Department
for Environment
Food & Rural Affairs

Annual Report and Accounts 2017–18

HC 1221

Department for Environment, Food and Rural Affairs

Annual Report and Accounts 2017–18

(For the year ended 31 March 2018)

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Any enquiries regarding this publication should be sent to us at defra.helpline@defra.gsi.gov.uk

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Chapter 1 – Overview

Foreword by the Permanent Secretary of the Department for Environment, Food and Rural Affairs

Clare Moriarty

This has been another year marked by challenge, change and achievement for the Defra group.

The General Election in June 2017 brought both change and continuity, with Michael Gove joining us as Secretary of State while George Eustice, Therese Coffey and Lord Gardiner remained as the Ministerial team. The department has worked with exceptional energy and commitment to support them in progressing an ambitious agenda directed towards delivering a more sustainable future.

The single largest issue occupying both Ministers' and my team's attention has been EU exit. The year saw our work evolve from a collection of inter-connected workstreams into a comprehensive portfolio covering all our activity, from contingency planning for a 'no deal' exit in March 2019 to the development of robust long-term arrangements for farm support.

The portfolio currently comprises 64 outcome-focused projects and 14 cross-cutting themes where activity needs to be coordinated, from finance and human resources to legislation and negotiation. We have invested in programme and project management capability to support implementation of the portfolio and finished the year by creating an EU Exit Delivery Group headed by a director general.

The other major pillar for the Defra group has been the 25 Year Environment Plan. Launched in January by the Prime Minister, the 25 year plan sets out a bold and far-reaching blueprint for action across all areas of the environment. While its implementation is inevitably long-term, we have already seen progress in symbolic areas including on animal welfare and wildlife protection, with the Ivory Bill making its way through Parliament. The hot topic of the year has been plastics, as public concern has grown about the effect of plastic waste on our oceans and marine life. Defra has shown the way internationally on microbeads, on straws and stirrers and on research and innovation with the launch of the Commonwealth Clean Oceans Alliance at the Commonwealth Heads of Government Meeting.

It's easy for policy announcements to grab the headlines but the backbone of the Defra group is operational delivery, and I pay tribute to everyone across the group who is involved in providing services to individuals and communities. I've again had the opportunity this year to meet many Defra group people working in different locations and organisations. Whether they are focused on surveillance and response, community engagement or flood prevention, they are unfailingly committed to doing the best for the people that we serve.

I'm particularly impressed by the way in which people have dealt with change and uncertainty during the year, notably our corporate services teams, as we have completed a series of transfers that bring teams together into single group functions. Across the group we have managed a continued downward trajectory in our baseline spending, reflecting the Spending Review settlement from 2015, while also receiving additional funding specifically for EU exit.

As a result we have welcomed an additional 1,300 people to the Defra group over the course of the last year. While recruiting and inducting people on such a large scale has presented its own challenges, it has been highly positive to bring new colleagues into the department and see the interaction between a variety of different perspectives and experience, united by a desire to do the best for our sectors and the environment.

Non-Executive Directors' Report

The past year has been one of immense activity and development for Defra. While the three main themes continued to be delivering environmental and economic outcomes, transforming the way people work across the Defra group and focusing on customers, and preparing for the opportunities and challenges of EU exit, the last of these has, as expected, seen the biggest increase in effort. In June, the department welcomed the new Secretary of State and considerable activity has been focused on development of strategy for the post Brexit future, signposted by a number of consultation and policy announcements in the second half of the year.

EU Exit

The scale of Brexit preparations dominates large parts of Defra's attention, affecting about 80 percent of its business and large parts of the economy. At the beginning of the year progress needed to accelerate. The Executive re-organised the team, brought in outside resource, engaged with the ministerial team and drove up the pace and professionalism of activity. By the end of the year an additional 1,300 people have been recruited and the culture has shifted. Defra is in a much stronger position, albeit there is still a huge amount to do. Non-Executive Directors' (NEDs) input has been given in several formats, ranging from Lead NED discussions with key executives, meetings by the NED group with director's general and the leadership team and regular scrutiny of progress and risks at each Audit Risk and Assurance Committee (ARAC) meeting during the year. The eventual agreement being negotiated with the EU, will give clarity on the choice and timing of implementation plans to be adopted and rolled out.

Major Projects

Apart from EU exit, the next most significant of Defra's projects included in the Infrastructure and Projects Authority portfolio is UnITy a major IT programme to replace the department's large scale outsourcing arrangements with more modern and flexible, multi supplier arrangements. The programme is establishing common ICT services for core Defra, Environment Agency, Rural Payments Agency, Marine Management Organisation, Animal and Plant Health Agency, and Natural England. It is part of transforming the way that people work across the Defra group and enabling efficiency and a more coherent focus on customers.

UnITy is a complex and high risk programme managed across a number of workstreams. During the year it has progressed into delivery of some of the parts without mishap, including the move of hosting arrangements for current systems and services from a facility closed by the existing provider to new Crown hosting operations. The phase of negotiating new providers for new services is progressing, but it is recognised that the difficult process of implementing the majority of the changes is mainly still to come.

UnITy is a multi-year programme that was initiated prior to the EU exit decision. Digital, Data and Technology Services leadership identified the necessity of joint planning across the requirements of EU exit on systems and the progress on UnITy implementation. This ongoing process incorporates both the identification and agreement of cross-programme dependencies, and pragmatic choices to mitigate risks. Much is being done in preparation for readiness for system changes that may be needed by EU exit, and clarity on final requirements will aid efficiency and timeliness of delivery of priorities.

Risk Management

Defra's range of strategic and major operational risks can broadly be categorised into those derived from the group's environmental responsibilities and natural risks, operational and financial risks, risks arising out of the Transformation programme, and EU exit risks. As noted last year, revised risk management processes were being introduced at group level and work has been continuing throughout this year to embed these new processes. An informal review has identified the need for some refinements and improvements to make the processes easier to apply and to facilitate improving the quality of risk discussions at senior executive levels. Work is underway to address these points. The group wide risk registers have been reviewed both at Board and in ARAC.

Board Effectiveness

While a new Secretary of State arrived in June, the remainder of the ministerial team continued in place. There has also been strong continuity in the executive team. In contrast to previous years, there has been more change in the Non-Executive Directors, with the lead NED, Steve Holliday, stepping down, another NED coming to the end of her maximum term in late 2017, and the two other NEDs coming to the end of their maximum terms or stepping down in May and June 2018. In March 2018, five new NEDs were appointed.

The Board met three times during the 2017–18 reporting year and the Non-Executive and Executive Meeting occurred once. With pressures in business and the changes in the NED team, during the year the formal Board meetings were therefore less of a focus of contribution from the NEDs. The efforts transferred to individual meetings, particularly on EU exit organisation and IT and digital transformation among other matters, and to the regular ARAC meetings. In view of the changes in Board composition, a board effectiveness review was not carried out during the year.

Overview

This chapter provides a concise description of the department, our purpose, the key risks that we face in achieving our objectives and how we have performed during 2017**–**18.

Our Role and Purpose

The Defra group is responsible for safeguarding our natural environment, supporting our world-leading food and farming industry, and sustaining a thriving rural economy. Our role is to make our country a great place for living and to create a healthy environment, which is fundamental to a healthy economy, a healthy society, and healthy individuals. We do this by supporting our superb food, farming and fisheries industries, enhancing our beautiful rural environment, and better protecting against flooding, disease and other natural threats.

We are here to create a cleaner, healthier and greener country for us all. And to deliver on the government's pledge to be the first generation to leave our natural environment in a better state than we found it, protected and enhanced for future generations.

We have ambitious plans for the longer term. This year we have published our 25 Year Environment Plan, which proposes the steps we will take to improve the environment over the longer term and consulted on our ambitions for the future of food and farming post EU exit.

Context

The department's activity over the period April 2017 to March 2018 coincided with a number of key political events. There was a General Election in June 2017 and the department welcomed a new Secretary of State, providing him and his ministerial team with effective support during a year of intense preparation for EU exit.

Strategic Objectives

The Defra group has eight strategic objectives which explain our ambitious aims for 2017–18, the delivery standards we have set for the group and our objectives for organisational change. We have:

One EU exit objective

- **EU exit -** A smooth and orderly exit from the EU.

Four impact objectives

- **Environment** - A cleaner, healthier environment, benefiting people and the economy.
- **Food and farming** - A world leading food and farming industry.
- **Rural** - A rural economy that works for everyone, contributing to national productivity, prosperity and wellbeing.
- **Protection** - A nation better protected against floods, animal and plant diseases and other hazards, with strong response and recovery capabilities.

One delivery objective

- **Excellent delivery** - Excellent delivery for customers, on time and to budget and with outstanding value for money.

Two organisational objectives

- **An outstanding organisation** - an organisation continually striving to be the best, focused on outcomes and constantly challenging itself.
- **Our people** - An inclusive, professional, flexible workforce where leaders recognise the contribution of people and build capability to deliver better outcomes.

Going forward, our work will be grouped under four overarching strategic objectives, comprising one EU Exit objective, two impact objectives (protecting and improving the environment, and food, farming and rural affairs), and one organisational objective (outstanding organisation).

Our Structure

Defra is a ministerial department that is supported by and works collaboratively with over 30 public bodies. Together we are the Defra group.

The department is overseen by the Secretary of State for Environment, Food and Rural Affairs who is accountable to Parliament. He is supported by junior ministers from the House of Commons and a Lords minister. The Permanent Secretary has responsibility for managing the department and safeguarding public funds provided under the Defra Estimate.

An overview of the department's governance structure including the Defra Board (the Board) and the three committees which support it are set out in Chapter 4.

EU Exit

The government's priorities are to secure a deep and comprehensive free trade deal with the EU; to develop a special relationship with it and in due course, to have the chance to negotiate new free trade agreements with other countries.

Over 80 percent of Defra's work is framed by EU legislation and a quarter of EU law applies to Defra's sectors, making it one of the government departments most affected by the decision to leave the EU. To meet this challenge we have reprioritised resources to meet new pressures arising from EU exit preparations and to supplement existing capability and capacity. We have created a new EU exit delivery group and recruited an additional 1,300 people to help us rise to the challenge of delivering on EU exit.

We have identified 64 EU exit projects from across the Defra group covering agriculture, fisheries, environmental regulations, animal and plant health, food, science and trade. We are planning for a range of exit outcomes to meet our objective to deliver a smooth transition to new delivery and regulatory frameworks after we leave the EU.

This work will make sure that environmental, welfare and biosecurity standards will continue to be met in ways that support trade and the smooth flow of goods. On the day we leave the EU, food producers and retailers must still be able to trade and we will continue our high standards of animal welfare and biosecurity protections. We will also bring in a new system of support for farmers. All our EU exit work supports the strategic aim of the 25 Year Environment Plan of achieving a Green Brexit.

Key Issues and Risks

A description of the Defra group approach to risk management is set out in the governance statement in Chapter 4.

Over the course of the year the key risks to delivering the department's strategic goals were driven by our preparation for EU exit. A key issue has been to build capacity and capability across the Defra group quickly enough to deliver our EU exit portfolio. This portfolio is large and complex, with multiple interdependencies within Defra and with the work of other government departments. The main challenge we face is the uncertainty around what exactly we need to deliver and the timeframe for delivery. This has required us to plan for multiple scenarios.

Business as usual risks covered high profile incident management (flooding, animal and plant health), air quality and health and safety risks on high containment laboratories. These risks have focused attention on ongoing funding pressures; the capacity and capability across the Defra group to meet, at pace, the unique demands of Defra sectors; and Defra group's ability to handle multiple, concurrent risks in order to maintain reputation and public confidence.

Chapter 2 – Performance Analysis

Defra's Single Departmental Plan (SDP) for 2017-18 was published in December 2017. The plan sets out the vision and objectives for the department, underpinned by a single business plan and a performance framework for the whole Defra group. This chapter shows how we performed in relation to the key performance indicators set out under each of our objectives for 2017–18. Performance is summarised below, with further information and achievements shown under each of the strategic objectives. Progress on SDP indicators is reported quarterly and published in the SDP on gov.uk.

The 25 Year Environment Plan, published in January 2018, outlines the steps we propose to take to achieve our ambition to leave our environment in a better state than when we found it. We are developing a performance framework that will clarify the 'line of sight' between the strategic, longer term outcomes we set out in the 25 Year Environment Plan and an aligned set of measures of performance we use at delivery and operational level.

The Defra Board (the Board) is currently considering an update to the strategy, and any changes will be reflected in the review of the SDP for 2018–19 and subsequent years.

Summary of performance against our strategic objectives for 2017–18

Our strategic objectives for 2017–18 fell into four categories: a single objective that covers all our work to deliver a smooth exit from the EU; four impact objectives built around the work we do to deliver our principal environmental outcomes; a delivery objective that sets out how we work to meet our customers' needs; and two organisational objectives that show how Defra group should operate in order to deliver our outcomes.

G – performance on target

A – target narrowly missed

R – target significantly missed

Red/Amber/Green ratings are based on thresholds set by each accountable organisation and agreed at director general level. They reflect the retrospective performance against individual targets or goals. Future delivery risk, is applied to key performance indictors (KPIs), is reported to Executive Committee (ExCo) and the Board by publishing forecasts for year end outturn performance as an integral part of in year performance reporting. Our performance reports are aligned with risk reporting in order to ensure that ExCo receive regular updates on issues that are both retrospective and forward looking.

EU exit objective

1. A smooth and orderly exit from the EU.
To ensure a smooth and orderly exit from the EU, while developing new approaches to grow more, sell more and export more, and to leave the environment in a better state than we found it.

A - EU exit readiness

Impact objectives

2. A cleaner, healthier environment, benefiting people and the economy.

For our country to have the healthiest environment and be the most beautiful place to live, work and bring up a family, securing our prosperity and wellbeing and that of future generations.

G - Bathing water

G - Water quality

G - Pollution incidents

A - Trees planted

A - Air quality emissions

3. A world leading food and farming industry.

For Britain to be one of the world's leading food nations, renowned for excellence in every aspect of the food system.

G - Farm visits

G - Farm basic payments

4. A rural economy that works for everyone, contributing to national productivity, prosperity and wellbeing.

For everyone living in England's rural towns, villages and hamlets to have the same opportunities as people living in urban areas.

G - Rural productivity | G - Food and drink

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

For the nation to be well protected, with the right balance of responsibility between government, communities and business.

G - Flooding protection | G - Antibiotic use

G - Incident response | A - Bovine tuberculosis

Performance by strategic objective

1. A smooth and orderly exit from the EU.

We are committed to putting in place a smooth and orderly exit from the EU. Our policy responsibility covers about 25 percent of the UK's EU business, and around 80 percent of Defra's policy is underpinned by EU legislation. This involves around 5,000 pieces of EU legislation. We are shaping new, post-exit approaches to issues that fundamentally affect all our lives.

Within the EU exit programme, Defra is committed to:

- demonstrating the UK's global leadership through our commitment to a cleaner, healthier environment and to unlocking the potential of a food, farming, and fishing industry of world-leading quality;
- working to create a smooth and orderly transition to new regulatory and delivery frameworks, and provide certainty and clarity to our customers, businesses, and the public; and
- playing our role in forging a new, strong, constructive partnership with the EU, securing the right deal for all parts of the UK, and ensuring the voice of Defra's sectors and stakeholders are heard as we leave the EU.

We have created a new EU exit overview directorate to provide Defra with strategic insight and support across its EU exit domestic preparations. This includes pushing forward Defra's strategic policy and operational priorities across government and participating in wider cross-government preparations. The team also leads our engagement with the Department for Exiting the European Union (DExEU).

The department's Portfolio Management Office has been set up to identify and coordinate the work across the Defra group on policy and operational consequences of the UK's exit from the EU. The team's activities report on the full scope of EU exit delivery, including all 64 EU exit delivery projects and 14 cross-cutting themes.

Our aims were to…	In 2017–18 we …
Deliver a smooth and orderly exit from the EU.	Reviewed the way the department is structured, bringing in additional skills, resource and expertise, in order to deliver the best EU exit possible. Worked at pace to build a detailed understanding of how EU exit will be completed and how it will affect existing services. Delivered briefings to the National Audit Office and the Public Accounts Committee on how we are preparing for the UK's exit from the EU, including working with other government departments and devolved administrations.

Our aims were to…	In 2017–18 we …
Develop new approaches tailored to the needs of the country.	Set out proposals for a new Environmental Principles and Governance Bill which will ensure environmental protections will not be weakened as we leave the EU. Started consultation in February 2018 on ‘Health and Harmony: the future for food, farming and the environment in a Green Brexit’, to get views on our proposals for future agricultural policy.
Manage Defra group’s EU exit portfolio.	We have set up 64 EU exit projects covering agriculture, fisheries, animal and plant health, food science, trade, and environmental regulations. Regular scrutiny and delivery tracking arrangements across our EU exit portfolio are in place.

2. A cleaner, healthier environment, benefiting people and the economy.

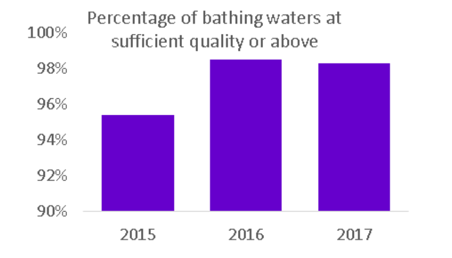
Defra is committed to the goal of being the first generation to leave the natural environment of England in a better state than we found it.

We want to help people understand the true value of the environment and make it easy to become responsible stewards for it, while ensuring that protections and safeguards are in place to ensure the natural environment can prosper.

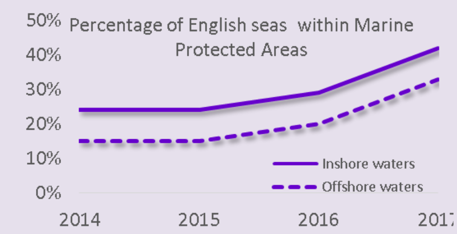
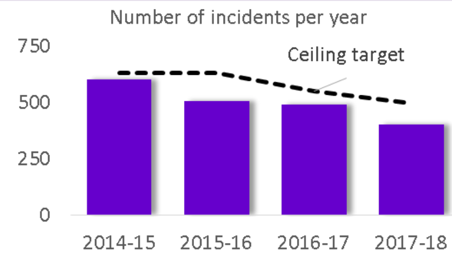
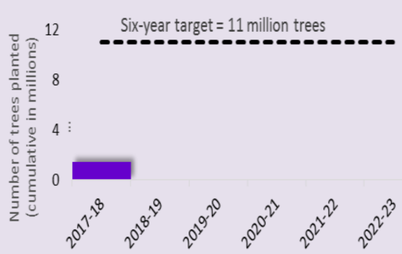
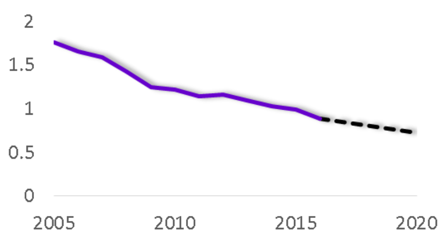
Our aims were to…	In 2017–18 we…
Increase biodiversity, improve habitat and expand woodland areas; conserve and enhance landscapes; protect designated sites; ensure greater enjoyment of natural environments; and improve protection against invasive non-native species.	Created 619 hectares of new woodland habitat and maintained 1,921 hectares of woodland in active management. Extended the Yorkshire Dales National Park by 24 percent and Lake District National Park by 3 percent providing a boost to rural tourism. Launched the Water Environment Grant scheme providing £27 million over the next three years to help restore local eco-systems.
Ensure cleaner air for healthier people and ecosystems; improve productivity of land and soils; ensure greater resource efficiency and reduced waste crime; and improve resilience to climate change.	Launched the National Air Quality Plan, working with the Department for Transport and local councils to improve roadside air quality. This includes a £220 million Clean Air Fund to help people and businesses adapt, and a commitment to end the sale of new petrol and diesel cars and vans by 2040. This is supported by a £3 billion investment in air quality and public transport. Reduced the number of serious pollution incidents by over 40 percent in the last four years from 696 over a 12 month period to the end of 2013–14 to 402 at the end of 2017–18. Closed down hundreds of high-risk illegal waste sites and identified nearly as many to close and seek prosecution. Issued 56,000 fixed penalty notices for small-scale fly-tipping in 2016–17 (the latest available data), a 56 percent increase on the previous year.

Our aims were to…	In 2017–18 we…
Ensure cleaner water and sustainable usage; and enhance resilience of businesses and individuals to drought and loss of water supply.	Started construction on the Thames Tideway Tunnel project which will improve water quality by addressing the problem of combined sewer overflows into the Thames in London.
Ensure cleaner, healthier, more productive and biologically diverse seas; and support a sustainable seafood sector.	Extended the Blue Belt of Marine Protected Areas (MPAs) in 2017, so that 42 percent of English inshore waters are now covered by MPAs. Implemented a ban on the manufacture of microbeads, which can cause serious harm to marine life.

Key performance indicators 2017–18:

<table>
<tr><th>Indicator</th><th>Previous report</th><th>Latest report</th><th>Trends and targets</th><th>Commentary</th></tr>
<tr><td>Bathing water (quality)</td><td>2016
98.5%</td><td>2017
98.3%</td><td>
</td><td>UK bathing waters classified as ‘excellent’ (the highest, cleanest class) or ‘good’ (generally good water quality) are at expected levels.</td></tr>
<tr><td>Water quality</td><td>2016
29% inshore

20% offshore</td><td>2017
42% inshore

33% offshore</td><td>
</td><td>MPAs are one of the tools that help us to protect the marine environment, whilst also enabling sustainable use ensuring it remains healthy and contributes to our society for generations to come.</td></tr>
<tr><td>Pollution incidents</td><td>2016–17
492</td><td>2017–18
402</td><td>
</td><td>Pollution Incident Reduction plans for each industry sector have been produced to deliver reductions in incidents in each of the last four years.</td></tr>
<tr><td>Trees planted (Woodland creation)</td><td>Q3
(Jan 2018)
1.26m
(cumulative)</td><td>Q4
(Apr 2018)
1.42m
(cumulative)</td><td>
</td><td>The increase in number of trees planted is on track despite a slow start as the project is back loaded. However, uncertainty remains over future delivery and the planting schemes that will enable this.</td></tr>
<tr><td>Air quality emissions (NOx in millions of tons)</td><td>2015
0.99</td><td>2016
0.89</td><td>
</td><td>Nitrogen Oxide (NOx) emissions (as part of a range of measures to reduce people's exposure to air pollution) are reducing but the challenge remains to meet emissions ceilings in 2020 and 2030.</td></tr>
</table>

Sustainable Development

Defra plays a crucial role in ensuring a sustainable future. The 25 Year Environment Plan sets out how we will replenish depleted soils, rid seas and rivers of rubbish, cut greenhouse gas emissions, cleanse our air of toxic pollutants, and develop cleaner, more sustainable energy sources. We have also:

- Worked closely with a wide range of government departments to drive forward the implementation of the Sustainable Development goals, continuing to help other departments to take natural capital into account when developing carbon reduction measures for the Clean Growth Plan.

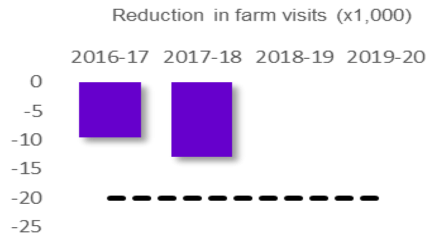
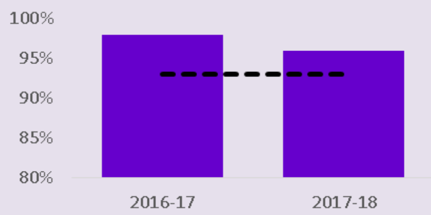
- Continued to implement Rural Proofing across government to ensure that all departments design their policies to deliver effective outcomes in rural areas.

3. A world-leading food and farming industry.

We want Britain to be one of the world's leading food nations, renowned for excellence in every aspect of our food, farming and fisheries system. The food and drink industry is central to our long term future, providing jobs, growth and opportunity. The food chain contributes £112 billion gross value added (GVA) to the UK, around 6.4 percent of the total UK GVA. Food accounts for a sixth of all UK manufacturing GVA.

Our aims were to…	In 2017–18 we…
Take full advantage of trade opportunities so more British food is sold at home and abroad, and inward investment is increased; and continue to create a world leading brand and reputation for healthy, high quality produce.	Helped boost the value of UK food and drink exported: exports in 2017 grew by £2 billion to £22 billion in the past year. Britain's high quality food and drink now reaches 217 markets worldwide.
Improve productivity through innovation and enhanced skills across the supply chain.	Embedded the Single Farm Inspection task force to streamline farm visits and reduce the burden on farmers. Opened a £40 million grant scheme for farmers to improve farm productivity through investing in new technology to reduce cost or improve quality.
Support industry through delivery of existing Common Agricultural Policy (CAP) scheme and associated programmes.	Recognised that delivery of the Countryside Stewardship and Environment Stewardship schemes has fallen short of customer expectations and the commitments made. Natural England (NE), the Rural Payments Agency (RPA) and Defra are working collaboratively to put in place a recovery programme for Countryside Stewardship to reduce the backlog of claims and simplify the scheme.
Ensure the British food industry is an exemplar in maintaining consumer confidence.	In partnership with the Waste and Resources Action Programme and the Food Standards Agency we published new labelling guidance, setting out best practice on food date labelling and storage advice, to help reduce food waste and save consumers money.
Ensure a resilient and secure agri-food supply chain.	Set up a Food Procurement Implementation Taskforce to improve supply chain issues and open up new ways to market for Small and Medium Enterprises (SMEs).
Prepare the farming industry to make a smooth transition from the CAP to a new long term agriculture policy.	Confirmed our intention to commit the same cash total in funds for farm support until the end of the current Parliament. Consulted on proposals for the future of food and farming post EU exit.

Key performance indicators 2017–18:

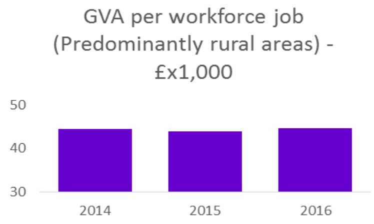
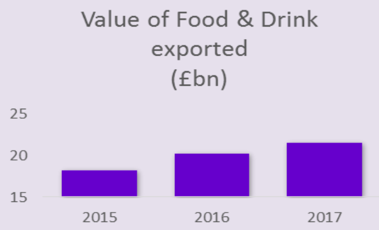
Indicator	2016–17	2017–18	Trends and targets	Commentary
Farm visits (tracking reduction)	**9,544** cumulative reduction	**13,000** cumulative reduction		We are reducing the regulatory burden on compliant farmers by cutting the number of farm visits by 20,000 by 2020 through eliminating or combining visits.
Farm basic payments	**98% farmer paid** accurately and timely	**96% farmers paid** accurately and timely		Our target is for 93 percent of CAP Basic Payments to be administered promptly, accurately and at a reduced cost to farmers by year end.

4. A rural economy that works for everyone, contributing to national productivity, prosperity and wellbeing.

We want to ensure that our rural economy works for everyone, contributing to national prosperity and wellbeing. Contributing over £200 billion every year, the rural economy is hugely important to this country.

Our aims were to…	In 2017–18 we…
Increase productivity and prosperity in rural areas, with a countryside that works for everyone; create strong conditions for rural business growth; promote a highly skilled rural workforce; and ensure rural areas are fully connected to the wider economy.	Contributed a further £45 million to Rural Development Programme for England (RDPE) Growth Programme in 2017–18 to help rural business development, food processing and rural infrastructure projects. Signed an accord, alongside the Department for Culture Media and Sport and the National Church Institutions, to enable church buildings to host infrastructure that will improve broadband, mobile and Wi-Fi connectivity for local communities.
Make living and working in rural areas easier; improve life opportunities for those in rural areas; and ensure greater local control of decisions affecting rural areas.	Worked alongside other government departments to increase access to superfast broadband in rural areas so that 93.9 percent of the population in England is now covered by it.

Key performance indicators 2017–18:

Indicator	Previous report	Latest report	Trends and targets	Commentary
Rural productivity	2015 **£43,935**	2016 **£44,740**		GVA per workforce job measures the extent to which rural activity contributes to the economy in England. This has shown an improvement over the year.
Food & drink	2016 **£20.2bn**	2017 **£22.1bn**		Total annual value of UK food and drink exports to all countries, showing the success of rural enterprise in exporting their goods.

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

Defra has a critical role in providing the UK with security against a range of natural threats and hazards, including floods and coastal erosion, droughts, animal and plant pests and diseases, and invasive non-native species. This involves coordinating and managing the government’s central response to major emergencies involving flooding and animal or plant disease outbreaks.

Our aims were to…	In 2017–18 we…
Promote world leading standards of animal welfare and deliver for the environment; and better protect against animal and plant pests and diseases.	Prepared legislation for mandatory CCTV recording in slaughterhouses to provide assurance that there is effective monitoring and verification of welfare standards. Prepared to consult on the preparation and cooking practices of crustaceans, including lobsters, crabs, crayfish and other shellfish.
Ensure strong preparedness to respond to human, animal and plant health emergencies…	Responded to use of nerve agents in Salisbury, protecting individuals and businesses through prompt advice and decontamination.
…and better protect against the risks of antimicrobial resistance.	Introduced a new target for reducing by 20 percent antibiotic use in farming animals and fisheries that was achieved two years early (45mg/kg in 2016 - 27 percent less than 2014).
Better protect against flooding and coastal erosion; and ensure strong preparedness to respond to flooding emergencies.	Protected an additional 46,000 households from flooding including completing three major defence schemes below. Many of the schemes created or improved habitat and provided or maintained thousands of jobs.

Three major flood defence schemes completed in 2017–18:

Lower Don, Sheffield

The project will protect over 500 businesses and safeguard 5,000 jobs in the Don valley.

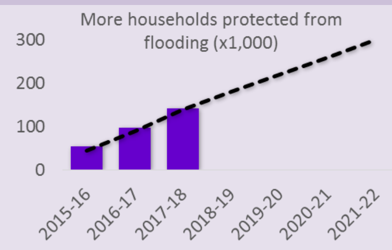
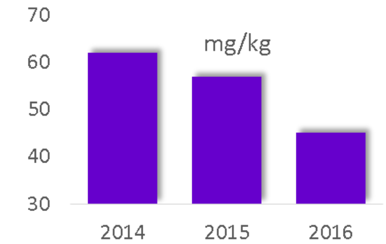
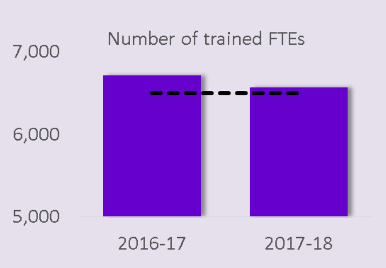
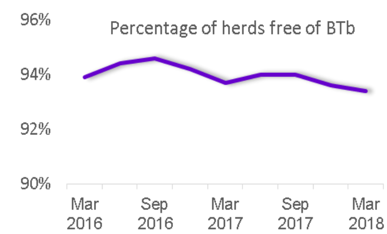
River Irwell, Salford

The flood storage basin will protect nearly 2,000 properties and provide five hectares of urban wetland habitat.

Dawlish Warren, Devon

The beach management scheme was completed ahead of schedule and will protect nearly 3,000 properties.

Key performance indicators 2017–18:

Indicator	Previous report	Latest report	Trends and targets	Commentary
Flooding protection	2016–17 **96,986**	2017–18 **142,850**		More houses have reduced flood probability, and will find it easier to arrange financial services, such as mortgages and insurance.
Antibiotic use	2015 **57 mg/kg**	2016 **45 mg/kg**		Sales of antibiotics dropped 27 percent between 2014 and 2016, meeting a government target two years early. (Overuse can cause drugs resistance leading to the prevalence of superbugs such as MRSA).
Incident response	2016–17 **6,716**	2017–18 **6,568**		We have sufficient numbers of trained and capable staff to provide a robust and professional response to incidents. (The decrease from last year is due to staff turnover. New employees are being trained, which will increase the number by next year.)
Bovine tuberculosis (England)	2016–17 **94%**	2017–18 **94%**		In March 2018, a six-month ministerial review of our bovine TB strategy was initiated. The review aims to ensure we maintain progress towards our target of achieving Officially Bovine Tuberculosis Free status for England by 2038.

Adapting to Climate Change

We have continued to lead across government on climate change adaptation, taking action to ensure that relevant policies account for the risks of climate change and are robust to changing weather, extreme weather events and sea level rise. We have also:

- Continued to implement our own actions in the National Adaptation Programme (NAP), and driven implementation of the NAP through working with other departments, local government and other non-governmental organisations, business, and charitable and voluntary sector partners.

- Begun development of the second NAP, to be published in late 2018, working across government and with businesses, local government, infrastructure providers, civil society and others to lead on climate adaptation efforts throughout the UK.

- Responded to the Adaptation Subcommittee’s 2017 report to Parliament on the UK's progress in adapting to climate change, which makes recommendations to government for action to adapt to climate change.

- Consulted on the government’s third strategy for adaptation reporting by infrastructure providers and key public bodies and published the summary of responses to the consultation.

- Reported on the UK's domestic and international work on adapting to climate change in the UK's seventh national Communication to the United Nations Framework Convention on Climate Change.

- Commissioned the Committee on Climate Change’s Adaptation Subcommittee to prepare an evidence report updating their previous assessment of risks and opportunities associated with climate change. This will support delivery of the next Climate Change Risk Assessment in 2022.

- Continued to lead work with the Met Office Hadley Centre to develop the next UK Climate Projections to be delivered in November 2018, including the Chief Scientific Advisor-led governance board, ongoing engagement with the government and non-government user groups and oversight of the science by a peer review panel of international experts.

Delivery Objective

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

In support of these outcome objectives, we also measure how successfully we are operating across the Defra group to achieve our outcomes for the environment. This means ensuring we have streamlined, effective processes that work for our customers and help us to deliver services that are on time and to budget, of consistently high quality, offering outstanding value for tax payers and businesses.

Our aims were to…	In 2017–18 we…
Deliver services on time, to high standards and to budget.	Issued 99.8 percent of animal and plant export health certificates within target timescales. Achieved the 95 percent target of responding to planning application consultations (where NE and the Environment Agency (EA) are statutory consultees) within agreed deadlines during 2017–18 (target also achieved in 2016–17). Recognised performance issues in delivering Countryside Stewardship payments. We will create a single, centralised service within the RPA in order to improve standards of service.

Responding to public correspondence in 2017–18

Our Ministerial Contact Unit dealt with:

- 8,663 letters and emails from the public.
- 7,246 letters or emails from MPs and/or major stakeholders, answering 67 percent within the target of 15 working days.
- 2,175 Parliamentary questions, 82 percent of which were completed by the various deadlines.
- 21 e-petitions of which 95 percent were completed before the 21 day deadline.
- 51,833 calls on our helplines, (Defra Helpline and Pet Travel Scheme), answering 84 percent within the target of 20 seconds.

Defra's executive agencies and Non-Departmental Public Bodies have enquiry centres that deal with public correspondence relating to their areas of work and expertise. Further information can be found within their individual Annual Report and Accounts (ARA).

Organisational Objectives

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

Our ambition is to be a highly responsive, customer focused, open and data driven department that is a trailblazer for the rest of government.

Chapter 4 contains further detail on how we are transforming the Defra group in order to be able to deliver more for the environment.

Natural Capital	Natural capital is the term we use to describe parts of the natural environment that produce value for society; such as 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. Defra will lead the way in ensuring environmental impacts are taken into account in decision-making and in reporting. Using this framework, and drawing on research funded by Defra, EA has for the past three years produced a Natural Capital Account for most of the land it owns. This is included as an appendix in its ARA. NE has provided a statement of its aims in relation to Natural Capital Accounting in its 2017–18 ARA. NE and the Forestry Commission are engaged with the Defra group to develop local Natural Capital plans. The EA and NE represent the majority of the land holding of the Defra group. In the future, we intend to include group Natural Capital Accounts as an annex in Defra's consolidated ARA. We intend that this form of reporting will assist the Defra group in monitoring and tracking changes each year. We are also investigating opportunities to support the wider use of a natural capital approach for investment decision making both by the group and our partners.
Greening Government Commitments	Defra's performance can be viewed in the latest Greening Government Commitments annual report and is summarised in Annex 2. Comparing to baseline figures, the Defra group in 2017–18 has reduced its greenhouse gas emissions by 42 percent; domestic flights by 14 percent; paper use by 55 percent; and reduced waste sent to landfill to 13 percent of total waste. Water consumption has decreased by 15 percent. Defra procurement is continuing to promote sustainable procurement through standing instructions within its policies and processes to consider all elements of

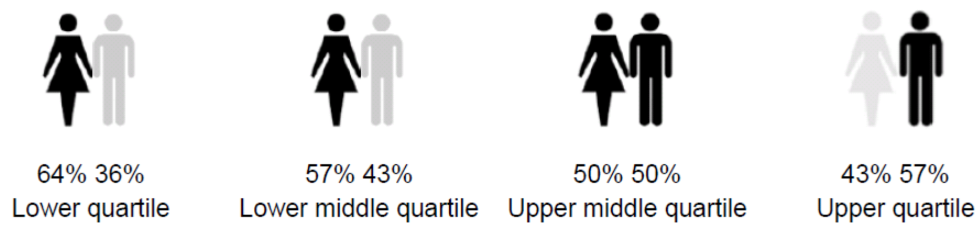
	good procurement practice including consideration of the Public Services (Social Value) Act; the Public Sector Equality Duty; and the SMEs agenda amongst others. Where Defra leads on procurements, at the strategy stage a sustainability appraisal is undertaken and, where possible, Government Buying Standards and the balanced scorecard are applied.

