Environment Agency

Annual report and accounts for the financial year 2017 to 2018

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Annual Report and Accounts for the financial year 2017-18

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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

In January, the Prime Minister launched the 25 Year Environment Plan, setting out the government's ambitions for a Green Brexit. As we leave the EU we have an opportunity to improve the environment, the government's plan provides direction. Among other things, it pledges to deliver the UN Sustainable Development Goals and to make sure all policies, programmes and investment decisions take into account the possible extent of climate change this century.

The Environment Agency's job is to create a better place for people and wildlife, delivering flood protection and water security, regulating industry and supporting sustainable growth. We deliver key components of a climate ready economy 24/7, 365 days a year.

We are already moving towards many of the UN's goals. For instance, goal 11, Sustainable Cities and Communities: we've reached 142,850 homes better protected from flood and coastal risk as part of the six year programme. Goal 15, Life on land: we created 619 hectares of new habitat for wildlife. Goal 6, Clean Water and Sanitation: we have improved 2000km of waterways and reduced serious pollution incidents. Goal 3, Good health and wellbeing: we've been recruiting through the Down's Syndrome Association's WorkFit programme, which helps people into employment and provides training. This year, two of my colleagues were taken to the UN in New York to tell the world about the success of the scheme at Starcross Laboratory in Devon.

Goal 13 is Climate Action. Making the country more resilient to storms, floods and droughts is our priority, but we are also involved in climate mitigation: reducing our own carbon footprint by 45% since 2007, to 32,450 tonnes, and influencing the low carbon transition in finance with our pension fund.

We embrace partnership wherever we can. The relationship between area and national arms of the organisation, and our relationships with central and local government, business, NGOs and community groups, makes us more effective. These bonds strengthen our ability to get people to safety in incidents, engage with people about activities that may cause concern, such as our regulation of shale gas, and provide people with information about natural capital. This year, we reintroduced State of the Environment reporting.

In the winter snow we used our 4x4s to get NHS staff to patients. Our work on plastic pollution has seen us work with charities like Surfers Against Sewage to involve more people in beach cleans. With Business in the Community we are engaging business leaders on sustainable economic growth, climate resilience, and waste crime.

Unfortunately, environmental crime persists despite the work of the courts implementing the sentencing guidelines. We closed 57 high risk illegal waste sites in the first three months of 2018 and in March we were given new powers to lock up sites and force rogue operators to clean up all waste. I have publically called for higher fines for pollution incidents and stronger sentences for a greater deterrent to waste crime.

It is notable, in the centenary of votes for women, that we still have some way to go on diversity, but we are working on it. This year we published pay gap data on disability, race, religion and belief and sexual orientation as well as gender.

We are a national organisation with expertise and experience in demand all over the world, but we make our homes in local villages, towns and city boroughs. We are all invested in making sure these places are climate ready and prosperous long beyond the next 25 years.

Thank you to all my colleagues for their work this year.

Emma Howard Boyd, Chair

Date - 03 July 2018

Performance report

Chief Executive’s statement

The Environment Agency was established in 1996. Our purpose, set out in the Environment Act, hasn’t changed: to protect and enhance the environment and promote sustainable development.

But the context in which we operate has changed dramatically. Climate change, the single biggest factor affecting our environment, is now better understood and starting to bite. Our country is more developed and more populous, putting greater pressure on the natural world. There is greater public awareness of the environment, and higher public expectation of us and the rest of the public sector.

The 2016 referendum has brought a new challenge: to ensure that the UK’s exit from the European Union delivers a cleaner and greener country and a better environment. I am confident we can achieve those goals. The Environment Agency is helping design and deliver the arrangements that will.

Meanwhile the government’s 25 Year Environment Plan, launched in January 2018, has laid out a comprehensive long term programme with an audacious and inspiring vision at its heart: that we will be the first generation to leave the environment in a better state than we found it. The Environment Agency was closely involved in shaping the Plan, and it is now one of our main responsibilities to deliver it.

How we do things in the Environment Agency is as important to me as what we do. We seek to be an open, outward looking, positive organisation. We believe none of us is as good as all of us: “embrace difference, include everyone” is part of our DNA. Just as we seek to enhance the lives of the people we serve, we want working for the Environment Agency itself to be life-enhancing. I am proud that this year we have once more been voted the leading employer in the country in Mind’s Workplace Wellbeing Index and that we again feature in Stonewall’s top 100 LGBT inclusive employers.

While much has changed since 1996, one thing hasn’t: the commitment of all those who work for the Environment Agency to do the right thing for the environment, to create a better place for people and wildlife, and to go the extra mile for the communities we serve. It is an honour and a privilege to be their Chief Executive.

J.D. Bevan

Sir James Bevan, Chief Executive

Date - 03 July 2018

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
- regulation of industry

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 2018 we had 10,043 full time equivalent employees. Our annual expenditure for the financial year ended 31 March 2018 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

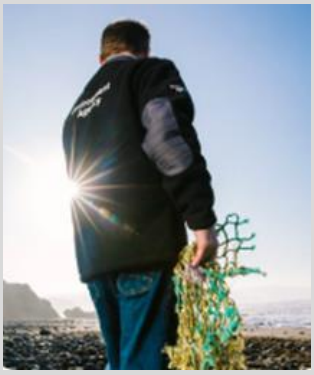
The Defra Strategy sets out a shared vision and set of strategic objectives for the Defra group for the period up to 2020. It is intended to provide staff across the Defra group (including non-ministerial departments, executive agencies, non-departmental and other public bodies) with a clear vision, 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 together we will design and deliver our goals, track delivery and measure success across the whole of Defra. At the heart of the strategy is our shared vision for the Defra group: creating a great place for living.

Defra group 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 harness the power of data and digital working.

Challenge of plastics in our oceans



Plastics in our rivers and oceans has been described as the greatest environmental challenge of our time. Many people will have seen Sir David Attenborough highlighting the issue in the BBC's 'Blue Planet' series. In light of this, we have created a team that will focus on reducing plastic pollution and improving sustainability as part of DEFRA's 25 year environment plan.

Plastic pollution is a threat to our natural environment and our new team promises to tackle it head on. By working together, we can reduce the amount which enters our land, rivers and the sea, and protect wildlife for future generations.

Resolving the problem of plastics is not something we can do in isolation. The team will bring together charities, community groups, academics and representatives from industry and water companies, to work holistically on the issue. Some areas the team will work on include:

- Reducing plastics reaching land, waterways and shorelines.
- Promoting better environmental practices in business and a reduction in plastic waste from the start of the manufacturing process.
- Increasing local engagement to change public behaviour and encourage more community action to tackle pollution.
- Monitoring and research into the ways plastics enter and affect the environment.

The work of the team will extend and deepen the role we've already played in reducing pollution to land, sea and air.

About the Performance Report

This performance report outlines the Environment Agency's performance against our priorities for the financial year from 1 April 2017 to 31 March 2018 (referred to throughout as 'this financial year'). It follows the structure of our corporate scorecard (reported quarterly), and includes examples of how we are meeting our objectives. A summary of the performance against these measures and their targets are shown in Appendix C. Our Action Plan and corporate scorecard are on GOV.UK (www.gov.uk).

Performance Measures

A cleaner, healthier environment, benefiting people and the economy

	Our measures of success are:	Our performance:
	The water environment is 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	

The water environment is healthier

We have enhanced more than 2,000km of the water environment in the past year, above our target of 1,500km. This includes work done with and by catchment partners and other stakeholders. We've concentrated our work on the places identified for improvement in updated River Basin Management Plans, which set out measures to restore and enhance river habitats.

This year we have worked with partners to improve water quality and biodiversity through a range of work programmes. Improvements by water companies have reduced pollution in many catchments across the country. We provided cost effective training and advice to farmers and land owners for a range of issues. These included the reduction of pollution run-off into waterways through the countryside stewardship and other schemes. We have worked hard to reduce the impact of invasive species such as floating pennywort and Himalayan balsam, for instance on the Upper Witham River in Lincolnshire. Through this work we have prevented deterioration and maintained the quality of the water environment.

We set a stretching target to achieve for this year, and on the back of this success, we are setting another challenging target for 2018-19 of 2,000km. This is to keep moving towards the goal of enhancing at least 8,000km by 2021.

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

Serious pollution incidents

The number of serious and significant pollution incidents (known as category 1 and 2 incidents) this year fell to 402 from 477 in 2016-17. These are our lowest pollution levels since 2011. We achieved these strong results by targeting sectors showing the poorest performance for pollution incidents, and using this information to prioritise where to allocate our resources. We then used pollution incident reduction plans to manage the primary causes of pollution for individual pollution sectors.

Due to excellent progress the ‘top 5’ regulatory sectors that we focussed on reduced to a ‘top 3’. This comprises of water companies, illegal waste sites and agriculture and these sectors accounted for 40% of all category 1 and 2 incidents in 2017-18.

Total pollution incident numbers for the ‘top 3’ sectors have dropped by 28% when compared to the preceding year. This top sector approach has reduced incident numbers in all of the prioritised sectors, apart from agriculture where 2017-18 saw a 13% increase in pollution incidents. To address this we have launched new farming rules for water usage to address and raise the profile of environmental management on farms.

We create new habitats

Of new habitat created

In 2017-18 we exceeded our target of 530 hectares of new priority habitats, delivering 619 hectares. We define priority habitats as those most threatened, and requiring conservation action under the UK Post-2010 Biodiversity Framework. Our work includes flood and coastal risk management, river restoration maintenance projects, and environmental regulation. Habitat creation projects also reduce soil erosion and provide recreation and climate change adaptation in addition to their primary role.

This year we have continued to work with water companies on the Pennine Peat Partnership, creating 125 hectares of blanket bog. This will reduce downstream flood risk by slowing the flow, whilst filtering the water which means less chemical treatment is needed for water companies. The project will also lead to an increase in biodiversity and help store carbon to mitigate the impacts of climate change.

We reduce the number of high risk illegal waste sites

High risk Illegal waste sites

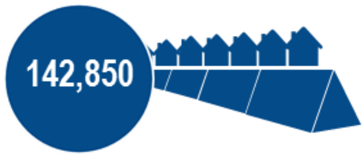
It remains a priority to reduce the impact of waste crime on local communities and ensure a level playing field for legitimate businesses. However, in spite of our efforts we have been finding more illegal waste sites than we are able to close down. The total active high risk illegal waste sites rose slightly to 259, up from 253 in 2016-17.

Whilst we have not hit our target for this year, we stopped a large number of waste sites from operating and we have a good prosecution record. In 2017-18 we made 93 successful waste crime prosecutions resulting in 17 prison sentences. Total fines were in excess of £380k, with some of the highest fines for individuals being issued. To ensure we hit our target for next year, we have been given new powers to help enforce against illegal waste activity and further reviews of legislation are anticipated. The government has also provided more funding to tackle this serious problem and we shall continue to work with the legitimate waste industry and with other enforcement bodies, particularly HMRC, to tackle the problem.

A nation better protected against floods with strong response and recovery abilities

	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 a) Number of staff who are trained and ready to respond to incidents b) Percentage of staff who feel confident in the role	a) b)

We reduce the risk of flooding for more households



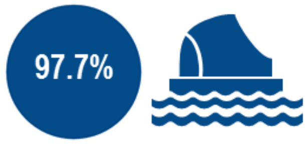
Better protected homes

We have completed lots of great projects to reduce flood risk to communities and businesses this financial year. They have better protected 45,864 homes during 2017-18. This means that we have better protected 142,850 homes since the start of our 6 year capital programme in April 2015. We expect to achieve our six year target of better protecting 300,000 households by March 2021.

Notable examples include the Anchorsholme coast protection scheme, which has reduced flood risk to 4,800 properties in Blackpool. It also provides increased protection to vital infrastructure and has safeguarded Blackpool's iconic seafront tramway. The Salford Flood alleviation scheme has seen the development of a flood basin, which will reduce flood risk for 1,400 homes, as well as providing a recreation area with a nature reserve. The Sheffield Lower Don Valley scheme was the first in the UK to have business owners contributing to the costs of flood protection. It has led to the reduction of flood risk for around 500 businesses and 600 homes as well as helping to safeguard around 5,000 jobs. All of these projects were completed in partnership with the local authorities.

The 2017-18 flood action campaign, 'Prepare, Act, Survive' informed people what they should do if they live in an area at risk of flooding. The campaign resulted in over 32,000 visits to our 'Floods Destroy' campaign website and an estimated social media reach of 4.6 million.

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



Assets at or above target condition

We achieved our national target by maintaining 97.7% of flood risk management assets at the required condition, for high consequence systems. Flood risk management assets include embankments, storage areas, flood gates and sluices. A high consequence system is a group of flood risk management assets in a location where there would be significant impacts to people and property if the assets failed.

We have increased the number of assets above the required condition by over 1,600 this financial year. This is a result of increased funding in asset management and directly allocating this funding to where it has the greatest benefit, such as assets that are below the required condition. Where assets are below the required condition this identifies that work is required, it does not mean that they have structurally failed or that their performance in a flood is compromised. If the performance of an asset is reduced, we will take action to ensure that flood risk is effectively managed until the asset is repaired or replaced.

We have a first class incident response capability

Incident staff trained and percentage of staff who feel confident in their role

We continue to embed our new incident response capability framework, following our Major Incident Ready initiative in 2016. We have now exceeded our target of 6,500 people trained and ready to respond to incidents, including 700 flood support officers. During the most severe storm this winter, Storm Brian, we protected 1,250 properties in Devon, Cornwall and the Isles of Scilly, through our actions and defences. We have also prepared for an approaching drought and responded to serious chemical incidents, very large fish kills, animal disease outbreaks, major fires and numerous other environmental incidents.

In a sample of incident staff surveyed in 2017, 69% felt confident responding to an incident. The target is 80%, so we have since introduced a new capability standard for incident staff to ensure they are fully trained and capable to respond. This will help improve capability and confidence in carrying out their role.

We are working with industry and water companies to drive down the number and severity of environmental incidents and have set ourselves an ambitious incident reduction target which will be the lowest in decades.

