129.2
Severn Trent Water	3.0	4.0	12.4	12.4
Total	**21.9**	**21.2**	**141.6**	**141.6**

The liabilities are measured as perpetuities at the real terms value according to the underlying reservoir operating agreements. The discounting applied reflects the opportunity cost to the taxpayer of entering into the agreement and liability compared to other opportunities for investment. This has been set at 6%, which is the equivalent HM Treasury 'green book' rate that would have applied at the inception of the agreements. Due to this fact, the Environment Agency believes that the carrying value is not materially different to the fair value of the liability.

Because the liabilities have been calculated on an amortised cost basis and as perpetuities, they will not change from year to year except in the unlikely event of an agreement ceasing. The agreements, and obligations to pay, will only cease if the water companies cease to be the entities controlling the reservoirs. In order to assess the sensitivity of liability to the discount rate, a change of 0.5% would mean a £10.9 million change in the liability.

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

17. Related party disclosures

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

Controlling parties

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

Funding received from Defra	2016 to 2017	2015 to 2016
	£ million	£ million
Defra environment protection grant-in-aid	(96.7)	(80.9)
Defra flood defence grant-in-aid	(595.1)	(540.0)
Defra IDB or local authority grant-in-aid	(108.2)	(123.1)
	(800.0)	**(744.0)**

Other related parties

The Environment Agency had no other material related party transactions with organisations in which other Board members, Executive Directors or senior managers have declared an interest. See the Remuneration and staff report for further information on Board members and Executive Directors. The Environment Agency has 1 IDBs which are under common control (see note 1.16).

18. Events after the reporting date

Date of authorisation for issue

The Environment Agency’s financial statements are laid before the Houses of Parliament by the Secretary of State for Environment, Food and Rural Affairs. IAS 10 requires the Accounting Officer to disclose the date on which the financial statements are authorised for issue. The authorised for issue date is the date of the Comptroller and Auditor General's audit certificate on pages 46 to 47.

Appendix A: History of the Environment Agency

(Not subject to audit)

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

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

During the year to 31 March 2017, our principal government sponsor remained Defra. However the Environment Agency also works closely with other principal government departments such as the Department for Business, Energy and Industrial Strategy and the Department for Communities and Local Government. Defra oversees the environmental policy framework within which the Environment Agency operates in England. We operate under a financial memorandum issued by Defra.

Appendix B: Sustainability data

(Not subject to audit)

Emissions, energy and business travel	Unit	2014 to 2015	2015 to 2016	2016 to 2017
Direct emissions (Scope 1)	tCO_2e	12,000	7,000	10,000
Emissions from purchased energy (Scope 2)	tCO_2e	18,000	23,000	19,000
Emissions produced by our suppliers (Scope 3)	tCO_2e	46,000	26,000	9,000 (see note 1)
Total gross emissions	**tCO_2e**	**76,000**	**56,000**	**38,000**
Carbon intensity (per £ million expenditure)	**tCO_2e**	**61**	**49**	**30**

Note 1
In previous years we have been able to include emissions from some of our construction projects in our scope 3 emissions. Due to the implementation of a new system mid-year we have been unable to include these emissions this year. We plan to include the outputs from the system in future emissions reporting.

Business travel	Unit	2014 to 2015	2015 to 2016	2016 to 2017
Car and motorbike	tCO_2e	9,300	8,600	7,715
Rail	tCO_2e	1,470	2,230	1,646
Air	tCO_2e	120	151	46
Total business travel	**tCO_2e**	**10,890**	**10,980**	**9,407**
	£ million	**24.3**	**20.3**	**22.9**
Travel carbon intensity per full-time employee	**tCO_2e**	**1.1**	**1.1**	**0.9**

Office waste	Unit	2014 to 2015	2015 to 2016	2016 to 2017
Landfill	Tonnes	10	5	7
	£	60,000	60,000	20,000
Reused or recycled	Tonnes	310	380	333
Incinerated to produce energy	Tonnes	30	75	37
Reused, recycled or incinerated	£	260,000	230,000	180,000
Reused or recycled electronic or electrical equipment	Tonnes	10	**5**	11
Total office waste	**Tonnes**	**360**	**465**	**388**
	£	**320,000**	**290,000**	**200,000**
Waste intensity per full time employee	**kg**	**35**	**45**	**36**

Resource consumption	Unit	2014 to 2015	2015 to 2016	2016 to 2017
Purchased gas and purchased renewable electricity	million kWh	43	54	52
	£ million	4.7	5.3	5.5
Self-generated renewable energy	million kWh	0.4	0.5	-
Water supplied	Cubic metres	38,954	52,000	50,729
	£	210,000	210,000	260,000
Timber from a legal and sustainable source (directly purchased)	£	440,000	270,000	270,000
Timber from a legal and sustainable source (purchased by our suppliers)	Tonnes	2,020	1,140	1,380
Paper from renewable or recycled sources	Reams	43,000	37,000	33,000
	£	30,000	10,000	3,000

Pension fund investment	Unit	2014 to 2015	2015 to 2016	2016 to 2017
Pension fund assets	£ million	2,656	2,731	3,284
Investments in clean & sustainable technology	%	26	28	34
Carbon footprint	tCO_2e per £ million	368	321	313