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

Defra's people are diverse, talented, engaged and inspired towards a common purpose. We want to make the Defra group a great place for working.

Each year, in common with all other government departments, we carry out a survey of our staff to find out their views about working for us. Over 5,500 people responded from across the Defra group, and our scores on most measures showed an increase on the previous year. See page 45 for detailed survey results, and online[1] for the full results from across government.

In December 2017 we published, for the first time, our gender pay gap results. This shows the percentage difference in the average pay between all men and women in the organisation. For Defra group this was 11.5 percent (the Civil Service average is 12.7 percent). Hourly pay quartiles data show the proportion of men and women that are in each pay quartile, when we arrange staff in order of hourly pay rate:



Actions we are taking in response to these findings include:

- Providing support for women returning to work following parental leave.
- Helping women to progress their careers through schemes such as the Positive Action Pathway (a talent programme for under-represented groups) and Crossing Thresholds (career development programme for women in the Civil Service).
- Providing a range of employee led networks supported and championed by Defra's senior management, including the Women's Network, Job Share Network, Parental Leave Buddy Network and a Work Life Balance Network.
- Collecting and analysing diversity data from our major recruitment campaigns so we can see where we are doing well and where we need to do better, ensuring the actions we take have an impact on reducing the gender pay gap.

See Chapter 5 for more about our people.

Non-Financial Information

Information on counter-fraud, anti-bribery and anti-corruption can be found in the Governance Statement in Chapter 4. Information on human rights can be found in the Director's Report in Chapter 4.

[1] https://www.gov.uk/government/publications/civil-service-people-survey-2017-results--2

Chapter 3 – Financial Analysis

This chapter provides a description of our financial performance across 2017–18, sets out our budget and what we spent it on, and provides further details on certain areas including our outturn, our Statement of Financial Position (SoFP), and Common Agricultural Policy (CAP) disallowance.

Financial Performance

We have had a strong year, successfully overcoming the challenges of delivering our significant underlying Spending Review reduction of £72 million, whilst at the same time increasing our spending on EU exit preparation, utilising £94 million budget for this.

Robust forecasting has underpinned the successful management of these challenges. As a result we have seen an outturn of 99 percent and 98 percent respectively of the non-ring-fenced resource and capital budgets, in line with our targets. This has meant that we have been able to maximise our budget to continue to deliver our objectives, including our new objective of preparing for EU exit.

At the heart of the Spending Review reductions is the transformation of the department's corporate services functions. HR, IT, Estates, Communications and Finance teams from our largest delivery bodies have come together to form new group-wide functions, with common employment arrangements (as part of core Defra) creating a platform for improving prioritisation, decision making, professionalism and efficiency. We are on track to deliver reductions of £99 million by the end of the Spending Review period, with £24 million savings delivered in 2017–18.

More widely the organisational model for the Defra group supports a focus on outcomes, bringing together organisations that contribute to the delivery of specific outcomes to enhance the planning of operational and policy activities across the Defra group and implement agreed reductions.

Key achievements:

- Continuing with preparations for exiting the EU, making sure the department has robust plans in place for a smooth and orderly exit including effective arrangements to implement domestic schemes and functions. With over 80 percent of Defra's business framed by our membership of the EU, this preparation is crucial and has seen us allocate £94 million budget in 2017–18. The approach to managing this work has evolved during the year into a portfolio of 64 projects covering all key activities impacted by exiting the EU.

- Maximising our capital budget in order to increase the number of homes protected from flood and coastal erosion; carrying out essential maintenance of the department's Estate, including improving our science laboratories; and investing in information and communications technology. This was achieved by rigorous prioritisation of investment and saw us spend 98 percent of our non-ring-fenced capital budget, in line with our targets.

- Significantly reducing our disallowance exposure, through successful mitigation and discussions with the European Commission (the Commission) auditors on a number of outstanding issues. This is part of our on-going disallowance strategy and is the latest in a line of successful negotiations in reducing our disallowance costs.

- Supporting the rural economy with £1,744 million in CAP Basic Payment Scheme (BPS) expenditure in England, plus £321 million of EU funding for rural development schemes, along with a further £66 million from Exchequer funding for rural development.

- Successfully mitigating the foreign exchange risks associated with the operation of EU schemes by entering into a hedging contract for the euro amount of our EU funding.

Looking ahead, we face further significant reductions in our baseline budget of £138 million in 2018–19 and £67 million in 2019–20. We will continue to implement our plans in order to deliver these reductions whilst delivering our objectives. At the same time we continue to invest in EU exit preparation, allocating £320 million to this in 2018–19 - with £310 million of this to be provided by HM Treasury during the Supplementary Estimate.

The Defra Group Budget

2017–18 Voted Funding
£2.9bn

Consisting of:

DEL
£2.6bn

AME
£0.3bn

Non-Budget
£10m

The Statement of Parliamentary Supply (SoPS) shows that our total parliamentary approved ('voted') funding for the 2017–18 financial year was £2.9 billion. This consisted of £2.6 billion in Departmental Expenditure Limits (DEL), £0.3 billion in Annually Managed Expenditure (AME) and £10 million outside of the department's budgetary boundary.

DEL is the budget total, issued by HM Treasury on behalf of Parliament, that we use to fund the delivery of our strategic objectives.

The resource DEL budget (£2.0 billion in 2017–18) includes the administrative costs of running the Defra group; and programme spend on delivering our outcomes in environmental quality; food, farming and biosecurity; floods and water; marine and fisheries; and natural environment and rural. It also includes an allowance for the consumption of our assets over time (depreciation - £0.3 billion in 2017–18). Compared to 2016–17 the resource DEL budget excluding depreciation increased by £44 million, mainly due to a £72 million underlying budget reduction offset by additional funding, including for EU exit preparation and Air Quality, announced in the Autumn Budget.

Our EU exit funding was secured from various sources. Through two exercises to bid for additional budget from HM Treasury, we obtained an extra £67.4 million from the HM Treasury Reserve. In addition to the £67.4 million, HM Treasury also allowed the department to re-direct £7 million previously earmarked for the UK Presidency of the EU and £20 million for voluntary staff exits towards this work. In total £94.4 million was specifically dedicated towards EU exit work.

The capital DEL budget (£0.6 billion in 2017–18) covers investment in the assets we need to deliver our objectives. This includes expenditure on flood defence assets and the Defra group estate, as well as the payment of capital grants. Compared to 2016–17 the capital DEL budget has decreased by £27 million, due to the reclassification of the International Climate Fund project as resource.

Our gross spending in the economy is actually twice the size indicated by our DEL budget, because it includes payments made, mainly to farmers, in respect of CAP and rural development schemes, for which income is received from the Commission. This income was budgeted at £2.2 billion in 2017–18. Other sources of income include grant income, fees, levies and licences payable to some of Defra's delivery bodies. This was budgeted at £0.2 billion for core Defra and the agencies; and £0.5 billion for other bodies, netted off against the DEL expenditure. Our total external DEL income budget was therefore £2.9 billion in 2017–18. A further £1.3 billion of income received from the Commission for the devolved administrations was treated as 'non-budget' rather than DEL.

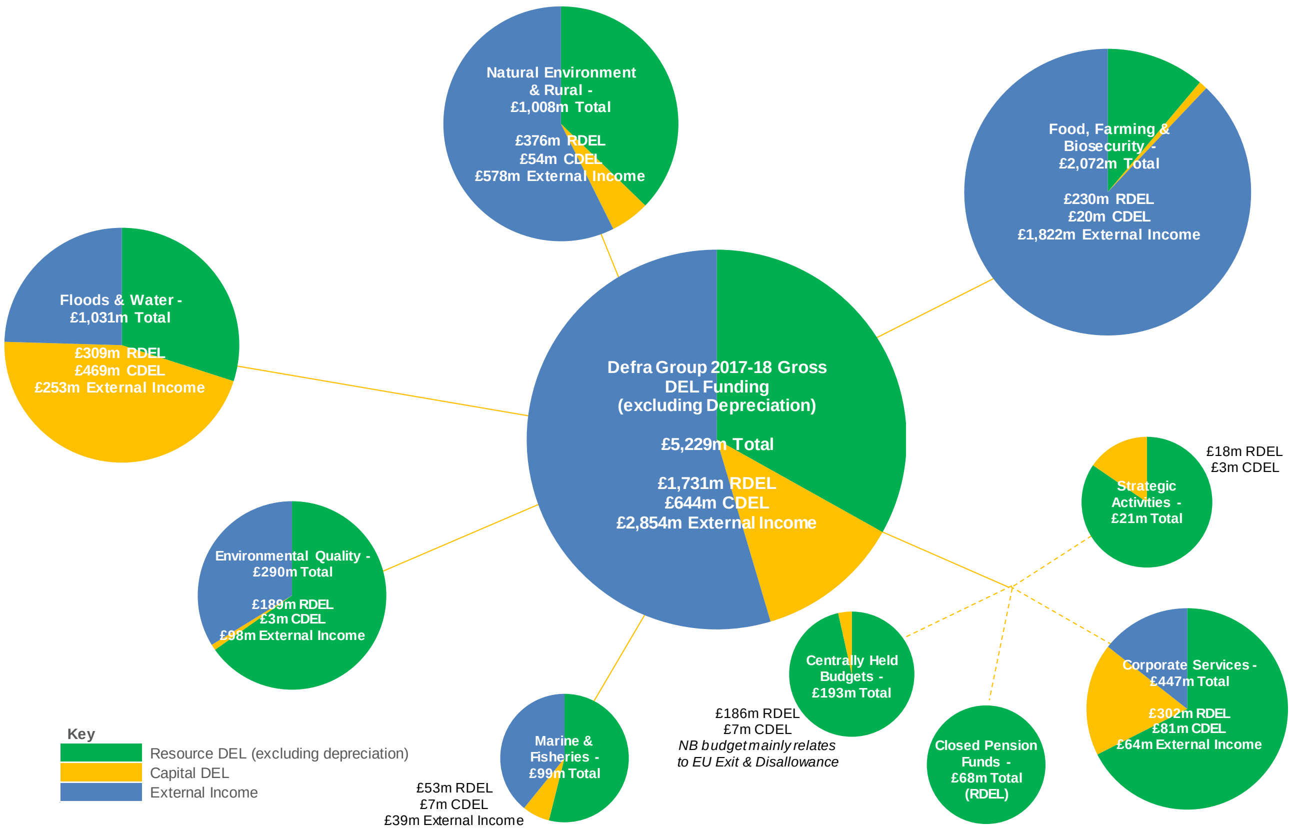
The AME budget (£0.3 billion in 2017–18) is mainly for movements in provisions, including for CAP disallowance and the Environment Agency (EA) closed pension fund. The expenditure by Defra group levy funded bodies – the Agriculture and Horticulture Development Board (AHDB) and Sea Fish Industry Authority (SFIA), as well as the Defra group body Flood Re, are also included within AME. Compared to 2016–17 the AME budget has decreased by £210 million, due to a reduction in the disallowance provisions.

The final area of Defra group funding, called non-budget (£10 million in 2017–18), is used to account for expenditure and income relating to CAP payments on behalf of the devolved administrations, and for prior period adjustments.

The chart on the next page shows how our gross DEL funding (the figures above) was allocated to 'Outcome System'. These are the groupings of organisations that contribute to the delivery of outcomes in each area, which are used in planning and delivering our activities. Information on our actual expenditure by Outcome System can be found in the Segmental Reporting section of the accounts. The gross DEL funding total of £5.2 billion given in the chart is the resource DEL budget excluding depreciation of £1.7 billion, the capital DEL budget of £0.6 billion, and the external DEL income of £2.9 billion as set out above.

Chart – Defra Group Gross Funding by Outcome System

Covering the five Outcome Systems plus enabling functions for completeness
NB figures are rounded to the nearest £m



Outturn against Control Totals

The final DEL outturn was £2,469 million – an underspend of £150 million against our £2,619 million DEL budget. However, after taking account of ring-fenced underspends for depreciation of £66 million, disallowance of £49 million, official development assistance of £4 million, voluntary early severance costs of £3 million, and other minor ring-fenced underspends totalling £1 million, this equates to a £27 million underspend. Comparing this against our DEL budget excluding those ring-fenced items, of £2,203 million, this underspend is equivalent to 1.2 percent. The £27 million underspend is split £15 million (1.0 percent) resource and £12 million (1.9 percent) capital.

The final AME outturn was a £28 million credit. AME spending is generally less predictable and controllable than expenditure in DEL, which explains this relatively high underspend of £311 million (of which £295 million is in Resource AME), against our £283 million AME budget. More detail on the specific Resource AME underspends is provided below:

- Budget cover is required for Flood Re in case a significant flood event occurs at any point in the financial year. No such flood event occurred in 2017–18, resulting in an unavoidable underspend of £160 million against Flood Re's budget.

- Movements in the CAP disallowance provision are particularly difficult to forecast as these are reliant on the completion of the Commission audits, and the subsequent formal decisions from bilateral meetings between the Commission auditors and Rural Payments Agency (RPA), the timing of which are both outside the department's control. No significant Commission audits took place during this financial year, resulting in a net underspend of £46 million against the budget for the CAP disallowance provision.

- £20 million likely adjustments in relation to RPA BPS claims already paid where potential system or data issues have been identified post payment. This may result in additional payments or recoveries being required, and therefore management estimates are needed to assess additional amounts which might need to be recognised. These adjustments have been accrued for in the accounts so the provision was not required.

- £17 million underspend on the metal mines provision due to a reduction to the provision to reflect reduced future running costs at Saltburn Gill and Wheal Jane mines.

- £14 million for RPA relating to cover for potential foreign exchange movements.

- £14 million net underspend delivered predominantly from reducing onerous lease liabilities through utilisation of previously vacant office space to accommodate additional staff working on EU exit preparedness.

- The remaining variance of £24 million is mainly due to movements in other provisions.

Our £10 million non-budget cover is held for any exchange rate differences that may arise on funding payments made by RPA, in their role as the UK Funding Body, to the Devolved Administrations due to the timing differences between the claim date and the date of actual reimbursement by the Commission. Due to the unpredictability of exchange rate movements, we underspent against this budget by £11 million.

Other Information

Net Cash Requirement (NCR)

The outturn against our Estimate for the 2017–18 NCR is an underspend of £721 million. This represents the closing bank balances for the core department and its executive agencies. For reasons explained below, a prudent estimate has to be taken when calculating the NCR to mitigate the risk of any of these entities going overdrawn, with the biggest risk being related to the difficulties faced in forecasting BPS and Rural Development Programme for England (RDPE) payments and subsequent reimbursement from the Commission some months later. Although the unspent balance was significant this year, the majority (99.8 percent) is still held within the Government Banking Service, therefore ensuring good value for the Exchequer as a whole and ensuring the Debt Management Office has access to the funds.

More detail on the specific underspends is detailed below:

- The RPA related sterling bank balances of £541 million at 31 March 2018, held between the RPA and core Defra bank accounts. This was higher than planned due to uncertainties with forecasting payments under BPS. The cash available to the department for 2017–18 was set in January 2018, in line with the Supplementary Estimate timetable. This included an estimate of the funding required to cover BPS payments for the 2017–18 financial year for the whole of the UK. Subsequently, some UK paying agencies faced difficulties making BPS payments, therefore payments were lower than forecast in January, February and March, which resulted in a larger than expected closing bank balance. There were also some uncertainties with forecasting RDPE payments and corresponding Commission receipts.

- The RPA held a £142 million (€164 million) euro bank balance at 31 March 2018. This primarily relates to long term advances from the EU that are held for the Rural Development Programme 2014 to 2020.

- The remaining £38 million represents the bank balances held across the other executive agencies, including the Forestry Commission, as at 31 March 2018.

Consolidated Statement of Financial Position

Over the 2017–18 financial year, Defra group's total assets less liabilities increased by £169 million.

- Non-current assets increased by £199 million over the year, with a number of new additions (£230 million) and upwards revaluations (£157 million) across the Defra group, mainly covering flood defences, plant and machinery and vehicles. This was partially offset by £173 million depreciation and amortisation charged in year and £7 million impairment charges on non-current assets, plus £8 million of other minor changes.

- Current assets increased by £199 million over the year, due mainly to an increase in cash held of £255 million relating to uncertainties with forecasting payments under BPS (see NCR section above for further details) plus £11 million due to increased valuations of derivatives and foreign currency contracts and £6 million of other minor changes. These were offset mainly by a decrease in trade and other receivables of £73 million – largely due to a fall in EU accrued income of £108 million due to the difficulties forecasting Commission receipts, plus £3 million of other minor changes, less a £38 million increase in prepayments.

- Current liabilities (i.e. liabilities due in less than one year) increased by £126 million. Within this, trade and other payables increased by £194 million, largely due to a £118 million increase in amounts issued from the Consolidated Fund for Supply but not spent at the year end - primarily due to RPA needing less cash as a result of making fewer BPS payments than originally planned; and a £70 million increase in accruals and deferred income, plus £6 million of other minor changes. This was offset by a £59 million decrease in provisions, mainly relating to the CAP disallowance. There was also a £5 million decrease in the value of the financial liability for our euro trading and a £4 million fall in the net pension liability.

- Non-current liabilities (i.e. liabilities due in more than one year) increased by £103 million, with the main movements being a £137 million increase in the Metal Mines provision and a £49 million increase in the Foot and Mouth Disease burial sites, due to an adjustment to the discount rates set by HM Treasury, (which are applied to the provisions) and a small increase in other payables of £4 million. This is offset by a decrease of £34 million following adjustments to our Estates onerous lease and building dilapidations provisions and a decrease in the pension provisions of £53 million, mainly relating to movements in the EA pension schemes.

Flood Re

Flood Re was established as a limited company in April 2016, ensuring that most property owners who were previously unable to procure home insurance against the risk of flooding can now do so. This is a substantial improvement for many people across England.

In this capacity Flood Re is an independent company which manages its business in line with insurance industry standards. Defra has no direct control over Flood Re. A framework document between Defra and Flood Re has been agreed but is yet to be formally signed off. In the meantime, Flood Re continues to work on the basis defined in an exchange of letters with Defra about the Framework Agreement in March 2016, which sets out the broad framework within which Flood Re will operate.

From a financial reporting perspective and in line with the HM Treasury Financial Reporting Manual, Defra is required to consolidate Flood Re's accounts into the Defra group accounts. As Defra has no direct control over Flood Re, items of expenditure may arise which are not subject to Cabinet Office spending controls.

The effect to the Statement of Comprehensive Net Expenditure (SoCNE) is a profit of £110 million (2016–17, £104 million) after tax. This outturn is scored against the resource AME budget. The effect on the SoFP is £309 million (2016–17, £202 million) worth of assets, of which £257 million (2016–17, £157 million) is held as cash. Liabilities total £101 million (2016–17, £104 million) of which £54 million (2016–17, £58 million) is deferred income. This gives a net assets less liabilities of £208 million (2016–17, £98 million) which is reflected in taxpayers' equity and other reserves.

Core Tables

The Core Tables section of the accounts provides an analysis of departmental expenditure and plans covering the period 2013–14 to 2019–20. The expenditure is shown against the categories used for HM Treasury's reporting system. These categories are different to the Outcome Systems which we report on internally.

These tables show a significant increase between 2016–17 and 2017–18 against the category 'Departmental operating costs', with corresponding reductions against other categories. This increase is due to the consolidation of Defra group corporate services functions - part of our plan to improve prioritisation, decision-making, professionalism and efficiency – and represents a transfer between reporting categories, rather than a genuine increase in spend on operating costs. The efficiencies we generate here will reduce our spend on operating costs across the Spending Review. In addition to this, the 2017–18 EU exit budget was also allocated to Departmental operating costs.

Further analysis of the Core Tables figures can be found at Annex 1.

CAP Disallowance

The CAP is the agricultural policy of the EU and is a system of agricultural subsidies and rural development programmes. Pillar 1 of the CAP is funded through the European Agricultural Guarantee Fund and primarily involves direct payments to farmers. The rural development programmes – Pillar 2 of the CAP – is funded through the European Agricultural Fund for Rural Development.

As part of their oversight of EU Budget spending, the Commission can impose financial corrections on member states for failing to apply EU Regulations correctly in managing and administering EU schemes. These financial penalties are known as 'disallowance'. In practical terms this means the EU reduces the amount of money that is reimbursed to member states for monies they have paid out on the CAP schemes. Historically, no member state has achieved zero disallowance under the CAP regime, illustrating the complexity of the schemes and the challenges and costs of complying with them.

Examples of issues that can lead to disallowance include digital maps not being sufficiently up to date, the inclusion of ineligible features in claims and the timing of inspections as well as eligibility checks and administrative controls that are not deemed to be sufficiently robust. Defra only accounts for disallowance relating to England, the devolved administrations account for disallowance relating to their regions. Following the result of the referendum on 23 June 2016 the UK will be withdrawing from the EU but the current assumption for these accounts is that Defra is still likely to incur disallowance on outstanding audits. Rules around calculating disallowance were changed as part of the CAP reform which came into effect in 2015. As a result we have split the levels of disallowance below between the previous scheme and the new scheme.

Limited notice is given of future Commission conformity audits and it is not therefore known which scheme areas will be audited during the coming year. Where there has not been an audit, then we declare a remote contingent liability in the Accountability Report. Once audits have taken place and until a reliable estimate can be made a contingent liability is disclosed. Once reliable estimates are available and a letter of the findings received from the Commission, a provision/accrual can be accounted for.

Disallowance is accounted for in Defra group's accounts in three stages:

- Stage 1: Cost is initially recorded in the SoCNE for disallowance (via a provision) when there is sufficient evidence, following a Commission audit, that a penalty is likely, but not certain, to be incurred in a future accounting period. These amounts are held on the SoFP as current liabilities (provisions). See Note 13.3.

- Stage 2: Disallowance penalties are confirmed in the accounts (via an accrual) when the proposed disallowance has been formally communicated to the department by the Commission and will not be contested. These amounts, typically unwinding a previous provision, are held on the SoFP as current liabilities (accruals).

- Stage 3: Disallowance penalties are finally transacted when the Commission decides to deduct the owed amount from a claim for reimbursement under European schemes made by the UK, typically some time after the penalty has been confirmed (and therefore accrued). Stage 3 payments are accounted for purely through the SoFP, exchanging a current liability for a current asset and so are not shown on the SoCNE.

Both stage 1 and stage 2 transactions result in charges to resource (either AME or DEL), and are therefore charged to the SoCNE, as shown in the following table 'Charges to the SoCNE for CAP Disallowance'. The creation of an accrual at stage 2 may be skipped, and occasionally transactions can move from provision to payment within the same financial year. These transactions would still impact on the DEL budget and pass through the SoCNE. The 'Balances from the SoFP for CAP Disallowance' table shows the accumulation over time of stage 1, 2 and 3 transactions in Defra's accounts.

Charges to the SoCNE for CAP Disallowance

£million	2017–18 DEL	2017–18 AME	2017–18 Total
Stage 1: Allowance created in year for anticipated liabilities based on receipt of initial audit findings	-	-	-
Stage 2: Provisions unwound in year for liabilities expected to materialise after accepting corrections (accruals)	52	(52)	-
Stage 2: New accruals where no previous provision existed[1]	-	-	-
Total charge	**52**	**(52)**	**-**
Write back in previous accrual/provision (credit)[1]	(1)	(9)	(10)
Net charge	**51**	**(61)**	**(10)**

1. Note 3, EU disallowance row shows the net of the new accruals and write back in previous accrual.

During 2017–18 Defra group made total charges to the SoCNE of £Nil (2016–17, £239 million). We wrote back £9 million of provisions no longer required relating to 2015 and 2016 BPS entitlements audit and re-allocated a further £18 million to new audits as described below.

- Rural Development Public Procurement of £13 million
- BPS 2015 Late Payment Penalties of £5 million

Provisions utilised in year and crystallised into an accrual are detailed below:

Previous CAP Scheme - Years 2005–2014

- Cross Compliance for Scheme Year 2014 of £4 million,
- Other small schemes £1 million

Current CAP Scheme Years - 2015–2020

- BPS Area Aids for 2015 and 2016 of £25 million
- Cross Compliance for 2015 and 2016 of £8 million
- BPS Late Payment Penalties for 2015 scheme year of £14 million

Balances from the SoFP for CAP Disallowance

Scheme years 2005–2014

£million	Total as at 31 March 2018	2017–18	2016–17	2015–16	Up to 2014–15
Stage 1: Provisions outstanding at year end on SoFP[1]	**-**	-	15	18	65
Stage 2: Accruals outstanding at year end on SoFP[2]	**7**	7	16	139	167
Stage 3: Cash payments made to the Commission	**628**	12	112	94	410
Cumulative total for disallowance as at 31 March 2018	**635**				

1. Note 13, CAP disallowance closing balance at 31 March 2018.
2. Note 12, as part of the core department and agencies accruals and deferred income £683 million (2016–17, £588 million).

Defra group's accounts include cumulative transactions for disallowance penalties totalling £635 million relating to CAP Scheme years 2005–2014.

Of this total, £628 million has been paid to the Commission over time (stage 3). This relates to:
- CAP Single Payment Scheme for 2005–2014 of £510 million.
- Fruit and Vegetable Trader schemes for 2005–2014 of £61 million.
- Cross Compliance for 2005–2014 of £33 million.
- Rural Development Programme 2005 to 2014 of £20 million.
- Other smaller schemes of £4 million.

Defra group also holds accruals of £7 million for future liabilities relating to:
- Cross Compliance 2014 of £4 million.
- Fruit and Vegetable Trader schemes 2012–2014 of £2 million.
- Other smaller schemes of £1 million.

Scheme years 2015–2020

£million	Total as at 31 March 2018	2017–18	2016–17	2015–16	Up to 2014–15
Stage 1: Provisions outstanding at year end on SoFP[1]	**184**	184	230	-	-
Stage 2: Accruals outstanding at year end on SoFP[2]	**33**	33	8	-	-
Stage 3: Cash payments made to the Commission	**23**	23	-	-	-
Cumulative total for disallowance as at 31 March 2018	**240**				

1. Note 13, CAP disallowance closing balance at 31 March 2018.
2. Note 12, as part of the core department and agencies accruals and deferred income £683 million (2016–17, £588 million).

Defra group's accounts include cumulative transactions for disallowance penalties totalling £240 million relating to CAP Scheme years 2015–2020. As we are still in the early years of the current scheme there have been few audits carried out to date.

We have paid over £23 million to the Commission relating to late payment penalties arising from BPS 2015 payments.

We also hold accruals of £33 million relating to:
- BPS Area Aids for 2015 and 2016 scheme years (£25 million).
- Cross Compliance for 2015 and 2016 scheme years (£8 million).

Finally we hold provisions for potential future liabilities totalling £184 million relating to:
- BPS Entitlements 2015 and 2016 scheme years (£169 million).
- Rural Development public procurement (£13 million).
- Fruit and Vegetable Trader schemes 2015 (£1 million).
- Rural Development Countryside and Environmental Stewardship 2015 and 2016 scheme years (£1 million).

The outstanding years for the larger schemes still to be potentially audited (based on the assumption there will be an EU exit in March 2019 and no inclusion in CAP for scheme year 2019 onwards) are:

- Basic Payment Scheme 2017 and 2018;
- Cross Compliance 2017 and 2018;
- Rural Development Programme 2015 onwards; and
- Fruit and Vegetable Trader schemes 2016–2018.

Clare Moriarty 5 July 2018

Accounting Officer for the Department for Environment, Food and Rural Affairs

Accountability Report

The requirements of the accountability report are based on the matters required to be dealt with in a Directors' Report, as set out in Chapter 5 of Part 15 of the Companies Act 2006 and Schedule 7 of SI 2008 No 410, and in a Remuneration Report, as set out in Chapter 6 of the Companies Act 2006 and SI 2013 No. 1981.

Chapter 4 – Corporate Governance Report

The purpose of the Corporate Governance report is to explain the composition and organisation of the entity's governance structures and how they support the achievement of the entity's objectives. This governance report sets out how we have managed and controlled our resources during the year. It provides assurance on how we have carried out our corporate governance, how we have managed significant organisational risks and how we have addressed control issues.

Governance Statement

Purpose

This statement describes the governance, risk management and internal control arrangements for the department and how our processes have evolved in response to a changing business environment and set of risks over 2017–18.

Introduction

As one of the departments most affected by EU exit, Defra has mobilised and made changes with pace over the last 12 months to meet the pressing demands of this task. Delivering EU exit will require us to develop and implement new policies, legislation and systems, as well as create new delivery bodies to take over EU regulatory functions. As set out in recent NAO[2] (Dec 2017) and PAC[3] (May 2018) reports, the scale of the task and uncertainty surrounding what exactly we need to deliver and by when introduces risk into our preparations.

In order to implement EU exit we need the right mix of people and skills, making sure our planning takes account of how this might vary under negotiated, no deal and transition scenarios. Skills requirements will also change as we move through different phases of implementation. We have already recruited an additional 1,300 people to date and will continue to expand over the next year. Additionally, we have strengthened the strategic management of our EU exit programme by creating a new, director general led, EU Exit Delivery Group.

Rather than remaining static throughout the year, Defra group governance has kept pace with business change. This includes changes in corporate governance arrangements, with the introduction of a new EU Exit Programme Board (evolving into the EU Exit Portfolio Board) and a Corporate Services Board to strengthen oversight, handling and decision making in these critical work areas. Challenges remain but we will continue to adapt and make improvements to support delivery of our ambitious policies, aims and objectives.

Through closer, more collaborative working across the group we have also been developing more innovative handling approaches in areas such as strategic risk management, counter-fraud and whistleblowing. Operating in this way is allowing for better coordination of these activities, bringing greater consistency in our practices and processes. Over the coming year we will be looking to mature and further embed in these areas, as well as extending integrated working to other key areas.

Governance Framework: Departmental Board and Sub-Committees

The departmental Board provides collective strategic and operational leadership to the Defra group. Chaired by the Secretary of State, it brings together the ministerial team, senior officials and Non-Executive Board Members (NEBMs).

There were a number of changes to membership during 2017–18, starting with the appointment of a new Secretary of State shortly after the June 2017 General Election. This was followed by changes in non-executive

[2] https://www.nao.org.uk/wp-content/uploads/2017/12/Implementing-the-UKs-exit-from-the-European-Union-people-and-skills.pdf
[3] https://publications.parliament.uk/pa/cm201719/cmselect/cmpubacc/699/699.pdf

membership later in the year, including the appointment of an additional NEBM in recognition of the significant role the department is playing in preparations for leaving the EU.

The Board has continued to maintain a strong focus on EU exit throughout the year, overseeing developments and providing a steer on delivery challenges. Additionally, it has held discussions on the Single Departmental Plan, the Defra group strategy and business planning for 2018–19.

Supporting the Board are three sub-committees which have the following roles and responsibilities:

Defra Board Chair: Secretary of State	
Executive Committee Chair: Permanent Secretary	Senior executive decision making body for the Defra group. It sets the strategic direction and ensures alignment of strategic priorities, work and resources. It is supported by seven sub-committees.
Audit & Risk Assurance Committee Chair: Non-executive Board member	Supports and advises the Board and Principal Accounting Officer on issues of risk management, control and governance.
Nominations Committee Chair: Non-executive Board member	Succession planning for Board members and other senior appointments. It also ensures there are satisfactory systems in place for identifying and developing leadership and high potential across the Defra group.

Highlights of the committees' activities over 2017–18 include:

- **Executive Committee (ExCo)**: regular monitoring of developments relating to EU exit and other transformational activities; approving major business cases; prioritisation of capital programmes, including investment in IT; strategic workforce planning; and advising on a range of operational matters significant to the group, including the estates strategy. It met 35 times during the year.

- **Audit and Risk Assurance Committee (ARAC)**: supporting development of the Defra group risk management approach; giving scrutiny to major projects and programmes, in particular IT related; reviewing the Annual Report and Accounts (ARA) and the results of work carried out by internal audit and the National Audit Office. The committee met six times this year.

- **Nominations Committee**: considering the future talent agenda for the Defra group; challenging director general performance outcomes; and reviewing director general talent grids. It met twice this year.

The department continues to operate in compliance with the principles set out in the Cabinet Office and HM Treasury corporate governance in central government departments: code of good practice (2017). There was one exception this year relating to the frequency of Defra Board (the Board) meetings. Due to the impact of the General Election and changes in Board membership the Board met three times, whereas the code sets an expectation of a minimum of four. The Board will meet more regularly over the coming year.

Membership changes have also led to this this year's annual Board effectiveness review being delayed, allowing for the new Defra lead non-executive and other non-executives to take up post (March 2018). This will provide an opportunity for the new members to feed in views and help shape the future operation of the Board in 2018–19 and beyond.

A system is in place to record and manage conflicts of interest of Board members and a register is maintained by the Board secretariat. Three conflicts have been identified this financial year, the first relating to the Client Earth legal action against Defra on its air quality plans and the other two due to two members of the Board being in receipt of Common Agricultural Policy (CAP) payments. These are being managed through appropriate measures and in line with departmental and Cabinet Office guidance.

The table below sets out Defra Board membership during 2017–18 and attendance at meetings.

Departmental Board membership and attendance	
	Meetings attended out of those eligible to attend 1 April 2017 to 31 March 2018
Ministerial team	
The Rt Hon Michael Gove MP, Secretary of State for Environment, Food and Rural Affairs (from June 2017)	3/3
The RT Hon Andrea Leadsom MP, Secretary of State for Environment, Food and Rural Affairs (until June 2017)	0/0*
George Eustice MP, Minister of State for Agriculture, Fisheries and Food	3/3
Thérèse Coffey MP, Parliamentary Under Secretary of State for Environment	3/3
Lord Gardiner Parliamentary Under Secretary of State for Rural Affairs and Biosecurity	2/3
Non-Executive members	
Steve Holliday, Lead Non-Executive Director and Chair of the Nominations Committee (until November 2017)	1/2
Henry Dimbleby, Lead Non-Executive Director and Chair of the Nominations Committee (from March 2018)	1/1
Paul Rew, Chair of the Audit and Risk Assurance Committee	2/3
Peter Bonfield	3/3
Catherine Doran (until November 2017)	2/2
Ben Goldsmith (from March 2018)	1/1
Elizabeth Buchanan (from March 2018)	1/1
Colin Day (from March 2018)	1/1
Emma Howard Boyd, Chair of the Environment Agency (Ex Officio)	3/3
Andrew Sells, Chair of Natural England (Ex Officio)	3/3
Executive members	
Clare Moriarty, Permanent Secretary	3/3
Betsy Bassis, Director General, Chief Operating Officer	3/3
Nick Joicey, Director General for Strategy, Europe and Finance	2/3

*There were no Board meetings between April and June 2017.

Operating as the Defra Group

The core department and its delivery bodies have been operating as the Defra group since autumn 2016, a model organised around the following 'outcome areas': food, farming and biosecurity; floods and water; environmental quality; marine and fisheries; natural environment and rural.

In this model, delivery bodies that contribute to each outcome area work together, with core Defra, as an 'outcome system' under the guidance of an outcome system leader to ensure effective delivery. Operating in this way delivers a range of benefits, including closer co-ordination of policy and delivery and strengthened capability across the Defra group.

Supporting the Defra group operational model are group level governance arrangements (including the departmental Board, ExCo and its sub-committees), providing a framework for decision making on group related matters. They do not, however, affect the role and accountability of delivery body Accounting Officers and their Boards. Several bodies have statutory decision making powers and duties, and these continue to be a matter for the relevant Board.

Delivery bodies maintain their own governance structures and processes, appropriate to their business and scale. They also produce their own governance statements as part of their ARA, supported by the audit report and opinions of their respective heads of internal audit and by the Defra group Chief Internal Auditor's (GCIA) Opinion.

Collaborative working through the Defra group has put the department in a strong position to meet the principles and standards set out in the new 'Partnerships between departments and arm's length bodies: code of good practice' (published February 2017). Over the course of the year we have been implementing an action plan to close identified gaps, including activity aimed at strengthening engagement across the group.

In response to the code, a number of new framework documents have been put in place, with others currently being updated. These documents detail the relationship between the core department and delivery bodies, as well as respective accountabilities. The department also published its first Accounting Officer System Statement in September 2017, setting out the full breadth of accountability relationships and processes in the Defra group, covering the core department, its delivery bodies and other arm's length relationships. A refreshed version will be produced later this summer.

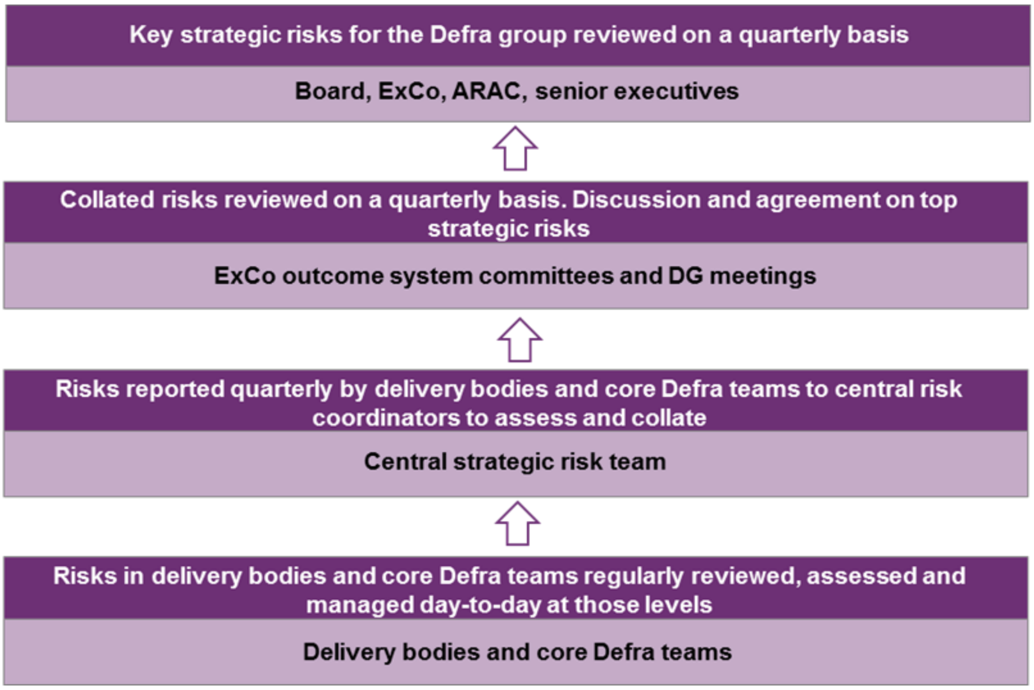
Over 2018–19, we will continue activity to strengthen effective partnership working. This will include steps to enhance engagement between non-executives across the Defra group to share knowledge and insight, as well as further promoting the Defra group brand.