We continue to grow our flood warning service, sharing information with customers before flooding, to give people time to prepare and take action. The Flood Warning Service is now able to reach more people, in a shorter timeframe, in the event of severe weather. Improvements in technology have helped this and at the end of March 2018, over 1.4 million customers were registered for the service in England.

We want to make those at risk of flooding more resilient, and to achieve this we have refreshed our 5-year flood incident management plan. The Plan describes the activities carried out to help individuals and communities prepare, respond to and recover from flooding. We have already made significant progress towards implementing the plan. By focusing on objectives to increase the quality and availability of information, our customers are better placed to understand the risks and respond to impending flooding.

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 manage our money efficiently

99.8%

Of budget invested in the business

We report on this measure by monitoring the percentage of budget that we have invested. This is considered an appropriate measure, with expenditure being a proxy for delivery of environmental outcomes. We have a major capital and revenue programme of investment projects and carry out detailed planning to ensure these investments are prioritised appropriately. We are subject to a series of strong financial and governance controls that both protect this investment and provide a logistical challenge in delivering the programme of expenditure. The higher the percentage of budget invested, the more we can achieve for the environment. The measure complements our other performance targets.

We invested £1.3bn on the environment in 2017-18, with expenditure on both our grant-in-aid and charge funded activities closely matching our available funding. During the final quarter of the year, regular reviews of our forecast position have enabled us to promptly identify and take action on any pressures and opportunities. This has resulted in the investment of 99.8% of our full year budget.

We respond to planning application consultations within 21 days

95.4%

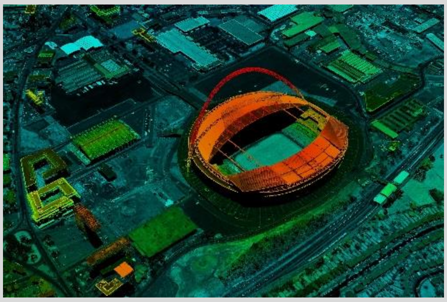
Response rate of planning application within 21 days

We responded to 95.4% of planning consultations within 21 days, which is above our target of 95%. This represents a small drop of 0.2% from last year, although this is set against an increase in demand for our service and reduced resources.

To ensure we achieved our target we focussed on improving consistency and certainty for customers. Our discretionary pre-application advice service increased in popularity in 2017-18. This service allows us to work through potential issues with developers before applications are made. It resulted in better quality planning applications being submitted to the planning authorities, and reduced the amount of time we needed to spend at statutory stages which improved our formal response times.

At application stage we have prioritised commenting on planning proposals where the risks to the environment, or the opportunities for enhancement, are the greatest. We have also introduced standardised responses where appropriate. We will continue with a programme of continuous improvement of processes, using our resources to address the greatest risks and opportunities, and promote our growing optional planning advice service during 2018-19.

Removing data charges and our transition to Open Data



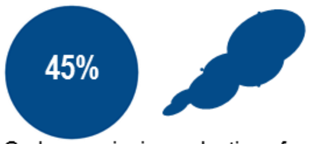
During 2017-18 we completed our plan to remove all charges for the commercial re-use of Environment Agency data. Since April 2018 users have been able to use our data for free with minimal licence restrictions.
The removal of charges is part of the "Open Data" commitment we made in 2014 to publish more freely available data. Since 2015 we have progressively removed charges from almost 100 datasets including LIDAR (Light detection and ranging), pictured. LIDAR provides high resolution maps of data that can be used for a variety of purposes such as geo-spatial environmental management.

Our data sets have been downloaded over a million times since being published.
We have seen free of charge data benefit communities, for example by the Pang Valley Flood Forum and by the Red Cross in its emergency mobile telephone application alerting users to localised emergencies. We also witnessed surprising uses of our open data, for example archaeologists using our LIDAR data to find lost Roman roads.

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

	Our measures of success are:	Our performance:
	We reduce our carbon footprint	

We reduce our carbon footprint



Carbon emission reductions from 2006/7 baseline

Managing our own environmental impact reduces our costs, and makes us more resilient to a changing climate, a key commitment of our "e:Mission" environmental sustainability plan. This financial year we reduced our carbon footprint by 45% against our 2006-07 baseline year, compared to our target of 43% for this year.

We have made use of a £4 million capital investment in our estate through Defra Group Facilities Energy Performance Contracts, reducing our carbon emissions by 18% (1,157 tonnes). Projects included boiler replacements at a number of sites, implementing energy efficient measures such as LED lights and solar panels and closure of old buildings. We also continued to replace our fleet with low carbon alternatives and now have more electric and plug-in hybrid vehicles than ever before.

As well as our targeted measures on carbon, we have continued to pursue high standards in our procurement such as ensuring our clothing supplier adheres to WRAP's Sustainable Clothing Action Plan and measures to reduce plastic through our supply chain. We have removed plastic items from all of our canteens and through innovation at our laboratories we have reduced our petri dish use from 92,520 per year to 61,680.

As well as helping to ensure we remain accredited to the international ISO 14001 environmental management standard, our award winning sustainable business team were recognised at the ENDS environmental impact awards.

Working with natural processes – publishing of evidence base

Natural flood management (NFM) protects, restores or emulates the natural function of floodplains and the coast to manage flood risk and coastal erosion. NFM can offer a wide range of benefits in addition to reducing flood and coastal erosion risk: it can create important wildlife habitats, improve the local environment and create recreation opportunities.

In July 2017, the government announced funding for to 60 projects in a £15m NFM Programme. The projects were selected to fulfil four criteria:

- reduce flood and/or coastal erosion risk;
- improve habitats and increase biodiversity;
- contribute to research & development; reducing the evidence gap for NFM; and
- promote partnership working.

The programme was started in the 2017-18 period and will continue until 2021. Monitoring arrangements are being put in place so we can understand the flood risk and environmental benefits the programme brings.

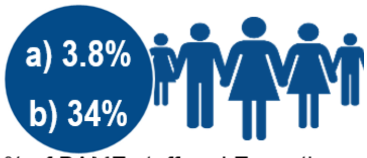
In October 2017, the Environment Agency published the ‘Evidence base for working with natural processes to reduce flood risk’. This compiles existing research into a directory for flood and coastal risk managers. This easily accessible directory will help to ensure that potential NFM measures can be assessed and used where they are effective. Therefore, our staff can better manage the risk of flooding for threatened communities.

Defra and the Environment Agency co-designed the Natural Environment Research Council (NERC) NFM Research call. This £3.4m of research funding has been awarded to three projects on the Upper Thames (Reading University), Cumbria (Lancaster University) and the Peak District (Manchester University). The research will improve understanding of the effectiveness of different NFM measures for a range of flood risk scenarios.

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	a) b)
	We provide a safe place to work	

We have a diverse workforce



% of BAME staff and Executive managers who are Female

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 working age 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 and mitigation 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 4% 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 working 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 34% against our 50% target.

Stonewall Wellbeing Index

Stonewall ranked us eighteenth in the Top 100 Employers for 2018. This is the eleventh successive year the Environment Agency has made the Top 100, competing with over 400 organisations across the country, and we are one of the best performing government employers.

Stonewall TOP 100 EMPLOYER 2018

The Stonewall Top 100 is a list that showcases the best employers for lesbian, gay, bisexual and transgender (LGBT) staff and is a powerful benchmarking tool that companies use to help create an inclusive workplace. Members of our LGBT+ Network and our HR team produce our annual submission to Stonewall. We then use Stonewall's feedback to help shape our corporate diversity priorities for the coming year.

This year's result is a huge improvement on last year - we came 47th in 2017 - and is particularly important, as it's the first year we have been assessed on transgender inclusion in the workplace.

We provide a safe place to work

Incidents per 100,000 hours worked

Our ‘Safe and Well’ programme, focussing on health and safety in the workplace, has helped us achieve some of the lowest lost time injury (LTI) frequency rates ever. Every year we set challenging targets from highly successful results (a 32% reduction from 2016-17, which we believe was particularly low due to the successful introduction of the Safe and Well programme). However, it is not uncommon in organisations with a mature safety culture to observe a low number of LTI’s which fluctuates year on year, whilst the long term trend continues to gradually reduce. Whilst we did achieve the lowest lost time injury frequency rate in the Environment Agency’s history up to Q2, the injury frequency rate gradually increased from this low, to exceed our ambitious target. Our final position was 0.16 incidents per 100,000 hours worked, compared to the reduction from 0.17 to 0.11 last year.

This ongoing Safe and Well programme, and the commitment shown by our people has been excellent and it is essential that we do not become complacent. Therefore, we are working on the next big refresh of our health and safety programme. We are also ensuring that the improvements introduced in recent years, particularly to address our top risks, are properly embedded into our ways of working. This includes construction safety, reducing violence towards our staff and public safety.

We have seen improvements in the physical health of our staff. This was largely down to our enhanced occupational health surveillance programme, good management of musculoskeletal health using our physiotherapy service and by improving our management and monitoring of exposure to vibration.

Mind workplace wellbeing index recognition

We continue to prioritise how we manage health and wellbeing risks. We were rewarded with the mental health charity Mind’s workplace wellbeing index gold award, and judged the number one employer in the index. We have since acted on Mind’s recommendations to further improve our support for the mental health of our people.

Sustainability in the Environment Agency

Sustainable development lies at the heart of what we do. We aim to carry out our activities, and encourage those of our partners, to be as sustainable as possible, minimising the impacts on people and the environment associated with them whilst taking any opportunities to enhance the natural environment. We include environmental performance measures in our corporate reporting cycle. We have included our sustainability report in Appendix B. This gives a comprehensive overview of important environmental factors such as greenhouse gas emissions and waste figures. This reporting is required to be ‘fair, balanced and understandable’, therefore we show the past three years to give a transparent view of our performance against these measures.

UN Sustainability Goals

The UN has developed 17 goals to ‘to transform our world, end poverty, protect the planet and ensure prosperity for all’. This naturally aligns with the Environment Agency’s core aims, ‘to create better places for people and wildlife and to support sustainable development’. We have looked at the aims and performance objectives of the Environment Agency and they align with closely with the UN Sustainable Development Goals. We have included references to performance measures (e.g. PR 1EA2) shown in Appendix B and the sustainability report (e.g. SR – Office Waste) in Appendix C.

3. Good health and wellbeing

This year we achieved excellence by winning Gold in the Mind Workplace wellbeing award for our support to staff. We also continue to see low levels of LTIs. See PR 7 EA

5. Gender equality

This year we have again seen an improvement in the balance of men and women below board room level.

Our gender pay gap is 3% and much lower than the overall UK average. p42. Also see PR – 7EA14

6. Clean water and sanitation

Maintaining, improving and restoring water quality is a fundamental part of our work.

We reduced serious pollution incidents to 19% better than our target for the year to protect people, the environment and wildlife.

PR 1EA2

7. Affordable and clean energy

We invest in self-generated renewable energy, and purchase renewable energy as part of our resource consumption.

Our pension fund also invests 34% of its funds in clean and sustainable technology.

SR – Pension Fund Investment.

10. Reduced inequalities

We jumped up 29 places to 18th in the Stonewall Wellbeing Top 100 index this year, as one of the best performing organisations. p19

PR – 7EA14

11. Sustainable cities and communities

This year we protected 142,850 households from the risk of flooding.

PR – 4EA5

12. Responsible consumption and production

Our total office waste has decreased by 10% compared to last year.

SR – Office Waste

13. Climate action

The transparent nature of the Environment Agency means that we publish a Sustainability report which brings together our performance for a range of measures to keep track and improve on our environmental performance.

SR – Business Travel / Resource Consumption

15. Life on land

We created 619 ha of new habitats this year which was 17% above our target.

These new habitats are designed to integrate biodiversity and to improve the ecosystem to support native species.

PR – 1EA3

14. Life below water

This year we created a new team that will focus on reducing plastic pollution and improving sustainability in our oceans and rivers. p11

In addition to this we enhanced 2,038km of water environments in the year. PR 1EA1.

Natural Capital

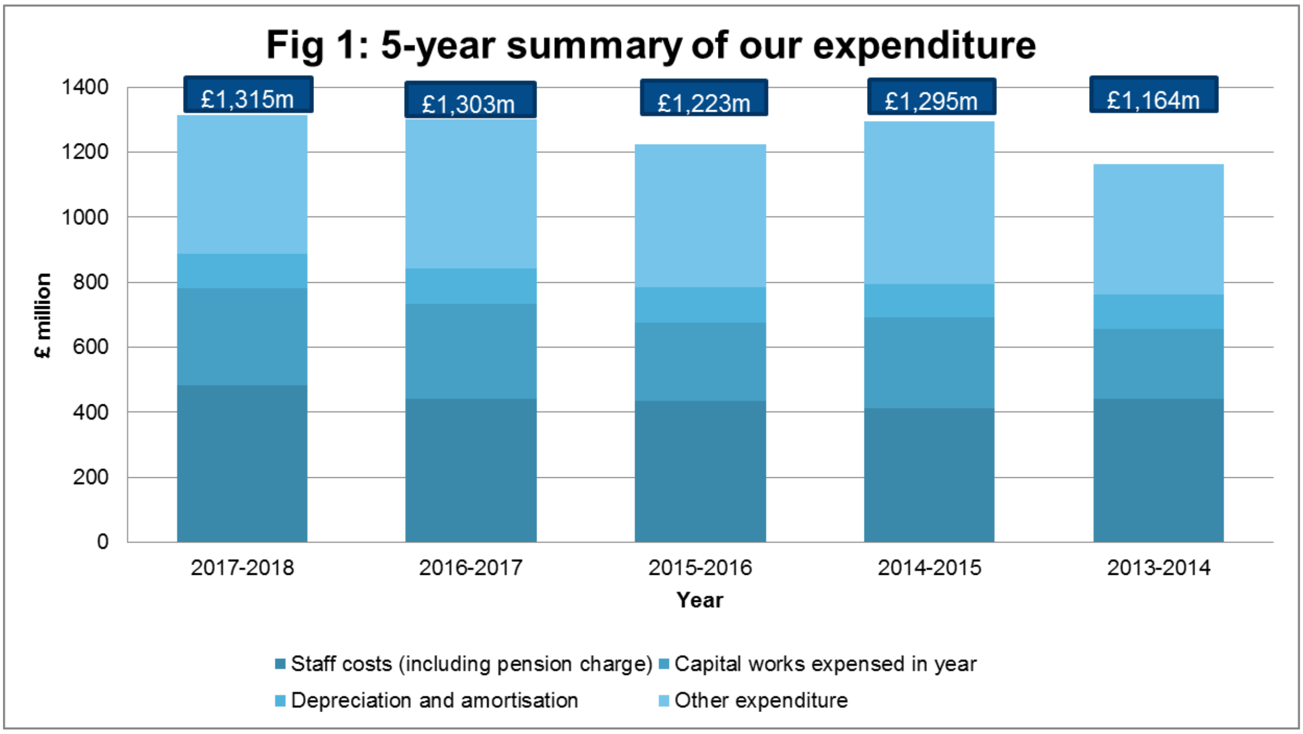
In the Defra 25 year plan for the environment (2018) the use of a Natural Capital approach was highlighted to better understand the benefits of work for the environment. Natural Capital looks at the air, water, soil and ecosystems that support all forms of life, and puts this into a financial account that looks at the longer term benefits for humans protecting and improving the environment. In Appendix D you can find our Natural Capital account for all of the Environment Agency's land assets.