Appendix C: Performance

(Not subject to audit)

Objective 1: A Cleaner, healthier environment, benefiting people and the economy

Success measure	Units	2016 to 2017 target	2016 to 2017 actual
1 EA 1 Rivers, lakes and coastal waters are healthier	Kilometers	717	941
1 EA 2 We protect people, the environment and wildlife by reducing serious pollution incidents	Number of incidents in the last 12 months	553	477
1 EA 3 We create new habitats	Hectares created	400	424
1 EA 4 We reduce the number of high risk illegal waste sites	Number of high risk illegal waste sites	242	253

Objective 4: A nation better protected against floods, animal and plant diseases and other hazards, with strong response and recovery capabilities

Success measure	Units	2016 to 2017 target	2016 to 2017 actual
4 EA 5 We reduce the risk of flooding for more households	Number of households better protected	89.000	97,008
4 EA 6 We maintain our flood and coastal risk management assets at or above the target condition	% of high risk assets at target condition	97%	97.2%
4 EA 7 We have a first class incident response capability	Number of people	6,500	6,716

Objective 5: Excellent delivery, on time and to budget and with outstanding value for money

Success measure	Units	2016 to 2017 target	2016 to 2017 actual
5 EA 8 We manage our money efficiently to deliver our outcomes	% spend to budget	100%	100%
5 EA 9 We respond to planning application consultations within 21 days	% responded to within target time	95%	95.6%
5 EA 10 We reduce the regulatory burden on business	£m in quarter 4	No target	Not available

Objective 6: An organisation continually striving to be the best, focused on outcomes and constantly challenging itself

Success measure	Units	2016 to 2017 target	2016 to 2017 actual
6 EA 11 We use and share the right data to deliver outcomes	Number of datasets	1,500	2,256
6 EA 12 We reduce our carbon footprint	Number of tonnes of CO_2	34,865	34,435
6 EA 13 We work in partnership with others	£ million achieved against target	£60.0m	£87.6m

Objective 7: An inclusive, professional workforce where leaders recognise the contribution of people, and build capability to deliver better outcomes

Success measure	Units	2016 to 2017 target	2016 to 2017 actual
7 EA 14 We have a diverse workforce:			
a) The proportion of our staff who are from a Black, Asian and Minority Ethnic (BAME) background	% of workforce	14.0%	3.8%
b) The proportion of our executive managers who are female	% of executive manager workforce	50%	37%
7 EA 15 We provide a safe place to work	LTI Frequency rate	0.16	0.11

Appendix D: Corporate natural capital accounts

(Not subject to audit)

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

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

Using this framework, and drawing on research funded by Defra, we have produced a natural capital account for most of the land area we own. This is included in the tables on page 85. We are hoping that this form of reporting will assist us in monitoring and tracking changes each year. We are also seeking opportunities where we can use the tools and learning we have developed in producing our corporate natural capital account to support the wider use of a natural capital approach both within the organisation and outside.

Our natural capital accounts include the results from detailed analysis we carried out on the Steart peninsula, a salt marsh created in the Severn Estuary and site specific data for the Medmerry managed realignment scheme which created a significant area of intertidal habitat at the same time as reducing flood risk for local communities.

We do not currently have accurate information available for our other land assets, so we have calculated a value based on an approximate average natural capital value of a number of land type categories. Our valuation is based on the largest 200 land assets that represent approximately 75% of the area that we own, due to the difficulty in analysing some of our smaller land holdings. From this, we can estimate the future benefits and maintenance costs of these assets over the next 100 years in today's money and derive a net valuation.

We have published a range of values for each metric rather than a single number as we believe this is most appropriate based on the metrics and approach we have used. We are working with other members of the Defra group to improve the range and accuracy of the metrics available, sharing data and expertise.

We recognise that we have not included all natural capital benefits. We aim to increase the number of metrics we use each year so that we can gain a more accurate valuation. In doing this and through refining the metrics we currently use, we expect our valuations to increase. So that we can compare figures to our baseline accurately, we will use any new metric or metrics to recalculate the figures for previous years, as we have done this year. In particular the inclusion of figures for the health benefit have significantly increased the overall total. Whilst there is a risk these distort the total numbers we believe it is important to recognise them as health benefits are an important component of the natural environment.

Our valuation for the Steart site is between £33 million and £47 million of our overall natural capital account value. If we were to be able to do a detailed natural capital value analysis on all our major land assets we would expect that the overall value for the organisation as a whole would increase substantially from the amounts shown in the table below.

Table 1 presents the current value of our natural capital account in comparison to our restated 2013 to 2014 baseline. Table 2 shows the year on year change, although these are largely a result of changes in the way we have calculated the metrics.