Risk Management in the Defra Group

The Defra group risk management approach has continued to develop over 2017–18 with the aim of bringing greater consistency in how we identify and manage risk. This integrated approach collates risks across delivery bodies and the core department, producing a set of key strategic risks for the group.

A central strategic risk function coordinates risks identified by delivery bodies and core Defra teams on a quarterly basis, making an assessment as to which risks should be reported to the next level of governance. Each strategic risk is assigned to a director general, with directors, delivery body chief executives, senior responsible owners and team managers responsible for managing risks within their areas of control.

The diagram below shows the escalation route of risk from operational levels up to the top tier of departmental governance.



While there has been some movement throughout the year, a number of strategic risk themes have remained constant, with air quality, EU exit, financial, 25 Year Environment Plan, incident management and capacity and capability related risk featuring regularly.

There is still further work to do to mature and refine the approach so that processes can support good quality discussion of strategic risk at senior levels. We have identified key areas where activity will be carried out over the next year, including work to clarify roles and responsibilities at each level of governance. We are also: building better communications into our processes, including an explicit feedback loop so that decisions on escalated risks are explained and cascaded to interested parties; developing a broader range of reporting templates to meet the needs of different groups; establishing a routine top down risk assessment to supplement the current ‘bottom up’ approach; and increasing awareness of risk management across the Defra group.

Significant challenges and issues in 2017–18

The table below sets out further detail on a number of areas where we have been dealing with challenges and issues which warrant further disclosure. This includes issues reported in Defra group delivery bodies.

Risk / issue	Detail
EU exit	The department’s overarching priority is the delivery of a smooth and orderly exit from the EU. Defra is responsible for 64 projects relating to domestic readiness, the second highest of any department. In addition to an extensive legislative programme, a vast amount of activity is required to support Defra in preparing for EU exit. The main challenge we face in our preparations arises from the continued uncertainty as to what exactly we need to deliver and the timeframe for delivery. This means that we are having to plan for multiple different scenarios. Regardless of whether a deal is negotiated or not, the department has critical activities which it must do to prepare for EU exit, such as ensuring a continuing and effective food supply that is safe and affordable for consumers. Given the scale of the challenge, it is critical we are able to secure the necessary

Risk / issue	Detail
	resources and skills to manage this work. At the same time, we are taking steps to make sure our capacity and capability to deliver key business as usual priorities or respond to a major incident continues to be robust. We are actively managing this challenge through a departmental EU Exit Programme. Work programmes and recruitment plans are continually kept under review to make sure we are appropriately staffed to respond to the task. Effective use is also being made of existing knowledge and expertise across the Defra group.
Transformation	Prior to the EU referendum we were already committed to becoming a more streamlined and efficient department, keeping pace with advances in technology. EU exit has changed the landscape within which transformation is happening, but the goals remain the same, with EU exit providing new opportunities to transform the way we operate. The department's approach to transformation over the coming years is still taking shape, but there are examples of transformative change having been implemented in 2017–18. This includes reaching the significant milestone of transferring corporate services teams from five delivery bodies into consolidated Defra group functions. This allows us to deliver a more integrated set of services for communications, commercial, finance, Human Resources, ICT/Digital, Data and Technology Services (DDTS), facilities and estates. It has been a challenging programme and there is still a considerable amount of work do to embed staff who have transferred into the newly merged functions. We have also been laying the foundations for implementing a Smarter Ways of Working Strategy that commenced roll out in June, with new enabling IT and a more flexible approach to working across different sites. Given the volume of change projects and programmes across the group, it is vital we minimise the risks of inefficiency and duplication. Additionally, EU exit poses significant strategic questions around how the Defra group should operate in future, bringing together business as usual activity with new functions. Over 2018–19, we will develop a shared vision and strategy for our future operating model in the new context, and establish a clear view on how we are going to get there.
IT Programmes – Digital, Data and Technology	Underpinning transformation of the Defra group are four IT programmes, led by Defra group DDTS: • UnITy – replacing current ICT services and contracts due to expire in 2018–19. • Digital transformation - delivering new digital services, platforms and capabilities. • Data transformation - transforming the way the Defra group manages, shares and uses data, including to meet the requirements of the new General Data Protection Regulation. • A new EU exit IT programme - delivering IT solutions to ensure the group is ready to exit the EU, including contingency arrangements. The new UnITy services will be directly managed by DDTS and be common across the Defra group. We will migrate from five existing data centres into two more energy efficient facilities, replace all laptops and desktops, and upgrade the IT infrastructure including wide area and local area networks. This level of commercial and technical change is not without risk, especially during transition. DDTS has continued to review and strengthen its internal governance in order to build capacity and capability. Risks remain around capacity to deliver change and the need to maintain legacy systems, both within DDTS and the wider business. These are being actively mitigated by making sure the IT portfolio of activities is prioritised, agreed with the business and adequately resourced. Whilst the re-focusing of digital resource is necessary to deliver must-do ICT change for EU exit, it does introduce residual

Risk / issue	Detail
	operational risk in some parts of the Defra group where projects have been deferred or brought to a managed stop. DDTS is working with the business to make sure risks are at an acceptable level.
Compliance with the General Data Protection Regulation (GDPR)	We have been preparing for major changes to UK data protection law (implemented 25 May 2018) by revising policies, processes and systems for the handling of personal data. A central programme was established to co-ordinate and oversee readiness across the Defra group, tracking progress and working to ensure consistency. The group has a robust governance model in place, including Data Protection Officers now appointed. A risk based approach was taken in our preparations. Due to the complexity of issues in corporate services Defra was not compliant by the deadline, however, plans are in place to deliver compliance which will be reviewed during 2018–19.
Natural England Environmental Stewardship payments	During 2016 Natural England (NE) made a number of advance payments on Environmental Stewardship claims before all of the administrative checks had been fully completed. NE has subsequently completed all necessary checks and payments have been reimbursed from the EU. NE has worked closely with Defra and the Rural Payments Agency (RPA) to implement the findings of an internal audit review to improve governance in NE, the Rural Development Programme for England (RDPE) governance arrangements and the culture and staff engagement in NE. Both the NE and Defra group Audit Risk and Assurance Committees have been overseeing implementation of the report actions.
Countryside and Environmental Stewardship	We are working to improve our performance in respect of Countryside Stewardship (CS) and Environmental Stewardship (ES), recognising that that delivery has fallen short of customer expectations and commitments made. The NE Board has re-prioritised this as a key focus and is working collaboratively with the RPA and Defra to put in place a recovery programme for CS. This builds on the changes already put in place to enhance the IT and reduce evidence requirements. Further options are now called for which the Defra group will take forward. We are aiming to clarify NE's delegated authority role in terms of purpose and activities relating to agri-environment schemes. Looking to the future, lessons learned will inform any new scheme following the UK's exit from the European Union.
Disallowance	The department has accepted and accrued £51.8 million of disallowance penalties in 2017–18, although this amount is not material to the Defra accounts. Disallowance is a financial penalty incurred when the European Commission considers we do not have adequate controls in place to protect CAP expenditure, ensuring it is only made in line with CAP rules. Over the year, we have continued to implement and embed a disallowance strategy, including significant investment to review over two million land parcels to make sure that, where possible, the data held by the RPA was no more than three years old and met the standards required by EU Regulations. RPA will work to maintain its mapping to these standards while the UK remains in the EU and has implemented a range of further measures to achieve this. A Defra internal audit review of how disallowance risk is managed in Defra concluded in April 2018. Actions to take forward the report recommendations are being overseen by the Disallowance Steering Group. As we approach EU exit, we will continue to take cost effective actions at a strategic, tactical and operational level to reduce the risk of financial corrections while we remain within the schemes of the CAP, at the same time as positioning ourselves to deliver best value for money in future.
Facilities management	Further to risks reported in previous years at the 'high containment' laboratories site in Weybridge (Animal and Plant Health Agency), progress has been made in providing more robust systems and procedures to deliver greater assurance. This includes: putting in place a new permanent team to build capability; making greater use of specialist service suppliers; activity to improve safety, health and wellbeing standards; and establishing a new assurance function. Defra is also working with Cabinet Office to

Risk / issue	Detail
	improve the way services are delivered on the facilities management contract. Capital investment to address previous underinvestment in ageing facilities is continuing. Further significant investment is likely to be required in the science estate. Following the Grenfell Tower fire, a review of the group estate showed that no property fell within the criteria requiring remedial works.
Single Operating Platform	The department's HR, finance and procurement systems are delivered through the Single Operating Platform (SOP). This is operated by the cross government shared services provider Shared Services Connected Ltd (SSCL), with Cabinet Office acting as framework authority. To give users assurance over the quality of processes and controls, SSCL engaged PricewaterhouseCoopers LLP to conduct an independent ISAE 3402 review for the year ending 31 March 2018. The report gave a qualified opinion having identified 17 control exceptions, of which eight had compensating controls operating. Of the remaining nine exceptions, five had some relevance to the Defra group (including the Environment Agency (EA). There is one recurring exception relating to insufficient access controls for SSCL's system administrators, which continues to be managed through additional interim controls. A permanent solution is ready to be implemented and will be tested in 2018–19. None of the exceptions pose a significant risk to the department's financial accounts.
Flood Re	Flood Re is an independent body with direct Parliamentary accountability and its own governance structure. Defra officials provide help and advice to Flood Re on propriety and regularity issues as needed. Defra is working to agree a pay framework appropriate to Flood Re's circumstances with HM Treasury and Flood Re. Pending resolution of this issue, a final version framework document between Defra and Flood Re is yet to be formally signed off. In the meantime Flood Re continues to work on the basis defined in an exchange of letters with Defra about the Framework Agreement in March 2016.
Sea Fish Industry Authority (Seafish)	During 2017–18, Seafish has not had in place an internal audit service which meets compliance with the Public Sector Internal Audit Standards (PSIAS). Subsequently, their current arrangements are non-compliant with the requirements of Managing Public Money, which are outlined in the Seafish Accounting Officer delegation letter and framework document between Defra and Seafish. The GCIA is working with Seafish to introduce compliant procedures.

Counter-fraud

There has been significant activity this year around counter-fraud, including the successful launch of a Defra group 'Counter-Fraud and Anti-Bribery and Corruption Policy' and 'Strategy'. We are maximising opportunities for counter-fraud through the sharing of intelligence, best practice and risk across the core department and its delivery bodies. In addition, counter-fraud training has been delivered to several hundred key staff across the group, helping to build capability in a key area of internal control.

Defra has also been supporting wider work on counter-fraud during 2017–18, having joined the cross government internal fraud database and successfully taken part in the National Fraud Initiative.

The Director General for Strategy, Europe and Finance has been appointed the departmental Board level lead on fraud and error, with responsibility for developing capacity to prevent and detect this within the Defra group.

Whistleblowing, Bullying, Harassment and Misconduct

Whistleblowing is another area in which we have been driving improvements, with a key focus on departmental culture. A range of activity has been carried out over the last 12 months aimed at building confidence in the Defra group workforce around the raising and handling of concerns.

A key highlight was the cross group awareness campaign, 'Speak Out', covering a range of subject areas where employees might have concerns, such as bullying and harassment, grievance, fraud and whistleblowing.

The campaign benefitted from support at all levels, including the Permanent Secretary, and took a multimedia approach to maximise opportunities for raising awareness. The department also participated in the 2017 Civil Service whistleblowing awareness week.

All concerns raised are fully investigated, with appropriate action taken and escalation to senior levels as required. Internal data shows that more cases are now being reported openly rather than anonymously. Seven cases were reported in 2017–18, of which six were raised within Defra's Non-Departmental Public Bodies (NDPBs) and one in core Defra. Four have since been resolved and a further three remain under investigation. Having carried out further work to strengthen internal processes for handling whistleblowing cases, we are now looking to increase the number of trained investigators over the coming year.

We are also taking action in response to findings from a cross-Whitehall review, led by the Department for Culture Media and Sport Permanent Secretary Sue Owen, looking at ways we can strengthen arrangements to tackle bullying, harassment and misconduct within the Civil Service. To date, this has included initial work with the Defra group leadership cadre and identification of a single point of contact for our employees. The review is currently at interim stage and we will reflect on the final report outcomes to determine what further action is required.

Information Management Assurance

The Defra group manages a large amount of personal and government sensitive data across the core department and its delivery bodies. Information security is managed systematically and in accordance with the risk profile of data and systems. No reportable data loss incidents occurred during 2017–18.

Looking forward, Defra is an active participant in the Transforming Government Security programme, initiated by Cabinet Office to address common security risks in a joined up way across government. Part of this involves the pooling of security resources between departments. Defra is joining a cluster of departments led by the Home Office to deliver some aspects of security collectively, starting with the management of security vetting.

Further work in establishing the cluster will follow next year, led for Defra by a new Senior Civil Service level Senior Security Adviser. The adviser will manage Defra's security strategy, including our relationship with the cluster, and provide assurance and advice across the group. They will also advise the Permanent Secretary, ExCo and ARAC on the continued effectiveness of controls.

Cyber Security

Both the Defra group and its supply chain maintains compliance with the National Cyber Security Council '10 steps to cyber security' and we have monitoring in place to make sure actions remain effective.

During 2018–19, Defra's UnITy Programme will replace existing IT infrastructure and systems with more secure alternatives. All of the new IT contracts include a detailed schedule of security requirements. The programme will also put in place a stronger internal operational security resource and upgraded tools for improved handling.

Quality Assurance of Analytical Models

The department continues to implement the recommendations of the 2013 Macpherson Review of quality assurance of government analytical models. Defra was an active contributor to the production of the guidance for producing quality analysis for government (the 'Aqua Book') and promotes its use across the group. Each model has a Senior Responsible Owner who is responsible for effective quality assurance. There is also a process of continuous update and renewal of these models. A list of Defra business critical models 2017 is available.

Financial Control

The department continues to ensure that its financial management activity and capability supports wider decision making.

A thorough review of key controls has taken place. The controls have been documented and where necessary amended and improved. A finance key performance indicator pack is also prepared and analysed on a regular basis. It provides assurance over the balances in the ARA, as well as highlighting useful trends in transition processing, including monitoring for any possible misuse of finance systems.

We have focused on strengthening capacity and capability within Defra group finance during 2017–18, with more technical financial accounting skills embedded across the finance business partnering function. The intention is to enhance financial expertise in the decision making process to help support our work across both business as usual and EU exit.

Extensive financial guidance has been developed and published internally, and in the coming year further training will be rolled out. The need for training is particularly acute at this stage due to increases in the EU exit workforce, ensuring training is delivered appropriately and staff are competent in performing system transactions.

We have also increased the level of quality assurance over the validation of any significant judgements required in deciding how a particular transaction should be reflected in our financial statements. This now includes greater quality review across the Defra group for complex and unusual transactions to reduce the risk of inconsistent treatments and to make sure our judgements are complete and accurate. Whilst the increased training will lead to an improvement in the accuracy of base data, the department recognises the need for a central review function to monitor the effectiveness of this training and to highlight errors and weaknesses. Our intention is that this requirement will diminish in the longer term but not until improved user training and cultural changes have improved the department's ability to get transactions right first time at source. The ongoing effort required to do this is considerable, and needs to be consistent with organisational changes such as increases in EU exit workforce levels.

Further detail on the department's financial performance is set out in Chapter 3.

Local Funding

The department provides a number of direct grants to local authorities for purposes such as waste infrastructure, local flood risk management prevention and waste recycling work. In accordance with government policy, these grants are not ring-fenced, but their visibility makes clear their intended purpose over and above funds received through the main local government Departmental Expenditure Limit (DEL) settlement. There is also a robust audit process in place for such funds through the accountability requirements placed on local authorities. A detailed explanation of accountability for local funding is set out in the published Defra Accounting Officer Systems Statement.

Ministerial Direction

Primary legislation relating to the domestic rollover of EU legislation will be effected through the passage of the EU (Withdrawal) Bill. Given the possibility that the Bill would not attain Royal Assent in time for Defra to begin work building some of the new systems required for EU exit in March 2019, Defra requested and received a Ministerial Direction from the Secretary of State on 18 January 2018. This allowed implementation work to proceed for six specific projects, and was in line with comments made by the Chief Secretary to the Treasury to Parliament that departments which need to begin work early should seek a Ministerial Direction to cover the building of any 'new services'.

Internal Audit

The provision of internal audit services across the Defra group, with the aim of reducing duplication and providing better assurance to the Principal Accounting Officer, has continued to develop into a group internal audit function. On 1 April 2017 the Defra Shared Audit Service transferred into the Government Internal Audit Agency (GIAA). There is now a single consolidated audit plan, which includes cross-cutting group audits, as well as organisational specific audits.

Defra Group Chief Internal Auditor Opinion

Based on internal audit work completed during 2017–18, the GCIA has provided 'moderate' assurance that both core Defra, and the Defra group as a whole, have had effective governance, risk management and control arrangements throughout the year.

In providing his opinion the GCIA has consolidated the collective opinions of heads of internal audit (HIAs) across the Defra group. Overall opinions are positive, although some HIAs (EA and Flood Re) have noted an increasing number of limited and unsatisfactory assurance ratings in audit reports issued this year in their respective organisations. The scope of the GCIA opinion has been limited as Seafish did not have a Public Sector Internal Audit Standards (PSIAS) compliant internal audit service in place during 2017–18.

From the collective HIA opinions, four emerging themes have been identified across the group:

- Governance – the move to a group operating model needs greater clarity surrounding roles and responsibilities, to remove any ambiguities in accountability between the core and the outcome systems, and demonstrate effectiveness of governance in the provision of corporate services across the group.
- Risk - there needs to be greater senior engagement in the collective process in order to ensure that group wide risks are considered and that escalated risks are effectively managed. This includes EU exit programme risks and the relationship with business as usual activities.
- Control – there are weaknesses in management oversight in some areas. In the core department, examples include controls over single tender actions and financial controls.
- People – there has been an impact across all business areas as a result of the influx of new people coming into the department, a loss of corporate knowledge and the additional work on EU exit. This creates pressure, leading to people having less time to find and follow procedures. There has also been a decline in the quality of checking completed. This will impact on our people and increases the risk of downstream impacts with stakeholders, compromising the reputation of the department.

During 2017–18, seven audit reports have been issued with a limited assurance rating (three core Defra, four being group audits) and three with an unsatisfactory rating (two core Defra, one being a group audit).

Conclusion

Overall, I am satisfied that the core department and Defra group as a whole has effective governance, risk management and internal controls in place. My review is informed by the work of the GIAA, statements of assurance from directors with delegated responsibility within the department, and comments and recommendations made by the external auditors in their annual management letter and other reports. I have also noted the opinion of the GCIA, including specific areas of concern that have been highlighted in core Defra and the Defra group more widely.

Clare Moriarty
Accounting Officer

5 July 2018

Statement of Accounting Officer's Responsibilities

Under the Government Resources and Accounts Act 2000 (GRAA), HM Treasury has directed Defra to prepare, for each financial year, consolidated resource accounts detailing the resources acquired, held or disposed of, and the use of resources, during the year by the department (inclusive of its executive agencies) and its sponsored Non-Departmental Public Bodies (NDPBs) designated by order made under the GRAA by Statutory Instrument 2017 no. 310 (covering the core department and delivery bodies listed at Note 17 to the accounts). The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the core department and delivery bodies listed at Note 17 and of the net resource outturn, application of resources, changes in taxpayers' equity and cash flows of the core department and these delivery bodies for the financial year.

In preparing the accounts, the accounting officer of the department is required to comply with the requirements of the Government Financial Reporting Manual (FReM) and in particular to:

- observe the accounts direction issued by HM Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;

- ensure that the department has in place appropriate and reliable systems and procedures to carry out the consolidation process;

- make judgements and estimates on a reasonable basis, including those judgements involved in consolidating the accounting information provided by NDPBs;

- state whether applicable accounting standards as set out in the FReM have been followed and disclose and explain any material departures in the accounts; and

- prepare the accounts on a going concern basis.

HM Treasury has appointed the permanent head of the department as accounting officer of Defra. In addition, HM Treasury has appointed Ian Gambles as an additional accounting officer to be accountable for those parts of the department's accounts relating to the Forestry Commission (FC). Flood Re has an independently appointed chief executive who acts as Senior Responsible Officer (SRO) with accounting officer responsibilities for the body. Flood Re's SRO is directly accountable to Parliament for its income and expenditure. However, because its accounts consolidate into the department's, Flood Re must provide assurance to Defra's accounting officer through its independent auditors that they represent a true and fair view and comply with propriety and regularity expectations as contained in Managing Public Money. These appointments do not detract from the head of department's overall responsibility as accounting officer for the department's accounts.

The accounting officer of the department has appointed the chief executives of the executive agencies and NDPBs as accounting officers of those bodies. The accounting officer of the department is responsible for ensuring that appropriate systems and controls are in place to ensure that any grants that the department makes to its delivery bodies are applied for the purposes intended, and that such expenditure and the other income and expenditure of the delivery bodies are properly accounted for, for the purposes of consolidation within the resource accounts. Under their terms of appointment, the accounting officers of the delivery bodies are accountable for the use, including the regularity and propriety, of the grants received and the other income and expenditure of the delivery bodies.

The responsibilities of an accounting officer, including responsibility for the propriety and regularity of the public finances for which they are answerable, for keeping proper records and for safeguarding the assets of the department or NDPB for which they are responsible, are set out in Managing Public Money published by HM Treasury.

The accounting officer is required to confirm that, as far as they are aware, there is no relevant audit information of which the entity's auditors are unaware, and the accounting officer has taken all the steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the entity's auditors are aware of that information.

The accounting officer is required to confirm that the Annual Report and Accounts (ARA) as a whole is fair, balanced and understandable and that they take personal responsibility for the ARA and the judgements required for determining that it is fair, balanced and understandable.

Directors Report

Our Ministers and Senior Officials

Details of Defra's ministers and senior officials can be found in the departmental membership and attendance table in the Governance Statement.

Pension Liabilities

Details of pension liabilities can be found in Note 14 to the accounts.

Conflicts of Interest

Details of procedures in relation to conflicts of interest can be found in the Governance Statement.

Charities Act

Section 70 of the Charities Act 2006 sets out a power for ministers to give financial assistance to charitable, benevolent or philanthropic institutions. Defra and its delivery bodies are required to report to Parliament annually any financial assistance given to any charitable institution under the Charities Act. For 2017–18 no such payments were made by Defra or its delivery bodies (2016–17, £Nil).

Personal Data Related Incidents

The Defra Security and Information Assurance Group[4] works to identify and address information risks, and to promote good and consistent practice. The Defra group monitors the use of removable media devices on Defra laptop computers to protect information. Web blocking and monitoring is in place to block access to undesirable and potentially harmful sites. The Defra group regularly tests the robustness of the information and communications technology network and annually conducts a code of compliance exercise enabling Defra's continued connection to the Public Services Network. All employees are required to read and accept the Personal Commitment Statement, which details how to comply with Defra's security and information assurance policies. Defra's approach recognises that the vast majority of information handled by the department is not classified or sensitive, and that information is held in a number of different systems across the Defra group. Defra complies with Her Majesty's Government information assurance standards and the requirements of the Security Policy Framework.

All government departments are required to publish information about any serious data related incidents, which have to be reported to the Information Commissioner. There was one staff related incident formally reported to the Information Commissioner's Office by FC. There were no other incidents reported during 2017–18.

Incidents recorded centrally within the department that were deemed by the Data Controller not to fall within the criteria for reporting to the Information Commissioner's Office are set out in the following table. Small, localised incidents are not recorded centrally. The following table includes the core department, executive agencies, NDPBs, FC, the National Forest Company (NFC) and Flood Re.

[4] The Defra Security and Information Assurance Group includes the core department, RPA, EA, NE, APHA, the Marine Management Organisation (MMO), the Veterinary Medicines Directorate (VMD), and the Centre for Environment, Fisheries and Aquaculture Science (Cefas).

Summary of Other Protected Personal Data Related Incidents in 2017–18

Category	Nature of Incident	Total
I	Loss of inadequately protected electronic equipment, devices or paper documents from secured government premises	1
II	Loss of inadequately protected electronic equipment, devices or paper documents from outside secured government premises	14
III	Insecure disposal of inadequately protected electronic equipment, devices or paper documents	-
IV	Unauthorised disclosure	41
V	Other	5

Employee Health and Safety

Work-related injuries and ill health
The table below provides a breakdown of work-related injuries and ill health reported by the organisations currently participating in regular Defra group performance reporting benchmarking.

A total of 1,313 reports of injuries or ill health were received across the Defra group between 1 April 2017 to 31 March 2018. Of these, 34 had to be reported to the Health and Safety Executive (HSE) in accordance with the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations (RIDDOR) - 10 were specified injuries, 23 were injuries or illness resulting in more than seven days absence from work or normal duties, and one was for occupational disease. This is an increase compared to the same period in 2016–17 where 23 RIDDORs were reported.

	Full Time Equivalent (FTE) at 31 March 2018 (includes payroll and non-payroll)	Total RIDDOR reports	Lost Time injuries or ill health reported (excludes RIDDORs)	Lost Time Injury Frequency Rate[5] (includes RIDDORs with lost time)	Minor injuries or ill health	Total reports of Injuries and ill health	Non-injury events reported (e.g. near miss incidents)
AHDB	550	2	1	0.32 ↓	25	28	3
APHA	2,330	6	16	0.55 ↑	88	110	477
CCW	68	-	-	0.00 ↓	3	3	-
Cefas	578	3	1	0.40 ↑	21	25	44
Defra	3,506	-	3	0.05 ↑	26	29	20
EA	10,224	14	18	0.18 ↑	675	707	1,507
FC	1,206	1	5	0.24 ↓	111	117	978
JNCC	176	-	-	0.00 →	8	8	5
Kew	850	4	3	0.41 ↑	55	62	56

[5] Any injury or episode of ill health reported that results in the employee losing one day or more is generally regarded as an LTI. **LTIFR** refers to **Lost Time Injury Frequency Rate.** The frequency rate is the number of people injured over a year for each 100,000 hours worked by a group of employees which enables performance to be compared across organisations of different sizes. Arrows indicate increase/decrease/maintain since 2016–17.

	Full Time Equivalent (FTE) at 31 March 2018 (includes payroll and non-payroll)	Total RIDDOR reports	Lost Time injuries or ill health reported (excludes RIDDORs)	Lost Time Injury Frequency Rate[6] (includes RIDDORs with lost time)	Minor injuries or ill health	Total reports of Injuries and ill health	Non-injury events reported (e.g. near miss incidents)
MMO	328	-	-	0.00 →	23	23	11
NE	2,446	3	2	0.09 ↓	163	168	187
NFC	21	-	1	2.79 ↑	1	2	1
RPA	1,516	1	1	0.07 ↓	27	29	14
VMD	154	-	-	0.00 →	2	2	-
TOTAL	**23,953**	**34**	**51**	0.12 ↓	**1,228**	**1,313**	**3,303**

However strict comparisons cannot be made with previous years due to organisational restructuring, changes in FTE and changes to some internal category definitions.

The most common cause of all significant accidents causing absence from work duties remains as slips, trips and falls followed by carrying/lifting and poor posture and injuries from contact with something fixed or stationary. At individual organisational level, steps are taken to address common causes to prevent further accidents. This includes local and group level campaigns and review of control measures and protective clothing and equipment etc. This will continue to be a focus for campaigns during the coming year.

Non-injury events
No Dangerous Occurrence were reported under RIDDOR. In addition to work-related injuries and ill health, employees are encouraged to proactively report all 'near miss' (non-injury) events[7]. Investigating near misses enables lessons to be learned, shared and applied to prevent more serious incidents (possibly resulting in injury or ill health) occurring in the future.

A total of 3,303 near misses were reported by employees across the group meaning that, on average, one in every seven employees reported a near miss incident during the reporting period reflecting a reasonably positive reporting culture.

Prosecutions/HSE Interventions
No Crown Improvement, Prohibition or Censure Notices were served on Defra, executive agencies or NDPBs during the reporting period.

[6] Any injury or episode of ill health reported that results in the employee losing one day or more is generally regarded as an LTI. **LTIFR** refers to **Lost Time Injury Frequency Rate.** The frequency rate is the number of people injured over a year for each 100,000 hours worked by a group of employees which enables performance to be compared across organisations of different sizes. Arrows indicate increase/decrease/maintain since 2016–17.

[7] an incident which could have caused an injury e.g. when someone slips on a wet floor but is not injured; when opening a gate a person traps fingers but does not hurt themselves, when a car skids but does not crash; when a fixture falls from a ceiling but does not hit anyone etc.

Complaints to the Parliamentary and Health Service Ombudsman (PHSO)

Complaints are received and dealt with at three levels within the core department.

- Level one - at the point where the problem occurred.
- Level two - at a senior level within the relevant business unit.
- Level three - by the Defra Service Standards Complaints Adjudicator.

Most complaints are resolved at levels one and two. Complainants who remain dissatisfied after level three can take their complaint to the PHSO. Of the investigations carried out by PHSO for the Defra group in 2017–18, six were either upheld or partially upheld. The Environment Agency (EA) was required to issue an apology and make two reviews. Animal and Plant Health Agency (APHA) were required to issue an apology and pay £150 compensation in relation to a case from 2016–17.

Defra's complaints procedure can be found online[8]. Each part of Defra's group has its own complaints procedures which can be viewed on its website.

Learning from complaints is a key priority for the entire Defra group. The Defra group is sharing information on ways of working and lessons learnt and working with PHSO to improve complaints handling.

Between April 2017 and March 2018, eight complaints were accepted for investigation by the PHSO relating to the Defra group. Please see the following breakdown:

Body	Complaints accepted for investigation	Investigations upheld	Investigation partly upheld	Investigations not upheld	Number of Ombudsman recommendations complied with	Number of Ombudsman recommendations not complied with
Defra	-	-	-	-	-	-
APHA	-	-	-	-	1	-
RPA	2	1	3	1	4	-
MMO	4	-	-	1	-	-
NE	2	-	-	1	-	-
Cefas	-	-	-	-	-	-
EA	-	-	2	4	2	-
Total	**8**	**1**	**5**	**7**	**7**	**-**

These figures are a snapshot of complaints with PHSO between April 2017 and March 2018. Not all complaints accepted for investigation in that period will be resolved in the same period and some cases resolved will have been accepted for investigation in the previous year. Flood Re is not included in this table as they are regulated by the Financial Conduct Authority.

Human Rights Disclosure

There has not been any successful litigation against Defra alleging a breach of the Human Rights Act 1998. There has been no Defra primary legislation during the relevant period and all Defra statutory instruments during the period which were subject to the affirmative procedure, or which amended primary legislation, have included a statement of compatibility with the European Convention on Human Rights. No Parliamentary committee has adversely reported any Defra legislation for breach of the Human Rights Act 1998.

[8] https://www.gov.uk/government/organisations/department-for-environment-food-rural-affairs/about/complaints-procedure

Chapter 5 – Staff and Remuneration Report

The staff and remuneration report provides information on people in Defra and sets out the entity's remuneration policy for directors, how that policy has been implemented, sets out the amounts awarded to directors, and where relevant the link between performance and remuneration. It also provides details on remuneration and staff that Parliament and others see as important to accountability.

Staff Report

Core Defra has seen increased staffing levels in 2017–18 due in the main to the requirements of EU exit and the transformation of the department's Corporate Services function. To support EU exit we have recruited an additional 1,300 staff. Corporate Service Transformation has seen Corporate Services (HR, Finance, Procurement, IT and Communications) staff transfer from some of the delivery bodies to the core department.

People Survey

Being recognised by employees and leaders as an engaging organisation that is a great place to work is of critical importance to us and the People Survey results were encouraging, with a significant overall increase in the number of people completing the survey, an increase in the engagement score and good progress in most of our high level themes.

People Survey 2017: Areas of Success

There is much to be celebrated in 2017's People Survey results;

- The engagement index for core Defra was 61 percent, with an increase of five points, compared to a two point increase across the Civil Service.
- For the core department and executive agencies, the engagement index increased by four points to 55 percent.
- Leadership and managing change has the strongest association with engagement and the core department's results for this theme showed a significant increase of seven points, to 48 percent.
- Leadership and managing change increased by six points to 41 percent for the core department and its agencies.

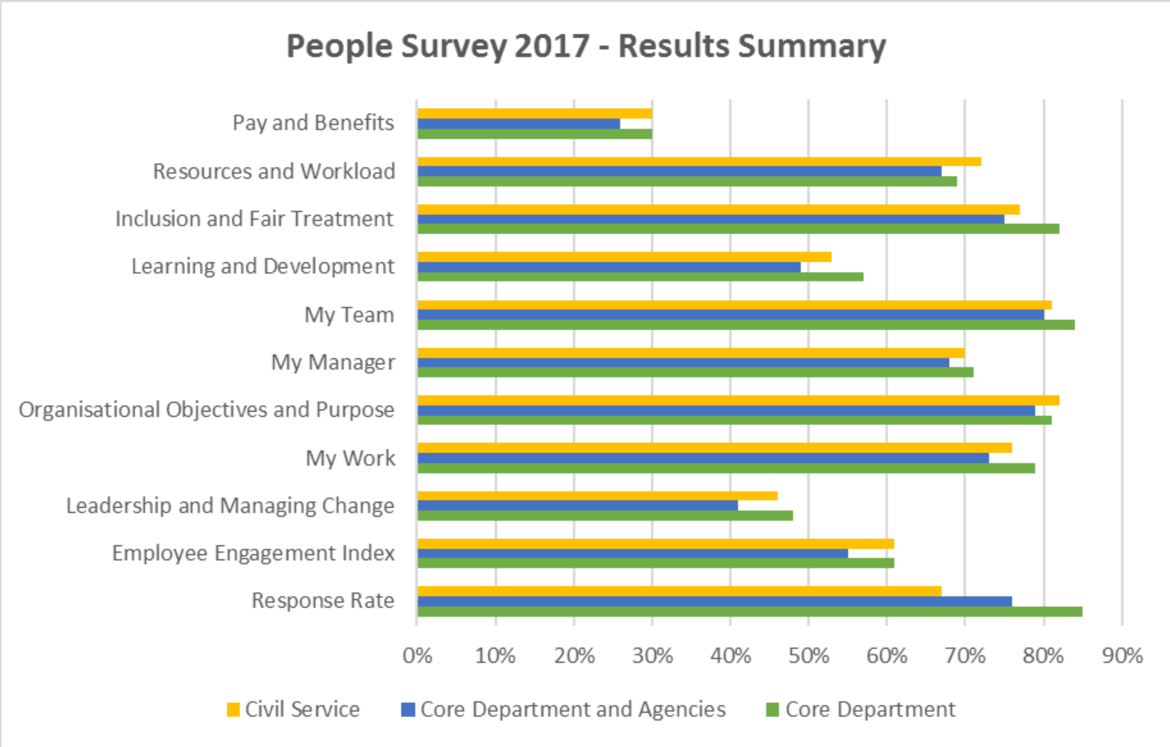
There are also areas that need improvement, for example 9 percent of people in core Defra say they have experienced discrimination and the same percentage have experienced bullying or harassment in the last 12 months. We are committed to addressing this and have put an increased focus on improving our processes and support for individuals who experience discrimination, bullying and harassment.

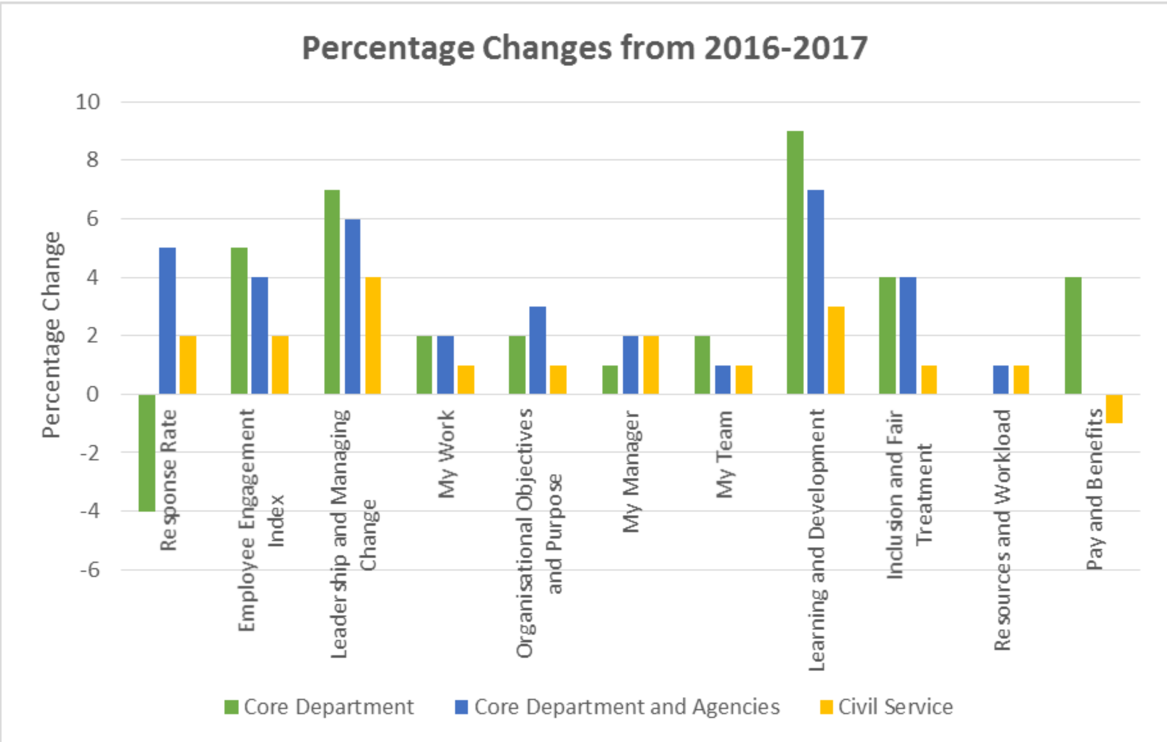
Our leaders, supported by HR Business Partners, continue to identify and address specific challenges at a local level. Our commitment is to embed engagement in all that we do and ensure a continued focus throughout the year. We also share best practice across the Defra group, as well as at a local level, to ensure that the biggest impact is felt across different directorates and teams.