Review of financial performance and funding

Our total gross expenditure for the financial year ended 31 March 2018 was £1.3 billion as in the previous year. Of our total expenditure, 65% came in the form of funding from Defra. The other 35% of income largely came from fees and charges.

Net expenditure for the year after deducting income was £897 million. We are required to treat grant-in-aid cash receipts of £850 million from Defra as a financing contribution rather than income as it was provided by 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

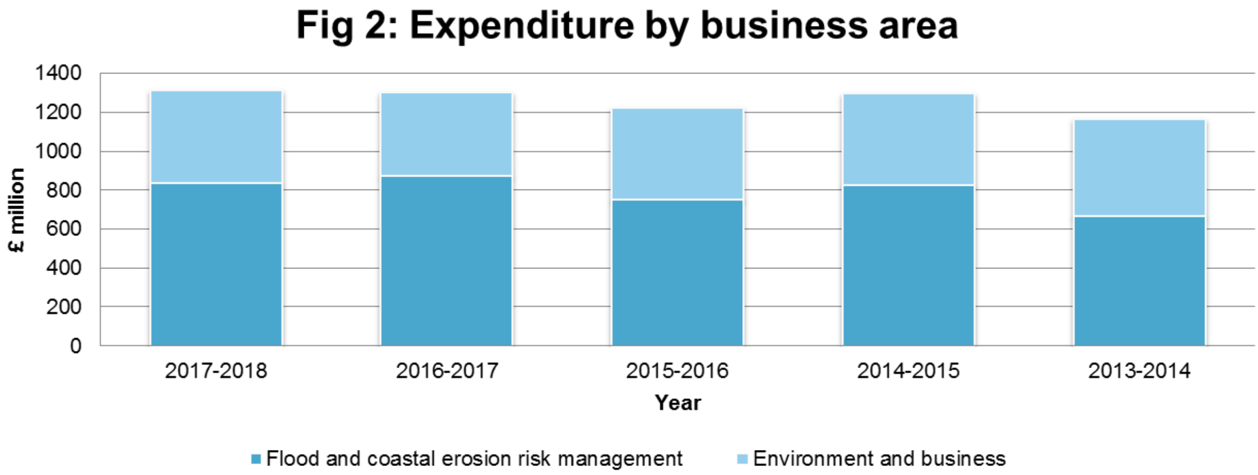


More detail on staff costs, capital works expensed in year and other expenditure is provided in the financial statements in notes 3, 4 and 5 respectively.

Expenditure

Our expenditure by 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 fees and charges. Further details can be found in table 15 of the Accountability 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 Defra allocate funding to the Environment Agency each year. We receive adjustments to our grant-in-aid funding each year as part of the Defra group planning process.

Figure 2: Expenditure by business area



Non-current assets

Non-current assets in the year have increased in value by £130 million. This increase is due to investment in capital assets, such as major flood alleviation schemes. The revaluation of our assets using relevant indices and depreciation offset each other in the year. The value of our non-current asset base is £3.1 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 2018 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 2018 shows taxpayers' equity of £2.5 billion (at 31 March 2017 this was £2.3 billion). In common with other government non-departmental public bodies, the future funding for our liabilities will be 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 ending 31 March 2020. We have prepared these financial statements on a going concern basis.

J.D. Bevan

Sir James Bevan, Chief Executive **Date - 03 July 2018**

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 2018, the same as in the previous year. The fee for the statutory audit was £159,500, a further reduction of £5,000 from the previous year.

As far as the Accounting Officer is aware, there is no relevant audit information of which the Environment Agency's auditor is unaware. Supported by the Finance Director and the Finance function, 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 also 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, and prevents attempted corruption or bribery.

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

As of March 2018, eleven 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
- Supporting economic growth through prompt responses to planning enquiries and the permitting of fracking and large infrastructure projects (HS2, Hinckley Point nuclear power station, Crossrail and Thames Tideway Tunnel)
- Illegal waste and the targeting of major problem sites
- Communications
- Defra group transformation
- EU Exit
- 25 Year Environment Plan
- Strategic Review of Charges and other opportunities to fully recover costs
- The future management of navigation waterways

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 and budgets with them. All RFCC meetings are advertised on GOV.UK and members of the public are welcome to attend.

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 three main directorates:

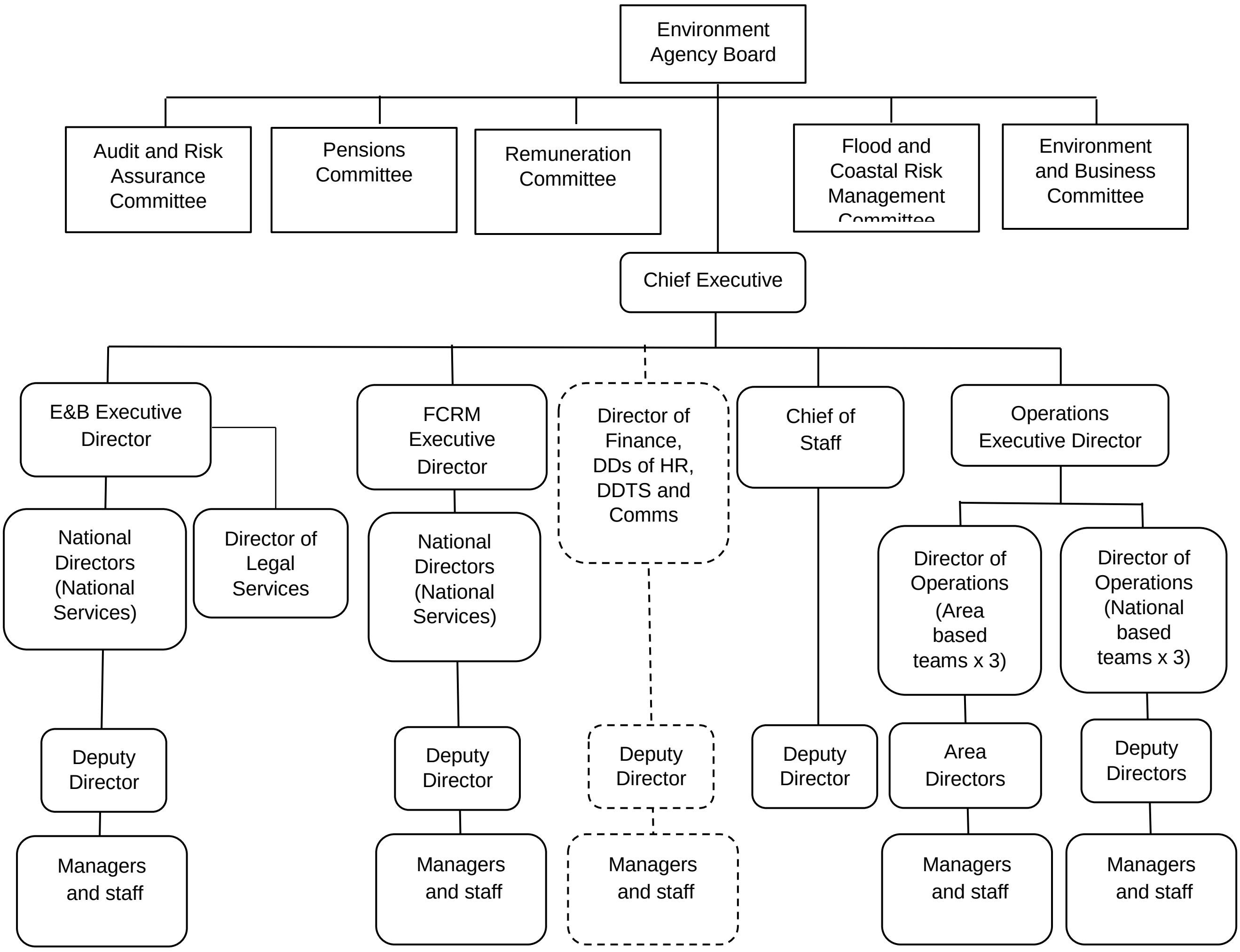
- Flood and Coastal Risk Management
- Environment and Business
- Operations

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

The Chief Executive and his team meet weekly and for a full day each month to discuss and make decisions on managing the Environment Agency. They are responsible to the Board for all aspects of performance and risk management. The EDT support the Chief Executive in establishing and maintaining an effective system of internal control within the organisation.

EDT meetings include the Chief of Staff, Director of Legal Services, Deputy Director of Governance and Engagement, as well as the Director of Finance, and the Deputy Directors of Human Resources, Communications and Digital, Data and Technology Services, all of whom are now employed within core Defra. In addition, an initiative began in 2016-17 to increase the equality, diversity and inclusion of EDT. This provides for 12 month development opportunities for senior leaders with the Director of Operations (Assets & Incidents), the Director of Incident Management and Resilience and the Deputy Director of Integrated Water Planning being part of EDT for the year ahead.

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



2.4 Changes to our structure

On 1 November 2017 we transferred responsibility for most of our corporate services functions to Defra. This is part of a wider Defra group transformation programme initiated in response to Defra's spending review settlement for 2015 to 2020. The services transferred were Finance, Human Resources, Communications, Digital, Data and Technology Services, Property Programmes and Corporate Property, Facilities Management, Commercial and oversight of Shared Services Connected Limited, the outsourced Finance, HR and Procurement transactional processing centre.

This transfer presented logistical and procedural challenges and the mitigating actions taken are described in section 6.5.

2.5 Compliance with the corporate governance code

We follow best practice for corporate governance, and have complied with the HM Treasury's 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 that they attend.

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

3. Effectiveness of EDT and the Board

In June 2017, the Board conducted its annual evaluation exercise, 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 discussed the outcomes of the evaluation exercise and agreed that:

- they are generally performing well as a Board.
- the improvements, such as greater focus on strategic issues, changes to Board engagement activities, and amendments to members portfolios, agreed at the previous year's meeting have been implemented and have been successful
- when undertaking stakeholder engagement events there should be more robust planning with EDT to ensure that the issues chosen are the most relevant and can be resourced and followed up effectively
- the Board's role within the context of Defra group working will be developed and better understood through further joint working.

In February 2018 Executive Directors held a session reviewing their own effectiveness and decision making, in line with good governance practice and the EA Board. It was agreed that:

- overall engagement with the business is good, and provides a strategic direction and steer
- the meetings are collegiate, professional and inclusive, where challenge and debate is encouraged
- a more strategic and long term approach with fewer items should be encouraged and would enable more in-depth discussions
- regular communications with staff after each meeting are welcomed, but should be shorter
- the meetings and Town Hall staff engagement should continue to be held around the country, where possible.

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 its year-end audit completion report around the data that supports the financial statements.

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 EDT assess, prioritise and manage 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 as well as mitigating the risks they own. Risk areas form regular agenda items at meetings during the year.

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 develop closer working relationships across the Defra group, we have adapted our risk management procedures to fit within an integrated group approach to strategic risks. This includes a common risk language and consideration of legal, operational, policy, financial and reputational risks. As well as reviewing risks, we also consider future opportunities.

4.2 Effectiveness of risk management

We have a consistent approach to risk management across the organisation. Risk registers are in place for business boards, directorates and area leadership teams, which include risk assessments, mitigating measures and an identified person who is accountable for managing the risk.

The results of our annual cross-organisation risk review were analysed and checked against the corporate risks. The results were reported to the EDT 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 and no new risks were escalated for management at EDT level.

One consequence of the transfer to Defra of our Corporate Services is that some risks to the Environment Agency are now managed on our behalf by Defra. This has required us to develop new relationships between those who own risks on behalf of the Environment Agency and those who are managing them. The management of risks during the year is reported in section 6.

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 and regularity of expenditure. 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

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.

The Environment Agency’s internal control environment includes the following elements (among others) to ensure we deliver value for money:

- A detailed planning process in order to ensure appropriate prioritisation of investments
- Clear and transparent investment and appraisal criteria. All projects over £100k go through an assurance process with review by qualified persons from the appropriate area of expertise who are independent of both the proposer and the approver of the expenditure
- External scrutiny of substantial levels of capital is provided via:
    - Regional flood coastal committees on local investment plans.

    - Defra and HM Treasury through the Infrastructure and Projects Authority review of our six year national flood defence capital programme.
    - Reviews by the Infrastructure and Projects Authority where our largest projects fall within the remit of cross government national infrastructure projects, such as the Thames 2100 project. The findings of such reviews have been positive.
- 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. Larger items of expenditure must be referred to and approved by external parties such as the Defra permanent secretary, HM Treasury or Cabinet Office.
- Approximately 85% of procured expenditure goes through our Commercial teams or the frameworks they have provided. Of the other 15% approximately half is made up of fixed items like rent, service charges and reservoir operating agreements. The other half is made up of some central contract expenditure vetted by a finance compliance team and items procured via government procurement cards subject to line manager approval and sample testing by the compliance team.