Table 1 – Corporate Natural Capital Account (CNCA)

Renewables	Baseline (2013 to 2014)[1]		Cumulative gains / (losses)[6]		Additions / (disposals)[7]		Reporting year (2016 to 2017)	
	Lower £ million	Upper £ million	Lower £ million	Upper £ million	Lower £ million	Upper £ million	Lower £ million	Upper £ million
Carbon storage	1.6	42.9	1.3	4.4	-	0.6	2.9	47.9
Air quality[2]	3.2	18.0	-	-	-	0.3	3.2	18.3
Agriculture[3]	2.7	6.1	(1.1)	(2.0)	-	0.1	1.6	4.2
Recreation	2.9	5.7	12.2	17.6	-	-	15.1	23.3
Properties protected from flooding[4]	51.5	51.5	-	-	-	-	51.5	51.5
Health benefits[5]	-	-	10.6	11.7	-	-	10.6	11.7
Gross natural capital	**61.9**	**124.2**	**23.0**	**31.7**	**-**	**1.0**	**84.9**	**156.9**
Total maintenance provisions	(45.1)	(45.1)	(4.8)	(4.8)	(0.7)	(0.7)	(50.6)	(50.6)
Total net natural capital	**16.8**	**79.1**	**18.2**	**26.9**	**(0.7)**	**0.3**	**34.4**	**106.3**

Notes to the table

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

2 – Air quality figures include numbers for the absorption of particulate matter of 10 micrometres or smaller, and sulphur oxides.

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

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

5 – Health benefits have been calculated using the World Health Organisation Health Economic Assessment Tool (HEAT) and only include figures for the Steart peninsula where the Wildfowl and Wetlands Trust were able to provide us with outline visitor numbers.

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

7 – Land purchased or sold between the financial years 2013 to 2014 and 2016 to 2017.

Table 2 – Statement of annual change in natural capital

Renewables	Reported figures from 2015 to 2016 annual report		Adjustment gains / (losses)[1]		2016 to 2017 Additions / (disposals)[7]		Reporting year (2016 to 2017)	
	Lower £ million	Upper £ million	Lower £ million	Upper £ million	Lower £ million	Upper £ million	Lower £ million	Upper £ million
Carbon storage	42.2	157.4	(39.3)	(109.5)	-	-	2.9	47.9
Air quality[2]	1.6	4.2	1.6	14.1	-	-	3.2	18.3
Agriculture[3]	1.5	5.4	0.1	(1.2)	-	-	1.6	4.2
Recreation	12.7	20.9	2.4	2.4	-	-	15.1	23.3
Properties protected from flooding[4]	5.1	5.1	46.4	46.4	-	-	51.5	51.5
Health benefits[5]	-	-	10.6	11.7	-	-	10.6	11.7
Gross natural capital	**63.1**	**193.0**	**(21.8)**	**(36.1)**	**-**	**-**	**84.9**	**156.9**
Total maintenance provisions	(33.3)	(33.3)	(17.2)	(17.2)	(0.1)	(0.1)	(50.6)	(50.6)
Total net natural capital	**29.8**	**159.7**	**4.7**	**(53.3)**	**(0.1)**	**(0.1)**	**34.4**	**106.3**

Notes to the table

1 – The adjustment gains / losses for this financial year largely reflect a change in the methods for calculating the metrics, and the inclusion of additional metrics such as health benefits for the Steart peninsula.

2 – Air quality figures include numbers for the absorption of particulate matter of 10 micrometres or smaller, and sulphur oxides.

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

4 – Figures for properties protected from flooding and recreation are based on numbers from our Steart peninsula and Medmerry case studies, the cumulative gain reflects the addition of the Medmerry case study.

5 – Health benefits have been calculated using the World Health Organisation Health Economic Assessment Tool (HEAT) and only include figures for the Steart peninsula where the Wildfowl and Wetlands Trust were able to provide us with outline visitor numbers.

7 – Land purchased or sold between the financial years 2015 to 2016 and 2016 to 2017.

Appendix E: Board member attendance

(Not subject to audit)

Member	Board meeting	ARAC	PC	FCRM	E&B	RC
	(9 meetings)	(5 meetings)	(8 meetings)	(5 meetings)	(4 meetings)	(4 meetings)
Emma Howard-Boyd (Chair)	9 of 9	5 of 5	7 of 8	5 of 5	-	4 of 4
Richard Macdonald (Deputy Chair)	9 of 9	4 of 5	-	4 of 5	-	4 of 4
Peter Ainsworth	9 of 9	-	-	5 of 5	3 of 4	-
Karen Burrows	8 of 9	5 of 5	7 of 8	-	3 of 4	3 of 4
Clive Elphick	9 of 9	5 of 5	8 of 8	-	2 of 4	4 of 4
Gill Weeks	9 of 9	3 of 3	2 of 2	-	4 of 4	-
John Varley	9 of 9	-	-	-	4 of 4	-
Lynne Frostick	9 of 9	-	-	5 of 5	3 of 4	-
Maria Adebowale-Schwarte	7 of 8	-	3 of 6	-	3 of 3	2 of 2
Joanne Segars	1 of 1	1 of 1	2 of 2	-	-	1 of 1

ARAC – Member of Audit and Risk Assurance Committee

RC – Member of Remuneration Committee

PC – Member of Pensions Committee

FCRM – Member of Flood and Coastal Risk Management Committee

EB – Member of Environment and Business Committee

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