Defra will continue to increase opportunities for employee engagement - building on the Executive Committee's (ExCo's) vision of Defra being a 'great place to work' - by ensuring that employees can participate in the decisions that impact the department. The Defra group's senior leadership will continue to engage with employees through a variety of events and media channels such as roadshows, town hall style events, employee networks and digital communications such as online question and answer sessions and social media.

People Survey 2017: Results Summary

(Positive responses shown as a percentage)





Recruitment Practice

The Civil Service Order in Council 1995 sets out the legal basis for Defra and its agencies' recruitment policies and practice. The Civil Service Commissioners' Principles for Recruitment are mandatory and must be followed when any post is opened to competition from outside the Civil Service.

Defra has moved to a more strength based approach to recruitment and selection alongside the use of Civil Service competencies. This blended model provides more robust evidence of candidates' strengths and values, an approach more likely to improve diversity outcomes of recruitment. This approach also provides a better experience for candidates, particularly external candidates unfamiliar with the Civil Service.

We are developing a Defra employer brand through the introduction of a consistent look and feel to candidate information. In addition, we are focused on communicating the full benefit package to external applicants.

Employee Composition

Defra continues to monitor the make-up of the group's workforce by gender which is described in the table below. During recruitment and selection processes applications are anonymised up until the interview stage; interview panel members are required to undertake unconscious bias training; and single gender selection panels are allowed by exception only.

The table below shows gender split as at 31 March 2018.

Gender Split	Male	Female
Senior officials on the Defra Board	1	2
Ex Officio on the Defra Board	1	1
Ministers	3	1
Non-Executive Directors for the Defra group[1]	62	21
Management employees (SCS grade or equivalent) for the Defra group (excluding senior officials on the Defra Board)	182	117
All other employees for the Defra group	11,229	11,019
Total	**11,478**	**11,161**

1. Defra group includes the core department, executive agencies, NDPBs, levy bodies, Flood Re, and the National Forest Company. Figures are by headcount.

Further information on staff characteristics can be seen within the Diversity and Inclusion section below.

Diversity and Inclusion

Inclusion and fair treatment is an important aspect of employee engagement and ExCo has agreed to seven priorities to underpin the Defra group Equality, Diversity and Inclusion (EDI) strategy and meet the ambitions of the Civil Service to be the most inclusive employer in the UK. There has been good progress on the priorities which means that the department: better understands the existing diversity of the workforce; is tackling unconscious bias; is improving career support for high potential people from diverse groups; is tackling discrimination, bullying and harassment; and is ensuring that all policies and programmes show due regard for equality, diversity and inclusion.

Strategy
The Defra group launched its EDI strategy in January 2017 covering the period 2017 to 2020. The aim of the strategy is to ensure Defra is a great place to work and to deliver our aspirations to be an organisation with a diverse, open and inclusive culture. The EDI strategy is for all Defra group employees, at all levels, wherever they work and whatever they do. It is focused on four themes: respect, include, support and engage[9].

The four themes incorporate our strategic priorities which include; improving declaration rates, promoting inclusive behaviours, tackling discrimination, bullying and harassment, and improving career support for underrepresented groups. We will strive to create a supportive and inclusive culture which is fundamental to creating an equal, diverse and inclusive workforce.

One of our key priorities is using data to drive improvements in diversity. To ensure we have the data we need to target and measure our actions, we run an annual campaign to increase our diversity declaration rates. The campaign, ‘This is Me’, had a dual aim of increasing our declaration rates as well as promoting an inclusive culture and encouraging open conversations. The most recent campaign was launched in February 2018. During the campaign between December and March, the core Defra declaration rates increased by 4.2 percent for ethnicity; 7.6 percent for disability; 9.5 percent for sexual orientation and 8.8 percent for religion. However, rates still remain lower than the Civil Service average and we are planning further actions over the coming year to further improve the diversity data we hold.

Over the past year we have also placed an increased focus on workplace adjustments and promotion of the workplace adjustment passport; promoted our new network of discrimination, bullying and harassment ‘go to people’ to ensure all employees are supported through any issues they have. We have also published our gender pay gap and, working with our Women’s Network, aim to close the gap further over the coming year. We have seen an increase of representation of our underrepresented groups and continue to drive progress in this area, e.g. through our recent launch of a ‘Project Race’ placing an increased focus on improving representation, retention and engagement of black and ethnic minority employees.

Promoting Diversity in Recruitment
We are committed to improving our diversity by running inclusive recruitment campaigns which encourage a diverse range of candidates and appointees. We ensure that everyone involved in sift assessments or interviews undertakes unconscious bias training and considers its implications at each selection stage. We check adverts and candidate packs to ensure they are appropriately worded to attract a diverse range of applicants. We also use recruitment material to showcase Defra’s commitment to diversity in the actions we’ve taken, to demonstrate that we are an organisation where candidates can comfortably ‘bring their whole selves’ to work.

We are always keen to adopt good practice and lessons from successful experience elsewhere and we partner with Government Recruitment Services to facilitate this. This year we have trialled new approaches like strength based interviews, situational judgement tests and using external sifters, as well as working with an external attraction consultancy to help improve our targeting of key audiences. We collect and analyse diversity data from our major campaigns so we can see where we are doing well and where we need to do better, e.g. incorporating stronger messages on avoiding unconscious bias into manager guidance, or retargeting our attraction strategy to reach new audiences.

We use two benchmarks to measure our performance against each protected characteristic - the relevant percentage of the economically active population and the percentage of the declared Defra Civil Service population at that grade. We use two key data points – the initial field we attract and the pool we appoint. In our recent Higher Executive Officer campaign, we exceeded both benchmarks for Black, Asian and Minority Ethnic (BAME) and Lesbian, Gay, Bisexual Transgender (LGBT) candidates at attraction, and for BAME, LGBT and women at appointment, e.g. 20.3 percent of our appointees were BAME candidates. In our recent Grade 7 campaign, we exceeded both benchmarks for BAME and LGBT candidates at attraction, and for LGBT and women at appointment, e.g. 62.7 percent of our appointees were women, 10.2 percent identified as LGBT. We exceeded the Defra benchmark for BAME candidate appointment, 10.2 percent of appointees were BAME candidates. We also track throughout the selection process so we can spot any differences for certain characteristics at different stages.

[9] https://www.gov.uk/government/organisations/department-for-environment-food-rural-affairs/about/equality-and-diversity

Supporting and Developing Under Represented Groups

Core Defra continues to strengthen relationships with its employee networks, all of which are supported by a senior champion. These include the Job Share Network; the Lesbian, Gay and Bisexual, Transgender and Asexual Network; the Ethnic Minority Network; the Work Life Balance Network; the Women's Network; Break the Stigma (mental health network); Disnet (disability network); Age and Diversity Network (formally known as DEAN, Defra Experience and Age Network) and two networks for EU nationals and social mobility. A number of our networks are increasingly supporting employees from across the Defra group including executive agencies and Non-Departmental Public Bodies (NDPBs) to increase their reach and impact.

Across the Defra group, opportunities to develop talent among employees are promoted at all levels. There is a specific focus on promoting opportunities for employees with protected characteristics, based on clear business evidence of underrepresentation at specific grades. For the 2018 intake of Future Leaders Scheme (FLS) and Senior Leaders Scheme (SLS) candidates we had good results in the representation of female, disabled and LGBT candidates, however, BAME representation was disappointing across both schemes. We will consider how forging closer links to recruitment and taking positive action can improve these results. We also redirected unused forecasted funding from FLS to support additional places on the Positive Action Pathway to strengthen our early talent pipeline and provide support for underrepresented groups to progress. (For the 2018 intake, we have increased the planned number of Executive Officer candidates from 8 to 10 places and for Higher Executive Officer/Senior Executive Officer increase the planned number of places from 8 to 20). In 2017, Defra hosted 28 summer diversity interns, this was the highest number of placements of any government department. This highlights good progress in the department's ambitions to attract high calibre candidates from underrepresented groups.

Defra's quarterly data dashboard, that covers Defra and its agencies, highlights that as at 31 March 2018 14.6 percent of the overall workforce is made up of employees who identify themselves as disabled, 7.4 percent who identify themselves as from an ethnic minority and 5.4 percent who identify their sexual orientation as lesbian, gay, bisexual or 'other' (LGBO). These are shown by grade below.

Grade	Disabled	Ethnic minority	LGBO
AA/AO	20.6%	9.6%	6.3%
EO	13.8%	7.7%	5.8%
HEO/SEO	13.1%	6.5%	4.6%
G7/G6	10.8%	6.0%	5.4%
SCS	8.3%	5.0%	7.9%

The department operates a guaranteed interview scheme, which guarantees an interview to anyone with a disability whose application meets the minimum criteria for the post. Once in post, employees with disabilities are provided with reasonable adjustments they may need to carry out their role. Over the last year, as well as promoting our recommended learning around diversity, our Disability Network has arranged a series of workshops across Defra with the aim of raising awareness and knowledge regarding reasonable adjustments and the responsibilities of individuals and line managers.

Defra successfully attained Disability Confident scheme level three status this year recognising us as a 'Disability Confident Leader'. This recognises Defra's further continued support for disabled staff in the workplace through reasonable adjustments and inclusive work practice e.g. use of the workplace adjustment passport and policies which support individuals to apply to take disability leave for assessment, treatment and rehabilitation. We continue to monitor our People Survey outcomes by demographics and we are encouraged to see progress being made in reducing engagement gaps for underrepresented groups. For example, in the 2017 People Survey, there was a 1 percent gap between the engagement index score for staff reporting a long term limiting condition, illness or disability and those reporting no long term limiting condition, illness or disability. This compares to a 5 percent gap in the 2016 survey.

Employee Wellbeing

The Defra Wellbeing Programme promotes a collaborative approach across the Defra group to maximise the benefit and coverage to our employees while still enabling organisations to adapt health and wellbeing activities to their specific organisational requirements and risks.

This has been demonstrated successfully in 2017–18 through our procurement of new Employee Assistance programme, Occupational Health Service, and Corporate Eye Care contracts. Additionally, a Health and Wellbeing Roadshow visited eighteen Defra group workplaces between January and March 2018, highlighting resources available to Defra group employees. A health kiosk (enabling employees to measure their weight, BMI, blood pressure etc.) was present as part of the roadshows and was available at an additional eight Defra workplaces around the country.

The Defra group Wellbeing Forum (with members from twelve Defra group organisations currently) meets regularly to discuss plans, priorities and shared campaigns. Campaigns are aligned to national and Civil Service themes with initiatives such as webinars, workshops, blogs and site events offered to raise engagement and awareness of wellbeing topics.

Managing Attendance

A corporate strategy for managing attendance is in place across Defra, to support the wellbeing of our people and proactively maintain high levels of attendance at work. Levels of absence are closely monitored and our culture is to support the individual where absence is high. The aim is to provide the support needed to not only help people return to work from a period of long term absence but to also pick up and deal with short term absences or to prevent sickness absence from happening in the first place. Support options include keeping in touch throughout longer periods of absence, seeking advice from occupational health professionals and provision of counselling and other advisory services through an employee assistance programme.

For Defra and its executive agencies, an average of 4.3 working days per employee was lost to sickness absence during the year to 31 March 2018, compared with 4.4 days in the year to 31 March 2017.

Volunteering

Defra continues to demonstrate its commitment to the corporate social responsibility agenda encouraging employees to take advantage of the special leave that is available for volunteering. Defra employees are offered up to three days special leave with pay each year to use their skills to help others by volunteering individually, or as part of a team, for charitable or non-profit making organisations.

Trade Union Facility Time

The three unions recognised by the core department and its agencies for the purposes of consultation and negotiation are the Public and Commercial Services union (PCS), Prospect and FDA. An employee relations framework helps define this relationship.

In accordance with the requirements of the Trade Union (Facility Time Publication requirements) Regulations 2017 the following is a summary of trade union officials of employees and facility time usage of this group during the 2017–18 year.

In core Defra and it's agencies 76 (73.35 FTE) employees were Trade Union (TU) representatives. Of these, 62 employees spent up to 50 percent of their working hours on facility time, and 14 spent none of their time on TU business.

The total cost of the facility time was £136,481 which is 0.038 percent of the total pay bill. The time spent on paid TU activities as a percentage of total paid facility time is 4.5 percent. The total pay bill cost was £360.8 million.

TU Information for our NDPBs which are in scope for this disclosure can be found in their individual Annual Report and Accounts (ARA).

Number of Senior Civil Service Staff (or Equivalent) by Band

This information is audited by the Comptroller and Auditor General.

The table below includes information on NDPBs that are assessed through a different job evaluation system. To enable a consistent understanding of respective roles, and in line with previous years, salary has been used for comparison purposes. Work relating to talent and succession management provides additional assurance in terms of general comparability.

	Core Department	Defra Group
SCS Permanent Secretary	1	1
SCS Pay band 3	5	11
SCS Pay band 2	23	55
SCS Pay band 1	91	228

Flood Re employees are excluded as they cannot be allocated against SCS pay bands.

Consultancy and Temporary Staff Expenditure

The table below shows the total consultancy and temporary staff expenditure incurred by the Defra group.

	2017–18			2016–17		
£000	**Core Department**	**Core Department and Agencies**	**Defra Group**	**Core Department**	**Core Department and Agencies**	**Defra Group**
Consultancy Expenditure	11,422	11,656	37,553	2,792	3,449	22,897
Temporary Staff Expenditure	43,298	53,059	73,166	14,609	29,675	52,941
Total	**54,720**	**64,715**	**110,719**	**17,401**	**33,124**	**75,838**

Overall, consultancy expenditure has increased by £14.7 million and temporary staff costs have increased by £20.2 million compared with the prior year.

The core department’s consultancy costs have increased by £8.6 million, this is due to a greater workload in regards to EU exit and work on a major IT programme, UnITy, which aims to integrate Defra group's IT services. RBG Kew's consultancy costs have increased by £5.6 million, this is due to a reclassification of costs.

The core department’s temporary staff costs have increased by £28.7 million, this is due to a greater workload in regards to EU exit and the UnITy IT programme as described above. It is also due to corporate service staff from the delivery bodies being transferred into the core department which nets off with reductions in the delivery bodies costs.

Staff Costs

The following staff costs, number of persons employed and exit packages information is audited by the Comptroller and Auditor General.

Staff costs comprise:

	2017-18					2016-17
	Permanent Employed Staff	**Others**	**Ministers**	**Special Advisors**	**Total**	Total
	£000	**£000**	**£000**	**£000**	**£000**	£000
Salaries and wages	723,402	86,784	228	171	810,585	749,079
Social security costs	82,945	805	27	20	83,797	77,772
Other pension costs	80,180	587	-	30	80,797	73,725
Sub total	**886,527**	**88,176**	**255**	**221**	**975,179**	900,576
Less: recoveries in respect of outward secondments	(1,895)				(1,895)	(3,314)
Total net costs	**884,632**	**88,176**	**255**	**221**	**973,284**	897,262

	2017-18			2016-17		
	Charged to Administration Budgets	**Charged to Programme Budgets**	**Total**	Charged to Administration Budgets	Charged to Programme Budgets	Total
	£000	**£000**	**£000**	£000	£000	£000
of which:						
core department and agencies	191,938	206,160	398,098	150,024	184,225	334,249
NDPBs	56,001	478,376	534,377	72,829	452,385	525,214
Net total SoCNE	**247,939**	**684,536**	**932,475**	222,853	636,610	859,463
Staff costs capital:						
core department and agencies			1,741			2,252
NDPBs			40,963			38,861
Less: recoveries in respect of outward secondments			(1,895)			(3,314)
Total net costs			**973,284**			897,262

Board remuneration is included in the Remuneration Report.

For 2017–18, out of the total, £1.9 million recoveries in respect of outward secondments have been netted off, £42.7 million has been charged to capital and the balance of £932.5 million has been charged in the Statement of Comprehensive Net Expenditure (SoCNE). For 2016–17, out of the total, £3.3 million recoveries in respect of outward secondments were netted off, £41.1 million was charged to capital and the balance of £859.5 million was charged in the SoCNE.

During the 2017–18 year £15,500 was paid in severance payments in line with the terms of the Model Contract for Special Advisors.

Civil Service Pension Schemes

The Principal Civil Service Pension Scheme (PCSPS) and the Civil Servant and Other Pension Scheme, known as alpha, are unfunded multi-employer defined benefit schemes. Defra is unable to identify its share of the underlying assets and liabilities. The scheme actuary valued the PCSPS as at 31 March 2012. Details can be found in the annual accounts of the Cabinet Office: Civil Superannuation[10].

For 2017–18, employer's contributions of £71.4 million (2016–17, £66.2 million) were payable to the PCSPS at one of four rates in the range 20 percent to 24.5 percent of pensionable earnings, based on salary bands. The scheme actuary reviews employer contributions usually every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2017–18 to be paid when the member retires and not the benefits paid during this period to existing pensioners.

[10] http://www.civilservicepensionscheme.org.uk/

Other Pension Schemes

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. For 2017–18 employer's contributions of £2.9 million (2016–17, £1.7 million) were paid to one or more of the panel of three appointed stakeholder pension providers. Employer contributions are age related and ranged from 8 percent to 14.75 percent. Employers also match employee contributions up to 3 percent of pensionable earnings. In addition, employer contributions of £18,000 for 2017–18 (2016–17, £14,000), 0.5 percent of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service or ill health retirement of these employees. Contributions due to the partnership pension providers at the reporting period date were £34,000 (2016–17, £16,000). Contributions prepaid at that date were £Nil (2016–17, £Nil).

In addition to the schemes listed above, EA operates a funded defined benefit scheme, and some other delivery bodies operate small defined contribution schemes. Details of these schemes can be found in the ARAs of the relevant delivery bodies.

There was one individual in the core department (2016–17, one) who retired early on ill health grounds. The total additional accrued pension liabilities in the year amounted to £23,000 (2016–17, £Nil).

Loans are made to employees to cover season ticket advances and to relocate. As at 31 March 2018, there were no outstanding balances from core department senior officials.

Average Number of Persons Employed

The average number of whole-time equivalent persons employed within the Defra group during the year was as follows. The breakdown of this note has been revised since 2016–17 to reflect internal reporting.

	2017-18					2016-17
	Permanently Employed Staff	**Others**	**Ministers**	**Special Advisors**	**Total**	Total
Activity	**Number**	**Number**	**Number**	**Number**	**Number**	Number
Environment Agency	8,650	890	-	-	9,540	9,626
Natural England	1,958	318	-	-	2,276	2,257
Animal and Plant Health Agency	1,990	87	-	-	2,077	2,140
Rural Payments Agency	1,464	192	-	-	1,656	2,011
Core department[1]	2,606	614	4	2	3,226	1,839
Others[2]	3,217	104	-	-	3,321	3,149
Staff engaged on capital projects[3]	920	120	-	-	1,040	1,016
Total	**20,805**	**2,325**	**4**	**2**	**23,136**	22,038
of which:						
core department and agencies	7,230	1,016	4	2	8,252	7,265
NDPBs	13,575	1,309	-	-	14,884	14,773
Total	**20,805**	**2,325**	**4**	**2**	**23,136**	22,038

1. Includes central support functions and specialist advice to allow the department to operate effectively and deliver on its objectives. It also includes Common Agriculture Policy (CAP) Disallowance. The significant increase from 2016–17 is caused by the merger of corporate services functions across the department and EU exit work.
2. Includes all the smaller delivery bodies not separately disclosed.
3. Includes 1,004 for EA (2016–17, 992).

Reporting of Civil Service and Other Compensation Schemes – Exit Packages

	2017-18 Number of Compulsory Redundancies	2017-18 Number of Other Departures Agreed	2017-18 Total Number of Exit Packages	2016-17 Restated Number of Compulsory Redundancies	2016-17 Restated Number of Other Departures Agreed	2016-17 Restated Total Number of Exit Packages
	Number	**Number**	**Number**	Number	Number	Number
Cost band						
< £10,000	7	3	10	2	11	13
£10,000 - £25,000	-	27	27	-	95	95
£25,001 - £50,000	-	31	31	1	174	175
£50,001 - £100,000	-	14	14	1	151	152
£100,001 - £150,000	-	1	1	-	6	6
Total number of exit packages by type	**7**	**76**	**83**	4	437	441
Total resource cost (£000)	**30**	**2,723**	**2,753**	141	19,889	20,030
of which:						
Number of cases	**Number**	**Number**	**Number**	Number	Number	Number
Core department and agencies	7	56	63	1	152	153
NDPBs	-	20	20	3	285	288
Total	**7**	**76**	**83**	4	437	441
Resource cost	**£000**	**£000**	**£000**	£000	£000	£000
Core department and agencies	30	1,855	1,885	41	6,005	6,046
NDPBs	-	868	868	100	13,884	13,984
Total	**30**	**2,723**	**2,753**	141	19,889	20,030

Redundancy and other departure costs have been paid in accordance with the provisions of the Civil Service Compensation Scheme, a statutory scheme made under the Superannuation Act 1972. Exit costs are accounted for in full in the year of departure or earlier where a demonstrable commitment exists. Where the department has agreed early retirements, the additional costs are met by the department and not by the Civil Service Pension Scheme. Ill-health retirement costs are met by the Pension Scheme and are not included in the table.

The Government lost a judicial review on the Civil Service Compensation Scheme (CSCS) on 18 July 2017. As a result the 2010 CSCS terms are now restored and lawfully in place. During the year to 31 March 2018, Defra paid a further £530,000 as part of the 2016–17 voluntary exit scheme to reflect the more favourable terms of the 2010 CSCS (reflected in 2016–17 above).

Off-Payroll Appointments

Information on off-payroll engagements is set out in the following table. Off-payroll means anyone who is working for the department or a delivery body but is not paying PAYE (Pay As You Earn) or National Insurance via the departmental payroll.

Off-payroll engagements as of 31 March 2018, for more than £245 per day and that last for longer than six months

	Core Department	Executive Agencies			Delivery Bodies					Total
	Defra	APHA	RPA	VMD	EA	FC	Kew	MMO	Flood Re	
Number of existing engagements as of 31 March 2018	299	3	2	1	9	2	5	10	1	332
Of which:										
Number that have existed for less than one year at time of reporting	200	-	2	1	2	-	1	9	1	216
Number that have existed for between one and two years at time of reporting	72	1	-	-	5	-	4	1	-	83
Number that have existed for between two and three years at time of reporting	12	-	-	-	2	-	-	-	-	14
Number that have existed for between three and four years at time of reporting	10	2	-	-	-	-	-	-	-	12
Number that have existed for four or more years at time of reporting	5	-	-	-	-	2	-	-	-	7

Bodies not listed in the table above provided a nil return.

The significant increase in the core department's figures for 2017–18 is caused by EU exit work and the merger of corporate services functions from our executive agencies and delivery bodies. There is a corresponding decrease in executive agencies and delivery bodies figures.

New off-payroll engagements, or those that reached six months in duration, between 1 April 2017 and 31 March 2018, for more than £245 per day and that last for longer than six months.

	Core Department	Executive Agencies		Delivery Bodies						Total
	Defra	RPA	VMD	EA	FC	Kew	MMO	Flood Re	CCW	
Number of new engagements, or those that reached six months in duration, between 1 April 2017 and 31 March 2018	214	4	1	2	10	5	10	2	1	249
Of which:										
Number assessed as caught by IR35	25	-	-	-	-	-	-	2	1	28
Number assessed as not caught by IR35	189	4	1	2	10	5	10	-	-	221
Number engaged directly (via a PSC contracted to the department) and are on the departmental payroll	-	-	-	-	-	-	-	-	-	-
Number of engagements reassessed for consistency / assurance purposes during the year	54	4	-	2	10	-	-	-	-	70
Number of engagements that saw a change to IR35 status following the consistency review	-	-	-	-	4	-	-	-	-	4

Bodies not listed in the table above provided a nil return. The significant increase in the core department's figures for 2017–18 is caused by EU exit work and the merger of corporate services functions from our executive agencies and delivery bodies. There is a corresponding decrease in executive agencies and delivery bodies figures.

Off-payroll engagements of board members and/or senior officials with significant financial responsibility between 1 April 2017 and 31 March 2018.

		Number of off-payroll engagements of board members and/or senior officials with significant financial responsibility during the financial year	Total number of individuals on-payroll and off-payroll that have been deemed 'board members and/or senior officials with significant financial responsibility', during the financial year. This figure should include both on-payroll and off-payroll engagements
Core Department	**Defra**	-	11
Executive Agencies	**APHA**	-	11
	Cefas	-	16
	RPA	-	16
	VMD	-	6
Delivery Bodies	**AHDB**	-	16
	CCW	-	13
	EA	-	18
	FC	-	24
	Flood Re	-	8
	JNCC	-	14
	Kew	-	10
	MMO	-	16
	NE	-	8
	NFC	-	11
	SFIA	-	14

Senior officials with significant financial responsibility are defined as all board-level executives, non-executive directors and finance directors. Individuals are counted, not posts, so figures can be artificially high when changes happen mid-year.

Remuneration Report

This information is audited by the Comptroller and Auditor General.

Remuneration Policy

The remuneration of the Senior Civil Service (SCS) is set by the Prime Minister following independent advice from the Senior Salaries Review Body (SSRB). The Cabinet Office advises the department in March or April each year of the government's response to the SSRB recommendations and produces guidance for departments to follow.

The core department develops its SCS reward strategy within the Cabinet Office framework, ensuring that the overall pay awards for the SCS are within the cost ceiling allowed.

Members of the SCS, excluding the Permanent Secretary, are eligible to be considered for individual levels of bonus as non-pensionable, non-consolidated variable pay (NCVP), based on their performance. NCVP is paid in the financial year after that in which it was earned. During 2017–18, NCVP for 2016–17 performance was paid to approximately 25 percent of the SCS and was paid at £11,000 for deputy directors, £13,000 for directors and £15,000 for directors general. NCVP values, informed by each individual's appraisal grade, were paid within Cabinet Office guidelines. Departments also have discretion to make in-year non-consolidated award payments to recognise outstanding contribution for up to 10 percent of SCS staff. These are limited under Cabinet Office guidance to a maximum of £5,000.

The Permanent Secretary is eligible to be considered for a NCVP bonus award measured against achievement of objectives, which for performance in 2016–17 was subject to a maximum of £17,500. Such awards are made by the Permanent Secretaries' Remuneration Committee, which comprises the Chairman of the SSRB (who acts as chair), two other members of the SSRB, the Cabinet Secretary and the Permanent Secretary of HM Treasury.

Ministerial salaries are determined by the Cabinet Office, under the Ministerial and Other Salaries Act 1997.

Service Contracts

The Constitutional Reform and Governance Act 2010 requires Civil Service appointments to be made on merit, on the basis of fair and open competition. The recruitment principles published by the Civil Service Commission specify the circumstances when appointments may be made otherwise.

Further information about the work of the Civil Service Commissioners can be found on the Civil Service Commission website. All senior officials on ExCo are employed on permanent Civil Service contracts. Therefore the officials covered by this report hold appointments which are open ended. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme.

Remuneration (Including Salary) and Pension Entitlements

The following sections provide details of the remuneration and pension interests of the ministers and Defra Board (the Board) members who were employees of the department during 2017–18. The following tables in the Remuneration Report have been subject to audit.

Ministers

£	2017–18 Salary	2016–17 Salary	2017–18 Pension Benefits**	2016–17 Pension Benefits**	2017–18 Severance Payments	2016–17 Severance Payments	2017–18 Total (to nearest £1000)	2016–17 Total (to nearest £1000)
Rt Hon Michael Gove MP *(from 11 June 2017)*	54,379*	-	12,000	-	-	-	66,000	-
George Eustice MP	31,680	31,680	8,000	8,000	-	-	40,000	40,000
Dr Thérèse Coffey MP	22,375	14,917*	6,000	4,000	-	-	28,000	19,000
Lord Gardiner***	105,076	70,051*	16,000	11,000	-	-	121,000	81,000

Ministers who have served during 2017–18 but were not in post as at 31 March 2018

£	2017–18 Salary	2016–17 Restated**** Salary	2017–18 Pension Benefits**	2016–17 Pension Benefits**	2017–18 Severance Payments	2016–17 Severance Payments	2017–18 Total (to nearest £1000)	2016–17 Total (to nearest £1000)
Rt Hon Andrea Leadsom MP *(until 11 June 2017)*	13,126*	46,737*	12,000	12,000	-	-	25,000	59,000

*Full year equivalent salary for ministers who served part year with Defra

£	2017–18	2016–17
Rt Hon Michael Gove MP *(from 11 June 2017)*	67,505	-
Rt Hon Andrea Leadsom MP *(until 11 June 2017)*	67,505	67,505
Dr Thérèse Coffey MP	-	22,375
Lord Gardiner***	-	105,076

** The value of pension benefits accrued during the year is calculated as the real increase in pension multiplied by 20 less the contributions made by the individual. The real increase excludes increases due to inflation or any increase or decrease due to a transfer of pension rights. Ministers' pensions are disclosed to the nearest £000.

***Until 15 July 2016, Lord Gardiner was the Defra spokesperson in the House of Lords and was not paid for this role. From 16 July 2016, Lord Gardiner became the Parliamentary Under Secretary of State for Rural Affairs and Biosecurity and Lords Minister. The remuneration shown in the table is for Lord Gardiner's time in his new position.

****This figure has been restated to exclude payments made by a previous department.

Ministerial Salaries

In June 2017, the Government announced that it would continue a ministerial pay freeze.

Senior Officials on the Board

£000	2017–18 Salary	2016–17 Salary	2017–18 Bonus Payments	2016–17 Bonus Payments	2017–18 Pension Benefits	2016–17 Pension Benefits	2017–18 Total	2016–17 Total
Clare Moriarty *Permanent Secretary*	160–165	160–165	15–20	-	14	128	190–195	285–290
Betsy Bassis *Director General*	140–145	140–145	10–15	-	23	23	175–180	160–165
Nick Joicey *Director General*	115–120	55–60*	10–15	10–15	37	24	165–170	95–100

*Full year equivalent salary for part year officials

£000	2017–18	2016–17
Nick Joicey	-	110–115

Ex Officio Board Members

The Board has two ex officio members, Emma Howard Boyd from Environment Agency (EA) and Andrew Sells from Natural England (NE).

The ex officio members do not receive any additional payment from the core department for their duties on the Board. For details of the remuneration of these ex officio members, please see the EA and NE Annual Report and Accounts as they are paid by these entities.

Benefits in Kind

The monetary value of benefits in kind covers any benefits provided by the department and treated by HM Revenue and Customs as a taxable emolument. No Defra officials received benefits in kind during the 2017–18 year.

Salary

Salary includes gross salary; overtime; reserved rights to London weighting or London allowances; recruitment and retention allowances; private office allowances and any other allowance to the extent that it is subject to UK taxation.

This report is based on accrued payments made by the department and thus recorded in these accounts. In respect of ministers in the House of Commons, departments bear only the cost of the additional ministerial remuneration; the salary for their services as an MP (£76,011 from 1 April 2017) and various allowances to which they are entitled are borne centrally. However, the arrangement for ministers in the House of Lords is different in that they do not receive a salary but rather an additional remuneration, which cannot be quantified separately from their ministerial salaries. This total remuneration, as well as the allowances to which they are entitled, is paid by the department and is therefore shown in full in the figures above.

The information given above relates to members of the Board. Equivalent information relating to the entities consolidated into the departmental accounts (as per Note 17: executive agencies, NDPBs, National Forest Company and Flood Re) is given in their separate ARAs.

Bonuses

Bonuses are based on performance levels attained and are made as part of the appraisal process. The bonuses reported in 2017–18 relate to performance in 2016–17 and the comparative bonuses reported for 2016–17 relate to the performance in 2015–16.

Non-Executive Directors

£	2017–18			2016–17		
	Fees Entitlement	Fees Paid**	Benefits in Kind	Fees Entitlement	Fees Paid**	Benefits in Kind
Peter Bonfield	15,000	-	-	15,000	Fee waived	-
Paul Rew	20,000	20,000	600	20,000	25,000	600
Henry Dimbleby *(from 2 March 2018)*	1,667*	-	-	-	-	-
Elizabeth Buchanan *(from 2 March 2018)*	1,250*	-	-	-	-	-
Ben Goldsmith *(from 2 March 2018)*	1,250*	-	-	-	-	-
Colin Day *(from 2 March 2018)*	1,667*	-	-	-	-	-

NEDs who have served during 2017–18 but were not in post as at 31 March 2018

£	2017–18			2016–17		
	Fees Entitlement	Fees Paid**	Benefits in Kind	Fees Entitlement	Fees Paid**	Benefits in Kind
Steve Holliday *(until 27 November 2017)*	13,333*	15,000	-	20,000	10,000	
Catherine Doran *(until 30 November 2017)*	10,000*	15,000	-	15,000	15,000	-

*Full year equivalent fees entitlement for NEDs who served part year

£	2017–18	2016–17
Steve Holliday *(until 27 November 2017)*	20,000	-
Catherine Doran *(until 30 November 2017)*	15,000	-
Henry Dimbleby *(from 2 March 2018)*	20,000	-
Elizabeth Buchanan *(from 2 March 2018)*	15,000	-
Ben Goldsmith *(from 2 March 2018)*	15,000	-
Colin Day *(from 2 March 2018)*	20,000	-

**Differences between the entitlements and amounts paid arise due to timing of claims. Where the amount paid exceeds the entitlement for the year, this relates to fees for previous periods.

Pension Benefits

Ministers

£000	Accrued Pension at Pension Age as at 31 March 2018	Real Increase in Pension at Pension Age	*CETV at 31 March 2018	*CETV at 31 March 2017	Real Increase in CETV
Rt Hon Michael Gove MP *(from 11 June 2017)*	10–15	0–2.5	147	130	4
George Eustice MP	0–5	0–2.5	31	24	2
Dr Thérèse Coffey MP	0–5	0–2.5	18	13	2
Lord Gardiner	5–10	0–2.5	153	126	12

Ministers who have served during 2017–18, but were not in post as at 31 March 2018

£000	Accrued Pension at Pension Age as at 31 March 2018	Real Increase in Pension at Pension Age	*CETV at 31 March 2018	*CETV at 31 March 2017	Real Increase in CETV
Rt Hon Andrea Leadsom MP (until 11 June 2017)	0–5	0–2.5	36	27	7

*Start and end date of Cash Equivalent Transfer Value (CETV) is 31 March or date of joining or leaving the Board.

Ministerial Pensions

Pension benefits for ministers are provided by the Parliamentary Contributory Pension Fund (PCPF). The scheme is made under statute and the rules are set out in the Ministers' etc. Pension Scheme 2015[11].

Those ministers who are MPs may accrue an MP's pension under the PCPF (details of which are not included in this report). A new MP's pension scheme was introduced from May 2015, although members who were MPs aged 55 or older on 1 April 2013 have transitional protection to remain in the previous MP's final salary pension scheme.

Benefits for ministers are payable from State Pension age under the 2015 scheme. Pensions are revalued annually in line with pensions increase legislation both before and after retirement. The contribution rate from May 2015 is 11.1 percent and the accrual rate is 1.8 percent of pensionable earnings.

The figure shown for pension value includes the total pension payable to the member under both the pre and post 2015 ministerial pension schemes.

[11] http://qna.files.parliament.uk/ws-attachments/170890/original/PCPF%20MINISTERIAL%20SCHEME%20FINAL%20RULES.doc

Senior Officials on the Board

£000	Accrued Pension as at 31 March 2018 and Related Lump Sum	Real Increase in Pension and Related Lump Sum at Pension Age	*CETV at 31 March 2018	*CETV at 31 March 2017	Real Increase in CETV	Employer Contribution to Partnership Pension Account (Nearest £100)
Clare Moriarty *Permanent Secretary*	80–85 No lump sum	0–2.5 No lump sum	1429	1,324	10	-
Betsy Bassis *Director General*	-	-	-	-	-	23,200
Nick Joicey *Director General*	30–35 Plus 70–75 lump sum	0–2.5 No lump sum	534	486	13	-

*Start and end date of CETV is 31 March or date of joining or leaving the Board.

One of the departures reported in 2017–18, was Mark McLaughlin, who was Executive Director of Finance for 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 EA through a Voluntary Early Release Scheme. He received compensation as part of the early release scheme of between £90,000 – £95,000.