5.2 Audit assurance

Each year EDT 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 42 business work areas in 2017-18. 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.

Whilst equivalent to the overall rating given for the last 4 financial years the individual opinions assigned to audits during 2017-18 reflect a significant increase in the number of limited / unsatisfactory assurance opinions given. This is primarily due to a particularly strong year for business engagement during the development of the internal audit programme, whereby known high residual risk areas where identified for inclusion and the high number of issues identified (and associated management actions agreed) linked to the ‘transformation’ theme. The reason given for the majority of these being the need to focus resources on the management of change and a lack of understanding / clarity on ways of working post transformation. This trend will be closely monitored during 2018-19.

The Internal Audit team oversees the self-reporting by Executive Directors to the Chief Executive on their stewardship over selected work areas. This financial year’s stewardship topics were business continuity management, people survey follow up actions and change management. Recommendations for improvements from internal audit and stewardship reports are followed up to ensure that they have been properly implemented.

We act on the recommendations made by the 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.

In February 2018, external auditors Societe Generale de Surveillance (SGS) assessed the Environment Agency against the revised ISO 2015 requirements of the external certifications held for ISO 9001 Quality Management Standard and ISO 14001 Environmental Management Standard. The Environment Agency passed the assessment maintaining registration for both standards.

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 Reducing the adverse impacts of major flooding

Flooding is a natural process. While it will never be possible to prevent all flooding, the Environment Agency and our partners are making significant progress to reduce the risks. This year a number of improvements to our service have been introduced, which support government and partner investment in flood and coastal erosion asset protection measures. We now have 1.4 million people signed up to the flood warning service (increased from 1.2 million last year). This increase is largely due to mobile phone companies coming on board with our Flood Warnings Direct service for their customers in flood risk areas and the impact of our Flood Action campaign. The 2017-18 Flood Action Campaign, 'Prepare, Act, Survive' informed people what they should do if they live in an area at risk of flooding. The campaign resulted in 67,000 new registrations to Floodline Warnings Direct, over 32,000 visits to our 'Floods Destroy' campaign website and an estimated social media reach of 4.6 million.

We have 6,626 staff fully trained and ready to respond to flooding (and other) incidents, against a target of 6,500, including corporate services staff now employed by Defra (see 6.5). Approximately 1,200 soldiers were trained before this winter to be able to support flood response if needed and joint exercises were undertaken. We have 40km of temporary flood barriers and 250 high volume pumps available for deployment during flooding incidents. These temporary measures work in tandem with the more permanent structures that have been or are under construction or may be used where more permanent measures are not practicable.

New guidance clarifying our role in responding to surface water flooding, groundwater flooding and reservoir failures was issued in November 2017. We continue to work on implementation of the National Flood Risk Review measures in partnership with other government agencies.

The Environment Agency was allocated an additional £76m of funding in the 2017 autumn budget, of which £36m is for bringing new schemes into the capital programme and £40m is for flood defence schemes that help support economic regeneration in deprived communities. At the end of March 2018, we had better protected 143,000 homes since 1 April 2015.

These measures, together with the government's long term financial commitment via our six year capital programme reduce the likelihood and impact of major flooding.

6.2 Onshore oil and gas sector regulation

The Environment Agency's onshore oil and gas programme provides the cohesion, resource and oversight needed to manage risks to the environment. Our working relationships with government teams across Whitehall are effective, and we are supported financially with government grant-in-aid. Operationally we continue to be active in inspections, monitoring and ensuring compliance with permits. Our inspection and monitoring reports for two hydraulically fracturing sites have been published online. We have good visibility locally, and systems are in place to keep residents, government and our executive office informed. We are working well with our partner regulators, and advising government on how this collaboration and team working can be enhanced. We are ready to mobilise our teams if the Secretary of State for Business, Energy and Industrial Strategy (BEIS) gives his consent for hydraulic fracturing to go ahead.

6.3 Illegal waste sites

Regulations introducing new enforcement powers have been passed and a consultation has been completed on proposals to raise barriers to entry to the waste permitting system and to reform the exemption system.

Current confidence in our effectiveness is demonstrated by the announcement of £30 million of additional funding for tackling waste crime in the government’s November 2017 budget, which extends current funding for 2 years beyond April 2020 and adds an additional £5m for each of the 4 years starting April 2018. However, delivering our ambition to reduce the overall number of high risk illegal waste sites remains a challenge and the overall number of active sites increased slightly over the year to 259.

We are working with representatives of the legitimate waste industry with a view to delivering improved performance across the waste sector and are continuing to liaise with other regulators, particularly HMRC, to tackle illegal operators.

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 health and safety performance, staff morale and 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 and Functional Business Boards lead on their own strategic workforce plans, both of which are reviewed annually. HR, alongside others, including Business Planning & Performance are reviewing the way we report people information and focussing on affordability, scenario modelling, strategic resourcing and skills and capabilities, including professional qualifications to inform decision making and strategy.

We have improved data provided to business boards, to give them greater confidence in forecasting, for instance on use of contractors and temporary staff. We are also working with the business to develop approaches to tracking learning and capabilities. We have a thorough process of collecting information from technical/business leads and a programme of development to ensure continuity of current products and development of new ones in response to business requirements.

The results of our latest staff survey during 2017 are mostly positive in relation to the key indicators of engagement, with 71% saying they felt engaged; up from 63% in 2014. However, we have identified key themes for further management action, including managing change, better using people’s full skill set and setting the right behaviours at work.

6.5 Defra transformation

The scale of Defra group transformation continues to pose a variety of risks and opportunities for our day-to-day business. These include failing to realise financial and non-financial benefits, not managing our people’s capacity for change thereby adversely affecting morale, and not pacing change to ensure we maximise opportunities to learn and work better together with more consistent shared systems and processes.

We continue to oversee the planning, scheduling and delivery of change to manage risks and dependencies and maximise opportunities and ensure employees and employee relations groups are engaged appropriately.

The most significant change in the year was the permanent transfer of corporate service activities (Finance, Human Resources Communications, Digital Data and Technology Services, Property Programmes and Corporate Property Facilities Management, Commercial and Shared Services), involving almost 1,000 corporate services staff, to Defra under the Transfer of Undertakings

(Protection of Employment) Regulations 2016 (known as TUPE). Significant preparatory work was required prior to the transfer of employment on 1 November 2017 to make the transition successful and to ensure the Environment Agency continues to receive the services it requires to effectively discharge its responsibilities, operational requirements and statutory duties, including as a category 1 responder to incidents.

A partnership agreement between Defra and the Environment Agency has been established to guide working relationships and the delivery of services post transfer. Alongside this high level framework sit a number of more detailed agreements (some legally binding) to ensure ongoing management of risks related to the Environment Agency's property, data and IT assets, communications and brand management. As plans are developed for transforming Defra Corporate Services to reduce expenditure and improve efficiency, the Environment Agency will be consulted and these agreements will allow the services to be monitored and ensure any negative impacts are minimised. A Corporate Business Forum, regularly attended by Defra Corporate Services heads of function, has been established to aid governance.

Transformation may also affect transferred staff and increase turnover. We are working with Defra colleagues to mitigate any potential loss of corporate knowledge, effectiveness and efficiency or the re-employment of staff doing corporate services work in the Environment Agency. This includes amendments to the Financial Scheme of Delegation, clarifying the roles within Defra Corporate Services that must be consulted for approval decisions and via strong leadership across the Environment Agency to ensure these staff continue to feel part of the "Environment Agency team". Similar messages from Defra Corporate Services leadership are emphasising the importance of transferred staff continuing to prioritise the Environment Agency activity as well as Defra group.

6.6 Strategic review of charges

The Environment Agency is dependent on charges income to fund many of its regulatory 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 recovering costs, we conducted a strategic review of charges to make a number of changes to our charges schemes and set new charges from April 2018. We conducted a formal consultation on these proposals in January 2018, made a number of changes to our proposals following feedback received, and achieved ministerial sign off for the new charges in early March 2018. The new charge schemes were implemented from 1 April 2018.

6.7 EU Exit

We continue to support Defra and BEIS in the delivery of their EU Exit programmes. This includes work on chemicals, agriculture and the Emissions Trading System. We are developing our thinking on what the recent announcements about the implementation period might mean for us and whether the delivery timetable will be changed. We are also considering the impact of no longer having access to EU institutions and systems once we have left the EU, and what this means for our involvement in various EU working groups and technical processes (such as the Sevilla BREF process). We continue to work with Defra on the independent scrutiny body, and how environmental principles may be applied in the UK after exit. While resourcing of EU Exit work continues to be a low level risk that we are managing by close working with Defra, our ability to resource our programme is likely to be affected by future funding decisions.

7. Ministerial directions

We received a Ministerial direction during the year that covered provisions for the Environment Agency to make payments to charities, to achieve natural flood management outcomes.

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 grants to civil society groups and charities for work delivering the Water Framework Directive, supporting the delivery of water catchment outcomes. In 2017-18 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 about the Environment Agency's work remain unchanged. Our policy was updated this year following Corporate Services transformation. Since 1 November 2017, the Director of Legal Services has taken over responsibility for managing whistleblowing disclosures. Clear information is provided to all employees on how any disclosure can be made and what protections are in place. Assurance regarding our approach is provided to ARAC on a regular basis. Staff were reminded in April 2018 about our approach to whistle blowing, including how they can raise concerns.

9.1 Concerns about Environment Agency work

During the year 2017-18, 7 whistleblowing concerns were reported. Each case has been investigated or is under investigation. Three cases have been closed. Four cases remain either under investigation or are subject to ongoing management actions following investigation. Management action is taken in any case where concerns are found to be justified after investigation. This action has ranged from improving our internal processes to in one case a member of staff being dismissed.

9.2 Concerns about environmental malpractice from workers in third party employers

We will be publishing by the end of September 2018, under the recent Prescribed Persons (Reports on Disclosures of Information) Regulations 2017, an annual report on 'protected disclosures' made to the Environment Agency in our capacity as a 'prescribed person'. This means that we will report on disclosures made to us concerning environmental malpractice from workers in third party employers. The report will describe:

a) The number of worker' disclosures received during the period

b) The number of disclosures in relation to which the Environment Agency decided during the reporting period to take action;

c) A summary of (i) the action taken during the period as a result of the disclosures and (ii) how workers' disclosures have impacted on the Environment Agency's ability to perform its functions and meet its objectives during the reporting period.

10. Data security

We had no incidents involving loss of personal data in 2017-18 which were required to be reported to the Information Commissioner. 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.

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 2017-18.

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 defined benefit pension benefits to around 26,000 people, who are current and former employees of the Environment Agency, Natural Resources Wales and Shared Services Connected Limited (SSCL). For the financial year 2017-18, 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.

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

The Government introduced regulations in 2016 which require LGPS Funds to pool investments in order to improve efficiency. Brunel Pension Partnership (Brunel), was created, comprised of the EAPF and 9 other LGPS Funds (predominantly based in the South West) to meet this obligation.

The Board approved becoming a shareholder in Brunel in July 2017, following a rigorous assurance process. The EAPF will continue to adhere to its own Funding Strategy, and retain control of its own assets, but will benefit from reduced costs from pooling investments.

The EAPF continued to receive recognition within the Pensions Industry by winning the ‘Best Pension Scheme Communications’ award from Pension Age magazine. In addition, the Fund also won ‘Best approach to Responsible Investment’ at the Local Government Chronicle awards, ‘Best implementation of Environment and Social Governance by Institutional Investor and ‘Best Responsible Investment’ by the Local Authority Pension Fund Forum, which all helps to consolidate the Fund’s standing and leadership in this area. It was ranked at number 2 in the World Index as part of the Global Climate 500 report, and the Fund has maintained its AAA rating for 4 years in a row.

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 78% of invoices from suppliers within 10 days of receipt and registration, compared to 80% in the previous year. Creditor days, calculated on an average basis for the year, were 6 days for both years.

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

1. The Remuneration Committee is appointed by the Environment Agency Board with its delegated authority to consider any matters relating to the pay or remuneration of Environment Agency employees. The committee has regard to the Defra-Environment Agency Framework Document and other relevant requirements of Defra.

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

3. The Remuneration Committee will:

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

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

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

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

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

f. review the framework for succession planning for key posts

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

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

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

The Remuneration Committee met 3 times during the financial year ended 31 March 2018. It agreed the Chief Executive's performance rating and objectives.

During the year, the committee also considered:

- pensionable pay issues
- the annual pay award and pay remit
- EDT structure and executive directors' pay
- voluntary early release scheme payments
- the work of the committee and 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 payments 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). We reduced the number of executive directors in 2016-17 to achieve a more streamlined and effective management structure.

Table 1: 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	Mr Harvey Bradshaw	26 Sept 2015 – present
Executive Director of Flood and Coastal Erosion Risk Management	Mr John Curtin	19 Sept 2015 – present

The notice period for Executive Directors is at least 3 months and the policy for their remuneration is the responsibility of the remuneration committee.