Civil Service Pensions

Pension benefits are provided through the Civil Service pension arrangements. From 1 April 2015 a new pension scheme for civil servants was introduced: the Civil Servants and Others Pension Scheme, or alpha, which provides benefits on a career average basis with a normal pension age equal to the member's state pension age (or 65 if higher). From that date all newly appointed civil servants and the majority of those already in service joined alpha. Prior to that date, civil servants participated in the PCSPS. The PCSPS has four sections: three providing benefits on a final salary basis (classic, premium or classic plus) with a normal pension age of 60; and one providing benefits on a whole career basis (nuvos) with a normal pension age of 65.

These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, classic plus, nuvos and alpha are increased annually in line with pensions increase legislation. Existing members of the PCSPS who were within 10 years of their normal pension age on 1 April 2012 remained in the PCSPS after 1 April 2015. Those who were between 10 years and 13 years and 5 months from their normal pension age on 1 April 2012 will switch into alpha sometime between 1 June 2015 and 1 February 2022. All members who switch to alpha have their PCSPS benefits 'banked', with those with earlier benefits in one of the final salary sections of the PCSPS having those benefits based on their final salary when they leave alpha. (The pension figures quoted for officials show pension earned in PCSPS or alpha, as appropriate. Where the official has benefits in both the PCSPS and alpha the figure quoted is the combined value of their benefits in the two schemes.) Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a money purchase stakeholder pension with an employer contribution (partnership pension account).

Employee contributions are salary related and range between 3 percent and 8.05 percent of pensionable earnings for classic (and members of alpha who were members of classic immediately before joining alpha) and between 4.6 percent and 8.05 percent for members of premium, classic plus, nuvos and all other members of alpha. Benefits in classic accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years' initial pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum. Classic plus is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per classic and benefits for service from October 2002 worked out as in premium. In nuvos, a member builds up a pension based on pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March), the member's earned pension account is credited with

2.3 percent of their pensionable earnings in that scheme year and the accrued pension is uprated in line with pensions increase legislation. Benefits in alpha build up in a similar way to nuvos, except that the accrual rate is 2.32 percent. In all cases members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

The Partnership Pension Account is a stakeholder pension arrangement. The employer makes a basic contribution of between 8 percent and 14.75 percent (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of providers. The employee does not have to contribute, but where they do make contributions, the employer will match these up to a limit of 3 percent of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.5 percent of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of classic, premium and classic plus, 65 for members of nuvos and the higher of 65 or state pension age for members of alpha. The pension figures quoted for officials show pension earned in PCSPS or alpha, as appropriate. Where the official has benefits in both the PCSPS and alpha, the figure quoted is the combined value of their benefits in the two schemes, but note that part of that pension may be payable from different ages. Further details about the Civil Service pension arrangements can be found on the Civil Service pensions website[12].

Cash Equivalent Transfer Values

A CETV is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the pension benefits they have accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies.

The figures include the value of any pension benefit in another scheme or arrangement which the member has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their buying additional pension benefits at their own cost. CETVs are worked out in accordance with the Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008 and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

Real Increase in CETV

This reflects the increase in CETV that is 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) and uses common market valuation factors for the start and end of the period.

[12] http://www.civilservicepensionscheme.org.uk

Fair Pay Disclosures

Reporting bodies are required to disclose the relationship between the remuneration of the highest paid director in their organisation and the median remuneration of the organisation's workforce. Total remuneration includes salary, non-consolidated performance-related pay and benefits in kind. It does not include severance payments, employer contributions and the CETV of pensions.

	2017–18	**2016–17**
Banded remuneration of the highest paid director in the core department	£180,000–185,000	£160,000–165,000
Median remuneration of the workforce of the core department and the executive agencies	£30,815	£29,050
Ratio of remuneration of highest paid director to median remuneration of the workforce	5.9	5.6
The range of banded remuneration for employees in the core department and the executive agencies	£10,000–15,000 to £200,000–205,000	£10,000–15,000 to £180,000–185,000

In 2017–18 the employees receiving the lowest pay in the range are apprentices or students. Two employees (2016–17, four) received remuneration in excess of the highest paid director. These are agency staff employed for their specialist project skills. The small increase in the ratio is as a result of the increase in the salary banding of the highest paid director.

Chapter 6 – Parliamentary Accountability and Audit Report

The parliamentary accountability and audit report describes how departments are financed through the Westminster Estimates process. Details are also provided regarding the regularity of expenditure, so that Parliament can be assured that funds have been expended in the manner intended. This meets the key accountability requirements to Parliament. The Certificate and Report of the Comptroller and Auditor General to the House of Commons is also included, as required by the Government Resources and Accounts Act 2000.

Statement of Parliamentary Supply

The Statement of Parliamentary Supply (SoPS) and related notes are subject to audit by the Comptroller and Auditor General.

In addition to the primary statements prepared under International Financial Reporting Standards (IFRS), the Government Financial Reporting Manual (FReM) requires Defra to prepare SoPS and supporting notes to show resource outturn against the Supply Estimate presented to Parliament, in respect of each budgetary control limit. The 2016–17 comparatives have not been restated.

Summary of Resource and Capital Outturn 2017–18

The table below includes the results for the core department, executive agencies, Forestry Commission, Flood Re and Non-Departmental Public Bodies.

		2017-18			2016-17
	Note/Ref	**Estimate Voted**	**Outturn Voted**	**Voted Outturn Compared With Estimate: Saving/ (Excess)**	Outturn Total
		£000	**£000**	**£000**	£000
Departmental Expenditure Limit					
Resource	SoPS 1.1	1,975,177	1,836,593	138,584	1,743,622
Capital	SoPS 1.2	643,908	631,965	11,943	654,976
Annually Managed Expenditure					
Resource	SoPS 1.1	267,024	(28,321)	295,345	86,074
Capital	SoPS 1.2	16,000	199	15,801	862
Total		**2,902,109**	**2,440,436**	**461,673**	2,485,534
Non-budget					
Non-budget	SoPS 1.1	10,001	(573)	10,574	(3,791)
Total		**2,912,110**	**2,439,863**	**472,247**	2,481,743
Total resource	SoPS 1.1	2,242,201	1,808,272	433,929	1,829,696
Total capital	SoPS 1.2	659,908	632,164	27,744	655,838
Total non-budget	SoPS 1.1	10,001	(573)	10,574	(3,791)
Total		**2,912,110**	**2,439,863**	**472,247**	2,481,743

The 2017–18 figures above are voted totals subject to parliamentary control. In addition, although not a separate voted limit, any breach of the administration budget will also result in an excess vote.

There was no non-voted provision in the Estimate and no non-voted expenditure was incurred.

Net Cash Requirement 2017–18

		2017-18			2016-17
		Estimate	Outturn Voted	Voted Outturn Compared With Estimate: Saving/ (Excess)	Outturn Total
		£000	£000	£000	£000
Net cash requirement	SoPS 3	2,847,602	2,126,888	720,714	1,788,852

Administration Costs 2017–18

	2017-18			2016-17
	Estimate	Outturn Voted	Voted Outturn Compared With Estimate: Saving/ (Excess)	Outturn Total
	£000	£000	£000	£000
Net administration costs	538,064	473,463	64,601	452,634

Explanations of variances between estimate and outturn are given in Chapter 3.

The notes on pages 86 – 128 form part of these accounts.

SoPS 1 – Net Outturn

SoPS 1.1 – Analysis of Net Resource Outturn by Section

	2017-18										2016-17
	Outturn Administration			Outturn Programme				Estimate			
	Gross	Income	Net	Gross	Income	Net	Net Total	Net Total	Net Total Compared to Estimate	Net Total Compared to Estimate Adjusted for Virements[1]	Net Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Spending in Departmental Expenditure Limits (DEL)											
Voted											
Food and farming	41,470	(880)	40,590	2,281,563	(2,115,485)	166,078	206,668	258,973	52,305	53,235	163,012
Improve the environment	22,151	(1,687)	20,464	269,650	(15,463)	254,187	274,651	295,483	20,832	9,962	233,105
Protect the country from floods	1,052	(4)	1,048	229	-	229	1,277	1,568	291	291	1,156
Animal and plant health	9,926	-	9,926	244,980	(91,883)	153,097	163,023	156,964	(6,059)	306	161,812
Marine and fisheries	4,163	(52)	4,111	63,961	(36,037)	27,924	32,035	32,249	214	2,060	26,517
Countryside and rural services	8,027	(1,260)	6,767	143,234	(17,133)	126,101	132,868	134,807	1,939	1,197	205,629
Departmental operating costs	251,641	(2,063)	249,578	104,526	(391)	104,135	353,713	532,803	179,090	44,262	234,528
Improve the environment (ALB) (net)	57,890	-	57,890	213,390	-	213,390	271,280	209,326	(61,954)	13,041	337,582
Protect the country from floods (ALB) (net)	80,683	-	80,683	304,215	-	304,215	384,898	333,614	(51,284)	11,020	365,691
Marine and fisheries (ALB) (net)	2,108	-	2,108	11,761	-	11,761	13,869	16,779	2,910	2,910	12,270
Countryside and rural services (ALB) (net)	298	-	298	2,013	-	2,013	2,311	2,611	300	300	2,320
Total	**479,409**	**(5,946)**	**473,463**	**3,639,522**	**(2,276,392)**	**1,363,130**	**1,836,593**	**1,975,177**	**138,584**	**138,584**	1,743,622
Spending in Annually Managed Expenditure Limits (AME)											
Voted											
Food and farming	-	-	-	(66,366)	-	(66,366)	(66,366)	19,745	86,111	86,111	207,302
Improve the environment	-	-	-	95,549	-	95,549	95,549	107,636	12,087	12,087	(43,272)
Animal and plant health	-	-	-	(3,901)	-	(3,901)	(3,901)	6	3,907	3,907	(5,986)
Marine and fisheries	-	-	-	233	-	233	233	5	(228)	-	(416)
Countryside and rural services	-	-	-	2,078	-	2,078	2,078	(345)	(2,423)	-	(340)
Departmental operating costs	-	-	-	15,119	-	15,119	15,119	40,420	25,301	22,650	50,751
Food and farming (ALB) (net)	-	-	-	(1,269)	-	(1,269)	(1,269)	1,199	2,468	2,468	(1,913)
Improve the environment (ALB) (net)	-	-	-	(12,268)	-	(12,268)	(12,268)	2,069	14,337	14,337	(35,109)
Protect the country from floods (ALB) (net)	-	-	-	(57,410)	-	(57,410)	(57,410)	96,000	153,410	153,410	(85,707)
Marine and fisheries (ALB) (net)	-	-	-	(86)	-	(86)	(86)	285	371	371	778
Countryside and rural services (ALB) (net)	-	-	-	-	-	-	-	4	4	4	(14)
Total	**-**	**-**	**-**	**(28,321)**	**-**	**(28,321)**	**(28,321)**	**267,024**	**295,345**	**295,345**	86,074
Spending in Non Budget Expenditure Limits											
Voted											
Food and farming	-	-	-	1,006,657	(1,007,230)	(573)	(573)	10,001	10,574	10,574	(3,791)
Total	**-**	**-**	**-**	**1,006,657**	**(1,007,230)**	**(573)**	**(573)**	**10,001**	**10,574**	**10,574**	(3,791)
Resource Outturn	**479,409**	**(5,946)**	**473,463**	**4,617,858**	**(3,283,622)**	**1,334,236**	**1,807,699**	**2,252,202**	**444,503**	**444,503**	1,825,905

1. Virement reallocates underspends on one part of the Estimate to cover overspends on another part of the Estimate.
Detailed explanations of significant variances between Estimate and Net Resource Outturn are shown in Chapter 3.

SoPS 1.2 – Analysis of Net Capital Outturn by Section

	2017-18						2016-17
	Outturn			Estimate			
	Gross	**Income**	**Net**	**Net Total**	**Net Total Compared to Estimate**	**Net Total Compared to Estimate Adjusted for Virements[1]**	Net Total
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	£000
Spending in Departmental Expenditure Limits (DEL)							
Voted							
Food and farming	5,148	-	5,148	9,357	4,209	4,083	21,048
Improve the environment	9,601	-	9,601	9,940	339	458	38,667
Protect the country from floods	353	-	353	227	(126)	-	(120)
Animal and plant health	12,902	(50)	12,852	10,906	(1,946)	-	8,707
Marine and fisheries	6,149	(135)	6,014	8,907	2,893	2,893	7,234
Countryside and rural services	25,422	(415)	25,007	26,318	1,311	1,311	25,517
Departmental operating costs	71,723	(1,651)	70,072	52,810	(17,262)	-	34,950
Improve the environment (ALB) (net)	71,227	-	71,227	61,743	(9,484)	-	47,946
Protect the country from floods (ALB) (net)	431,174	-	431,174	463,700	32,526	3,198	470,634
Marine and fisheries (ALB) (net)	157	-	157	-	(157)	-	182
Countryside and rural services (ALB) (net)	360	-	360	-	(360)	-	211
Total	**634,216**	**(2,251)**	**631,965**	**643,908**	**11,943**	**11,943**	654,976
Spending in Annually Managed Expenditure Limits (AME)							
Voted							
Food and farming (ALB) (net)	116	-	116	16,000	15,884	15,801	596
Marine and fisheries (ALB) (net)	83	-	83	-	(83)	-	266
Total	**199**	**-**	**199**	**16,000**	**15,801**	**15,801**	862
Capital Outturn	**634,415**	**(2,251)**	**632,164**	**659,908**	**27,744**	**27,744**	655,838

1. Virement reallocates underspends on one part of the Estimate to cover overspends on another part of the Estimate.

SoPS 2 – Reconciliation of Net Resource Outturn to Net Operating Expenditure

		Note/Ref	2017-18 Outturn £000	2016-17 Outturn £000
Total resource outturn in SoPS	Budget	SoPS 1.1	1,808,272	1,829,696
	Non-budget	SoPS 1.1	(573)	(3,791)
			1,807,699	1,825,905
Add:	Capital grants / income		73,759	121,846
	Capital works expensed in year		296,410	291,127
	Capitalised research and development		37,347	38,320
	Adjustment to IFRIC 12		101	(4,839)
	Sugar Levy*		(680)	-
	CFER adjustment		(4,623)	(5,782)
			402,314	440,672
Net operating cost		SoCNE	**2,210,013**	2,266,577

*In accordance with the FReM, the Rural Payments Agency (RPA) collect sugar levies on behalf of the European Commission (the Commission). The Commission has acknowledged that sugar levy rates advised by regulations (EC) No 2267/2000 and (EC) No 1993/2001 are invalid, leading to incorrect levies applied and charged to producers for periods 1999/2000 and 2000/2001. The agency envisages making settlement payments as a result of over-charges following the new sugar levy rates introduced in regulation (EU) 2018/264. These payments to producers will however be partly offset by reclaims from the Commission resulting in the £680,000 shortfall between settlement payments and reclaims from the Commission.

SoPS 3 – Reconciliation of Net Resource Outturn to Net Cash Requirement

	Note/Ref	2017-18 Estimate £000	Outturn £000	Net total outturn compared with Estimate: saving/ (excess) £000
Resource outturn	SoPS 1.1	2,252,202	1,807,699	444,503
Capital outturn	SoPS 1.2	659,908	632,164	27,744
Accruals to cash adjustments (core and agencies only):				
Accrual to cash basis - capital expenditure		-	(8,288)	8,288
Accrual to cash basis - capital disposals		-	1,325	(1,325)
Service concession adjustment and other finance leases		-	875	(875)
Adjustments to remove non cash items (core and agencies only):				
Depreciation / amortisation / impairment	3	(103,829)	(59,424)	(44,405)
New provisions and adjustment to provisions	3	(303,262)	(166,590)	(136,672)
Other non cash items		(10,452)	32,768	(43,220)
Adjustments for NDPBs:				
Remove voted resource		(661,887)	(686,444)	24,557
Remove voted capital		(541,443)	(503,117)	(38,326)
Add cash grant-in-aid		1,099,370	1,030,958	68,412
Add EA Closed Pension Scheme Fund		-	63,400	(63,400)
Adjustments to reflect movements in working capital balances (core and agencies only) :				
Increase/(decrease) in inventories	SoCF	-	2,070	(2,070)
Increase/(decrease) in receivables excluding derivatives	SoCF	350,000	(68,374)	418,374
Adjustment for derivative financial instruments	SoCF	-	5,055	(5,055)
Sugar levy adjustment through working capital	SoPS 2	-	(680)	680
Movement in receivables affecting items not passing through the SoPS		-	2,300	(2,300)
(Increase)/decrease in payables excluding derivatives	SoCF	-	(213,590)	213,590
Movement in payables affecting items not passing through the SoPS		-	127,653	(127,653)
Use of provisions	SoCF	106,995	127,122	(20,127)
Funding to / from other bodies	SoCF	-	6	(6)
Net cash requirement		**2,847,602**	**2,126,888**	**720,714**

Explanations of significant variances between estimate and outturn for resource, capital and net cash requirement are shown in Chapter 3.

SoPS 4 - Income Payable to the Consolidated Fund

SoPS 4.1 – Analysis of income payable to the Consolidated Fund

In addition to income retained by the department, the following income is payable to the Consolidated Fund (cash receipts are shown in italics).

	Outturn 2017-18		Outturn 2016-17	
	Income	***Receipts***	Income	*Receipts*
	£000	***£000***	£000	*£000*
Income outside the ambit of the estimate	4,623	*4,623*	15,532	*15,532*
Total income payable to the Consolidated Fund	**4,623**	***4,623***	15,532	*15,532*

SoPS 4.2 - Consolidated Fund Income

Consolidated Fund income shown in note 4.1 above does not include any amounts collected by the department where it was acting as agent for the Consolidated Fund rather than as a principle.

The department collected £31.3 million (2016–17, £Nil) from Covent Garden Market Authority for overage payments when acting as agent for the Consolidated Fund. This was all paid over in the financial year.

Long Term Expenditure Trends

The long term expenditure trends can be found in the core tables in Annex 1.

Further Information Relating to Parliamentary Accountability

Public Sector Bodies Outside the Boundary

The names of any public sector bodies outside the boundary for which Defra had lead policy responsibility in the year, together with a description of their status can be found in Note 18.

The information in this section is audited by the Comptroller and Auditor General.

Losses and Special Payments – Losses Statement

Losses are reported on an accruals basis.

	2017-18		2016-17	
	Core Department and Agencies	**Defra Group**	Core Department and Agencies	Defra Group
	£000	**£000**	£000	£000
Losses values				
Cash losses	3,908	5,112	8,895	9,459
Stores losses	26	26	63	63
Administrative write-offs	2	9,810	-	1,454
Constructive losses	-	-	2,245	2,245
Claims abandoned	118	118	178	178
Total	**4,054**	**15,066**	11,381	13,399
	Core Department and Agencies	**Defra Group**	Core Department and Agencies	Defra Group
	Number	**Number**	Number	Number
Number of cases				
Cash losses	2,947	3,306	260	628
Stores losses	1	1	2	2
Administrative write-offs	4	423	-	308
Constructive losses	-	-	2	2
Claims abandoned	9	9	133	133
Total	**2,961**	**3,739**	397	1,073

Details of Cases over £300,000

A loss of £0.8 million arose on the termination of a supplier contract at the Environment Agency (EA).

Bad debt write offs of £1 million and £0.6 million arose at EA 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.

Cash Losses (shown in the table above)

RPA has a realised exchange loss of £2.8 million arising from the reimbursement of scheme expenditure by the Commission. Although all significant scheme expenditure is hedged there remains some residual exposure on the reimbursement of rural development expenditure which has crystallised in the year to 31 March 2018. As RPA do not designate and hedge account for Rural Development Programme for England (RDPE), an element of the loss in the RPA account is offset by a gain on RDPE scheme income and expenditure reported by Defra.

Losses and Special Payments – Special Payments

	Core Department and Agencies	Defra Group	Core Department and Agencies	Defra Group
Value (£000)	16,661	18,382	19,251	22,849
Number of cases	78	88	141	158

Details of cases of £300,000

A one-off £15 million exceptional payment was made to resolve a delivery agreement.

A special payment of £1.7 million was a contribution by EA 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.

Fees and Charges

Details of the material fees and charges across the Defra family are disclosed in the table below.

	2017-18		
	Income	Full Cost	Surplus/ (Deficit)
	£m	£m	£m
Drinking Water Inspectorate charges (core department)	3.1	3.3	(0.2)
Abstraction charges (EA)	122.6	120.0	2.6
Environmental Permitting Regulation water quality charges (EA)	55.3	55.4	(0.1)

For The Drinking Water Inspectorate regulatory function, the cost recovery target is 100 percent. Cost recovery was below target, at 95.7 percent.

The financial objective for EA's 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. Please see EA's Annual Report and Accounts (ARA) for a full analysis of these schemes and the extent of cost recovery.

All other details regarding income from the Sale of Goods and Services provided by the delivery bodies can be found in their respective ARAs.

Remote Contingent Liabilities included for Parliamentary Reporting and Accountability Purposes

In addition to contingent liabilities reported in accordance with IAS 37, the department also reports liabilities for which the likelihood of a transfer of economic benefit in settlement is too remote to meet the definition of contingent liability.

The core department has entered into the following remote contingent liabilities.

Quantifiable

A transfer of economic benefits is considered to be remote on the following.

- Indemnity signed by Defra, Canal and River Trust and British Waterways pension trustees in relation to the historic public sector pension liability. The potential liability is estimated at £125 million (2016–17, £125 million).

- Small potential liabilities are estimated at no more than £0.4 million (2016–17 £9.1 million).

Unquantifiable

Due to the variable nature of these contingent liabilities they are classified as unquantifiable.

- Where Defra has assigned a previously held lease to a third party, Defra remains potentially liable to compensate the landlord where the subsequent lessee defaults and the landlord fails to achieve redress elsewhere.

- Defra retains a potential pension liability in respect of the staff that transferred from Fera to Fera Science Limited under the New Fair Deal.

- In unlikely circumstances, there is a remote possibility that Defra would need to provide a government support package for the Thames Tideway Tunnel project.

- There is an ongoing potential liability in respect of financial corrections for disallowance, which at present is uncertain and unquantifiable as a Commission audit has yet to take place.

- Infraction proceedings relating to the non-compliance of UK legislation with EU requirements could lead to fines for the core department from the EU. These proceedings include infringements of the Air Quality Directive; failure to ensure that urban waste water is adequately collected and/or treated at 14 sites and other infringements of the Urban Waste Water Treatment Directive; and infringements of the Habitats Directive regarding the designation of special areas of conservation for harbour porpoises and the preservation of blanket bogs. As per Commission guidance, fines would entail a minimum lump sum of €10.9 million plus daily charges until compliance is reached. However, the UK has never been fined for an infraction due to remediation action taken – this is the expectation with the current infractions, where in all cases the department is taking action to ensure compliance.

- Environmental contamination arising from metal mines may give rise to a future remediation liability.

- In the unlikely event that the department stops funding the National Fruit Collection or relocates it to a different site, there will be an obligation to return the current site to a suitable state.

- There is a potential liability in relation to the minimum spend commitment in Defra's IT delivery refresh contract with IBM. Analysis of future spend shows the likelihood of breaching the limits to be remote.

Clare Moriarty 5 July 2018

Accounting Officer for the Department for Environment, Food and Rural Affairs

The Certificate 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 Department for Environment, Food and Rural Affairs and of its Departmental Group for the year ended 31 March 2018 under the Government Resources and Accounts Act 2000. The Department comprises the core department and its agencies. The departmental group consists of the Department and the bodies designated for inclusion under the Government Resources and Accounts Act 2000 (Estimates and Accounts) Order 2016. The financial statements comprise: the Core Department's and Departmental Group's 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 Statement of Parliamentary Supply and the related notes, and 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 Department's and the Departmental Group's affairs as at 31 March 2018 and of the Department's net operating cost and Departmental Group's net operating cost 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 Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals for the year ended 31 March 2018 and shows that those totals have not been exceeded; and
- 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 Department 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 group's and the core department'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 group's and the core department'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.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the group financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

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.

I am required to obtain evidence sufficient to give reasonable assurance that the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals and that those totals have not been exceeded. The voted Parliamentary control totals are Departmental Expenditure Limits (Resource and Capital), Annually Managed Expenditure (Resource and Capital), Non-Budget (Resource) and Net Cash Requirement. I am also required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

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 HM Treasury directions made under the Government Resources and Accounts Act 2000;
- in the light of the knowledge and understanding of the group and the parent 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 and Accountability Reports 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.

Sir Amyas C E Morse 6 July 2018
Comptroller and Auditor General

National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

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

Introduction

The Department for Environment, Food and Rural Affairs (the department) is responsible for developing and implementing policy which safeguards the natural environment, supports the UK food and farming industry, and sustains the rural economy. As part of its remit, the department is also responsible for implementing European agricultural and rural policy and related funding for the United Kingdom (UK) until the UK's departure from the European Union (EU).

The Common Agricultural Policy (CAP) is the EU framework of agricultural subsidies and rural development programmes. In 2017-18, the department received funding of £3.2 billion (2016–17 £3.3 billion) from the European Commission (the Commission) to deliver the CAP and other initiatives. The department is required to adhere to this framework, and is subject to financial penalties where it fails to do so.

This report sets out my observations on the level of penalties incurred during 2017-18 and how this is reflected in the department's Annual Report and Accounts. This report also sets out my audit opinion on the department's financial statements.

CAP Regulations and Disallowance

The CAP regulations are set by the EU following proposals made by the Commission and agreed by the European Parliament and European Council. The Commission audits the CAP scheme to ensure that the department has administered funding in line with the Commission's regulations. The department incurs financial penalties known as 'disallowance' which are levied by the Commission when the audit has found that it has failed to comply with the regulations.

Disallowance penalties are determined in light of the Commission's audits of the relevant CAP scheme, taking into account any further evidence provided by the member states in mitigation. As this process to determine the level of penalty can take several years, penalties are not incurred in the financial year of scheme payments. The timing of the Commission's audits and their outcomes determine the level of disallowance in any given year.

Unqualified opinion on regularity – financial penalties arising from the European Commission funded scheme

The department administers the Commission funding for the CAP schemes. When disallowance penalties occur, the Commission reduces its funding for the schemes and the shortfall must be met directly from UK taxpayer funds. This shortfall is a loss to the UK Exchequer, and beyond the authority provided by Parliament for the proper administration of European funding. I therefore consider the use of UK taxpayer funds to pay disallowance penalties irregular.

The department has explained the accounting process in chapter 3 of their Annual Report. The department recognises disallowance penalties in its financial statements when either the Commission confirms a penalty or the department decides not to contest the penalty any further. It is at this point when the value of disallowance is confirmed and therefore the irregularity becomes certain.

In 2017-18, the value of disallowance penalties accrued in year was £51.8 million (2016-17: £11.7 million). Whilst this level of cost to the taxpayer is significant, I do not consider this to be material in the context of the department's gross expenditure of £6 billion. I have therefore issued an unqualified opinion on the regularity of the department's 2017-18 financial statements.

Provisions and Contingent Liabilities for financial penalties arising from the European Commission funded scheme

The department also includes in its financial statements provision for the estimated liability where the Commission's audit has concluded but the department does not agree with the conclusion reached and therefore contests the penalty. As the value of the penalty the department will incur if it loses is known, the amount of disallowance can be quantified. The department discloses the disallowance provision in note 13. However, due to the uncertainty over whether these penalties will crystallise, I do not consider them alongside confirmed penalties when forming my regularity opinion.

The department also discloses the existence of the Commission's future decisions where audits have not been concluded as contingent liabilities within their Annual Report and Accounts. This is appropriate given the department cannot predict the findings or quantify the value of any disallowance penalties it will incur as a result.

Conclusion on disallowance penalties

Managing disallowance continues to be a significant challenge for the department, and successfully managing the CAP scheme to ensure it reduces the level of penalties needs to remain a priority. Timeliness and accuracy of payments remains paramount to ensuring the safeguarding of UK Exchequer funds.

The department also needs to ensure its focus remains on achieving its payment targets and delivers against its Disallowance Strategy. I will continue to monitor progress in this area and will provide an update in my report on the department's 2018-19 Annual Report and Accounts.

EU Exit

Defra estimates that approximately 80 percent of its areas of responsibility are currently framed by EU legislation, and as such it is among the ministerial departments most impacted by the UK's withdrawal from the EU. This is attributable to breadth of its remit, covering the chemical and agri-food industries as well as areas such as agriculture, fisheries and the environment.

The government has committed to maintaining the same levels of support to farmers as currently provided by CAP until 2022, and the department faces a substantial challenge to replace this and other functions that are currently provided by the EU. It will need to ensure it can adequately design future arrangements to replace CAP whilst maintaining the current system to ensure timely payments to farmers.

I will monitor the department's progress on implementing EU exit closely ahead of the withdrawal date, and intend to publish a report on this topic in the coming months.

Sir Amyas C E Morse
Comptroller and Auditor General
National Audit Office
157–197 Buckingham Palace Road
Victoria, London SW1W 9SP

6 July 2018

Financial Statements

The Government Financial Reporting Manual (FReM) requires that the department prepares financial statements and related disclosures in accordance with International Financial Reporting Standards (IFRS) and the Companies Acts 2006. The notes to the financial statements provide additional detail to users on the accounting policies of the entity and the numbers included in the core financial statements. They are only included where additional information is material, i.e. where its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. The 2016–17 comparatives have not been restated.

Consolidated Statement of Comprehensive Net Expenditure

For the period ended 31 March 2018

This account summarises the income and expenditure generated and consumed on an accruals basis. It also includes other comprehensive income and expenditure, which include changes to the values of non-current assets and other financial instruments that cannot yet be recognised as income or expenditure.

	Note/Ref	2017-18 Core Department and Agencies	2017-18 Defra Group	2016-17 Core Department and Agencies	2016-17 Defra Group
		£000	£000	£000	£000
Total operating income	4	**(3,298,612)**	**(4,117,141)**	(3,459,118)	(4,222,502)
Staff costs		398,098	932,475	334,249	859,463
Grant-in-aid to NDPBs	3	1,030,958	-	973,758	-
Other costs	3	4,135,921	5,394,679	4,406,145	5,629,616
Total operating costs		**5,564,977**	**6,327,154**	5,714,152	6,489,079
Net operating costs		**2,266,365**	**2,210,013**	2,255,034	2,266,577
Net expenditure		**2,266,365**	**2,210,013**	2,255,034	2,266,577
Other comprehensive expenditure					
Items that will not be reclassified to net operating costs					
Net (gain)/loss on					
Revaluation of PPE	SoCTE	(19,879)	(144,063)	(5,615)	(113,843)
Charitable funds revaluation	SoCTE	-	(8,387)	-	(6,628)
Revaluation of intangibles	SoCTE	(2,535)	(4,421)	(3,857)	(8,411)
Pension actuarial movements	14	11,113	(82,674)	7,832	(76,749)
Items that may be reclassified subsequently to net operating costs					
Net (gain)/loss on					
Revaluation of investments	9	-	(6)	-	(15)
Revaluation of hedging instruments		(11,432)	(11,432)	(36,939)	(36,939)
Total comprehensive net expenditure for the year		**2,243,632**	**1,959,030**	2,216,455	2,023,992

EU funding for the department totalling £3,162 million (2016–17, £3,290 million) is included within income totals. Further details can be found in Note 4.

Flood Re pays corporation tax. The charge included in other costs in the SoCNE was £25 million (2016–17 £26 million).

The notes on pages 86 – 128 form part of these accounts.

Consolidated Statement of Financial Position

As at 31 March 2018

This statement presents the financial position of Defra. It comprises three main components: assets owned or controlled; liabilities owed to other bodies; and equity, the remaining value of the entity.

	Note/Ref	31 March 2018 Core Department and Agencies	31 March 2018 Defra Group	31 March 2017 Core Department and Agencies	31 March 2017 Defra Group
		£000	£000	£000	£000
Non-current assets					
Property, plant and equipment and investment properties	5.1, 5.2, 5.4	454,689	3,521,500	397,805	3,339,389
Heritage assets	5.3	-	265,612	-	232,647
Agricultural assets		-	224	-	168
Intangible assets	6	119,475	242,024	140,455	257,752
Investments	9	27,287	27,196	27,331	27,190
Receivables falling due after more than one year	11	11,703	11,715	11,804	11,842
Total non-current assets		**613,154**	**4,068,271**	577,395	3,868,988
Current assets					
Assets classified as held for sale		3,521	13,792	5,360	14,450
Inventories		12,194	13,357	10,124	11,131
Other financial assets	11	17,707	17,707	2,086	2,086
Trade and other receivables	11	576,742	739,432	645,015	812,447
Cash and cash equivalents	10	720,714	1,162,389	602,231	907,529
Total current assets		**1,330,878**	**1,946,677**	1,264,816	1,747,643
Total assets		**1,944,032**	**6,014,948**	1,842,211	5,616,631
Current liabilities					
Trade and other payables	12	(1,453,047)	(1,920,334)	(1,244,194)	(1,726,613)
Provisions	13	(197,013)	(214,448)	(257,145)	(273,818)
Net pension liability	14	(60,578)	(60,594)	(64,099)	(64,107)
Other financial liabilities	12	(656)	(656)	(5,713)	(5,713)
Total current liabilities		**(1,711,294)**	**(2,196,032)**	(1,571,151)	(2,070,251)
Non-current assets plus/less net current assets/liabilities		**232,738**	**3,818,916**	271,060	3,546,380
Non-current liabilities					
Provisions	13	(597,559)	(602,584)	(447,137)	(450,791)
Net pension liability	14	(411,692)	(824,058)	(456,380)	(877,157)
Other payables	12	(147,264)	(149,559)	(142,527)	(145,111)
Other financial liabilities	12	-	(141,606)	-	(141,606)
Total non-current liabilities		**(1,156,515)**	**(1,717,807)**	(1,046,044)	(1,614,665)
Assets less liabilities		**(923,777)**	**2,101,109**	(774,984)	1,931,715
Taxpayers' equity and other reserves					
General Fund	SoCTE	(1,095,430)	(255,744)	(923,706)	(298,709)
Revaluation reserve	SoCTE	162,907	2,117,229	151,408	2,030,701
Hedging reserve	SoCTE	8,746	8,746	(2,686)	(2,686)
Charitable funds - restricted funds	SoCTE	-	63,705	-	43,534
Charitable funds - unrestricted funds*	SoCTE	-	167,173	-	158,875
Total equity		**(923,777)**	**2,101,109**	(774,984)	1,931,715

*The unrestricted charitable funds figure includes Royal Botanic Gardens Kew (RBG Kew) and National Forest Company's (NFC) revaluation reserves totalling £120.4 million (2016–17, £113.1 million).

The notes on pages 86 – 128 form part of these accounts.

Clare Moriarty 5 July 2018

Accounting Officer for the Department for Environment, Food and Rural Affairs

Consolidated Statement of Cash Flows

For the period ended 31 March 2018

This statement shows the changes in cash and cash equivalents of Defra during the reporting period. It shows how Defra generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. Investing activities represent the extent to which cash inflows and outflows have been made for resources which are intended to contribute to Defra's future public service delivery. Cash flows arising from financing activities include parliamentary supply and other cash flows, including borrowing.

	Note/Ref	**2017-18** Core Department and Agencies	**2017-18** Defra Group	2016-17 Core Department and Agencies	2016-17 Defra Group
		£000	**£000**	£000	£000
Cash flows from operating activities					
Net operating costs	SoCNE	(2,266,365)	(2,210,013)	(2,255,034)	(2,266,577)
Adjust for non cash transactions		193,246	495,857	303,355	583,382
(Increase)/decrease in trade and other receivables excluding derivatives	11	68,374	73,142	473,934	431,574
Adjustments for derivative financial instruments		(5,055)	(5,055)	(56,783)	(56,783)
(Increase) / decrease in inventories		(2,070)	(2,226)	(3,755)	(4,058)
Increase / (decrease) in trade payables and other liabilities excluding derivatives	12	213,590	198,169	(381,089)	(277,240)
less movements in payables relating to items not passing through the SoCNE		(127,653)	(129,499)	290,283	298,252
Use of provisions / pension liabilities		(127,122)	(187,805)	(107,749)	(173,156)
Net cash outflow from operating activites		**(2,053,055)**	**(1,767,430)**	(1,736,838)	(1,464,606)
Cash flows from investing activities					
Purchase of PPE, heritage and agricultural assets	5.5	(50,971)	(191,614)	(24,710)	(161,057)
Purchase of intangible assets		(14,238)	(27,830)	(22,775)	(41,594)
Purchase of financial assets		(4,191)	(4,191)	-	-
Proceeds of disposal of PPE, heritage and agricultural assets		919	5,904	13,452	13,595
Proceeds of disposal of intangible assets		7	7	119	119
Repayments from other bodies		44	-	44	-
Net cash outflow from investing activities		**(68,430)**	**(217,724)**	(33,870)	(188,937)
Cash flows from financing activities					
From Consolidated Fund (supply): current year	SoCTE	2,245,371	2,245,371	1,494,339	1,494,339
Advances from Contingencies Fund		2,000,000	2,000,000	1,350,000	1,350,000
Repayments to Contingencies Fund		(2,000,000)	(2,000,000)	(1,350,000)	(1,350,000)
Capital element in respect of service concession arrangements and finance leases and non balance sheet PFI contracts		(774)	(774)	(2,451)	(3,419)
Funding to / from other bodies		(6)	40	(161)	(120)
Net financing		**2,244,591**	**2,244,637**	1,491,727	1,490,800
Net increase/(decrease) in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund		123,106	259,483	(278,981)	(162,743)
Income received not passing through SoCNE to be passed to the Consolidated Fund		31,250	31,250	-	-
Payments of amounts due to the Consolidated Fund		(35,873)	(35,873)	(15,532)	(15,532)
Net increase/(decrease) in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund	10	118,483	254,860	(294,513)	(178,275)
Cash and cash equivalents at the beginning of the period	10	**602,231**	**907,529**	896,744	1,085,804
Cash and cash equivalents at the end of the period	10	**720,714**	**1,162,389**	602,231	907,529

The notes on pages 86 – 128 form part of these accounts.

Consolidated Statement of Changes in Taxpayers' Equity

This statement shows the movement in the year on the different reserves held by Defra. The General Fund reflects financing and balances from the provision of services, i.e. it reflects the contribution from the Consolidated Fund. The revaluation reserve reflects the change in asset values that have not been recognised as income or expenditure. Other specific reserves are shown separately where there are statutory restrictions of their use. The hedging reserve recognises the effective portion of changes in the fair value of RPA's foreign currency derivatives that are designated and qualify as cash flow hedges. Charitable funds represent the fair value of donations, including revaluation, given to RBG Kew and NFC. Unrestricted reserves are those donations that have no restrictions on their use, or income flow.

For the period ended 31 March 2018

Defra Group

		2017-18						
	Note/Ref	General Fund	Revaluation Reserve	Hedging Reserve	Taxpayers' Equity	Charitable Funds - Restricted/ Endowment	Charitable Funds - Unrestricted	Total Reserves
		£000	£000	£000	£000	£000	£000	£000
Balance at 1 April 2017		**(298,709)**	**2,030,701**	**(2,686)**	**1,729,306**	**43,534**	**158,875**	**1,931,715**
Net parliamentary funding - drawn down	SoCF	2,245,371	-	-	2,245,371	-	-	2,245,371
Net parliamentary funding - deemed		602,231	-	-	602,231	-	-	602,231
Funding to/ from other bodies		40	-	-	40	-	-	40
Supply (payable) adjustment		(720,714)	-	-	(720,714)	-	-	(720,714)
CFER Income Payable to the Consolidated Fund	SoPS 4	(35,873)	-	-	(35,873)	-	-	(35,873)
Income received not passing through SoCNE to be passed to the Consolidated Fund	SoPS 4.2	31,250	-	-	31,250	-	-	31,250
Net operating costs for the year	SoCNE	(2,230,164)	-	-	(2,230,164)	20,171	(20)	(2,210,013)
Non-cash adjustments								
Non-cash charges-auditors' remuneration	3	1,077	-	-	1,077	-	-	1,077
Notional recharges and other non cash items		59	-	-	59	-	-	59
Movement in reserves								
Recognised in other comprehensive expenditure:								
Revaluation of PPE	OCE	-	144,063	-	144,063	-	-	144,063
Charitable funds revaluation	OCE	-	-	-	-	-	8,387	8,387
Revaluation of intangibles	OCE	-	4,421	-	4,421	-	-	4,421
Revaluation of investments	OCE	-	6	-	6	-	-	6
Pension actuarial movements	OCE	82,674	-	-	82,674	-	-	82,674
Revaluation/impairments - hedging reserve	OCE	-	-	32,087	32,087	-	-	32,087
Contributions in respect of unfunded benefits		8,500	-	-	8,500	-	-	8,500
Release of reserves to SoCNE	OCE	-	-	(20,655)	(20,655)	-	-	(20,655)
Transfers between reserves		62,031	(61,962)	-	69	-	(69)	-
Transfer to General Fund - net asset transfer		(3,517)	-	-	(3,517)	-	-	(3,517)
Balance at 31 March 2018		**(255,744)**	**2,117,229**	**8,746**	**1,870,231**	**63,705**	**167,173**	**2,101,109**

For the year ended 31 March 2017

Defra Group

	Note/Ref	General Fund	Revaluation Reserve	Hedging Reserve	Taxpayers' Equity	Charitable Funds - Restricted/ Endowment	Charitable Funds - Unrestricted	Total Reserves
		2016-17						
		£000	£000	£000	£000	£000	£000	£000
Balance at 1 April 2016		6,092	2,026,840	(39,625)	1,993,307	33,143	146,028	2,172,478
Net parliamentary funding - drawn down	SoCF	1,494,339	-	-	1,494,339	-	-	1,494,339
Net parliamentary funding - deemed		896,744	-	-	896,744	-	-	896,744
Funding to/from other bodies		(120)	-	-	(120)	-	-	(120)
Supply (payable) adjustment		(602,231)	-	-	(602,231)	-	-	(602,231)
Payable to the Consolidated Fund	SoPS 4	(15,532)	-	-	(15,532)	-	-	(15,532)
Net operating costs for the year	SoCNE	(2,278,123)	-	-	(2,278,123)	10,326	1,220	(2,266,577)
Non cash adjustments			-	-				
Non cash charges-auditors' remuneration	3	1,029	-	-	1,029	-	-	1,029
Notional recharges and other non cash items		59	-	-	59	-	-	59
Movement in reserves								
Recognised in other comprehensive expenditure:			-	-	-	-	-	
Revaluation of PPE	OCE	-	113,843	-	113,843	-	-	113,843
Charitable funds revaluation	OCE	-	-	-	-	16	6,612	6,628
Revaluation of intangibles	OCE	-	8,411	-	8,411	-	-	8,411
Revaluation of investments	OCE	-	15	-	15	-	-	15
Pension actuarial loss	OCE	76,749	-	-	76,749	-	-	76,749
Revaluation/impairments - hedging reserve		-	-	(44,423)	(44,423)	-	-	(44,423)
Contributions in respect of unfunded benefits		8,900	-	-	8,900	-	-	8,900
Release of reserves to SoCNE	OCE	-	-	81,362	81,362	-	-	81,362
Transfers between reserves		113,344	(118,408)	-	(5,064)	49	5,015	-
Transfer to General Fund - net asset transfer		41	-	-	41	-	-	41
Balance at 31 March 2017		(298,709)	2,030,701	(2,686)	1,729,306	43,534	158,875	1,931,715

For the period ended 31 March 2018

Core Department and Agencies

	Note/Ref	General Fund	Revaluation Reserve	Hedging Reserve	Taxpayers' Equity	Total Reserves
		2017-18				
		£000	£000	£000	£000	£000
Balance at 1 April 2017		**(923,706)**	**151,408**	**(2,686)**	**(774,984)**	**(774,984)**
Net parliamentary funding - drawn down	SoCF	2,245,371	-	-	2,245,371	2,245,371
Net parliamentary funding - deemed		602,231	-	-	602,231	602,231
Funding to/ from other bodies		(6)	-	-	(6)	(6)
Supply (payable) adjustment		(720,714)	-	-	(720,714)	(720,714)
CFER Income Payable to the Consolidated Fund	SoPS 4	(35,873)	-	-	(35,873)	(35,873)
Income received not passing through SoCNE to be passed to the Consolidated Fund	SoPS 4.2	31,250	-	-	31,250	31,250
Net operating costs for the year	SoCNE	(2,266,365)	-	-	(2,266,365)	(2,266,365)
Non-cash adjustments						
Non-cash charges-auditors' remuneration	3	1,077	-	-	1,077	1,077
Notional recharges and other non cash items		(33,489)	-	-	(33,489)	(33,489)
Movement in reserves						
Recognised in other comprehensive expenditure:						
Revaluation of PPE	OCE	-	19,879	-	19,879	19,879
Revaluation of intangibles	OCE	-	2,535	-	2,535	2,535
Pension actuarial movements	OCE	(11,113)	-	-	(11,113)	(11,113)
Revaluation/impairments - hedging reserve	OCE	-	-	32,087	32,087	32,087
Contributions in respect of unfunded benefits		8,500	-	-	8,500	8,500
Release of reserves to SoCNE	OCE	-	-	(20,655)	(20,655)	(20,655)
Transfers between reserves		10,915	(10,915)	-	-	-
Transfer to General Fund - net asset transfer		(3,508)	-	-	(3,508)	(3,508)
Balance at 31 March 2018		**(1,095,430)**	**162,907**	**8,746**	**(923,777)**	**(923,777)**

For the year ended 31 March 2017

Core Department and Agencies

		2016-17				
	Note/Ref	General Fund	Revaluation Reserve	Hedging Reserve	Taxpayers' Equity	Total Reserves
		£000	£000	£000	£000	£000
Balance at 1 April 2016		(413,291)	151,229	(39,625)	(301,687)	(301,687)
Net parliamentary funding - drawn down	SoCF	1,494,339	-	-	1,494,339	1,494,339
Net parliamentary funding - deemed		896,744	-	-	896,744	896,744
Funding to/from other bodies		(161)	-	-	(161)	(161)
Supply (payable) adjustment		(602,231)	-	-	(602,231)	(602,231)
Payable to the Consolidated Fund	SoPS 4	(15,532)	-	-	(15,532)	(15,532)
Net operating costs for the year	SoCNE	(2,255,034)	-	-	(2,255,034)	(2,255,034)
Non cash adjustments			-	-		
Non cash charges-auditors' remuneration	3	1,029	-	-	1,029	1,029
Notional recharges and other non cash items		(37,692)	-	-	(37,692)	(37,692)
Movement in reserves						
Recognised in other comprehensive expenditure:			-	-	-	
Revaluation of PPE	OCE	-	5,615	-	5,615	5,615
Revaluation of intangibles	OCE	-	3,857	-	3,857	3,857
Pension actuarial loss	OCE	(7,832)	-	-	(7,832)	(7,832)
Revaluation/impairments - hedging reserve		-	-	(44,423)	(44,423)	(44,423)
Contributions in respect of unfunded benefits		8,900	-	-	8,900	8,900
Release of reserves to SoCNE	OCE	-	-	81,362	81,362	81,362
Transfers between reserves		9,293	(9,293)	-	-	-
Transfer to General Fund - net asset transfer		(2,238)	-	-	(2,238)	(2,238)
Balance at 31 March 2017		(923,706)	151,408	(2,686)	(774,984)	(774,984)

The notes on pages 86 – 128 form part of these accounts.

Notes to the Departmental Accounts

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 directions issued by the Secretary of State for the Environment, Food and Rural Affairs.

The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS), as adapted or interpreted for the public sector context.

Where the FReM permits a choice of accounting policy, a judgement has been made to select the most appropriate policy to suit the particular circumstances of the department, for the purpose of giving a true and fair view. The department's accounting policies have been applied consistently in dealing with items which are considered material in relation to the accounts.

1.1 Significant Judgements and Estimation Uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities, 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 and actions. Where appropriate, the relevant notes to the accounts provide further detail on estimation techniques.

Details of significant judgements that management have made in the process of applying the department's accounting policies are:

- revenue recognition - Basic Payment Scheme (BPS) and Single Payment Scheme (SPS) (see Note 1.5.1) and Rural Development Programme for England (RDPE) expenditure (see Note 1.5.2);
- Rural Payments Agency (RPA) - additional (post payment) claim amounts (see Note 1.5.3);
- Rural Payments Agency – disallowance penalties (see Note 13.3);
- Environment Agency (EA) accrued and deferred income (see Note 1.12);
- EA capital works expensed (see Note 1.15);
- Flood Re's liability arising from claims made under insurance contracts (see Notes 1.15 and 1.20);
- foreign exchange (see Note 1.17.3);
- provisions, including those for abandoned metal mines (see Note 13.5), foot and mouth disease burial sites (see Note 13.6);
- property plant and equipment valuation (see Note 1.6.1); and
- pension liabilities (see Note 1.19). Independent and qualified actuaries assess the specific factors that influence the pension fund position.

1.2 Accounting Convention

These accounts have been prepared on an accruals basis under the historical cost convention, modified where materially significant to account for the revaluation of property, plant and equipment, intangible assets and certain financial assets and liabilities.

1.3 Going Concern

In common with other government departments, the future financing of Defra's liabilities is to be met by future grants of supply and the application of future income approved annually by Parliament. Approval for amounts required for 2018–19 is due to be given before the parliamentary recess and there is no reason to believe that future approvals will not be made. After EU exit, the government has confirmed its intention to commit to funding current EU funded projects, until the end of the current Parliament. See Note 15.1.2 for more details. It has accordingly been considered appropriate to adopt a going concern basis for the preparation of these financial statements.

1.4 Basis of Consolidation

These accounts comprise a consolidation of the core department, executive agencies and those other delivery bodies which fall within the departmental boundary as defined in the FReM and make up the Defra group.

The consolidation of entities into Defra's Annual Report and Accounts (ARA) is based on the criteria within IFRS 10, as adapted by the FReM. The standard refers to consolidation being dependent on control by the parent over the subsidiary. The FReM adapts IFRS 10, so that control is based on the criteria used by the Office for National Statistics (ONS). The departmental boundary is therefore similar to the concept of a group under generally accepted accounting practice, but is based on the said control criteria used by the ONS to determine the sector classification of the relevant sponsored bodies. Based on this, HM Treasury has assessed that it would expect payments by insurers to Flood Re of levies mandated by the Water Act 2014 to be classified as taxation. HM Treasury have further indicated their expectation that Flood Re will be classified as a central government public body. Therefore, Flood Re is fully consolidated into the Defra ARA.

A list of those entities within the departmental boundary is given in Note 17. Flood Re is incorporated into the Defra group results, and the Forestry Commission (FC) is included within the results of the core department and executive agencies. Transactions between entities included in the consolidation have been eliminated.

1.5 Scheme Costs and Grants

1.5.1 RPA Reported Income and Expenditure

BPS and SPS expenditure for England is managed by the RPA on behalf of Defra. Defra has no managing authority status for BPS and SPS and consequently expenditure and associated European Commission (the Commission) income is recognised in RPA's ARA. Generally expenditure is recognised when RPA has a present obligation to make payments to claimants as a result of the completion of all substantive processes to validate each claim against Commission rules for the schemes, with the amount payable being reliably measurable and probable. BPS and SPS income for England is recognised by RPA when it is probable that it will receive a reimbursement from the Commission for scheme expenditure incurred and the amount to be received from the Commission is considered reliably measurable. These conditions are deemed to be met at the point that the related scheme expenditure is recognised, that is, upon the completion of all substantive processes to validate and reliably measure each claim.

Other UK paying agencies make payments to claimants under both the European Agricultural Guarantee Fund and the European Agricultural Fund for Rural Development. The payments made by the other UK paying agencies are funded by RPA and subsequently recovered by RPA from the Commission.

Scheme expenditure in relation to funding provided by RPA is recognised when RPA has a present obligation to make payment to the other UK paying agencies and the amount payable is considered reliably measurable and probable. These conditions are deemed to be met upon the receipt of a funding request from the other UK paying agencies, adjusted for amounts unspent by the paying agencies at period end.

Scheme income in relation to funding provided to the other UK paying agencies is recognised by RPA when it is probable that it will receive reimbursement from the Commission for scheme expenditure incurred and the amount to be received from the Commission is considered reliably measurable. These conditions are deemed to be met at the point that the related scheme expenditure is recognised.

1.5.2 Other Reported Scheme Income and Expenditure

Payments under Rural Development Programme for England (RDPE) are made by RPA on behalf of Defra, Natural England (NE), Rural Development and FC. Defra's status as managing authority for RDPE conveys the risks and rewards associated with budget responsibility and consequently RDPE expenditure and associated Commission income is recognised in the core department's ARA. Defra delegates authority to RPA to administer certain elements of RDPE, including validation and payments of eligible claims as authorised by NE and RPA. Generally the amounts are recognised when Defra has a present obligation as a result of the completion of all substantive processes to validate each claim and the amount payable being reliably measurable and probable. Expenditure for agri-environment scheme revenue agreements is recognised on the anniversary of the agreement start date, when it is deemed that contractual obligations have been met. RDPE Commission income is recognised at the same time as the Commission element of the expenditure is recognised.

1.5.3 Additional (Post Payment) Claim Amounts

In preparing the accounts an assessment is made of the extent to which adjustments are likely to be needed in relation to claims already paid where potential issues have been identified post payment. This may result in additional payments or recoveries being required, and therefore management estimates are needed to assess additional amounts which might need to be recognised. In assessing the value of these future payments the RPA considers queries raised by the recipients of claim payments; the underlying accuracy of data supporting the claim; the input and processing of claims, their compliance with scheme rules and the application of any penalties or adjustments. Management also identifies the claim populations displaying similar characteristics to those individual claims found to be affected by system or data issues, so as to assess any additional liabilities.

An accrual of £27 million (2016–17 £21 million) has been recognised, which represents management’s view of the most likely amounts due to individual claimants. Since these payments will be funded through the European Commission, a receivable for the accrued amount has been recognised in accordance with RPA’s accounting policies. Management continue to review and model the accrual estimate and believe the maximum potential additional liability would be £8 million (2016–17 £17 million). Management do not consider this to have a material impact on the liabilities recognised. A contingent liability for £13 million (2016-17 £Nil) has also been disclosed, representing additional amounts where there is more uncertainty of the potential for, and the valuation of these additional payments (see Note 15.1.1).

1.6 Property, Plant and Equipment

1.6.1 Recognition and Valuation

With the exception of EA’s infrastructure assets (see below), freehold land and buildings and where appropriate, assets under construction, are subject to professional valuation at no more than five yearly intervals. These are carried out by professionally qualified independent valuers, who adhere to the principles outlined in the Royal Institution of Chartered Surveyors (RICS) Red Book. The most recent valuation at the core department was completed in December 2014 by Montagu Evans, under the guidance of a qualified director in their valuation department. Full external professional valuation exercises were also completed at both EA and NE in March 2016.

Land and buildings are stated at fair value, which is either depreciated replacement cost, open market value or existing use value. Non-specialised properties are stated at existing use value. Between professional valuations, annual desk top revaluations are conducted, which have regard to prevailing local and national conditions.

EA’s infrastructure asset category represents those assets used in their service delivery and are specific in nature, location or function. It is not possible to effectively revalue these assets using market comparatives or professional valuations (with the exception of some operational assets which are land which are professionally valued and subject to indexation). EA infrastructure assets are held at depreciated replacement cost and are indexed annually.

In accordance with IFRS 13, Fair Value Measurement, non-property tangible assets are generally carried at fair value. However, where assets have short useful lives or low values, they are stated at depreciated historic cost. Fair value for non-current assets held for their service potential is current value in existing use.

Minimum levels of capitalisation within the departmental boundary are generally in the ranges of £2,000–£10,000 although, for all land at EA, no de minimis threshold is in force. Capitalisation thresholds vary, as these are set within reference to the nature and complexity of assets and related projects at each entity.

1.6.2 Operating Leases and Lease Breaks

Defra holds operating leases with landlords for rented properties. The expense is recognised in the Statement of Comprehensive Net Expenditure (SoCNE) on a straight line basis over the length of the lease. The future commitment for the leases is shown in the Operating Lease disclosure at Note 7.2.1.
Government spending controls and national property controls guidelines advise that lease breaks should be exercised upon expiry, unless a business case for retention is approved by the Minister for the Cabinet Office. Financial commitments are therefore recognised to the first break or lease end, whichever is sooner.
If, however, the evidence suggests that it is unlikely individual lease breaks will be exercised, the commitment is until the end of the lease.

Income received from subtenants is also recognised on a straight-line basis over the term of the sub lease arrangement, with the rent received being recognised in the SoCNE for the period occupied in year.

1.7 Assets Under Construction

Assets under construction are shown at accumulated cost with depreciation commencing when the asset is completed and brought into service.

1.8 Heritage Assets

NE fulfils a stewardship role in respect of National Nature Reserves (NNR). NNR land is classified as non-operational heritage assets, reported in the Statement of Financial Position (SoFP) at fair value, and is subject to professional valuation every five years, the latest being in March 2016. Between valuations, values are updated annually, where material, using a combination of indices. Any surplus compared to their historic cost is recognised in the revaluation reserve.

Royal Botanic Gardens Kew (RBG Kew) also holds heritage assets. RBG Kew has not capitalised heritage buildings acquired before 2001–02, as the cost of obtaining valuations for older collections and buildings is onerous compared to the benefit to the readers of the accounts. Subsequent to 2001–02, in accordance with FRS 30, Heritage Assets, additions for heritage land and buildings are recognised at cost and revalued every five years by external professionally qualified valuers, on the basis of either open market value for existing use or depreciated replacement cost. The last professional revaluation was carried out in March 2017, by Montagu Evans, Chartered Surveyors. Between professional revaluations, values are updated using indices provided by the professional valuers. Heritage collections purchased subsequent to 2001–02 are recognised at cost and are neither revalued nor depreciated, but are subject to impairment review at five yearly intervals, or when circumstances dictate.

1.9 Intangible Non-Current Assets

Intangible assets are defined as identifiable non-monetary assets without physical substance. These comprise software licences and internally developed IT software, including assets under construction.

The department holds various software licences, which were capitalised at purchase cost where this exceeded capitalisation thresholds. Such assets are revalued only where it is possible to obtain a reliable estimate of their market value.

The department's expenditure on research activities is written off to the SoCNE as incurred. Capitalisation of development costs is contingent on fulfilment of the criteria noted in IAS 38, Intangible Assets.

Internally developed computer software includes capitalisation of internal IT employee costs on projects. The department does not hold any intangible assets with an indefinite useful life. The capitalisation threshold for the Defra family generally ranges between £2,000 and £100,000. Capitalisation thresholds vary, as these are set with reference to the nature and complexity of assets and related projects at each entity. When fully operational in the business, internally generated computer software is stated at a proxy for fair value, which generally, if it is not income generating, is indexed depreciated replacement cost.

1.10 Depreciation and Amortisation

Depreciation and amortisation are provided using the straight line method over the estimated useful life of the asset.

Land, assets under construction, non-operational heritage assets and assets held for sale are not depreciated.

Componentisation has been adopted by certain entities within the consolidation boundary. In these instances, each component of an asset with a value deemed material to the total fair value of the asset is capitalised and depreciated separately. Where componentisation is not yet fully in place, proxy values have been estimated using the weighted average useful life method. Estimated useful lives, component values and residual values are appropriately set across the Defra group and are revised annually.

Assets are depreciated over the following timescales.

- Infrastructure assets (e.g. Thames Barrier) 15 to 100 years
- Freehold and leasehold buildings Up to 80 years or remaining life of lease
- Vehicles, plant, machinery and equipment Up to 30 years
- Intangible assets (e.g. Genesis payment system) Up to 25 years

1.11 Impairment

Impairments are recognised when the recoverable amount of non-current assets falls below their carrying amount. An impairment review is carried out on an annual basis.

Any permanent diminution in the value of an asset due to clear consumption of economic benefit or service potential is recognised in full as an impairment loss in the SoCNE. An amount up to the value of the impairment is transferred from the revaluation reserve (to the extent that a balance exists) to the General Fund for the individual asset concerned.

Downward revaluations, resulting from changes in market value, only result in an 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 an impairment and recorded in the SoCNE.

Non-current assets closely associated with EU exit, such as those related to administering the Common Agricultural Policy, are systematically tested for indications of impairment. Close consideration is given to their value in use, given current developments regarding EU exit. Should indications of impairment be apparent, then impairments are recognised in line with the accounting policy outlined above.

1.12 Income

Operating income relates directly to the operating activities of the department. Income is recognised on an accruals basis and the amounts are recorded at fair value. The method adopted for measuring the stage of completion is as described in IAS 18, Revenue.

Accrued and deferred income has been included for EA's fees and charges balances where there is a surplus or deficit. These balances are only treated as deferred or accrued income where there is an expectation that they will be recovered 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 three years.

Flood Re's insurance income comprises the total premiums receivable for the whole period of cover provided by reinsurance contracts entered into during the reporting period. Premium income is recognised on the date that the policy incepts, and earned on a pro rata basis over the term of the underlying insurance contract. Unearned premiums are deferred to subsequent accounting periods. Reinsurance claims recoveries are recognised alongside the related gross insurance claims, according to the terms of the relevant contract. Also included is a commission income on Flood Re's outwards reinsurance arrangement.

Flood Re also receives a fixed annual levy from UK household insurers. Levy income is recognised when invoiced and measured at the fair value of consideration received or receivable. It is reviewed for impairment when indications or circumstances dictate, with any such amount being recognised in the SoCNE. Flood Re also has the ability to issue a compulsory call for additional funding from the industry through a Levy II top up mechanism. Levy II contributions received from the ordinary members of Flood Re is recognised in equity, whilst Levy II contributions received from non-members are treated as income in accordance with Levy I.

1.13 Cash and Cash Equivalents

Cash and cash equivalents comprise cash in hand and current balances with banks and other financial institutions, and short term investments.

1.14 Grant-in-Aid Funding

Grant-in-aid from the core department to Non-Departmental Public Bodies (NDPBs), both in respect of capital and revenue expenditure, is treated as funding.

1.15 Expenditure

Expenditure is recognised on an accruals basis.

Expenditure which is capital in nature, but for which EA does not retain the risks and rewards in the future, or cannot reliably estimate the useful life of the assets, is expensed in year. It also includes assets where it is not possible to check for impairment. They are therefore written off to expenditure in year.

Gross insurance claims expenses, relating to Flood Re, are based on the estimated liability for compensation owed to contract holders. Claims include all insurance claims occurring during the year, an estimate of claims incurred but not reported and any adjustments to claims outstanding from previous years.

A significant period of time can elapse before the ultimate claims cost can be established with certainty. The ultimate liability for claims made under insurance contracts is estimated using standard actuarial techniques, based on empirical data and current assumptions. Estimation of the ultimate cost of losses resulting from catastrophic flood events is inherently difficult, due to the possible severity of catastrophe claims.

Flood Re has a high dependency on its outwards reinsurance programme. The ceded premium is recognised on the date that the policy incepts, and is earned in line with the underlying risk. Premiums include any adjustments arising in the accounting period in respect of reinsurance contracts incepting in prior accounting periods. Unearned reinsurance premiums are deferred to subsequent accounting periods.

As indicated above, Flood Re's insurance claim expense (and related reinsurance claim income) is related to the severity of flood events, and therefore may be subject to considerable fluctuation.

1.16 Foreign Currency Transactions

The functional and presentational currency of the department is sterling.

Transactions in foreign currencies, mainly relating to the BPS, SPS and RDPE, are translated into sterling using the rate at the date of the transactions. Balances held in foreign currencies are translated at the rate of exchange ruling at the date of the SoFP.

Exchange differences are recognised in the SoCNE in the period in which they arise, except for exchange differences on transactions entered in to hedge certain foreign currency risks (RPA only, see Note 1.18).

1.17 Financial Instruments

1.17.1 Financial Assets

The department holds receivables and other financial assets (including derivatives) with a positive fair value in this category. Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Flood Re's Reinsurance receivables comprise short-term premium balances due from policyholders, commission income and paid loss recoveries due from reinsurers. They are initially measured at fair value, and reviewed for impairment at each reporting date. Flood Re also invests in short duration, UK government backed securities (gilts, treasury notes and UK government backed liquidity funds), which are held at fair value.

1.17.2 Financial Liabilities

These comprise trade and other payables and other financial liabilities (including derivatives). They are initially recognised at fair value and are subsequently measured at amortised cost.

EA holds certain financial instrument liabilities as a result of reservoir operating agreements with two water companies entered into at their privatisation. These liabilities are treated as perpetuities and recorded in the SoFP at amortised cost. The annual payments arising from these liabilities increase annually in line with the Retail Price Index.

Reinsurance payables, pertaining to Flood Re, consist primarily of premiums payable for ceded reinsurance contracts and claims payable to policyholders. These are measured at fair value.

1.17.3 Derivative Financial Instruments

RPA enters into a variety of foreign exchange forward contracts to manage its exposure to foreign exchange rate risk. Derivative financial instruments are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each SoFP date. The resulting gain or loss is recognised in the SoCNE immediately, unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in the SoCNE depends on the nature of the hedge relationship. RPA designates certain derivatives as hedges of highly probable forecast transactions (cash flow hedges).

A derivative with a positive fair value is recognised as a financial asset, whereas a derivative with a negative fair value is recognised as a financial liability. A derivative is presented as a current asset or current liability if the remaining maturity of the instrument is less than 12 months or is greater than 12 months but is expected to be realised or settled within 12 months.

1.18 Hedge Accounting

In accordance with IAS 39, Financial Instruments: Recognition and Measurement, RPA elected to designate certain foreign currency derivatives as cash flow hedges.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in the cash flow hedge reserve within Taxpayers' Equity. The gain or loss relating to the ineffective portion is recognised immediately in the SoCNE.

Amounts previously recognised in the cash flow hedge reserve and accumulated in Taxpayers' Equity are reclassified to expenditure or income in the periods when the hedged item is recognised in the SoCNE, in the same line as the recognised hedged item.

1.19 Pensions

Generally pension benefits are provided through the Civil Service pension arrangements, full details of which can be found in the Remuneration Report.

Although the Principal Civil Service Pension Scheme (PCSPS) and the Civil Servant and Other Pension Scheme (CSOPS), known as alpha, are unfunded defined benefit schemes, in accordance with explicit requirements in the FReM, departments, agencies and other bodies account for the schemes as if they were defined contribution plans. Costs of the elements are recognised on a systematic and rational basis over the period during which they benefit from employees' services by payment to the schemes of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the schemes. The PCSPS and alpha pension schemes undergo a reassessment of the contribution rates by the government actuary at four-yearly intervals. In respect of defined contribution schemes, the department recognises the contributions payable for the year.

Where the department is responsible for pension schemes for delivery bodies, it has fully adopted IAS 19, Employee Benefits. The department recognises a liability in respect of any deficit, being the excess of the present value of the scheme's liabilities over the value of the assets in the scheme, to the extent that the department has a legal or constructive obligation to make good the deficit in the scheme. Scheme managers/trustees are required to undertake a sensitivity analysis for each significant actuarial assumption, showing how the defined benefit obligation would have been affected by changes in the relevant actuarial assumption that were reasonably possible at that date. Details of this can be found in Note 14.

1.20 Provisions

The department provides for obligations arising from past events where the department has a present obligation at the SoFP date, and where it is probable that it will be required to settle the obligation and a reliable estimate can be made. Where material, future costs have been discounted using the rates as directed by HM Treasury. Details of the department's policy on disallowance provisions can be found in Chapter 3.

Some of Flood Re's insurance claims liabilities are subject to uncertainty in value and are consolidated under a single heading, Provision for Flood Re Insurance, in these accounts.

An actuarial estimate is made representing the best estimate within a range of possible outcomes; an additional risk margin is added by management. Flood Re's fixed pricing methodology means that a premium deficiency provision, consolidated under Provision for Flood Re Insurance, is expected to be required in most years. Premium deficiency represents the excess of the estimated value of claims and expenses attributable to the unexpired periods of policies in force at the balance sheet date over the unearned premiums provision in relation to such policies.

1.21 Contingent Liabilities

In addition to contingent liabilities disclosed in accordance with IAS 37, Provisions, Contingent Liabilities and Contingent Assets, the department discloses, for parliamentary reporting and accountability purposes, certain statutory and non-statutory contingent liabilities where the likelihood of a transfer of economic benefit is remote. Further information is provided in the Remote Contingent Liabilities section in Chapter 6.

Where the time value of money is material, contingent liabilities are stated at discounted amounts.

1.22 Income Taxation

Taxation, applied at prevailing rates and based on Flood Re's net profits, is reported in the SoCNE. There are no other material transactions relating to income taxation.

1.23 Value-Added Tax

Most of the activities of the core department are outside the scope of VAT and in general, output tax does not apply. Some delivery bodies have trading activities where VAT is charged at the prevailing rate and where related input VAT costs are recoverable. Input VAT is also recovered on certain contracted-out services. Irrecoverable VAT is charged to the relevant expenditure category or, if appropriate, capitalised with additions to non-current assets. Where output tax is charged or input tax is recoverable, the amounts are stated net of VAT.

1.24 Apprenticeship Levy

The Apprenticeship Levy was introduced in April 2017, requiring employers with a pay bill of over £3 million each year to pay the levy. The expense element of the apprenticeship levy is recorded against social security costs, within the staff costs note. If bodies utilise the levy for training expense, a notional charge is recognised. The corresponding credit element is recorded against grant income. Amounts are recognised on an accruals basis.

1.25 CRC Energy Efficiency Scheme

Under the CRC Energy Efficiency Scheme (formerly known as Carbon Reduction Commitment) Defra is required to purchase and surrender allowances on the basis of carbon dioxide emissions. As carbon dioxide is emitted, a liability and an expense are recognised. The liability is measured at the best estimate of the expenditure required to meet the obligation, normally at the current market price of the number of allowances required to meet the liability at the reporting date.

1.26 Corporate Recharges

Defra corporate services costs, comprising charges for legal, financial, HR, IT, estates, procurement and knowledge management services, are recognised by delivery bodies as notional charges, with the core department recording the associated credit.

1.27 Impending Application of Newly Issued Accounting Standards Not Yet Effective

IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors, 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 that are effective for future reporting periods. Those with relevance to the department are outlined below. Defra has not adopted any new IFRS standards early.

IFRS 9 - Financial Instruments. This is effective from 1 January 2018. This standard brings together all three phases of the financial instruments project, classification and measurement, impairment and hedge accounting.

IFRS 15 - Revenue from Contracts with Customers. This is effective from 1 January 2018. This standard replaces all existing IFRS guidance on revenue recognition.

IFRS 16 - Leases. This standard is effective from 1 January 2019. It will supersede all existing IFRS standards on leases. It is likely to result in a uniform accounting treatment for all leases, with the distinction between operating and finance leases removed for lessees.

IFRS 17 - Insurance Contracts. This standard will apply to all types of insurance contract and proposes a building blocks approach based on the expected present value of future cash flows to measuring insurance contract liabilities. IFRS 17 is effective for annual periods beginning on or after 1 January 2021.

The department will apply the standards upon formal adoption in the FReM. For the introduction of IFRS 15, it is not anticipated that material adjustments to the financial statements will be required, although it is likely to result in the requirement for additional disclosure. Under IFRS 9, RPA's existing hedging relationships will continue to qualify as effective hedges. RPA plans to elect the cost of hedging option for cross currency basis and forward points, thus leaving the designated element of hedging instruments unchanged to that previously designated under IAS 39.Therefore, material adjustments to the financial statements are also not anticipated following the introduction of this standard, although additional disclosure is again likely to be required. 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. The adoption of IFRS 17 is anticipated to have a material impact on the Flood Re's financial statements and disclosures and the department will work with Flood Re to monitor the impact of adoption.

2 Statement of Operating Costs by Operating Segment

The segmental analysis detailed below covers the key spending areas of the department and is aligned with the internal reporting to the Defra Board and Executive Committee. Defra reports regularly on this basis and performance is monitored against these areas.

The basis for accounting for any transactions between reportable segments is compliant with the rest of the Annual Report and Accounts and eliminates transactions between Defra's delivery bodies.

In 2017–18 Defra received funding of £3,162 million from the EU, 77 percent of its income (2016–17, of £3,290 million, 78 percent), which falls mainly to the ‘food, farming and biosecurity’ (Rural Payments Agency) and ‘natural environment and rural’ outcome systems. Of the remaining income Defra does not rely on any one major customer.

	2017-18			2016-17 Restated		
Outcome Systems	**Gross Expenditure**	**Gross Income**	**Net Total**	Gross Expenditure	Gross Income	Net Total
	£000	£000	£000	£000	£000	£000
Environmental quality	346,974	(96,322)	250,652	329,090	(102,041)	227,049
Floods and water	1,254,477	(475,909)	778,568	1,079,768	(460,063)	619,705
Food, farming and biosecurity	3,081,463	(2,866,678)	214,785	3,094,277	(2,959,674)	134,603
Marine and fisheries	106,804	(49,023)	57,781	105,463	(49,619)	55,844
Natural environment and rural	957,243	(568,094)	389,149	932,841	(587,238)	345,603
Corporate services and centrally held budgets[1]	580,193	(61,115)	519,078	947,640	(63,867)	883,773
Total	**6,327,154**	**(4,117,141)**	**2,210,013**	6,489,079	(4,222,502)	2,266,577

1. Corporate Services and Centrally Held Budgets: provides central support functions and specialist advice to allow the department to operate effectively and deliver on its objectives. It also includes CAP Disallowance net total (£9.3 million). 2016–17 net total £224.6 million. The operating segments have been updated to reflect the outcome system areas of the department in 2017–18. As a result, 2016–17 has been restated.