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 2017-18 (£)	Remuneration in 2016-17 (£)
Emma Howard Boyd (Chair) (i)	ARAC, PC, FCRM, RC	19 Sept 2016	3	3 per week	100,000	100,000
Richard Macdonald (Deputy Chair) (ii)	ARAC, RC, FCRM	1 Jun 2016	4	5 per month	25,201	25,201
Maria Adebowale-Schwarte (iii)	PC, RC, EB	1 Jul 2016	3	5 per month	20,302	15,051
Peter Ainsworth	FCRM, EB	1 Sept 2015	3	4 per month	16,802	16,802
Karen Burrows	ARAC, PC, RC, EB	1 Sept 2015	3	7 per month	29,400	29,400
Clive Elphick (iv)	ARAC, PC, RC, EB	1 Aug 2014	3	6 per month	8,401	25,203
Lynne Frostick (v)	FCRM, EB	16 Mar 2018	3	6 per month	25,056	23,801
Robert Gould (vi)	FCRM, PC	1 Feb 2018	3	4 per month	2,800	-
John Lelliott (vii)	ARAC, FCRM	1 Feb 2018	3	4 per month	2,800	-
Joanne Segars	ARAC, PC, RC, FCRM	1 Mar 2017	3	5 per month	21,002	1,750
Gill Weeks (viii)	ARAC, EB	8 Sept 2017	3	5 per month	24,500	23,801
John Varley	EB	1 Oct 2015	4	3 per month	12,597	12,597
Total					**288,861**	**273,606**

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 2018

RC – Member of Remuneration Committee at 31 March 2018

PC – Member of Pensions Committee at 31 March 2018

FCRM – Member of Flood and Coastal Risk Management Committee at 31 March 2018

EB – Member of Environment and Business Committee 31 March 2018

Notes:

i. Emma Howard Boyd was appointed Chair on from 19 September 2016. She had been acting Chair from 1 February 2016.
ii. Richard Macdonald was appointed Deputy Chair on 22 October 2016. He had been Acting Deputy Chair from 1 March 2016.
iii. Maria Adebowale-Schwarte's time commitment increased from 4 days to 5 days per month from 1 November 2016 and reduced back to 4 days on 1 February 2018.
iv. Clive Elphick's term ended in August 2017. His full time equivalent pay was £25,200.
v. Lynne Frostick's time commitment increased from 5 days to 6 days per month from 1 August 2016. On 16 March she was re-appointed to the Board until 15 March 2021.
vi. Robert Gould was appointed to the Board from 1 February 2018 until January 2021. His full time equivalent pay was £16,800.
vii. John Lelliott was appointed to the Board from 1 February 2018 until January 2021. His full time equivalent pay was £16,800
viii. Gill Weeks' time commitment increased from 5 days to 6 days per month from 1 August 2016 and reduced back to 5 days on 1 February 2018. On 8 September she was re-appointed to the Board until 7 September 2020.

On 1 April 2018 Judith Batchelar and Caroline Mason were appointed to the Board and therefore their emoluments are not included in table 2.

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)	
	2017-18	2016-17	2017-18	2016-17	2017-18	2016-17	2017-18	2016-17
Sir James Bevan (i)	200-205	185-190	-	-	44,541	43,211	245-250	225-230
Dr Toby Willison (ii)	160-165	140-145	4,100	3,700	113,416	41,408	280-285	185-190
Harvey Bradshaw (iii)	135-140	135-140	-	-	9,582	287,577	145-150	425-430
John Curtin (iv)	130-135	130-135	1,400	2,800	18,976	239,107	150-155	370-375
David Rooke (v)	-	90-95	-	2,300	-	(44,101)	-	45-50
Miranda Kavanagh (vi)	-	95-100	-	2,400	-	19,795	-	115-120
Jonathan Robinson (vii)	-	145-150	-	-	-	15,041	-	160-165

Total emoluments include gross salaries and performance related pay, the details of which are included in the notes below.

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 contributions the Environment Agency reimburses to the FCO in respect of Sir James Bevan's pension costs in the Principal Civil Service Pension Scheme. All other

Executive Directors were members of the Environment Agency Pension Fund. In 2016-17, he was awarded Performance Related Pay (PRP) of between £15,000 and £20,000 which was paid in October 2017.

ii. Toby Willison was awarded Performance Related Pay (PRP) of between £15,000 and £20,000 for 2016-17 which was paid in October 2017. The pension benefit of £113,416 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 permanently appointed Executive Director on 1 April 2016. In 2016-17, this increased the level of his pensionable pay. The pension benefit of £287,577 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 permanently appointed Executive Director on 1 April 2016. In 2016-17, this increased the level of his pensionable pay. The pension benefit of £239,107 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 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. The negative pension growth figure reflects a reduction in pensionable pay compared to the previous year.

vi. Miranda 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.

Note – In 2017-18, a former director left the Environment Agency through a Voluntary Early Release Scheme – more details can be found under table 10. This and the other departures in the previous financial year were made to achieve efficiency savings.

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

Executive director	Accrued pension at 31 March 2018 (£5,000 range)	Increase in accrued pension during year (£2,500 range)	Accrued lump sum at 31 March 2018 (£5,000 range)	Increase in lump sum during year (£2,500 range)	CETV at 31 March 2017 (£000s)	CETV at 31 March 2018 (£000s)	Real increase in CETV (£000s)
Sir James Bevan (i)	80-85	0.0–2.5	240-245	0.0-2.5	1,720	1,823	(12)
Dr Toby Willison	60-65	5.0-7.5	105-110	7.5-10.0	900	1,045	85
Mr Harvey Bradshaw	60-65	0.0-2.5	115-120	(2.5)-0.0	1,051	1,120	(5)
Mr John Curtin	50-55	0.0-2.5	80-85	(2.5)-0.0	702	757	(1)
Mr David Rooke (ii)	–	–	–	–	1,671	–	–
Ms Miranda Kavanagh (ii)	–	–	–	–	298	–	–
Mr Jonathan Robinson (ii)	–	–	–	–	778	–	–

The Environment Agency remunerates its employees in line with standard public sector pay and pension policies. The accrued pension at 31 March 2018 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 2018.

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 and therefore is a member of the Principal Civil Service Pension Scheme.
ii. David Rooke, Miranda Kavanagh and Jonathan Robinson left the Environment Agency in 2016-17, further details are included under table 3.

Staff report

This report provides information on the composition of our workforce. Staff costs are disclosed in note 3 to the financial statements.

Table 5: Average number of full time equivalent staff employed during the year (audited)

	2017-18			2016-17		
	Permanent	**Temporary**	**Total**	**Permanent**	**Temporary**	**Total**
Directly employed	9,560	295	**9,855**	9,577	181	**9,758**
Contractors	-	659	**659**	-	860	**860**
Total	**9,560**	**954**	**10,514**	**9,577**	**1,041**	**10,618**

On 1 November 2017 approximately 1,000 employees had their employment transferred to Defra as part of a Defra group corporate services transformation programme.

The number of staff employed on capital projects was 1,004 (992 in 2016-17).

In March 2018, the Environment Agency employed 91 executive managers (equivalent to senior civil servant grades). The breakdown of these by level is shown in table 6.This was lower than the 118 in March 2017, primarily due to the transfer of 16 corporate services executive managers to Defra.

Table 6: Executive manager breakdown on 31 March 2018

	Headcount
Chief Executive	1
Executive Directors	3
Directors	19
Deputy directors	68
Total	**91**

All of the above are Environment Agency employees, with the exception of the Chief Executive, who is on a five year secondment from the Foreign and Commonwealth Office. Four are on secondment to other organisations, mainly Defra. We follow the Defra group Equality, Diversity and Inclusion (EDI) Strategy 2017-2020. Following consultation with our employees the Board approved five equality objectives for 2017-2020 as our response to the Equality Act's Public Sector Equality Duty.

Gender

We monitor the gender split of our workforce and have included the current numbers in table 7. This year we have again seen an improvement in the balance of men and women at each grade below executive manager level. The proportion of executive managers who are women reduced as a result of the corporate services transfer to Defra.

Table 7: Gender split on 31 March 2018

	Male Headcount	Female Headcount
Chief Executive, Executive Directors, Directors and Deputy Directors	60	31
All other staff	5,805	4,153
Total	**5,865**	**4,184**

The gender pay gap is the difference in the average hourly wage of all men and women across a workforce. Our gender pay gap is 3% and much lower than the overall UK gender pay gap. This is because we have a higher proportion of men than women in both higher paid and lower paid roles.

Disability

Our Executive Directors Team have since approved the EDI Delivery Plan 2018-2020 which incorporates the Disability Action Plan. We continue to nurture, encourage and support our mutual support employee networks. They act as our “critical friends” supporting our plans to remove all potential barriers which might prevent employees achieving their full potential in our workplace. We have separate networks for those dealing with cancer, chronic pain, dyslexia, hearing loss, fatigue, inflammatory bowel disease, mental health, physical mobility, and visual impairment. We also have a discussion forum for autism, and aim to launch a network for autistic staff in 2018.

The feedback of disabled colleagues remains a key driver to the Disability Action Plan. 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 them. In 2017 we introduced our first ever centralised workplace adjustments for employees with a disability or impairment. It has been very well received, as has been our first ever disability leave policy. These complement our employee disability passport, a confidential document our employees have to share their personal sensitive information with a new line manager. 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.

Sickness absence data

We monitor staff sickness absences and have policies in place to minimise them. An average of 5.9 days per full time equivalent employee was lost to sickness absence in 2017-18 (2016-17 - 6 days)

Employment of consultants and contractors

The nature of our work means we require the expertise of temporary workers as well as those we employ permanently. Table 8 shows how much we have spent on temporary workers and consultants over the past 2 years (Table 5 shows the numbers employed under the category “contractors”). In 2017-18, the spend decreased due to work covering a major IT programme, Unity, which aims to integrate the Defra group's core IT services, transferring to Defra as part of the Corporate Services transfer, and a reduction in the temporary flood recovery programme following the severe winter floods of 2015-16.

Table 8: Expenditure on temporary workforce

	2017-18	2016-17
	£ million	£ million
Consultancy	17.0	17.6
Temporary workers and contractors	15.3	30.1
Total	**32.3**	**47.7**

Tax arrangements of public sector appointees

We provide information about appointments of consultants or staff that last longer than 6 months and where the individuals earn more than £245 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.

New off-payroll working rules for public sector organisations called “IR35” were put in place from April 2017 to make sure that where an individual would have been an employee if they were providing their services directly, they pay broadly the same tax as an employee, with the requirement for the employer to deduct tax at source.

Table 9: Off-payroll appointments at 31 March 2018, for more than £245 per day and that last longer than 6 months

Number of existing engagements as of 31 March that have existed for:	Number
Less than one year	2
Between one and two years	5
Between two and three years	2
Total	**9**

During this financial year, we made 2 new off-payroll appointments lasting more than 6 months. These included contractual clauses giving us the right to request assurance of compliance with income tax and national insurance obligations. For both of these we have requested and received such assurance, assessed it and found the arrangements were compliant with IR35 rules.

There were 18 Board members or senior officials with significant financial responsibility over the organisation during the financial year 2017-18. We did not pay any of them via off-payroll arrangements, other than the Chief Executive Officer, who is paid through the civil service payroll within the FCO, as described in the Remuneration report.

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.

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 10 and 11. In 2016-17 we approved 5 packages which totalled more than £100,000, most of which were marginally over £100,000 and the highest 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 individuals as if they had not left their employment before the official retirement date.

Table 10: Exit packages for the financial year 2017-18 (audited)

Category	Compulsory redundancy	Other departures*	Total	Compulsory redundancy	Other departures	Total
	Number	Number	Number	£ million	£ million	£ million
Under £10,000	-	-	-	-	-	-
£10,000 - £25,000	-	5	5	-	0.1	0.1
£25,001 - £50,000	-	4	4	-	0.2	0.2
£50,001 - £100,000	-	6	6	-	0.4	0.4
Total	**-**	**15**	**15**	**-**	**0.7**	**0.7**

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

One of the departures reported in 2017-18 was for Mark McLaughlin, the former Executive Director of Finance. He was an Executive Director of the Environment Agency from 22 June 2009 to 30 September 2015 when he was seconded to Defra as its Chief Finance Officer. Following the end of his secondment on 30 September 2017, he left the Environment Agency through a Voluntary Early Release Scheme. He received compensation as part of the early release scheme of between £90,000 - £95,000.

Table 11: Exit packages for the financial year 2016-17 (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 include those on voluntary early release schemes and early, flexible and ill health retirements.

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.

The banded remuneration of the highest paid executive director, as disclosed in the Remuneration and staff report, for the financial year 2017-18 was £200,000 -205,000 (financial year 2016-17,

£185,000 - £190,000). No employee in either year received remuneration in excess of the highest-paid director. This was 6 times (financial year 2016-17, 6 times) the median remuneration of the workforce, which was £32,609(financial year 2016-17, £31,674). The range of banded remuneration for employees was £10,000 to £15,000 up to £200,000 to £205,000 (financial year 2016-17, £10,000 to £15,000 up to £185,000 to £190,000). 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.

Relevant union officials (not subject to audit)

The Trade Union (Facility Time Publication Requirements) Regulations 2017, a statutory instrument under the Trade Union and Labour Relations (Consolidation) Act 1992, requires reporting of certain information regarding employees of public sector organisations who conduct activities as members of trade unions during their employment.

The number of employees who were relevant union officials during 2017-18 was 140 with full-time equivalent employee numbers of 134.

Table 12a: Percentage of pay bill spent on facility time

Measures	Cost (£millions)
Total facility time by union officials	0.3
Total all staff	340.7
Percentage on facility time	0.1%

Table 13: Percentage of staff time spent on facility time

Measures	Time (in hours)
Total facility time by union officials	9,994
Total all staff	305,353
Percentage on facility time	3.3%

Table 14 - Percentage of individual staff time spent on trade union activities

Percentage of time	Employee Headcount
0%-1%	58
1%-50%	82
51%-99%	-
100%	-

Parliamentary accountability and audit report

Main activities of the Environment Agency Business Units

Environment and Business charges

The main chargeable activities of our Environment and Business operating units (water, land and biodiversity and regulation of industry) are detailed below.

Water, land and biodiversity:

- Abstraction charges - charging businesses for abstracting water from rivers or groundwater. The income reported also includes other elements of water resources income.
- Environmental Permitting Regulations (EPR) water quality - charging for permits to discharge from businesses into the water environment.
- Fishing licences - charging individuals for licences to fish.

Regulation of industry:

- 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, Carbon Reduction Commitment (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, trans-frontier shipments, producer responsibility licensing, end-of-life vehicles, polychlorinated biphenyls and regulation of businesses under such schemes as control of major accident hazards (COMAH).
- Navigation licences - charging individuals for boat licences.