3 Expenditure

	2017-18 Core Department and Agencies	2017-18 Defra Group	2016-17 Core Department and Agencies	2016-17 Defra Group
	£000	£000	£000	£000
Staff Costs				
Wages and salaries	316,434	775,833	263,135	715,388
Social security costs	28,411	80,236	23,990	74,463
Other pension costs	53,253	76,406	47,124	69,612
Other Costs				
Rentals under operating leases	25,867	52,262	15,323	42,107
Interest charges	77	83	141	148
Travel, subsistence and hospitality	19,728	45,163	16,405	41,425
Off balance sheet PFIs and other service concession arrangement service charges	(323)	3,271	1,949	6,647
Research and development expenditure	28,703	53,219	30,669	55,023
Veterinarian costs	24,518	24,518	24,963	24,963
Consumables	15,861	34,105	11,755	29,464
IT service costs	104,284	169,514	108,398	181,582
Vessels	6,282	6,282	4,902	4,902
Estate management	42,142	83,301	54,126	96,319
Consultancy	11,656	37,553	3,449	22,897
Hired and contracted services	11,976	89,597	-	71,029
Training	3,810	14,279	3,422	11,374
Publicity, marketing and promotion	1,414	20,184	1,057	17,669
Stationery and printing	744	1,428	986	2,016
Office services	24,580	25,534	23,206	24,081
Early retirement	1,915	2,509	6,156	18,320
Exchange rate (gains)/losses - realised	2,446	2,446	6,919	6,919
Exchange rate (gains)/losses - unrealised	266	266	(2,136)	(2,136)
NAO auditors' remuneration	268	580	-	577
Flood Re Statutory audit fee	-	222	-	-
Other audit fees	2,510	2,612	2,538	2,828
Internal audit fees	247	881	186	656
Flood and coastal defence works	-	296,288	-	289,556
Operational maintenance	-	21,584	-	15,978
Fees and commissions	9,965	33,738	12,084	38,914
Reservoir operating agreements	-	19,955	-	21,857
Transport and plant costs	-	20,680	-	21,623
Aerial, surface and satellite surveillance	-	1,754	-	1,890
EU disallowance	(647)	(647)	(4,968)	(4,968)
Levy collection costs	-	936	-	917
Forestry Commission subsidy to Forest Enterprise England	19,468	19,468	28,037	28,037
Corporation tax paid by NDPBs	-	24,726	-	26,053
Payments to Defra executive agencies	8,652	8,652	6,675	6,675
Flood Re Insurance claims expense	-	1,134	-	592
Flood Re Reinsurance Expenditure	-	74,018	-	49,105
Bad debt expense	(30)	2,408	1,127	5,694
Other	42,328	77,859	77,360	92,696
Non-cash items				
Depreciation	27,647	117,679	23,666	122,399
Amortisation	31,691	55,639	31,258	51,122
Profit on the disposal of PPE and financial investments	(440)	(1,964)	(510)	(583)
Loss on the disposal of PPE and financial investments	443	1,529	664	964
Impairment	86	7,387	5,940	19,143
NAO auditors' remuneration	1,077	1,077	1,029	1,029
Pensions provided for in year/(written back)	14,539	157,450	19,959	122,247
Other provisions provided for/(written back) as detailed in note 13	156,153	161,442	261,706	270,548
Unwinding of discount on provisions	(4,102)	(4,102)	2,149	2,149
Capital grant-in-kind	1,300	1,300	-	-
Other non-cash items	(33,489)	59	(37,692)	59
Grants and subsidies: EU				
Capital grants	-	-	-	192
Current grants - Basic Payment Scheme	1,743,628	1,743,628	1,826,166	1,826,166
Current grants - Rural Development Programme for England	321,320	321,320	347,082	347,082
Current grants - payments to other paying agencies	1,006,657	1,006,657	1,044,160	1,044,160
Other EU current grants	52,109	52,109	39,706	39,852
Unrealised (gains)/losses	(4,045)	(4,045)	(653)	(653)
Grants and subsidies: other				
Capital grants	21,421	99,458	51,036	160,019
Current grants - Grant-in-Aid to NDPBs	1,030,958	-	973,758	-
Current grants - Rural Development Programme for England	65,649	65,649	68,043	68,043
Current grants - Grants to Local Authorities	185,456	199,084	166,313	176,447
Other current grants	140,114	140,961	121,394	125,802
Total	**5,564,977**	**6,327,154**	5,714,152	6,489,079

The majority of the corporation tax relates to Flood Re. The effective rate in 2017–18 is 19 percent (2016–17: 20 percent). For more detailed disclosures regarding staff costs, see the Staff Report in Chapter 5. Following the corporate services transformation and the centralisation of corporate services budgets, the 2017–18 core department figures for NAO auditors' remuneration include fees for RPA and APHA (non-cash) and fees for EA and NE (cash).

4 Income - Analysis of Operating Income

	2017-18 Core Department and Agencies	**2017-18 Defra Group**	2016-17 Core Department and Agencies	2016-17 Defra Group
	£000	**£000**	£000	£000
Sales of goods and services				
Scientific advice, analysis and research	17,902	18,067	18,511	18,728
Animal disease surveillance and diagnostics	6,125	6,125	7,332	7,332
Veterinary research and development	1,793	1,793	2,534	2,534
Scientific products	1,634	1,634	1,308	1,308
Ofwat licence fee	5,274	5,274	5,255	5,255
TB compensation salvage receipts	25,679	25,679	22,577	22,577
Covent Garden Market income	7,032	7,032	2,280	2,280
Sale of other goods	2,560	9,965	2,640	8,698
Other services (including Defra group)	32,948	62,623	46,094	95,007
Income payable to the consolidated fund	4,623	4,623	5,782	5,782
Fees, levies and charges				
Veterinary medicines authorisations	7,328	7,328	7,086	7,086
Veterinary medicine residues surveillance	4,019	4,019	3,909	3,909
Plant health inspections and seeds charges	8,569	8,569	8,910	8,910
Environmental protection charges	-	170,981	-	166,095
Abstraction charges	-	118,675	-	112,643
Flood risk levies	-	41,389	-	39,959
Flood Re insurance income	-	232,370	-	206,104
Agriculture and horticulture levies	-	60,307	-	59,181
Sea Fish industry levies	-	8,481	-	8,366
Other fees, levies and charges	1,855	1,855	1,399	1,399
EU funding				
Basic Payment Scheme	1,747,285	1,747,285	1,841,313	1,841,313
Income payable to other paying agencies	1,007,230	1,007,230	1,047,951	1,047,951
Structural fund / RDPE income	321,320	321,320	347,082	347,082
TSE surveillance	457	457	399	399
Fisheries guidance	16,348	16,348	6,031	6,031
Other services	84	3,331	-	2,629
Other EU income	44,637	66,221	44,344	44,454
Licences				
Fishing licence duties	-	23,312	-	20,494
Navigation licence income	-	8,474	-	8,321
Marine and coastal licencing	-	3,260	-	3,390
Other licences	-	1,139	-	715
Other income				
Current grant income - EU	-	1,161	-	1,654
Current grant income - non EU	28	5,139	-	5,653
Capital grant income - non EU	-	26,999	3,090	38,365
Charity income	-	54,018	-	37,130
Recoveries for secondments outside Defra group	201	201	287	287
Other interest receivable	-	366	-	255
APHA income from devolved administrations	32,157	32,157	31,556	31,556
Other income	1,524	1,934	1,448	1,670
Total operating income	**3,298,612**	**4,117,141**	3,459,118	4,222,502

5 Property, Plant and Equipment (PPE)

5.1 Non-Current – Defra Group

	Land	Buildings Excluding Dwellings	Dwellings	Infrastructure Assets	IT	Furniture and Fittings	Plant and Machinery	Vehicles	Assets Under Construction	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Cost or valuation										
At 1 April 2017	66,566	407,378	41,374	4,479,334	97,360	195,727	589,619	61,119	200,353	**6,138,830**
Additions	424	5,207	-	-	24,410	4,552	12,684	9,001	124,558	**180,836**
Transfers	164	4,533	-	-	3,018	(7)	831	(9)	(20,390)	**(11,860)**
Disposals	(645)	(1,202)	(206)	(1,818)	(4,659)	(4,678)	(11,475)	(10,564)	-	**(35,247)**
Impairment	664	129	54	(2,350)	(170)	(146)	(250)	-	(3,800)	**(5,869)**
Reclassifications	16,693	(1,855)	(8,284)	107,459	(1,321)	(9,037)	(62,700)	(227)	(42,830)	**(2,102)**
Reclassified as held for sale	1,568	830	661	(4,240)	-	-	-	-	-	**(1,181)**
Revaluation	1,838	25,011	1,885	206,626	473	(1,069)	4,900	1,476	-	**241,140**
At 31 March 2018	**87,272**	**440,031**	**35,484**	**4,785,011**	**119,111**	**185,342**	**533,609**	**60,796**	**257,891**	**6,504,547**
Depreciation										
At 1 April 2017	-	85,840	9,287	1,998,980	62,752	129,223	476,103	41,274	-	**2,803,459**
Charges in year	-	14,563	1,013	53,947	9,686	13,782	15,054	6,761	-	**114,806**
Transfers	-	(3,801)	-	-	1	(8)	63	(9)	-	**(3,754)**
Disposals	-	(212)	(27)	(278)	(4,638)	(4,664)	(10,068)	(10,223)	-	**(30,110)**
Impairment	-	87	(113)	-	(33)	(28)	-	-	-	**(87)**
Reclassifications	-	(358)	(270)	52,512	(782)	(5,578)	(44,935)	(136)	-	**453**
Revaluation	-	3,179	526	96,693	(231)	(1,017)	3,380	967	-	**103,497**
At 31 March 2018	**-**	**99,298**	**10,416**	**2,201,854**	**66,755**	**131,710**	**439,597**	**38,634**	**-**	**2,988,264**
Net book value 31 March 2018	**87,272**	**340,733**	**25,068**	**2,583,157**	**52,356**	**53,632**	**94,012**	**22,162**	**257,891**	**3,516,283**
Net book value 31 March 2017	66,566	321,538	32,087	2,480,354	34,608	66,504	113,516	19,845	200,353	3,335,371
Assets financing										
Owned	87,272	340,733	25,068	2,583,157	52,356	53,632	93,722	22,162	257,891	**3,515,993**
Finance leased	-	-	-	-	-	-	290	-	-	**290**
Net book value 31 March 2018	**87,272**	**340,733**	**25,068**	**2,583,157**	**52,356**	**53,632**	**94,012**	**22,162**	**257,891**	**3,516,283**
of which:										
core department and agencies	31,865	293,581	-	-	29,440	31,878	17,616	350	48,420	**453,150**
NDPBs	55,407	47,152	25,068	2,583,157	22,916	21,754	76,396	21,812	209,471	**3,063,133**
Total	**87,272**	**340,733**	**25,068**	**2,583,157**	**52,356**	**53,632**	**94,012**	**22,162**	**257,891**	**3,516,283**

The main classes of assets affected by impairments are Infrastructure Assets and Assets under Construction at EA. These were identified as a result of systematic impairment reviews. Indicators of impairment for Infrastructure Assets included erosion of weirs due to operational use, and, for Assets under Construction, digital programme expenditure that could not be related to a dedicated asset, and therefore could not be capitalised.

	Land	Buildings Excluding Dwellings	Dwellings	Infrastructure Assets	IT	Furniture and Fittings	Plant and Machinery	Vehicles	Assets Under Construction	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Cost or valuation										
At 1 April 2016	76,630	378,472	25,027	4,239,816	82,333	196,761	585,202	54,348	134,169	5,772,758
Additions	205	3,073	-	29,156	13,445	3,562	11,040	5,160	85,546	151,187
Transfers	(437)	3,018	-	-	-	1,949	(7,337)	-	(257)	(3,064)
Disposals	(2)	(345)	-	(64)	(3,916)	(6,201)	(4,620)	(182)	(30)	(15,360)
Impairment	2	2,337	(3,114)	(31,319)	(30)	(1,067)	-	-	(16,872)	(50,063)
Reclassifications	(10,466)	(4,146)	12,898	2,629	605	216	3,693	201	(2,203)	3,427
Reclassified as held for sale	(1,000)	270	(777)	1,258	-	-	-	-	-	(249)
Revaluation	1,634	24,699	7,340	237,858	4,923	507	1,641	1,592	-	280,194
At 31 March 2017	66,566	407,378	41,374	4,479,334	97,360	195,727	589,619	61,119	200,353	6,138,830
Depreciation										
At 1 April 2016	-	51,983	4,229	1,832,427	55,968	120,753	468,437	34,825	-	2,568,622
Charges in year	-	13,475	921	62,725	6,890	13,959	15,602	5,505	-	119,077
Transfers	-	-	-	-	-	68	(5,098)	-	-	(5,030)
Disposals	-	(242)	-	(2)	(3,805)	(6,100)	(4,281)	(182)	-	(14,612)
Impairment	-	60	(3,203)	(31,319)	-	-	-	-	-	(34,462)
Reclassifications	-	-	-	-	22	-	-	-	-	22
Revaluation	-	20,564	7,340	135,149	3,677	543	1,443	1,126	-	169,842
At 31 March 2017	-	85,840	9,287	1,998,980	62,752	129,223	476,103	41,274	-	2,803,459
Net book value 31 March 2017	66,566	321,538	32,087	2,480,354	34,608	66,504	113,516	19,845	200,353	3,335,371
Net book value 31 March 2016	76,630	326,489	20,798	2,407,389	26,365	76,008	116,765	19,523	134,169	3,204,136
Assets financing										
Owned	66,566	321,538	32,087	2,480,354	34,608	66,504	112,983	19,845	200,353	3,334,838
Finance leased	-	-	-	-	-	-	533	-	-	533
Net book value 31 March 2017	66,566	321,538	32,087	2,480,354	34,608	66,504	113,516	19,845	200,353	3,335,371
of which:										
core department and agencies	31,047	277,340	-	-	12,731	35,457	18,577	145	22,008	397,305
NDPBs	35,519	44,198	32,087	2,480,354	21,877	31,047	94,939	19,700	178,345	2,938,066
Total	66,566	321,538	32,087	2,480,354	34,608	66,504	113,516	19,845	200,353	3,335,371

Plant and machinery includes vessels owned by Cefas with a net book value of £6 million (2016–17, £7 million). Infrastructure assets include flood defences owned by EA, including the Thames Barrier with a net book value of £1,132 million (2016–17, £1,093 million).

Additions include a non-cash element represented by payables and transfers.

5.2 Right of Use Assets – Service Concession Arrangements

Defra has entered into a contract with Adapt Services Ltd for the provision of hosting services for the Genesis system. The Genesis system is used to administer the Environmental Stewardship (ES) Schemes. These are the legacy agri-environment schemes from the CAP period 2007–14. The Adapt Services Ltd contract provides services for hosting of the Genesis IT Application.

In March 2017, infrastructure assets relating to the IBM service concession agreement, which comprised laptops, servers and hardware, were purchased by the core department. As a result the closing balance of the service concession agreement at 31 March 2017 was nil.

	2017-18	2016-17
	£000	£000
At 1 April	-	1,565
Additions	1,656	
Extension to the service concession arrangement	-	-
Transfer of right of use asset	-	-
Depreciation	(662)	(852)
Disposals	-	-
Adjustment to the service concession arrangement	-	(713)
At 31 March	**994**	-
of which:		
core department and agencies	994	-
NDPBs	-	-
Total	**994**	-

5.3 Heritage Assets

A heritage asset is a tangible asset with historical, artistic, scientific, chronological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture.

Heritage assets are held by both NE and RBG Kew. NE's heritage assets comprise National Nature Reserves, whilst RBG Kew's heritage assets comprise land and buildings and collections. Further details regarding the stewardship functions relating to these heritage assets can be found in their respective ARAs.

Defra Group

	2017-18			2016-17		
	Operational	**Non-Operational**	**Total**	Operational	Non-Operational	Total
	£000	**£000**	**£000**	£000	£000	£000
Valuation						
At 1 April	208,877	54,245	263,122	206,123	50,210	256,333
Additions	17,812	1,684	19,496	12,676	455	13,131
Transfers	-	(35)	(35)	-	-	-
Disposals	-	(215)	(215)	-	-	-
Impairment	-	(1,227)	(1,227)	-	(64)	(64)
Reclassifications	2,419	(24)	2,395	(6,876)	-	(6,876)
Revaluation	8,712	6,061	14,773	(3,046)	3,644	598
At 31 March	**237,820**	**60,489**	**298,309**	208,877	54,245	263,122
Depreciation						
At 1 April	30,475	-	30,475	38,258	-	38,258
Charged in year	2,211	-	2,211	2,470	-	2,470
Reclassifications	-	-	-	(598)	-	(598)
Revaluation	11	-	11	(9,655)	-	(9,655)
At 31 March	**32,697**	**-**	**32,697**	30,475	-	30,475
Net book value at 31 March	**205,123**	**60,489**	**265,612**	178,402	54,245	232,647
Net book value at 1 April	178,402	54,245	232,647	167,865	50,210	218,075
Assets financing						
Owned	205,123	60,489	265,612	178,402	54,245	232,647
Finance leased	-	-	-	-	-	-
Net book value 31 March	**205,123**	**60,489**	**265,612**	178,402	54,245	232,647
of which:						
NDPBs	205,123	60,489	265,612	178,402	54,245	232,647
Total	**205,123**	**60,489**	**265,612**	178,402	54,245	232,647

5.3.1 Summary of Heritage Asset Transactions

	2017-18	2016-17	2015-16	2014-15	2013-14
	£000	£000	£000	£000	£000
Purchased assets	19,496	13,131	11,515	9,306	717
Disposals	(215)	-	-	(508)	-
Impairments	(1,227)	(64)	1,662	(5,358)	-

5.4 Investment Properties

The following assets are included in the SoFP under property, plant and equipment and investment properties, together with those detailed in Notes 5.1 and 5.2.

	2017-18	2016-17
	£000	£000
Cost at 1 April	4,018	11,950
Disposals	-	(11,500)
Transferred from PPE	160	3,518
Revaluation	45	50
Balance at 31 March	**4,223**	4,018
of which:		
core department and agencies	545	500
NDPBs	3,678	3,518
Total	**4,223**	4,018

5.5 Cash Additions

Cash additions (adjusted for capital accruals) for property, plant and equipment, heritage assets and agricultural assets amount to £192 million (2016–17, £161 million) as per the Consolidated Statement of Cash Flows (SoCF).

6 Intangible Assets

Defra Group

	2017-18				2016-17			
	Internally Generated Software	**Purchased Software**	**IT CIP**	**Total**	Internally Generated Software	Purchased Software	IT CIP	Total
	£000	**£000**	**£000**	**£000**	£000	£000	£000	£000
Cost or valuation								
At 1 April	667,926	108,248	41,872	818,046	684,691	91,966	34,677	811,334
Additions	282	312	26,940	27,534	12,372	5,743	23,087	41,202
Disposals	(102,930)	(1,342)	(7)	(104,279)	(42,108)	(521)	(42)	(42,671)
Impairments	(2)	4	-	2	(2,189)	-	(933)	(3,122)
Transfers	2,930	2,885	2,146	7,961	(11,318)	1,434	(5,615)	(15,499)
Reclassifications	20,776	9,735	(30,510)	1	8,052	583	(9,302)	(667)
Revaluation	4,437	(2,973)	-	1,464	18,426	9,043	-	27,469
At 31 March	**593,419**	**116,869**	**40,441**	**750,729**	667,926	108,248	41,872	818,046
Amortisation								
At 1 April	502,260	58,034	-	560,294	508,644	39,501	-	548,145
Charged in year	43,877	11,762	-	55,639	38,634	12,488	-	51,122
Disposals	(102,930)	(1,342)	-	(104,272)	(42,024)	(486)	-	(42,510)
Transfers	(2)	2	-	-	(15,499)	-	-	(15,499)
Reclassifications	(1,894)	1,895	-	1	(22)	-	-	(22)
Revaluation	930	(3,887)	-	(2,957)	12,527	6,531	-	19,058
At 31 March	**442,241**	**66,464**	**-**	**508,705**	502,260	58,034	-	560,294
Net book value at 31 March	**151,178**	**50,405**	**40,441**	**242,024**	165,666	50,214	41,872	257,752
Net book value at 1 April	165,666	50,214	41,872	257,752	176,047	52,465	34,677	263,189
Assets financing								
Owned	151,178	50,405	40,441	242,024	165,666	50,214	41,872	257,752
Net book value 31 March	**151,178**	**50,405**	**40,441**	**242,024**	165,666	50,214	41,872	257,752
of which:								
core department and agencies	105,315	354	13,806	119,475	126,711	588	13,156	140,455
NDPBs	45,863	50,051	26,635	122,549	38,955	49,626	28,716	117,297
Total	**151,178**	**50,405**	**40,441**	**242,024**	165,666	50,214	41,872	257,752

The effective date of revaluation was 31 March 2018.

The net book value for internally generated software includes the following.

- £70.7 million for the Common Agricultural Policy Delivery Programme held by the RPA with a remaining amortisation period of five years.
- £14 million for the Genesis system held by the core department with a remaining amortisation period of six years. Genesis is the IT system used by NE to deliver Environmental Stewardship Schemes.
- The carrying amount that would have been recognised had the revalued class of intangible assets been measured after recognition using the cost model is £17 million for the core department.

Cash additions (adjusted for capital accruals) shown in the SoCF amount to £28 million (2016–17, £42 million).

7 Financial Commitments

7.1 Capital Commitments

Defra Group

	2017-18	2016-17
	£000	£000
Contracted capital commitments at 31 March for which no provision has been made:		
PPE	236,204	120,005
Intangible assets	17	5,511
Financial assets	117,000	45,100
Total	**353,221**	170,616
of which:		
core department and agencies	132,402	73,452
NDPBs	220,819	97,164
Total	**353,221**	170,616

At 31 March 2018, RPA had capital commitments relating to bridging payments of £117 million (31 March 2017, £45.1 million). These payments were made in April 2018.

7.2 Commitments under Leases

7.2.1 Operating Leases

The total future minimum lease payments under operating leases are given in the table below.

	2017-18		2016-17	
	Core Department and Agencies	**Defra Group**	Core Department and Agencies	Defra Group
	£000	**£000**	£000	£000
Land and Buildings				
Not later than one year	26,825	41,192	15,925	27,848
Later than one year and not later than five years	93,322	130,699	55,066	84,540
Later than five years	87,577	130,852	44,483	75,327
Total	**207,724**	**302,743**	115,474	187,715
Other				
Not later than one year	372	9,060	643	8,254
Later than one year and not later than five years	205	13,786	500	8,663
Total	**577**	**22,846**	1,143	16,917

The consolidated land and buildings figures within this note show the costs related to properties leased by Defra. These arrangements between the occupier and Defra reflect a future commitment to reimburse Defra for the underlying rentals paid to landlords for the provision of leasehold accommodation. As part of our operating lease contracts Defra group has sub-let agreements with other government departments and commercial organisations with future cash flows of £6.2 million.

7.2.2 Right of Use Assets – Service Concession Arrangements

The finance lease charge for the Defra group at 31 March 2018 is £1 million (2016–17, £Nil).

Details of the service charge commitments are disclosed in Note 7.4 Other Financial Commitments.

The total amount charged to the SoCNE, in regard to the service element, is shown in Note 3.

7.3 Commitments under Private Finance Initiative (PFI) Contracts

7.3.1 Off-balance Sheet

The majority of PFI contracts associated with Defra are funded by NDPBs and public corporations.

An off–balance sheet contract was signed by the department in February 2001. The scheme involved the grant of a 129 year ground lease to a PFI partner who constructed an office building for Defra in Cambridge, occupied in 2003, subject to a 30 year lease to 28 March 2033. Break points in the lease exist at the 15, 20 and 25 year points (with the first break point at 28 March 2018). The building is not an asset of the department and will not revert to Defra at the end of the lease term. The freehold land subject to the ground lease is a Defra asset. In 2017–18 Defra occupied 0 percent (2016–17, 0 percent) of the building and recharges other occupiers for their share of the costs, with NE occupying 17.26 percent (2016–17, 17.26 percent) of the site, APHA occupying 1.5 percent (2016–17, 1.5 percent) and RPA occupying 1.3 percent (2016–17, 1.3 percent).

In addition, EA has entered into two public-private partnership contracts, the Broadland Flood Alleviation Project and Pevensey Bay beach maintenance. Contracted future commitments are £17 million (2016–17, £19 million) and £12 million (2016–17, £13 million), respectively. Full details of these public-private partnership contracts can be found in EA's ARA.

7.3.2 Charge to the Statement of Comprehensive Net Expenditure and Future Commitments

The total amount charged to the SoCNE, in respect of off-balance sheet (SoFP) transactions is shown in Note 3. The total payments to which the department is committed are as follows:

Defra Group

	2017-18	2016-17
	£000	£000
Not later than one year	11,644	6,246
Later than one year and not later than five years	42,826	25,988
Later than five years	3,300	20,543
Total	**57,770**	52,777
Number of off-balance sheet PFI contracts	3	3
Total	**3**	3
of which:		
core department and agencies	24,298	3,062
NDPBs	33,472	49,715
Total	**57,770**	52,777

7.4 Other Financial Commitments

The department has entered into non-cancellable contracts (which are not leases, PFI contracts or other service concession arrangements). The payments to which the department is committed are as follows:

	2017-18		2016-17	
	Core Department and Agencies	**Defra Group**	Core Department and Agencies	Defra Group
	£000	**£000**	£000	£000
Not later than one year	216,651	251,474	219,490	316,388
Later than one year and not later than five years	552,527	578,079	647,304	686,985
Later than five years	1,195,058	1,196,510	1,456,166	1,458,372
Total	**1,964,236**	**2,026,063**	2,322,960	2,461,745

Within the other financial commitments disclosure, £170 million (2016–17, £191 million) relates to facilities management costs associated with the occupation of buildings that are either owned or leased by Defra or specialised properties held on executive agencies' SoFPs.

£114 million (2016–17 £122 million) relating to service contracts for information technology and includes contracts with IBM, ATOS, Adapt, Microsoft, Comaprex, Vodafone and Xerox.

The core department entered into a seven year contract with Shared Services Connected Ltd. (SSCL) in November 2013 for the provision of shared services across HR, payroll and finance. The future commitment is £9 million (2016–17, £8 million).

The core department has agreements with local authorities on 24 waste infrastructure grant projects (formerly waste PFI projects) that are receiving grant payments. Defra will continue to support these projects while they meet the terms of their agreement with Defra. Future commitments are £1,653 million (2016–17, £1,983 million). All projects are now in receipt of grant and no further agreements are planned.

EA has a commitment of £13 million (2016–17, £44 million) for an outsourced ICT service contract with Capgemini. Full details regarding the contract can be found in EA's ARA.

The core department is committed to £24 million (2016–17, £36 million) with regards to the Fera Science Ltd 10 year framework agreement for provision of scientific services to Defra and other parts of government.

8 Financial Instruments and Risk

	2017-18		2016-17	
	Core Department and Agencies	**Defra Group**	Core Department and Agencies	Defra Group
	£000	**£000**	£000	£000
Financial Assets				
Loans and investments	31,478	31,387	27,331	27,190
Other receivables	538,959	641,469	610,142	702,002
Cash and cash equivalents	720,714	1,162,389	602,231	907,529
Derivative financial instrument assets	13,516	13,516	2,086	2,086
Sub-total	1,304,667	1,848,761	1,241,790	1,638,807
Less: impairment of financial instruments	(3,005)	(9,830)	(2,393)	(6,371)
Total	1,301,662	1,838,931	1,239,397	1,632,436
Financial Liabilities				
Other payables	(716,772)	(951,985)	(628,498)	(867,024)
Derivative financial instrument liabilities	(656)	(656)	(5,713)	(5,713)
EA reservoir agreement	-	(141,606)	-	(141,606)
Total	(717,428)	(1,094,247)	(634,211)	(1,014,343)

FRS requires disclosures in the financial statements that enable users to evaluate the significance of financial instruments to the financial position and performance, and the nature and extent of risks arising from financial instruments to which Defra is exposed during the year and at the financial year end, and how those risks are being managed.

Most of the department's financial assets and liabilities are held at fair value (for instance, IAS 39 requires that loans and receivables are initially measured at fair value, and subsequently stated at amortised cost). As many of the department's trade receivables and trade payables are, by their nature, short term in duration, they are recorded at fair value. On this basis, no systematic exercise to compare the fair value with carrying amount is conducted.

With the exception of the Eco-Business Fund (see Note 9), all financial instruments are classed under IFRS 13 as either level one or level two inputs, with no unobservable inputs being relevant.

As the cash requirements of the department are met through the Estimates process, financial instruments play a more limited role in creating and managing risk than would apply to a non-public sector body of a similar size. The majority of financial instruments relate to contracts for non-financial items in line with the department's expected purchase and usage requirements and the department is therefore exposed to little credit, liquidity or market risk, except where detailed below.

8.1 Categories of Financial Instruments

Details of financial instruments held by the department are included in Notes 9, 10, 11 and 12 (non-financial instrument balances relating to taxation, accruals and prepayments are also included in these notes). Further details are given below only where the risks are significant. For further information on financial instruments see Rural Payments Agencies (RPA's) and Environment Agencies (EA's) ARAs.

8.2 Exposure to Risk

8.2.1 Credit Risk

A significant proportion of the department's customers and counterparties are other public sector organisations. Minimal credit risk arises from these organisations.

For those customers and counterparties that are not public sector organisations the department has policies and procedures in place to ensure credit risk is kept to a minimum.

The department is not exposed to material credit risk.

8.2.2 Liquidity Risk

Excluding RPA, there is no significant exposure to liquidity risk, as the department's net resource outturn is financed through resources voted annually by Parliament.

RPA has maintained liquidity, wherever possible, through timely submission of funding claims to the European Commission (the Commission). RPA does not undertake borrowing of funds other than from HM Treasury. Such borrowing, arising from short term in-year fluctuations in expenditure, if required, would be effected by Defra drawing monies from HM Treasury's Contingencies Fund on behalf of RPA. This facility is the subject of a formal standing arrangement agreed by HM Treasury. Drawings are repayable within the financial year.

8.2.3 Market Risk – Foreign Currency Risk

Excluding RPA, there is no significant foreign currency risk.

RPA's activities expose it to the financial risks of changes in foreign currency exchange rates. RPA enters into forward foreign exchange contracts to manage its exposure to foreign currency risk relating to euro denominated receipts from the Commission for BPS and Rural Development Programme scheme expenditure.

From January 2003, in accordance with Commission Regulation (EC) No. 1997/2002 (as amended), non-Eurozone member states, such as the UK, are reimbursed by the Commission in euros. However, the majority of distributions by RPA are paid in sterling, which creates an exposure to gains or losses from fluctuations in foreign exchange rates between the euro and sterling. RPA has managed its exposure to this risk through the purchase of forward foreign currency contracts. RPA holds derivative assets and liabilities for the purpose of managing foreign currency risk.

The carrying amounts of RPA's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Assets		Liabilities	
	31 March 2018	31 March 2017	**31 March 2018**	31 March 2017
	£000	£000	**£000**	£000
Euro denominated	**403,352**	560,365	**128,587**	129,258

The following table details RPA's, and therefore the department's, sensitivity to a 10 percent increase and decrease in sterling against the euro.

	Impact of Movement in Euro/Sterling Rate		Impact of Movement in Euro/Sterling Rate	
	Sterling Appreciates by 10%		Sterling Depreciates by 10%	
	31 March 2018 £000	31 March 2017 £000	**31 March 2018 £000**	31 March 2017 £000
Net Operating Cost *	**(27,476)**	(43,111)	**27,476**	43,111
Derivative instruments:				
Net Operating Cost **	**19,163**	22,900	**(15,755)**	(18,466)
Other equity ***	**55,965**	56,219	**(52,557)**	(51,785)

*This is attributable to the exposure outstanding on euro receivables and payables at the SoFP date.

** This is the result of the changes in fair value of derivatives instruments held for trading.

***This is the result of the changes in fair value of derivatives instruments designated as cash flow hedges.

8.2.4 Market Risk – Inflation

EA is exposed to the risk of changes in the rate of inflation as a result of the reservoir operating agreements. The Retail Price Index has fluctuated significantly over the life of these financial liabilities. This is a macroeconomic risk that EA cannot manage in any way. However EA is able, through legislation, to recover the full cost of reservoir operating agreements through its charges on water abstraction.

8.2.5 Market Risk – Investments

As at 31 March 2018 the department has £27.2 million in investments, £20 million of this is invested in the Eco-Business Fund and the majority of the remainder is a shareholding in Fera Science Limited. Further information is in Note 9.

8.3 Exposure to Insurance Contract Risk

The risks described below are attributable to Flood Re, which is consolidated into the departmental accounting boundary.

8.3.1 Credit Risk

Flood Re defines counterparty credit risk as the risk of not recovering money owed to Flood Re by third parties. The Company's maximum exposure to credit risk is the gross carrying value of its levy receivables, reinsurance premium receivables, reinsurance recoveries, trade and other receivables and cash and short-term deposits.

The Company uses issuer credit ratings provided by external credit rating agencies to monitor the ongoing creditworthiness of its counterparties together with other publicly available data and market information.

Ceded reinsurance arrangements do not relieve the Company from its obligations to policy holders. Reinsurance is only placed with counterparties that have a minimum credit rating of A, or provide collateralised arrangements. No single reinsurer placement can exceed the maximum credit counterparty exposure thresholds established by Flood Re's Reinsurance Subcommittee.

8.3.2 Insurance Risk

Premium risk

Flood Re is exposed to premium risk, which is defined as the risk of loss or of adverse change in the value of insurance liabilities given underlying pricing assumptions.
The premium Flood Re charges is intentionally not reflective of the underlying risk that the Company assumes, as the Company's principal objective is to enable the availability and affordability of household insurance for homes at highest risk of flooding. Accordingly, the Company's premium risk strategy is to charge insurers a subsidised fixed rate for the flood peril, which is set according to the council tax band associated with the insured property.

The Company expects that assumed premium will not be sufficient to cover the estimated mean cost of claims. The cost of the subsidy provided through the premium thresholds is met by a levy raised from all insurers writing home insurance in the UK. For the first five years, the levy is set at £180 million a year.

Reserving risk

Reserving risk is defined as the risk of loss or of adverse change in the value of insurance liabilities due to inadequate reserving assumptions. This is distinct from the premium risk as it is based on the development of claims after a flood event has occurred. For example, reserves would be understated if the severity of a claim is greater than the reserves set, which are based on actuarial best estimates of the liability.

The Company monitors flood risk exposure on a per risk basis and aggregate sum insured basis and performs exposure modelling on at least a quarterly basis or on the occurrence of an event.

The correlation of assumptions will have a significant effect in determining the ultimate claims liabilities. However, to demonstrate the sensitivity of key assumptions, Flood Re estimates the impact of an increase or decrease in both the average claims costs and the number of claims. For more information see Flood Re's Annual Report and Financial Statements.

Catastrophe risk

Flood Re's most significant insurance risk exposure is to losses arising from low frequency, high severity catastrophe flood events. A catastrophe flood is defined by the Company as a single event UK flood that:

- impacts more than 250 properties ceded to the Company; or
- is expected to have claims costs in excess of £5 million

Catastrophe loss events would have a significant impact on the financial results of the Company.

During the year ended 31 March 2018 the Company did not classify any flood activity in the United Kingdom as a catastrophe loss event.

Flood Re uses risk management software to assess catastrophe exposure. However, there is always a risk that the assumptions used in these models are unreliable or that claims will be greater than the model would suggest.

Flood Re purchases reinsurance as part of its overall risk mitigation programme. Reinsurance ceded is the Company's primary mechanism for managing and mitigating insurance risk.

The Flood Re Scheme document establishes the requirement for the Company to set an annual aggregate loss amount (liability limit) representing the maximum gross claims that the Company will pay in relation to relation to any one accounting period. The scheme liability limit for the year ended 31 March 2018 is £2,133 million (2017: £2,100 million). The liability limit, set in 2017 for a period of five years, increases by Consumer Price Index (CPI) each year. During this period, as capital reserves are built up, Flood Re's retention limit (i.e. the amount of net claims liability it assumes) will increase. Should claims exceed the liability limit, then no further reinsurance recovery will be due from the Company to the relevant insurers.

Flood Re requires that the outwards reinsurance protections purchased match the full £2,133 million liability limit less the assumed net retention. Furthermore Flood Re is required to protect itself from an annual accounting loss above £100 million in any one accounting period. For more details, see Flood Re's Annual Report and Financial Statements.

8.3.3 Liquidity Risk

Flood Re must maintain sufficient liquidity at all times to support its cedents by settling claims when due. The Company generates cash inflows primarily from Levy I, premium and investment income and is exposed to significant cash outflows arising from reinsurance premiums payable, claims costs and operating expenses.

The Company monitors its liquidity and future cash flow requirements on a weekly basis and maintains a high quality, well balanced and liquid investment portfolio. There is uncertainty around the timing and severity of claims costs. The maturity profile of the Company's invested assets is aligned to the short term nature of the business underwritten whereby insurance contract liabilities are generally incurred and settled within one year.

The Company anticipates generating positive cash flows, absent catastrophic flood events.

8.3.4 Market Risk

Flood Re has a conservative market risk strategy which prioritises capital and liquidity preservation over investment return. The investment mandate restricts the type, duration and amount of holdings that may be invested in. Flood Re only invests in short duration, UK government backed securities (gilts, treasury notes and UK government backed liquidity funds).

8.3.5 Capital Adequacy

Flood Re has complied at all times with the regulatory minimum capital requirements and the solvency capital requirements. For more information, see Flood Re's Annual Report and Financial Statements.

9 Investments

	Stocks and Shares		Loans	
	Other	Fera Science Limited	RBG Kew Voted Loan	Total
	£000	£000	£000	£000
Defra Group				
Balance at 1 April 2016	20,505	6,670	-	27,175
Revaluations	15	-	-	15
Balance at 31 March 2017	20,520	6,670	-	27,190
Balance at 1 April 2017	20,520	6,670	-	27,190
Revaluations	6	-	-	6
Balance at 31 March 2018	**20,526**	**6,670**	**-**	**27,196**
of which:				
core department and agencies	20,175	6,670	442	27,287
NDPBs	351	-	(442)	(91)
Balance at 31 March 2018	**20,526**	**6,670**	**-**	**27,196**

The department invested £20 million in the Eco-Business Fund in December 2015, comprising an initial subscription of £10 million for 288.6834 shares and a further binding obligation of £10 million for a number of shares in August 2016. This investment forms part of the department's official development assistance spend and the nature of the fund is to provide long term investment in developing economies. Defra's investment, albeit whilst significant, does not entitle them to be classed as being in a joint venture with, or an associate of the Eco-Business Fund as they only have a junior shareholding, exposing them to both a higher risk and lower return than entities with senior shareholdings. As a shareholder, Defra enjoys voting rights at the Eco-Business

Fund's Annual General Meeting but they do not have a role within policy making nor do they have any formal role within the board or governing body. The shares are, under IFRS 13, classed as level three unobservable inputs, as there is no principal market for the shares and the fair value cannot be reliably measured. Instead, data provided by the Eco-Business Fund on a quarterly basis is the primary source of information regarding the current value of the shareholding. The investment is classified under IAS 39 as an available for sale financial asset, with gains and losses going to other comprehensive expenditure. As the investment is in equity instruments with no quoted market price in an active market, the initial cost is the appropriate valuation.
The department has a 25 percent equity shareholding in Fera Science Limited (Fera), which provides science services. It is classified as an associate over which the department has significant influence, the latter being the power to participate in the financial and operating policy decisions of Fera (but not control or joint control).