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)

Flood and Coastal Risk Management

The main activities of our Flood and Coastal Erosion Risk Management operating unit are detailed below:

- investment strategy
- incident management and resilience, including flood warnings
- asset management
- digital and skills

Analysis of fees and charges

Table 15 relates to income from fees and charges for the Environment and Business operating unit and is reported 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 15: fees and charges income (audited)

Type of charge	Expenditure (£ million)	Income billed (£ million)	Deficit or (surplus) (£ million)
Abstraction charges	120.0	(122.6)	**(2.6)**
EPR water quality	55.4	(55.3)	**0.1**
EPR installations	30.7	(30.7)	**-**
EPR waste	29.6	(28.1)	**1.5**
Fishing licences	23.0	(23.3)	**(0.3)**
Nuclear regulation	13.8	(13.8)	**-**
Hazardous waste	16.3	(15.0)	**1.3**
Navigation licences	9.7	(8.7)	**1.0**
Emissions trading and CRC Energy Efficiency Scheme	6.2	(6.3)	**(0.1)**
Other environmental protection charges	19.2	(16.1)	**3.1**
Total 2017-18	**323.9**	**(319.9)**	**4.0**
Total 2016-17	**316.0**	**(314.0)**	**2.0**

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 16: Losses and special payments by category

	31 March 2018		31 March 2017	
Category / type	Number	£ millions	Number	£ millions
Write-off of sundry debts	419	9.4	308	1.5
Loss of assets	132	0.1	187	0.3
Special Payments	10	1.7	17	3.6
Other (cash losses, fruitless payments, unenforceable claims, special payments and gifts)	227	1.1	181	0.3
Total	**788**	**12.3**	**693**	**5.7**

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 were 3 losses and 1 special payment in excess of £300,000. (In 2016-17 there was 1 loss disclosed).

- The special payment of £1.7m was a contribution to the costs borne by a local authority to clear illegal waste from a site which represented a major public health risk. This was funded by Defra and approved by HM Treasury.
- A loss of £0.8m arose on the termination of a supplier contract.
- Bad debt write offs of £1.0m and £0.6m arose on invoices raised in previous years to recover the costs of pollution clearance from the companies responsible. These were businesses which had abandoned waste sites and become insolvent.

Contingent Liabilities (audited)

There are no contingent liabilities (remote or otherwise) that require disclosure in the Annual Report and Accounts

J D Bevan

Sir James Bevan, Chief Executive **Date 03 July 2018**

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

Opinion on financial statements

I certify that I have audited the financial statements of the Environment Agency for the year ended 31 March 2018 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, including the significant accounting policies. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Accountability Report that is described in that report as having been audited.

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 2018 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 regularity

In my opinion, in all material respects the income and expenditure 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.

Basis of opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK) and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my certificate. Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2016. I am independent of the Environment Agency in accordance with the ethical requirements that are relevant to my audit and the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of the Accounting Officer for the financial statements

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit, certify and report on the financial statements in accordance with the Government Resources and Accounts Act 2000.

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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (UK), I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Environment Agency's internal control.

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Environment Agency's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

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

Other Information

The Accounting Officer is responsible for the other information. The other information comprises information included in the annual report, other than the parts of the Accountability Report described in that report as having been audited, the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Opinion on other matters

In my opinion:

- the parts of the Accountability Report to be audited have been properly prepared in accordance with Secretary of State and HM Treasury directions made under the Government Resources and Accounts Act 2000;
- in the light of the knowledge and understanding of the Environment Agency and its environment obtained in the course of the audit, I have not identified any material misstatements in the Performance Report or the Accountability Report; and
- the information given in the 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 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 - 05 July 2018**

Comptroller and Auditor General

National Audit Office
157-197 Buckingham Palace Road
Victoria
London

SW1W 9SP

Financial statements

Statement of Comprehensive net Expenditure

For the year ended 31 March 2018		2017-18	2016-17
	Note	£ million	£ million
Expenditure			
Staff costs	3	483.1	441.6
Capital works expensed in year	4	298.1	291.4
Depreciation and amortisation	7,8	106.7	109.9
Other expenditure	5	427.3	459.6
		1,315.2	**1,302.5**
Income			
Income from activities	6	(391.0)	(390.4)
Capital grants and contributions	6	(27.0)	(31.7)
		(418.0)	**(422.1)**
Net expenditure	2	**897.2**	**880.4**
Gain on sale of assets		(1.5)	(0.1)
Financing on pension scheme assets and liabilities	15.3	11.5	16.5
Net expenditure after interest		**907.2**	**896.8**
Other comprehensive expenditure			
Revaluation of property, plant and equipment	7,9	(117.1)	(104.1)
Revaluation of intangible assets	8,9	(1.9)	(4.6)
Actuarial gain on pension scheme assets and obligations	15.3	(89.8)	(92.4)
Total Comprehensive Net Expenditure for the period		**698.4**	**695.7**

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

The notes on pages 57 to 85 form part of these accounts.

Statement of Financial Position

As at 31 March 2018		31 March 2018		31 March 2017	
	Note	£ million	£ million	£ million	£ million
Non-current assets					
Property, plant and equipment	7	3,031.2		2,908.5	
Intangible assets	8	118.1		110.7	
Total non-current assets			**3,149.3**		**3,019.2**
Current assets					
Assets classified as held for resale		10.3		9.1	
Trade and other receivables	10	83.2		99.7	
Cash and cash equivalents	11	114.1		89.0	
Total current assets			**207.6**		**197.8**
Total assets			**3,356.9**		**3,217.0**
Current liabilities					
Trade and other payables	12	**(335.3)**		(339.6)	
Total current liabilities			**(335.3)**		**(339.6)**
Total assets less current liabilities			**3,021.6**		**2,877.4**
Non-current liabilities					
Deferred grants and contributions		(0.2)		(0.2)	
Provisions		(5.3)		(7.2)	
Reservoir Operating Agreements	16.1	(141.6)		(141.6)	
Pension liabilities	15.3	(400.3)		(405.7)	
Trade and other payables	12	(1.3)		(1.4)	
Total non-current liabilities			**(548.7)**		**(556.1)**
Assets less liabilities			**2,472.9**		**2,321.3**
Taxpayers' equity					
Revaluation reserve		1,901.5		1,833.4	
Pensions reserve		(400.3)		(405.7)	
General Reserve		971.7		893.6	
Total Taxpayers' equity			**2,472.9**		**2,321.3**

The notes on pages 57 to 85 form part of these accounts. The financial statements on pages 53 to 56 were approved by the Board on 19 June 2018 and signed on its behalf by:

J.D. Bevan

Sir James Bevan, Accounting Officer
Date 03 July 2018

Statement of cash flows

For the year ended 31 March 2018		2017-18		2016-17	
	Note	£ million	£ million	£ million	£ million
Cash flows from operating activities					
Net expenditure after interest		(907.2)		(896.8)	
Depreciation and amortisation	7,8	106.7		109.9	
Impairment of non-current assets	9	6.0		13.3	
Loss / (Gain) on sale of assets		(1.5)		0.1	
Movement in trade and other receivables	10	16.5		0.5	
Movement in trade and other payables	12	(4.4)		39.6	
Movement in provisions		(1.9)		(2.1)	
Other Non-Cash Recharges		-		1.4	
Pension adjustment	13.1	84.4		38.6	
Net cash from operating activities			**(701.4)**		**(695.5)**
Cash flows from investing activities					
Purchase of property, plant and equipment	7	(115.6)		(115.5)	
Purchase of intangible assets	8	(12.8)		(15.3)	
Proceeds of disposal of property, plant and equipment		4.9		(0.3)	
Capital grants and contributions for the purchase of property, plant and equipment		-		-	
Net cash from investing activities			**(123.5)**		**(131.1)**
Cash flows from financing activities					
Grant from sponsoring body	17	850.0		800.0	
Net cash from financing activities			**850.0**		**800.0**
Net movement in cash and cash equivalents in the period	11		**25.1**		**(26.6)**
Cash and cash equivalents at the beginning of the period	11		89.0		115.6
Cash and cash equivalents at the end of the period	11		**114.1**		**89.0**

The notes on pages 57 to 85 form part of these accounts

Statement of Changes in Taxpayer's Equity

For the period ended 31 March 2018		Revaluation reserve	General reserve	Pension reserve	Total reserves
Changes in taxpayers' equity	Note	£ million	£ million	£ million	£ million
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**
Actuarial gain on pension scheme assets and obligations	15.3			92.4	**92.4**
Non-cash recharges			3.7		**3.7**
Transfers between reserves	13.2	(109.1)	147.7	(38.6)	**-**
Retained deficit			**(896.8)**		**(896.8)**
Grant from Defra	17		800.0		**800.0**
Balance at 1 April 2017		**1,833.4**	**893.6**	**(405.7)**	**2,321.3**
Net gain on revaluation of property, plant and equipment	7	117.1			**117.1**
Net gain on revaluation of intangible assets	8	1.9			**1.9**
Actuarial gain on pension scheme assets and obligations	15.3			89.8	**89.8**
Transfers between reserves	13.1	(50.9)	135.3	**(84.4)**	**-**
Retained deficit			**(907.2)**		**(907.2)**
Grant from Defra	17		850.0		**850.0**
Balance at 31 March 2018		**1,901.5**	**971.7**	**(400.3)**	**2,472.9**

The notes on pages 57 to 85 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 2017-18 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.

Significant judgements

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).
- The classification of expenditure between property plant and equipment and capital works expensed in year. (reported in notes 1.4 and 4)

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.

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 funding 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 the asset has a cost of £5,000 or more.

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	3-25
Vehicles	3-25
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	3-25
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 Standard (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 it will be required to settle the obligation and a reliable estimate can be made.

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 administers the River Arun internal drainage districts (IDDs). It is a separate legal entity which has its own budgets and reporting arrangements. Their administration is discharged through an IDB. The Environment Agency Board approves the accounts of the IDB and therefore it is classed as a subsidiary of the Environment Agency for accounting purposes as they come under the common control of the Environment Agency's Board.

The River Arun internal drainage districts' annual income and expenditure is less than £0.2m and is therefore are not material to the Environment Agency's accounts so their results have not been consolidated and the scheme for the future of the IDD remains under discussion.

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) EU adopted from 1 January 2018 and FReM 1 April 2018	This standard replaces all existing standards on revenue recognition. It focuses on the performance obligations associated with revenue. It is not anticipated that material adjustments to the financial statements will be required following the introduction of this standard but significant additional disclosures will be needed.
IFRS 9 – Financial Instruments (IAS 39 Financial Instruments: Recognition and Measurement Replacement) EU adopted from 1 January 2018 and FReM 1 April 2018	This standard replaces the existing standards and brings together all three phases of the financial instruments classification and measurement, impairment and hedge accounting. The area of change with the largest impact will be impairment methodology changes although it is not anticipated that material adjustments to the financial statements will be required.
IFRS 16 - Leases (IAS 17 replacement) Not yet EU adopted, estimated effective from 1 January 2019 and FReM 1 April 2019	This standard is likely to result in a uniform accounting treatment for all leases, with the distinction between operating and finance leases removed. IFRS 16 is expected to have a considerable impact in financial reporting terms. This impact will be assessed when further guidance is forthcoming from HM Treasury through the FReM consultation process

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 in the latest FReM which will affect the Environment Agency's financial reporting.

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 operating segment

Statement of comprehensive net expenditure line	FCERM	E&B charges	E&B grant-in-aid	Total 2017-18	Total 2016-17
	£ million	£ million	£ million	£ million	£ million
Staff costs	205.7	202.7	74.7	483.1	441.6
Capital works expensed in year	289.6	1.5	7.0	298.1	291.4
Depreciation and amortisation	75.0	18.6	13.1	106.7	109.9
Other expenditure	256.2	133.8	37.3	427.3	459.6
Gross expenditure	**826.5**	**356.6**	**132.1**	**1,315.2**	**1,302.5**
Income	(74.4)	(324.0)	(19.6)	(418.0)	(422.1)
Net expenditure	**752.1**	**32.6**	**112.5**	**897.2**	**880.4**

3: Staff costs

	2017-18	2016-17
	£ million	£ million
Wages and salaries	340.7	332.1
Social security costs	37.7	36.2
Normal contributions to the Active Pension Fund (defined benefit system)	46.5	44.9
	424.9	**413.2**
Other staff related costs:		
Agency staff wages and salaries	7.6	11.4
Other staff related costs	7.2	10.3
Exit package costs	0.7	8.2
Special contributions towards past service deficit	8.0	14.0
Less amounts included within the IAS 19 Pensions charge	(54.5)	(61.2)
Pensions Charge	129.4	84.0
	523.3	479.9
Less amounts charged to capital projects	(40.5)	(38.6)
	482.8	**441.3**
Amounts payable to Board members	0.3	0.3
Total staff costs	**483.1**	**441.6**

On 1 November 2017, almost 1,000 corporate services staff were transferred to Defra under Transfer of Undertakings (Protection of Employment) regulations (TUPE). Defra charged the Environment Agency for the cost of the service provided by these former employees and the related expenditure is classified in other expenditure as “Defra group corporate services charge” (note 5). Further information on the transfer of corporate services to Defra is provided in note 17.

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

	2017-18	2016-17
Type of capital works	£ million	£ million
Beach replenishment	9.2	11.3
Culverts and channel improvements	14.7	19.4
Embankments	44.6	43.5
Flood risk management strategies	35.3	39.7
Flood mapping	3.8	4.3
Piling	2.6	2.5
Restoration and refurbishment	157.5	130.1
Rock groynes and sea walls	2.3	1.9
Other	28.1	38.7
Total	**298.1**	**291.4**

The above analysis includes £1.6 million (£3.8 million in 2016-17) of costs in relation to the Public Private Partnerships (PPP) projects at Pevensey Bay and Broadlands.

Beach replenishment

This involves sand and shingle replacement on beaches to retain the integrity of a costal 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 management options for fluvial catchments. It is from these 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.

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 replenishment activity to prevent sea flooding. The responsibility for maintenance often resides with the local council.

5. Other expenditure

Type of expenditure	2017-18	2016-17
	£ million	£ million
Capital grants awarded to local authorities and IDBs	77.2	108.2
Hired and contracted services	68.4	73.9
Outsourced IT services	45.8	51.5
Fees and commissions	33.1	34.2
Reservoir operating agreements (note 5.3 and 16.1)	20.0	21.9
Transport and plant	18.8	20.5
Utilities	17.4	16.0
Travel and subsistence	15.8	15.7
Operating lease rentals - plant and machinery	14.7	15.4
Information technology	14.6	9.6
Defra group corporate services charge (note 5.1 and 17.2)	14.1	-
Building	13.3	15.9
Training	8.7	6.9
Operating lease rentals – other	7.6	7.6
Consumables and Materials	7.9	7.6
Grants and Contributions	7.4	7.5
Maintenance	3.9	4.8
Administration	1.6	2.1
Compensation Payments	0.3	3.5
Contaminated land grants	-	0.3
External Auditor's remuneration: (note 5.2)	-	0.2
Bad debt write-offs	(0.4)	12.3
Other	28.4	18.3
Impairment of non-current assets	6.0	13.3
Movement in provision for bad and doubtful debts	2.7	(7.6)
Total	**427.3**	**459.6**

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, which 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. Defra Group Corporate Services

In 2017-18 the budget responsibility for corporate services was transferred to the Defra group head of function for each corporate service as part of a transformation programme intended to reduce duplication and improve effectiveness. This was formalised on 1 November 2017, in a partnership agreement between Defra and the Environment Agency defining the delivery of corporate services functions to the Environment Agency by Defra group. This included the transfer of the employment of corporate services staff from the Environment Agency to Defra. The full year cost of Defra group corporate services provided to the Environment Agency for 2017-18 was £125.7m.

Staff costs relating to corporate services for the period up to 31 October 2017 are disclosed in note 3. Expenditure relating to ongoing supplier contractual arrangements are classified within note 5, including those incurred after 1 November 2017.

£111.6m of the expenditure for the current year was incurred directly by the Environment Agency but as external supplier contracts end and move to Defra group contracts, costs will in future years be classified within the Defra group corporate services charge to the Environment Agency. Defra charged the Environment Agency £14.1m for expenditure it incurred relating to the provision of corporate services to the Environment Agency in 2017-18. Further information on the transfer of corporate services to Defra is provided in note 17.

5.2. Auditor's remuneration

The external auditor's remuneration is the audit fee for the statutory audit of £159,500 (2016-17 fees, £164,500). The cost of the audit is classified within the cost of finance and was included in the corporate services charge (note 5). Note 17 explains that the corporate services of the Environment Agency, including finance, were transferred to Defra during 2017-18. No payment was made to the external auditor for non-audit work.

5.3. 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 (note 16.1).

6. Income

	FCERM	E&B Charges	E&B	Total 2017-18	Total 2016-17
	£ million	£ million	£ million	£ million	£ million
Abstraction charges	-	(118.3)	-	(118.3)	**(112.3)**
EPR Water Quality	-	(55.3)	-	(55.3)	**(56.1)**
EPR Installations	-	(30.7)	-	(30.7)	**(30.4)**
EPR Waste	-	(29.4)	-	(29.4)	**(25.6)**
Fishing licence duties	-	(23.3)	-	(23.3)	**(20.5)**
Hazardous waste	-	(16.3)	-	(16.3)	**(14.8)**
Nuclear regulation	-	(13.8)	-	(13.8)	**(14.8)**
Navigation licence income	-	(8.7)	-	(8.7)	**(8.5)**
Emissions Trading and Carbon Reduction Commitment	-	(6.2)	-	(6.2)	**(6.6)**
Other charges	-	(18.9)	-	(18.9)	**(17.8)**
Income from fees and charges	**-**	**(320.9)**	**-**	**(320.9)**	**(307.4)**
Flood risk levies	(33.6)	-	-	(33.6)	**(32.0)**
IDB precepts	(7.8)	-	-	(7.8)	**(8.0)**
Environmental Improvement Unit Charge Income	-	(0.4)	-	(0.4)	**(0.3)**
EU grants	(0.1)	-	(0.3)	(0.4)	**(0.2)**
Other grants	(0.4)	(0.4)	(3.0)	(3.8)	**(4.4)**
Other income	(5.5)	(2.3)	(16.3)	(24.1)	**(38.1)**
Income from activities	**(47.4)**	**(324.0)**	**(19.6)**	**(391.0)**	**(390.4)**
Contributions to flood defence schemes	(27.0)	-	-	(27.0)	**(31.7)**
Capital grants and contributions	**(27.0)**	**-**	**-**	**(27.0)**	**(31.7)**
Total income	**(74.4)**	**(324.0)**	**(19.6)**	**(418.0)**	**(422.1)**

7. Tangible Assets

At 31 March 2018	Operational assets	Freehold land	Dwellings	Freehold buildings	Plant and machinery	Vehicles	Furniture	IT	Assets under construction	Total
	£ million	£ million	£ million	£ million	£ million	£ million	£ million	£million	£ million	£million
Cost or valuation										
At 1 April 2017	4,479.4	26.8	40.9	69.4	499.6	56.3	77.5	69.9	178.3	**5,498.1**
Capital expenditure	-	8.8	-	-	8.9	8.7	4.5	9.7	75.0	**115.6**
Assets commissioned in year	28.6	-	-	-	-	-	-	-	(28.6)	**-**
Disposals	(1.8)	(0.6)	(0.2)	(0.4)	(7.9)	(10.3)	-	-	-	**(21.2)**
Reclassification to held for sale	(4.3)	1.6	0.7	0.8	-	-	-	-	-	**(1.2)**
Revaluation and indexation	215.9	1.8	1.9	2.5	7.7	1.7	0.8	1.5	-	**233.8**
Impairment	(11.6)	-	-	-	(0.3)				(3.8)	**(15.7)**
Reclassification	78.8	7.7	(8.3)	(2.4)	(59.4)	(0.2)	(14.9)	(5.3)	(11.0)	**(15.0)**
At 31 March 2018	**4,785.0**	**46.1**	**35.0**	**69.9**	**448.6**	**56.2**	**67.9**	**75.8**	**209.9**	**5,794.4**
Depreciation										
At 1 April 2017	1,998.9	-	9.2	33.9	413.5	37.5	47.2	49.4	-	**2,589.6**
Provided during the period	53.9	-	0.9	1.7	11.2	6.5	5.6	5.8	-	**85.6**
Disposals	(0.3)	-		(0.1)	(7.5)	(9.9)	0.0	0.0	-	**(17.8)**
Revaluation and indexation	98.3	-	0.5	1.3	5.7	1.2	0.5	1.1	-	**108.6**
Impairment	(1.6)	-	-	-	-	-	-	-	-	**(1.6)**
Reclassification	52.5	-	(0.3)	(0.8)	(44.0)	(0.1)	(6.5)	(2.0)	-	**(1.2)**
At 31 March 2018	**2,201.7**	**-**	**10.3**	**36.0**	**378.9**	**35.2**	**46.8**	**54.3**	**-**	**2,763.2**
Net Book Value at 31 March 2018	**2,583.3**	**46.1**	**24.7**	**33.9**	**69.7**	**21.0**	**21.1**	**21.5**	**209.9**	**3,031.2**

At 31 March 2017	Operational assets	Freehold land	Dwellings	Freehold buildings	Plant and machinery	Vehicles	Furniture	IT	Assets under construction	Total
	£ million	£ million	£ million	£ million	£ million	£ million	£ million	£million	£ million	£million
Cost or valuation										
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 in year	28.7	-	-	-	-	-	-	-	(28.7)	**-**
Disposals	(0.1)	-	-	-	-	-	-	-	-	**(0.1)**
Reclassification to 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)**
Reclassification	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 period	62.7	-	0.8	2.6	11.0	5.3	5.5	5.4	-	**93.3**
Disposals	-	-	-	-	-	-	-	-	-	**-**
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)**
Reclassification	-	-	-	-	-	-	-	-	-	**-**
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**

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 2017 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 2018. Intangible assets, plant and machinery, furniture and fittings, and operational assets were revalued internally at 31 March 2018 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 £89.9 million (31 March 2017, £84.7 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 £1,131million (31 March 2017, £1,093 million) reflecting its depreciated replacement cost, revalued annually using relevant indexes. The Thames Barrier is expected to be in operation until 2070.

8. Intangible Assets

At 31 March 2018	Software licences	Websites	Other IT	Assets under construction	Total
Cost or valuation	£ million	£ million	£million	£ million	£million
At 1 April 2017	69.6	67.8	122.6	28.5	**288.5**
Capital expenditure	-	-	-	12.8	**12.8**
Assets commissioned in year	7.1	10.9	8.1	(26.1)	**-**
Revaluation and indexation	1.7	1.6	2.5	-	**5.8**
Reclassification	5.8	(0.3)	(1.5)	11.0	**15.0**
At 31 March 2018	**84.2**	**80.0**	**131.7**	**26.2**	**322.1**
Amortisation					
At 1 April 2017	26.5	66.3	85.0	-	**177.8**
Provided during the year	9.2	2.1	9.8	-	**21.1**
Revaluation and indexation	0.7	1.4	1.8	-	**3.9**
Reclassification	1.9	(0.3)	(0.4)	-	**1.2**
At 31 March 2018	**38.3**	**69.5**	**96.2**	**-**	**204.0**
Net Book Value at 31 March 2018	**45.9**	**10.5**	**35.5**	**26.2**	**118.1**

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)**
Reclassification	-	-	(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**

9. Impairment

Impairments by Accounting Category	31 March 2018	31 March 2017
	£ million	£ million
Tangible assets (note 7)	8.1	-
Total charged to the revaluation reserve	**8.1**	**-**
Tangible assets (note 7)	6.0	12.4
Intangible assets (note 8)	-	0.9
Total impairment charge to the statement of comprehensive net expenditure	**6.0**	**13.3**
Total impairment as per statement of financial position	**14.1**	**13.3**

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 Receivables

	31 March 2018	31 March 2017
	£ million	£ million
Within one year:		
Trade receivables	24.7	32.6
Bad debt provision	(6.1)	(3.4)
	18.6	**29.2**
Other receivables:		
VAT	28.0	35.1
Employee loans	1.0	1.1
Prepayments	6.0	14.3
Accrued income:		
- Water resources	-	3.0
- Other	29.6	17.0
Total	**83.2**	**99.7**

11. Cash and cash equivalents

	31 March 2018	31 March 2017
	£ million	£ million
At 1 April	89.0	115.6
Net change in cash and cash equivalent balances	25.1	(26.6)
At 31 March (as per statement of Cash Flows)	**114.1**	**89.0**

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

12. Trade Payables

	31 March 2018	31 March 2017
	£ million	£ million
Within one year:		
Other taxation and social security	(8.4)	(9.2)
Trade payables	(26.5)	(19.2)
Trade payables accrual	(71.6)	(65.4)
Holiday pay accrual	(6.9)	(6.9)
Other payables	(6.7)	(5.6)
Capital payables	(11.7)	(13.6)
Capital payables accrual	(51.2)	(62.0)
Deferred income:		
- Flood risk management	(71.8)	(66.2)
- Water resources - abstraction	(3.3)	(3.7)
- Water resources – Environmental Improvement Unit Charge	(20.5)	(20.8)
- Environment protection	(2.8)	(8.9)
Pension contribution liabilities	(5.3)	(3.2)
Customer deposits and receipts in advance	(48.6)	(54.9)
	(335.3)	**(339.6)**
More than one year:		
Trade and other payables and accruals	(1.3)	(1.4)
	(1.3)	**(1.4)**
Total	**(336.6)**	**(341.0)**

13. Transfers between reserves

13.1 For the period ended 31 March 2018

	Revaluation reserve	General reserve	Pension reserve	Total
	£ million	£ million	£ million	£ million
Realised revalued depreciation and disposals	(50.9)	50.9	-	-
Net pension charge	-	84.4	(84.4)	-
Total	**(50.9)**	**135.3**	**(84.4)**	**-**

13.2 For the period ended 31 March 2017

	Revaluation reserve	General reserve	Pension reserve	Total
	£ million	£ million	£ million	£ million
Realised revalued depreciation and disposals	(109.1)	109.1	-	-
Net pension charge	-	38.6	(38.6)	-
Total	**(109.1)**	**147.7**	**(38.6)**	**-**

14. Commitments

14.1 Capital Commitments

	31 March 2018	31 March 2017
	£ million	£ million
Contracted for but not provided in the financial statements	212.9	86.5

The amounts above relate to both tangible and intangible fixed assets. Commitments on capital works expensed in year at 31 March 2018 totalled £192.7 million (31 March 2017, £174.3 million). The majority of the significant commitments relate to the construction of flood defence schemes and the largest at 31 March 2018 was for the construction of the Boston Barrier (£68m).

14.2 Financial Commitments

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

Payments the Environment Agency is committed to	31 March 2018	31 March 2017
	£ million	£ million
Not more later than one year	19.4	37.6
More than one year and not later than five years	20.2	33.9
More than five years	3.6	5.1
Total	**43.2**	**76.6**

The largest commitments relate to the Broadlands 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 £16.8 million, £11.6 million and £13.2 million (2017: 18.5 million, £12.8 million and £44.4 million).

14.3 Commitments under Leases

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

Payments the Environment Agency is committed to	31 March 2018		31 March 2017	
	Land and buildings	Other	Land and buildings	Other
	£ million	£ million	£ million	£ million
Not more than 1 year	9.8	8.0	7.4	6.7
More than 1 year and not more than 5 years	31.1	12.7	21.2	7.1
More than 5 years	36.1	-	23.8	-
Total	**77.0**	**20.7**	**52.4**	**13.8**

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 operates a defined benefit pension scheme for current and former employees, and transferees from predecessor organisations. We are part of the LGPS, a statutory scheme primarily governed by the LGPS Regulations 2013 and the LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014. These are subject to amendment over time. Further details on the Pension Fund including its annual report and financial statements, are on the Environment Agency Pension Fund website (www.eapf.org.uk).

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

The total pension charge for the Environment Agency was £129 million for the financial year 2017-18 (£84 million in 2016-17). The pension charge relating to the scheme was assessed in accordance with the advice of an independent qualified actuary using the projected unit method of valuation to calculate the service costs.

The Environment Agency's funding arrangements are to pay 14% of the monthly gross salary of members to the Pension Fund each month, and then pay a lump sum to meet the equivalent employer contribution of 18.5%.

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 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 2018 on an ongoing funding basis. The Environment Agency's share of the EAPF's liabilities as reported in these financial statements is calculated using different actuarial assumptions, required by IAS 19, to those used in the EAPF's annual report. This leads to a different funding level to that reported by the EAPF.

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

A number of assumptions are made as part of the actuarial valuation process. The prudent actuarial assumptions used do not represent a view on what future pay movements may be. It has been assumed that present and future pensions in payment will increase at the rate of 2.1% per annum. The estimated contribution payable by the Environment Agency, excluding any discretionary lump sum payments, for the year to 31 March 2019 will be approximately £51.8 million.

These financial statements include the disclosure requirements of IAS 19 for 2017-18 in relation to the Environment Agency's Active Fund. All calculations have been made by a qualified independent actuary and are based on the most recent actuarial valuation of the fund at 31 March 2016 updated to 31 March 2018. The assumptions underlying the calculation of a net liability at 31 March 2018 are only used for accounting purposes as required under IAS 19. There is no requirement for the reported net liability to be met as a lump sum. Cash contributions paid by the Environment Agency to the pension fund will continue to be set by reference to assumptions agreed at each triennial actuarial valuation of the scheme.

15.1. Financial and longevity assumptions

Financial assumptions for the Environment Agency pension fund

	% per annum 31 March 2018	% per annum 31 March 2017
Inflation and pension increase rate	2.1	2.1
Salary increase rate	2.4	2.4
Discount rate	2.7	2.6

Longevity assumptions: average future life expectancy at age 65

Scheme member	31 March 2018		31 March 2017	
	Male (years)	Female (years)	Male (years)	Female (years)
Current pensioners	23	24	23	24
Future pensioners (people aged 65 in 20 years)	24	27	24	27

15.2. Fair value of assets

Fair value of assets at 31 March 2018

Asset category	Active market quoted prices	Non-active market quoted prices	Total	% of total
	£ million	£ million	£million	%
Equity securities				
Common stock	740.6	1.5	742.1	24%
Other equity assets	2.7	-	2.7	-
Debt securities:				
UK government bonds	-	304.4	304.4	10%
Corporate bonds	-	264.4	264.4	9%
Other	-	18.1	18.1	1%
Pooled investment vehicles:				
Equities	-	367.6	367.6	12%
Bonds	248.4	294.5	542.9	18%
Funds - common stock	20.4	233.6	254.0	8%
Funds - real estate	3.8	99.9	103.7	3%
Funds – venture capital	-	0.4	0.4	-
Partnerships and real estate	-	382.1	382.1	12%
Other investment:				
Stapled securities	4.1	-	4.1	-
Derivative contracts:				
Equity Futures	(0.4)	-	(0.4)	-
Forward FX Contacts	-	0.8	0.8	-
Cash and cash equivalents	-	76.3	76.3	2%
Totals	**1,019.6**	**2,043.6**	**3,063.2**	100%

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**

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

Year ended 31 March 2018	Fair Value of Employer Assets		Defined Benefit Obligations		Net (liability)/ asset	
	£million	£million	£million	£million	£million	£ million
Opening Position as at 1 April 2017		**2,960.7**		**(3,366.4)**		**(405.7)**
Pension benefits accrued by members during the year *			(128.7)		(128.7)	
Change in cost of pensions from previous years' service			(0.7)		(0.7)	
Total service cost (note 3)		**-**		**(129.4)**		**(129.4)**
Interest income on plan assets	77.1		-		77.1	
Interest cost on defined benefit obligation	-		(88.6)		(88.6)	
Total net interest (recognised in SOCNE)		**77.1**		**(88.6)**		**(11.5)**
Plan participants' contributions	23.3		(23.3)		-	
Employer contributions	56.5		-		56.5	
Benefits paid	(69.2)		69.2		-	
Total cash flows		**10.6**		**45.9**		**56.5**
Expected closing position		**3048.4**		**(3538.5)**		**(490.1)**
Change in financial assumptions	-		75.0		75.0	
Return on assets excluding amounts included in net interest	14.8		-		14.8	
Total remeasurements recognised in Other Comprehensive Expenditure		**14.8**		**75.0**		**89.8**
Closing position as at 31 March 2018		**3,063.2**		**(3,463.5)**		**(400.3)**

The defined benefit obligation comprises approximately £1.9 billion, £498 million and £1.1 billion in respect of employee members, deferred pensioners and pensioners respectively as at 31 March 2018 (£1.8 billion, £500 million and £1.1 billion at 31 March 2017). There are no current unfunded obligations (there were also no unfunded obligations at 31 March 2017).

*Includes an allowance for administration expenses of 0.6% of payroll costs.

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 (note 3)		**-**		**(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 SOCNE)		**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.

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	392
0.5% increase in salary increase rate	2	79
0.5% increase in pension increase rate	9	308

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.

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

Counterparty	Amounts paid in 2017-18	Amounts paid in 2016-17	Liability at both period ends
	£ million	£ million	£ million
Northumbrian Water	18.9	18.9	(129.2)
Severn Trent Water	1.1	3.0	(12.4)
Total	**20.0**	**21.9**	**(141.6)**

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).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 £11 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 Parties

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.

17.1 Controlling parties

The Environment Agency is a non-departmental public body of Defra. Defra and other bodies within the Defra group 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	2017-18	2016-17
	£ million	£ million
Defra environment protection grant-in-aid	(78.1)	(96.7)
Defra flood defence grant-in-aid	(694.7)	(595.1)
Defra IDB or local authority grant-in-aid	(77.2)	(108.2)
Total	**(850.0)**	**(800.0)**

17.2 Defra group Corporate Services

The property portfolio of the Defra group was managed centrally by Defra during the whole of 2017-18 in a manner to maximise the efficient use of the space available. As a result a number of properties owned by the Environment Agency were used by employees of Defra, Natural England (NE), the Rural Payments Agency (RPA) and the Animal and Plant Health Agency (APHA). Similarly Environment Agency employees worked from offices owned by Defra. The net charge made by Defra to the Environment Agency for this property use was included within the Defra group corporate services charge (note 5).

On 1 November 2017 a partnership agreement was made between Defra and the Environment Agency, whereby corporate services functions of the Environment Agency were transferred to Defra as part of a transformation programme intended to reduce duplication and improve effectiveness. The functions transferred were estates, facilities management, IT, procurement, finance, human resources, shared services and communications. The majority of the expenditure for 2017-18 remained in the accounts of the Environment Agency due to ongoing supplier contract arrangements. This will reduce as new Defra group-wide contracts come into effect. Defra charged the Environment Agency £14m for expenditure incurred in the provision of corporate services to the Environment Agency (note 5.1). This comprised mostly of staff costs for transferred former employees as well as some supplier expenditure.

The fleet function of the Environment Agency in 2017-18 provided fleet management services to Defra, NE, RPA and APHA with a cost of £0.2m. This service provision provides economy of scale efficiencies for the group as a whole.

17.3 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 IDB which is 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 50 to 52.

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 2018, 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 Ministry for Housing, 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	2015-16	2016-17	2017-18
Direct emissions (Scope 1)	tCO_2e	7,000	10,000	9,000
Emissions from purchased energy (Scope 2)	tCO_2e	23,000	19,000	18,000
Emissions produced by our suppliers (Scope 3)	tCO_2e	26,000	9,000	10,000
Total gross emissions	**tCO_2e**	**56,000**	**38,000**	**37,000**
Carbon intensity (per £ million expenditure)	**tCO_2e**	**49**	**30**	**28**

Business travel	**Unit**	**2015-16**	**2016-17**	**2017-18**
Car and motorbike	tCO_2e	8,600	7,715	8,017
Rail	tCO_2e	2,230	1,646	1,602
Air	tCO_2e	151	46	134
Total business travel	**tCO_2e**	**10,980**	**9,407**	**9,753**
	£ million	**20.3**	**22.9**	**23**
Travel carbon intensity per full-time employee	**tCO_2e**	**1.1**	**0.9**	**1.0**

Office waste		Unit	2015-16	2016-17	2017-18
	Landfill	Tonnes	5	7	4
		£	60,000	20,000	27,000
	Reused or recycled	Tonnes	380	333	298
	Incinerated to produce energy	Tonnes	75	37	21
	Reused, recycled or incinerated	£	230,000	180,000	196,000
	Reused or recycled electronic or electrical equipment	Tonnes	5	11	26
	Total office waste	**Tonnes**	**465**	**388**	**349**
		£	**290,000**	**200,000**	**223,000**
	Waste intensity per full time employee	**kg**	**45**	**36**	**33**

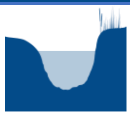
Pension fund investment		Unit	2015-16	2016-17	2017-18
	Pension fund assets	£ million	2,731	3,284	3,413
	Investments in clean & sustainable technology	%	28	34	34
	Carbon footprint	tCO_2e per £ million	321	313	209

Resource consumption	Unit	2015-16	2016-17	2017-18
Purchased gas and purchased renewable electricity	million kWh	54	52	55
	£ million	5.3	5.5	5.4
Self-generated renewable energy	million kWh	0.5	-	1.4
Water supplied	Cubic metres	52,000	50,729	50,881
	£	210,000	260,000	293,000
Timber from a legal and sustainable source (directly purchased)	£	270,000	270,000	240,000
Paper from renewable or recycled sources	Reams	37,000	33,000	27,000
	£	10,000	3,000	3,000

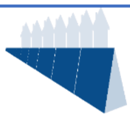
Appendix C: Performance data

(Not subject to audit)

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

	Success measure	Units	2017-18 target	2017-18 actual
	1 EA 1 Rivers, lakes and coastal waters are healthier	Kilometres	1,500	2,038
	1 EA 2 We protect people, the environment and wildlife by reducing serious pollution incidents	Number of incidents in the last 12 months	496	402
	1 EA 3 We create new habitats	Hectares created	530	619
	1 EA 4 We reduce the number of high risk illegal waste sites	Number of high risk illegal waste sites	223	259

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

	Success measure	Units	2017-18 target	2017-18 actual
	4 EA 5 We reduce the risk of flooding for more households	Number of households better protected	140,000	142,850
	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	97.5%	97.7%
	4 EA 7 We have a first class incident response capability a) Number of staff who are trained and ready to respond to incidents b) Percentage of staff who respond that they feel confident in the role	Number of people Percentage	6,500 80%	6,568 69%

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

	Success measure	Units	2017-18 target	2017-18 actual
	5 EA 8 We manage our money efficiently to deliver our outcomes	% spend to budget	100%	99.8%
	5 EA 9 We respond to planning application consultations within 21 days	% responded to within target time	95%	95.4%

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

	Success measure	Units	2017-18 target	2017-18 actual
	6 EA 12 We reduce our carbon footprint	Number of tonnes of CO_2	34,520	32,450

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

	Success measure	Units	2017-18 target	2017-18 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%	34%
	7 EA 15 We provide a safe place to work	LTI Frequency rate	0.11	0.16

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. The Table below shows the year on year change.

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 250 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.

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 tables.

.Statement of annual change in natural capital

Renewables	Reported figures from 2016-17 annual report		Adjustment gains / (losses)[1]		2017-18 Additions / (disposals)[6]		Reporting year 2017-18	
	Lower £ million	Upper £ million	Lower £ million	Upper £ million	Lower £ million	Upper £ million	Lower £ million	Upper £ million
Carbon storage	2.9	47.9	-	-	-	-	2.9	47.9
Air quality[2]	3.2	18.3	-	-	0.2	0.1	3.4	18.4
Agriculture[3]	1.6	4.2	-	-	-	(0.1)	1.6	4.1
Recreation	15.1	23.3	-	-	-	-	15.1	23.3
Properties protected from flooding[4]	51.5	51.5	-	-	1.1	1.1	52.6	52.6
Health benefits[5]	10.6	11.7	-	-	-	-	10.6	11.7
Gross natural capital	**84.9**	**156.9**	-	-	**1.3**	**1.1**	**86.2**	**158.0**
Total maintenance provisions	**(43.8)**	**(43.8)**	-	-	**-**		**(43.8)**	**(43.8)**
Total net natural capital	**41.1**	**113.1**	-	-	**1.3**	**1.1**	**42.4**	**114.2**

1 – The adjustment gains / losses for this financial year reflect any change in the methods for calculating the metrics, and the inclusion of additional metrics.
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 – Land purchased or sold between the financial years 2016-17 and 2017-18.

Appendix E: Board member attendance

(Not subject to audit)

Member	Board	ARAC	PC	FCRM	E&B	RC
Emma Howard Boyd (Chair)	9 of 9	4 of 4	5 of 5	2 of 5	-	3 of 3
Richard Macdonald (Deputy Chair)	8 of 9	3 of 4	-	5 of 5	-	2 of 3
Maria Adebowale-Schwarte	9 of 9	-	5 of 5	-	4 of 4	3 of 3
Peter Ainsworth	9 of 9	-	-	3 of 5	4 of 4	-
Karen Burrows	8 of 9	4 of 4	5 of 5	-	3 of 4	3 of 3
Clive Elphick	3 of 4	1 of 1	2 of 2	-	1 of 1	1 of 2
Lynne Frostick	8 of 9	-	-	5 of 5	2 of 2	-
Robert Gould	2 of 2	-	1 of 1	-	-	-
John Lelliott	2 of 2	0 of 1	-	-	-	-
Joanne Segars	8 of 9	4 of 4	5 of 5	4 of 5	-	3 of 3
John Varley	8 of 9	-	-	-	4 of 4	-
Gill Weeks	9 of 9	4 of 4	-	-	4 of 4	-

Board – 9 meetings in 2017-18

ARAC – Member of Audit and Risk Assurance Committee - 4 meetings in 2017-18

PC – Member of Pensions Committee – 5 meetings in 2017-18

FCRM – Member of Flood and Coastal Risk Management Committee – 5 meetings in 2017-18

EB – Member of Environment and Business Committee – 4 meetings in 2017-18

RC – Member of Remuneration Committee – 3 meetings in 2017-18

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