The government established Fera as a private limited company with two shareholders: Capita Business Services Limited with a 75 percent equity stake and the department with a 25 percent equity stake. It began trading on 1 April 2015. Its head office is in London, UK. There has been no change in the department's ownership for the reported year. As 25 percent equity shareholder, Defra has traditional shareholding responsibilities for Government and has two non-executive directors on the Fera Board (Ian Boyd, Chief Scientific Adviser and Nick Joicey, Director General Strategy EU and Finance) who support the shareholder functions. As well as providing support and advice on the running of the company, they bring insights into Government's customer needs and provide scientific leadership.

Fera prepares its accounts on an FRS101 (IFRS with limited disclosure) basis. There are no material differences between this and an IFRS basis of preparation and therefore no adjustments are required. The reporting date of Fera's financial statements is 31 December, the same date as its major shareholder and ultimate controlling entity. When applying the equity method of accounting, Fera's 2017 unaudited financial statements have been used and adjustments have been made for the effects of transactions between 31 December 2017 and 31 March 2018. In 2017–18, the share of profit and loss was zero, and the amount recognised in other comprehensive expenditure was also zero. These accounts also confirm that no impairment of assets has been applicable.

The core department issued museum loans to RBG Kew. These loans eliminated upon consolidation and therefore no assets or liabilities show for the Defra group.

10 Cash and Cash Equivalents

	2017-18		2016-17	
	Core Department and Agencies	**Defra Group**	Core Department and Agencies	Defra Group
	£000	**£000**	£000	£000
Balance at 1 April	602,231	907,529	896,744	1,086,008
Net change in cash balance	118,483	254,860	(294,513)	(178,479)
Balance at 31 March	**720,714**	**1,162,389**	602,231	907,529
The following balances at 31 March are held at:				
Government Banking Services	719,311	848,147	599,306	697,154
Commercial bank accounts and cash in hand	1,403	50,026	2,925	40,015
Short term investments	-	264,216	-	170,360
Balance at 31 March	**720,714**	**1,162,389**	602,231	907,529

For further information see the Net Cash Requirement section of Chapter 3.

The majority of the short term investment relates to Flood Re's short term deposits with a maturity of three months or less which are subject to insignificant risk of changes in value.

11 Trade Receivables, Financial and Other Assets

	31 March 2018 Core Department and Agencies	31 March 2018 Defra Group	31 March 2017 Core Department and Agencies	31 March 2017 Defra Group
	£000	£000	£000	£000
Amounts falling due within one year				
Trade receivables	26,432	58,325	19,961	58,273
Bad debt impairment	(3,005)	(9,830)	(2,393)	(6,371)
Deposits and advances	279	340	269	371
Flood Re reinsurance receivables	-	25,279	-	17,839
Other receivables	29,356	34,654	28,339	33,050
VAT	12,217	41,123	14,066	49,923
Prepayments and accrued income	111,933	186,665	74,255	148,844
Accrued income relating to EU funding	399,530	402,876	510,518	510,518
Trade and other receivables	**576,742**	**739,432**	645,015	812,447
Current loans	4,191	4,191	-	-
Current part of derivative financial instrument asset	13,516	13,516	2,086	2,086
Other financial assets	**17,707**	**17,707**	2,086	2,086
Amounts falling due after one year				
Trade receivables	12	12	14	44
Other receivables	11,677	11,683	11,738	11,746
Prepayments and accrued income	14	20	52	52
Receivables due after more than one year	**11,703**	**11,715**	11,804	11,842
Total receivables	**606,152**	**768,854**	658,905	826,375

12 Trade Payables and Other Current Liabilities

	31 March 2018 Core Department and Agencies	31 March 2018 Defra Group	31 March 2017 Core Department and Agencies	31 March 2017 Defra Group
	£000	£000	£000	£000
Amounts falling due within one year				
VAT	1,470	2,913	1,355	2,938
Other taxation and social security	7,273	32,247	7,626	33,616
Flood Re reinsurance payables	-	17,037	-	19,750
Trade payables	27,062	74,252	19,745	56,777
Other payables:				
EU	-	-	3,518	3,518
Other	13,442	27,597	21,426	32,117
Accruals and deferred income	682,647	1,045,135	588,103	975,476
Current part of finance leases	439	439	190	190
Amounts issued from the Consolidated Fund for supply but not spent at year end	720,714	720,714	602,231	602,231
Trade and other payables	**1,453,047**	**1,920,334**	1,244,194	1,726,613
Current part of derivative financial instrument liability	656	656	5,713	5,713
Other financial liabilities	**656**	**656**	5,713	5,713
Amounts falling due after more than one year				
Other payables, accruals and deferred income	146,419	148,714	142,315	144,899
Finance leases	845	845	212	212
Other Payables	**147,264**	**149,559**	142,527	145,111
Environment Agency reservoir agreement	-	141,606	-	141,606
Other financial liabilities	**-**	**141,606**	-	141,606
Total payables	**1,600,967**	**2,212,155**	1,392,434	2,019,043

13 Provisions for Liabilities and Charges

13.1 Provisions for Liabilities and Charges (Excluding Pension Liabilities)

	CAP Disallowance	Basic Payment Scheme	Flood Re Insurance	Metal Mines	FMD Sites	Core Estates Provisions	Other Provisions	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Defra Group								
Balance at 1 April 2016	17,638	25,250	-	269,390	121,637	6,647	52,839	493,401
Provided in the year	229,572	6,705	10,653	3,942	-	58,731	2,065	311,668
Provisions not required written back	-	-	-	(5,802)	-	(5,972)	(29,346)	(41,120)
Provisions utilised in year	(2,772)	(31,955)	-	(1,648)	(974)	-	(4,140)	(41,489)
Changes in discount rate	-	-	-	-	-	-	-	-
Unwinding of discount	-	-	-	-	601	1,546	2	2,149
Balance at 31 March 2017	244,438	-	10,653	265,882	121,264	60,952	21,420	724,609
Provided in the year	-	-	6,838	-	180	17,234	5,992	**30,244**
Provisions not required written back	(8,692)	-	-	(13,045)	(32)	(44,665)	(5,446)	**(71,880)**
Provisions utilised in year	(51,588)	-	(1,383)	(1,688)	(995)	(5,542)	(3,721)	**(64,917)**
Changes in discount rate	-	-	-	151,442	51,636	-	-	**203,078**
Unwinding of discount	-	-	-	-	(2,241)	(1,861)	-	**(4,102)**
Balance at 31 March 2018	**184,158**	**-**	**16,108**	**402,591**	**169,812**	**26,118**	**18,245**	**817,032**

	CAP Disallowance	Basic Payment Scheme	Flood Re Insurance	Metal Mines	FMD Sites	Core Estates Provisions	Other Provisions	Total
of which:	£000	£000	£000	£000	£000	£000	£000	£000
31 March 2017								
core department and agencies	244,438	-	-	265,882	121,264	60,952	11,746	704,282
NDPBs	-	-	10,653	-	-	-	9,674	20,327
Total	244,438	-	10,653	265,882	121,264	60,952	21,420	724,609
31 March 2018								
core department and agencies	184,158	-	-	402,591	169,812	26,118	11,893	**794,572**
NDPBs	-	-	16,108	-	-	-	6,352	**22,460**
Total	**184,158**	**-**	**16,108**	**402,591**	**169,812**	**26,118**	**18,245**	**817,032**

The core estates provision is made up of:

- Dilapidations £23.2 million (2016–17, £25.2 million);
- Onerous leases £2.8 million (2016–17, £35.6 million);
- Rent reviews £48,000 (2016–17, £113,000)

13.2 Analysis of Expected Timing of Discounted Flows (Excluding Pension Liabilities)

	2017-18							
	CAP Disallowance	Basic Payment Scheme	Flood Re Insurance	Metal Mines	FMD Sites	Core Estates Provisions	Other Provisions	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Defra Group								
Not later than one year	184,158	-	12,100	1,595	1,000	3,988	11,607	**214,448**
Later than one year and not later than five years	-	-	4,008	7,109	4,254	4,607	3,192	**23,170**
Later than five years	-	-	-	393,887	164,558	17,523	3,446	**579,414**
Total	**184,158**	**-**	**16,108**	**402,591**	**169,812**	**26,118**	**18,245**	**817,032**
of which:								
core department and agencies	184,158	-	-	402,591	169,812	26,118	11,893	**794,572**
NDPBs	-	-	16,108	-	-		6,352	**22,460**
Total	**184,158**	**-**	**16,108**	**402,591**	**169,812**	**26,118**	**18,245**	**817,032**

The timing of cash flows for the provisions requires management to make estimates and assumptions. All estimates for provisions are based upon knowledge of current facts and circumstances, assumptions concerning past events, and forecasts of future events and actions. Some of the assumptions made have limitations that will mean that the actual timings of cash flows could vary significantly from these estimates.

The change in the discount rate for general provisions can have a significant impact on the stated value of liabilities. The real rates for general provisions, as advised by HM Treasury, are as follows:

	2017–18	2016–17
	%	%
Short term	(2.42)	(2.7)
Medium term	(1.85)	(1.95)
Long term	(1.56)	(0.8)

13.3 Disallowance Provisions

The European Commission (the Commission) can apply financial corrections if Defra (through Rural Payments Agency) does not comply with the Commission's regulations for payments funded through the Common Agricultural Policy (CAP). Any amounts disallowed depend on the assessed severity of the breach of regulations and on subsequent negotiations with the Commission, in accordance with the Commission's clearance of accounts procedure. If disallowance is imposed by the Commission this materialises as cash refused (i.e. a deduction) in the UK's claim for reimbursement of claims under CAP. This results in Defra being liable for the amount of deduction.

Liabilities exist for all schemes where the results of external Commission audit have indicated that a financial correction is likely, and where there is an indication of the severity of the issues leading to that correction. This enables an estimate to be made. The final estimates reflect the best information available at the year end.

Liabilities which are expected to impact in future accounting periods are disclosed as provisions, covering all relevant schemes. As the process of Commission reviews progresses, the likelihood of disallowance penalties are confirmed by the Commission (and are reasonably certain). In practice, this is when the Commission has notified a penalty which the department will not contest. It is at this stage that amounts are reflected in the financial statements as an accrual. Finally, the point at which the cash refused is physically transacted may come sometime after the accrual point and typically in a later accounting period. Therefore it is important to recognise that liabilities for disallowance can cover a number of scheme years and do not just reflect any disallowance imposed in the financial year covered by any single year's accounts.

Limited notice is given of future Commission conformity audits and it is not therefore known which scheme areas will be audited during the coming year. Where there has not been an audit, then we declare a remote contingent liability in the Accountability Report. Once audits have taken place and until a reliable estimate can be made a contingent liability is disclosed. Once reliable estimates are available and a letter of the findings received from the Commission, a provision/accrual can be accounted for.

For further information on the Disallowance provision, please refer to Chapter 3.

13.4 Flood Re Insurance Provision

A provision is recognised as both the value and timing of the insurance claim liability is uncertain. Delays can be experienced in the settlement and notification of claims, and consequently the ultimate cost cannot be known at the reporting date.

The liability is calculated at the reporting date using a standard range of actuarial projection techniques, based on empirical data and current assumptions. An actuarial estimate is made representing the best estimate plus a risk margin within a range of possible outcomes. The liability is not discounted for the time value of money.

The liabilities are derecognised when the obligation to pay a claim expires, is discharged or cancelled.

13.5 Abandoned Metal Mines Provision

Abandoned metal mines are a pollution threat, potentially discharging mine water containing heavy metals and other pollutants into rivers and aquifers. When the abandoned mines are closed, pumps are switched off and the groundwater level subsequently rises until it reaches the surface or discharges into overlying aquifers. Owners/operators of abandoned mines cannot be held responsible for discharges made at abandoned metal mines before 31 December 1999. Following the Pollution Prevention and Control Act 1999 responsibility for permitting and monitoring was transferred to a new framework. Accordingly, Defra has a constructive obligation at certain sites, managed via memorandums of understanding (MoU) with the Coal Authority.

The department therefore funds the ongoing running costs of water treatment schemes built at three abandoned metal mine sites. These schemes clean polluted water which flows out of the abandoned mines and into water bodies, thus helping to meet Defra's objectives for good water body status under the EU's Water Framework Directive and regulations governing the levels of specific chemical pollutants in water and the wider environment (Environmental Quality Standards Directive - EQSD). The Wheal Jane scheme has been running since 2000, with Force Crag coming into operation in 2014 and Saltburn Gill in 2015.

There is uncertainty over the estimation of the value of the liability. The department has an evidenced cost base, with forecasts of the running costs being provided by the Coal Authority, until the end of the current MoUs. The time frames involved are less certain, but are based on scientific and geological research.

A report by Newcastle University explored alternatives to expensive active treatment schemes, and Defra subsequently commissioned Newcastle University to develop low cost 'compost bioreactors'. These reactors have been used at Force Crag and have resulted in lower costs for running that scheme. The likelihood of further technological advances makes it difficult to predict future costs for remediation. Separately, there is the possibility of local funding being sought from those who benefit from the schemes, to reduce the amount of Defra funding required.

The mine water treatment provision represents the ongoing future liabilities relating to remediating mine water pollution arising from abandoned metal mines. The provision is calculated over 100 years as conditions for causing pollution are likely to continue, and there is no foreseeable option to dispensing with treatment schemes. Updates to the discount rates for provisions as advised by HM Treasury can cause the liability to vary significantly. We have carried out a sensitivity analysis to ascertain the responsiveness of the provision to changes to the underlying assumptions i.e. costs, the period of liability and discount rate in value and percentage. Details are outlined in the table below.

Change in assumption	Effect on provision (in £)	Effect on provision (in % terms)
0.5% increase/decrease in Treasury Discount Rate (see 13.2)	decrease/increase of £106m/£155m	decrease/increase of 26%/38%
10% increase/decrease in underlying costs	increase/decrease of £40m/£40m	increase/decrease of 10%/10%
10 year increase/decrease in timeframe of the provisions	increase/decrease of £86m/£73m	increase/decrease of 21%/18%

13.6 Foot and Mouth Disease (FMD) Burial Sites Provision

Since the FMD outbreak in 2001, the department has a constructive obligation for managing several burial sites across the UK as it has committed to actively manage these sites to prevent the discharge of contaminants through groundwater pollution. The provision for FMD sites represents the ongoing future liabilities relating to preventing and remediating any leachate pollution arising from burial sites. There are significant uncertainties as to the time period over which conditions for causing pollution will continue at the sites, the provision has therefore been estimated based on 100 years from burial with 83 years remaining. Work in year by the Science Advisory Council (SAC) has provided assurances regarding management of the risk of contamination. The department deems the SAC as a board with sufficient scientific expertise to reach a judgement on the burial sites. It recognises its conclusion that without more analysis the lifetime of the liability cannot be accurately measured.

A review by the SAC has provided assurances over current practices and that the residual environment risk remains negligible. It has also recommended a revised monitoring programme to enable better assessment of any residual risk and assessment of the lifetime of the potential residual risk. The monitoring regime prescribed by the SAC will provide the department with a basis to accurately assess the effective life of the burial sites. This regime is expected to capture the appropriate scientific evidence to assess the lifetime. The new monitoring model (expected in 2–3 years' time) will provide a framework for better assessing the lifetime of the liability. The cost of implementing the revised monitoring regime is deemed negligible and is expected to be more than offset by efficiencies in working practices in managing the burial sites. The assessment of annualised running costs, upon which the provision is based, is therefore deemed to remain a robust assessment and is in line with spending in 2017–18.

Sensitivity analysis has flagged potential volatility in the carrying value of the provision if there are changes to the lifetime, annual cost and discount rates in value and percentage as outlined in the table below. These factors will continue to be monitored.

Change in assumption	Effect on provision (in £)	Effect on provision (in % terms)
0.5% increase/decrease in Treasury Discount Rate (see 13.2)	decrease/increase of £37m/£50m	decrease/increase of 22%/30%
10% increase/decrease in underlying costs	increase/decrease of £17m/£17m	increase/decrease of 10%/10%
10 year increase/decrease in timeframe of the provisions	increase/decrease of £40m/£34m	increase/decrease of 23%/20%

13.7 Estates Provisions

An onerous lease is a contract in which the unavoidable costs of meeting the obligation under the contract exceed the economic benefits expected to be received under it. For this definition to be met, the leased property must have a level of non-occupancy where the financial impact may be material and the non-occupancy is expected to extend into the future. To inform the accounting treatment, a review of the vacant space across the estate was undertaken by the Defra corporate surveyors.

A provision is recognised where the value of the onerous lease can be calculated (as there are known contractual amounts to be paid), as the result of a past event (for example, a tenant or the department vacating a property), but the timing of future payments is not certain, due to the potential for future actions in order to mitigate the loss by subletting a property, thereby mitigating the onerous element of the lease. When calculating the value of the Onerous Lease provision, the main factor contributing to the value are the costs of the leases for the length of their term (or to the earliest break point if one exists). The significant reduction in the value of the Onerous Lease Provision is largely due to the previously vacant space now being occupied by EU Exit teams rendering the space no longer onerous.

The onerous lease provision relates to Northgate House in Reading, Ceres House in Lincoln, Cold Harbour Farm in Ashford and the Veterinary Laboratories Agency in Calthwaite.

A contractual liability for repairs and reinstatement of alterations arises to the extent that Defra as a tenant fails to repair, maintain or decorate in accordance with the terms of the lease and may be required to reinstate alterations at lease expiry. Under the lease agreement, a Landlord may make a claim in respect of breaches of the repairing obligation against Defra. This usually arises at the end or towards the end of a lease but may arise at any time if Defra fails to comply with the lease obligations. Under a licence for alteration, a landlord may make a claim for reinstatement at the end of the lease.

Defra holds two provisions to recognise the contractual liability for repairs and reinstatement. The first recognises those leases that are near a break or are at their expiry and a business decision is pending in relation to the future of the property and surveyor instructed. At this point a firmer view of the liability can be assessed and correspondence with the landlord is more likely. The second recognises those leases where a significant length of the lease remains, there is no business decision pending and there is no surveyor instructed. The purpose of this provision is to recognise the contractual obligations to return the property to its agreed state and discounting is applied to reflect the point at which this liability could be enforced. Both meet the criteria for a provision as the lease agreement is deemed as giving rise to a probable liability. There remains a degree of uncertainty as to both the timing and amount of these provisions. Due to plans for EU exit recruitment, it is likely these provisions will be mitigated by utilising the vacant space to accommodate staff and deliver economic benefits.

To enable a reasonable estimate of the liability professional judgement is sought in relation to the national average cost per metre square for repairs and reinstatement. This is replaced where there is evidence of either a professional assessment from surveyors or the landlord has submitted a claim.

13.8 Other Provisions

The Defra group has a total of £18.2 million relating to smaller provisions, none of which have an individual value greater than £10 million.

14 Pension Liabilities

14.1 Pension Schemes Managed by the Department

The department contributes to the Principal Civil Service Pension Scheme (PCSPS) and Civil Servant and Other Pension Schemes (CSOPS), known as alpha, as reported in Chapter 5.

The following pension schemes are managed by and included within the core department's disclosures (the liabilities reported under the core department and executive agencies solely relate to the core department).

- Environment Agency (EA) Pension Liability (Closed Scheme) (funded)
- Nature Conservancy Council Pension (by-analogy)
- Former Countryside Agency Pension Schemes (Rural Community Council and Ex-Chairmen Schemes) (by-analogy)
- Horticultural Research International Pension Scheme (by-analogy).

The following pension schemes are managed by and included within the NDPB disclosures.

- Home Grown Cereals Authority Pension Scheme (funded)
- EA Active Pension Scheme (funded)
- Natural England (NE) Pension Scheme (by-analogy)
- Sea Fish Industry Authority (SFIA) (funded)
- Meat and Livestock Commission (MLC) Pension Scheme (funded).

All by-analogy schemes are unfunded schemes.

The details for the material schemes are noted below, full details for the other schemes can be found in the delivery bodies' Annual Report and Accounts, where appropriate.

Net liabilities represent the gap between the assets held by the scheme and the total present value of the funded and unfunded obligations. The assumptions underlying the calculation of the net liability are only used for accounting purposes as prescribed under IAS 19. In particular, IAS 19 has no impact on the level of cash contributions paid by the department and there is no requirement for the net liability to be met as a lump sum or otherwise. Cash contributions will continue to be set by reference to assumptions agreed at each actuarial valuation of the scheme.

Below are details of the most material schemes - the EA Pension Closed and Active Funds - which are part of the Local Government Pension Scheme (LGPS) in England and Wales. Robust governance arrangements are in place, to facilitate informed decision making, supported by appropriate advice, policies and strategies. The overriding objective is to act in the best interests of the members and employers. Those persons responsible for governing the scheme have sufficient expertise to be able to evaluate and challenge the advice they receive, ensure their decisions are robust and well based, and manage any potential conflicts of interest.

14.1.1 EA Pension Liability (Closed Scheme)

The EA Closed Fund (the Fund) is vested in EA by Regulation 2(1) of the Local Government Pension Scheme Regulations 1996 and the Environment Act 1996 and is maintained for the purposes of Section 7 of the

Superannuation Act 1972. The Secretary of State has the function conferred by Section 173 of the Water Act 1989 to make such payments into the Fund as may be considered appropriate in respect of the actual and contingent liabilities falling from time to time. This was reaffirmed through the memorandum of understanding between the accounting officers of Defra and EA, 17 May 2005. These are met out of the Fund to persons who were ex-employees of regional water authorities and other water industry bodies at the time of water privatisation in 1989 (the Closed Fund members).

The Fund's approach to funding the pension liabilities is focused on ensuring that sufficient funds are available to meet all liabilities as they fall due for payment. Since 1 April 2006, Grant-in-Aid has been paid that is sufficient to meet the pension obligations and running costs of the Fund.

All calculations have been made by a qualified independent actuary. As required under IAS 19, the projected unit credit method of valuation has been used. The last formal valuation of the Fund was carried out as at 31 March 2016.

At the last actuarial valuation date, the weighted average duration of the defined benefit obligation was 9.2 years.

The estimated sponsor's contributions for the year to 31 March 2019 will be approximately £67 million.

14.1.2 EA Active Pension Scheme

EA operates a defined benefit pension scheme for employees and transferees from the former Defra, National Rivers Authority, Her Majesty's Inspectorate of Pollution, London Waste Regulation Authority and other local waste regulation authorities. It is a statutory scheme, administered in accordance with the Local Government Pension Scheme Regulations 2013 and the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014. It is contracted out of the State Second Pension.

EA has awarded a contract to SSCL, who participate in the Fund on a risk sharing basis. To reflect the risk sharing agreement between EA and SSCL:

- the value of the assets and liabilities for SSCL have been included in EA's IAS 19 position;
- contributions paid by SSCL have been included as contributions made by EA to the fund; and
- the SSCL membership statistics have been included with the membership statistics of EA.

The Fund's approach to funding the pension liabilities is focused on ensuring that sufficient funds are available to meet all liabilities as they fall due for payment, recovering any shortfall in assets, relative to the value of accrued liabilities, over broadly the future working lifetime of current employees. Employer contributions are kept as stable as possible, and the fund is managed to maximise the returns from investments, within reasonable risk parameters.

All calculations have been made by a qualified independent actuary. As required under IAS 19, the projected unit credit method of valuation has been used. The last formal valuation of the fund was carried out as at 31 March 2016.

At the last actuarial valuation date, the weighted average duration of the defined benefit obligation was 20.0 years.

The estimated employers' contributions for the year to 31 March 2019 will be approximately £51.8 million.

14.2 Change in the Fair Value of Plan Assets, Defined Benefit Obligation and Net Liability – Totals

As at 31 March 2018

	Total Core Department and Agencies			Total Departmental Group			
	Assets	Obligations	Net (liability) /asset	Assets	Obligations	Adjustments	Net (liability) /asset
	£000	£000	£000	£000	£000	£000	£000
Fair value of employer assets	271,900	-	271,900	3,521,453	-	-	3,521,453
Present value of funded liabilities	-	(671,900)	(671,900)	-	(4,336,219)	-	(4,336,219)
Present value of unfunded liabilities	-	(120,479)	(120,479)	-	(124,687)	-	(124,687)
Less irrecoverable surplus	-	-	-	-	-	(1,811)	(1,811)
Opening Position as at 31 March 2017	271,900	(792,379)	(520,479)	3,521,453	(4,460,906)	(1,811)	(941,264)
Service cost							
Current service cost	-	-	-	-	(130,281)	-	(130,281)
Past service cost (including curtailments)	-	-	-	-	(700)	-	(700)
Other expenses	(900)	-	(900)	(1,323)	400	-	(923)
Total service cost	**(900)**	**-**	**(900)**	**(1,323)**	**(130,581)**	**-**	**(131,904)**
Net interest							
Interest income on plan assets	7,600	-	7,600	90,817	-	-	90,817
Interest cost on defined benefit obligation	-	(21,239)	(21,239)	-	(116,363)	-	(116,363)
Total net interest	**7,600**	**(21,239)**	**(13,639)**	**90,817**	**(116,363)**	**-**	**(25,546)**
Total defined benefit cost recognised in profit or (loss)	**6,700**	**(21,239)**	**(14,539)**	**89,494**	**(246,944)**	**-**	**(157,450)**
Cashflows							
Plan participants' contributions	-	-	-	23,470	(23,470)	-	-
Employer contributions	63,400	-	63,400	120,918	-	-	120,918
Contributions in respect of unfunded benefits	8,500	-	8,500	8,500	-	-	8,500
Benefits paid	(60,500)	62,461	1,961	(143,653)	145,623	-	1,970
Unfunded benefits paid	(8,500)	8,500	-	(8,500)	8,500	-	-
Expected closing position	**281,500**	**(742,657)**	**(461,157)**	**3,611,682**	**(4,577,197)**	**(1,811)**	**(967,326)**
Remeasurements							
Change in demographic assumptions	-	-	-	-	-	-	-
Change in financial assumptions	-	(4,141)	(4,141)	-	71,529	-	71,529
Other experience	-	(1,572)	(1,572)	141	(3,085)	-	(2,944)
Return on assets excluding amounts included in net interest	(5,400)	-	(5,400)	13,649	-	-	13,649
Changes in asset ceiling	-	-	-	620	(577)	397	440
Total remeasurements recognised in Other Comprehensive Income (OCI)	**(5,400)**	**(5,713)**	**(11,113)**	**14,410**	**67,867**	**397**	**82,674**
Fair value of employer assets	276,100	-	276,100	3,626,092	-	-	3,626,092
Present value of funded liabilities	-	(635,900)	(635,900)	-	(4,172,257)	-	(4,172,257)
Present value of unfunded liabilities	-	(112,470)	(112,470)	-	(337,073)	-	(337,073)
Less irrecoverable surplus	-	-	-	-	-	(1,414)	(1,414)
Closing position as at 31 March 2018	**276,100**	**(748,370)**	**(472,270)**	**3,626,092**	**(4,509,330)**	**(1,414)**	**(884,652)**

As at 31 March 2017

	Total Core Department and Agencies			Total Departmental Group			
	Assets	Obligations	Net (liability) /asset	Assets	Obligations	Adjustments	Net (liability) /asset
	£000	£000	£000	£000	£000	£000	£000
Fair value of employer assets	219,400	-	219,400	2,941,120	-	-	2,941,120
Present value of funded liabilities	-	(668,100)	(668,100)	-	(3,847,728)	-	(3,847,728)
Present value of unfunded liabilities	-	(121,741)	(121,741)	-	(125,968)	-	(125,968)
Less irrecoverable surplus	-	-	-	-	-	(3,757)	(3,757)
Opening Position as at 31 March 2016	219,400	(789,841)	(570,441)	2,941,120	(3,973,696)	(3,757)	(1,036,333)
Service cost							
Current service cost	-	-	-	-	(75,707)	-	(75,707)
Past service cost (including curtailments)	-	-	-	-	(9,869)	-	(9,869)
Other expenses	(800)	-	(800)	(821)	-	-	(821)
Total service cost	(800)	-	(800)	(821)	(85,576)	-	(86,397)
Net interest							
Interest income on plan assets	7,900	-	7,900	102,636	-	-	102,636
Interest cost on defined benefit obligation	-	(27,059)	(27,059)	-	(138,362)	-	(138,362)
Impact of asset ceiling on net Interest	-	-	-	-	-	(124)	(124)
Total net interest	7,900	(27,059)	(19,159)	102,636	(138,362)	(124)	(35,850)
Total defined benefit cost recognised in profit or (loss)	7,100	(27,059)	(19,959)	101,815	(223,938)	(124)	(122,247)
Cashflows							
Plan participants' contributions	-	-	-	23,083	(23,083)	-	-
Employer contributions	66,900	-	66,900	129,705	-	-	129,705
Contributions in respect of unfunded benefits	8,900	-	8,900	8,900	-	-	8,900
Benefits paid	(64,400)	66,353	1,953	(146,623)	148,576	-	1,953
Unfunded benefits paid	(8,900)	8,900	-	(9,143)	9,152	-	9
Expected closing position	229,000	(741,647)	(512,647)	3,048,857	(4,062,989)	(3,881)	(1,018,013)
Remeasurements							
Change in demographic assumptions	-	6,100	6,100	-	1,220	-	1,220
Change in financial assumptions	-	(56,628)	(56,628)	-	(628,797)	-	(628,797)
Other experience	-	(204)	(204)	-	229,660	-	229,660
Return on assets excluding amounts included in net interest	42,900	-	42,900	472,596	-	-	472,596
Changes in asset ceiling	-	-	-	-	-	2,070	2,070
Total remeasurements recognised in Other Comprehensive Income (OCI)	42,900	(50,732)	(7,832)	472,596	(397,917)	2,070	76,749
Fair value of employer assets	271,900	-	271,900	3,521,453	-	-	3,521,453
Present value of funded liabilities	-	(671,900)	(671,900)	-	(4,336,219)	-	(4,336,219)
Present value of unfunded liabilities	-	(120,479)	(120,479)	-	(124,687)	-	(124,687)
Less irrecoverable surplus	-	-	-	-	-	(1,811)	(1,811)
Closing position as at 31 March 2017	271,900	(792,379)	(520,479)	3,521,453	(4,460,906)	(1,811)	(941,264)

14.3 Changes in the Fair Value of Plan Assets, Defined Benefit Obligation and Net Liability – Material Schemes

As at 31 March 2018

	Environment Agency Closed Scheme (within core department)			Environment Agency Active Scheme (within NDPB)			Other (all other schemes)			
	Assets	Obligations	Net (liability) /asset	Assets	Obligations	Net (liability) /asset	Assets	Obligations	Adjustment	Net (liability) /asset
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Fair value of employer assets	271,900	-	271,900	2,960,722	-	2,960,722	288,831	-	-	288,831
Present value of funded liabilities	-	(671,900)	(671,900)	-	(3,366,455)	(3,366,455)	-	(297,864)	-	(297,864)
Present value of unfunded liabilities	-	(78,800)	(78,800)	-	-	-	-	(45,887)	-	(45,887)
Less irrecoverable surplus	-	-	-	-	-	-	-	-	(1,811)	(1,811)
Opening Position as at 31 March 2017	271,900	(750,700)	(478,800)	2,960,722	(3,366,455)	(405,733)	288,831	(343,751)	(1,811)	(56,731)
Service cost										
Current service cost	-	-	-	-	(128,722)	(128,722)	-	(1,559)	-	(1,559)
Past service cost (including curtailments)	-	-	-	-	(700)	(700)	-	-	-	-
Other expenses	(900)	-	(900)	-	-	-	(423)	400	-	(23)
Total service cost	**(900)**	**-**	**(900)**	**-**	**(129,422)**	**(129,422)**	**(423)**	**(1,159)**	**-**	**(1,582)**
Net interest										
Interest income on plan assets	7,600	-	7,600	77,061	-	77,061	6,156	-	-	6,156
Interest cost on defined benefit obligation	-	(20,100)	(20,100)	-	(88,544)	(88,544)	-	(7,719)	-	(7,719)
Total net interest	**7,600**	**(20,100)**	**(12,500)**	**77,061**	**(88,544)**	**(11,483)**	**6,156**	**(7,719)**	**-**	**(1,563)**
Total defined benefit cost recognised in profit or (loss)	**6,700**	**(20,100)**	**(13,400)**	**77,061**	**(217,966)**	**(140,905)**	**5,733**	**(8,878)**	**-**	**(3,145)**
Cashflows										
Plan participants' contributions	-	-	-	23,251	(23,251)	-	219	(219)	-	-
Employer contributions	63,400	-	63,400	56,471	-	56,471	1,047	-	-	1,047
Contributions in respect of unfunded benefits	8,500	-	8,500	-	-	-	-	-	-	-
Benefits paid	(60,500)	60,500	-	(69,225)	69,225	-	(13,928)	15,898	-	1,970
Unfunded benefits paid	(8,500)	8,500	-	-	-	-	-	-	-	-
Expected closing position	**281,500**	**(701,800)**	**(420,300)**	**3,048,280**	**(3,538,447)**	**(490,167)**	**281,902**	**(336,950)**	**(1,811)**	**(56,859)**
Remeasurements										
Change in demographic assumptions	-	-	-	-	-	-	-	-	-	-
Change in financial assumptions	-	(6,500)	(6,500)	-	74,912	74,912	-	3,117	-	3,117
Other experience	-	(900)	(900)	-	-	-	141	(2,185)	-	(2,044)
Return on assets excluding amounts included in net interest	(5,400)	-	(5,400)	14,935	-	14,935	4,114	-	-	4,114
Changes in asset ceiling	-	-	-	-	-	-	620	(577)	397	440
Total remeasurements recognised in Other Comprehensive Income (OCI)	**(5,400)**	**(7,400)**	**(12,800)**	**14,935**	**74,912**	**89,847**	**4,875**	**355**	**397**	**5,627**
Fair value of employer assets	276,100	-	276,100	3,063,215	-	3,063,215	286,777	-	-	286,777
Present value of funded liabilities	-	(635,900)	(635,900)	-	(3,463,535)	(3,463,535)	-	(72,822)	-	(72,822)
Present value of unfunded liabilities	-	(73,300)	(73,300)	-	-	-	-	(263,773)	-	(263,773)
Less irrecoverable surplus	-	-	-	-	-	-	-	-	(1,414)	(1,414)
Closing position as at 31 March 2018	**276,100**	**(709,200)**	**(433,100)**	**3,063,215**	**(3,463,535)**	**(400,320)**	**286,777**	**(336,595)**	**(1,414)**	**(51,232)**

As at 31 March 2017

	Environment Agency Closed Scheme (within core department)			Environment Agency Active Scheme (within NDPB)			Other (all other schemes)			
	Assets	Obligations	Net (liability) /asset	Assets	Obligations	Net (liability) /asset	Assets	Obligations	Adjustment	Net (liability) /asset
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Fair value of employer assets	219,400	-	219,400	2,462,257	-	2,462,257	259,463	-	-	259,463
Present value of funded liabilities	-	(668,100)	(668,100)	-	(2,921,733)	(2,921,733)	-	(257,895)	-	(257,895)
Present value of unfunded liabilities	-	(85,800)	(85,800)	-	-	-	-	(40,168)	-	(40,168)
Less irrecoverable surplus	-	-	-	-	-	-	-	-	(3,757)	(3,757)
Opening Position as at 31 March 2016	219,400	(753,900)	(534,500)	2,462,257	(2,921,733)	(459,476)	259,463	(298,063)	(3,757)	(42,357)
Service cost										
Current service cost	-	-	-	-	(74,160)	(74,160)	-	(1,547)	-	(1,547)
Past service cost (including curtailments)	-	-	-	-	(9,869)	(9,869)	-	-	-	-
Other expenses	(800)	-	(800)	-	-	-	(21)	-	-	(21)
Total service cost	(800)	-	(800)	-	(84,029)	(84,029)	(21)	(1,547)	-	(1,568)
Net interest										
Interest income on plan assets	7,900	-	7,900	86,394	-	86,394	8,342	-	-	8,342
Interest cost on defined benefit obligation	-	(25,800)	(25,800)	-	(102,848)	(102,848)	-	(9,714)	-	(9,714)
Impact of asset ceiling on net Interest	-	-	-	-	-	-	-	-	(124)	(124)
Total net interest	7,900	(25,800)	(17,900)	86,394	(102,848)	(16,454)	8,342	(9,714)	(124)	(1,496)
Total defined benefit cost recognised in profit or (loss)	7,100	(25,800)	(18,700)	86,394	(186,877)	(100,483)	8,321	(11,261)	(124)	(3,064)
Cashflows										
Plan participants' contributions	-	-	-	22,756	(22,756)	-	327	(327)	-	-
Employer contributions	66,900	-	66,900	61,874	-	61,874	931	-	-	931
Contributions in respect of unfunded benefits	8,900	-	8,900	-	-	-	-	-	-	-
Benefits paid	(64,400)	64,400	-	(68,794)	68,794	-	(13,429)	15,382	-	1,953
Unfunded benefits paid	(8,900)	8,900	-	-	-	-	(243)	252	-	9
Expected closing position	229,000	(706,400)	(477,400)	2,564,487	(3,062,572)	(498,085)	255,370	(294,017)	(3,881)	(42,528)
Remeasurements										
Change in demographic assumptions	-	6,100	6,100	-	(6,016)	(6,016)	-	1,136	-	1,136
Change in financial assumptions	-	(49,700)	(49,700)	-	(525,900)	(525,900)	-	(53,197)	-	(53,197)
Other experience	-	(700)	(700)	-	228,033	228,033	-	2,327	-	2,327
Return on assets excluding amounts included in net interest	42,900	-	42,900	396,235	-	396,235	33,461	-	-	33,461
Changes in asset ceiling	-	-	-	-	-	-	-	-	2,070	2,070
Total remeasurements recognised in Other Comprehensive Income (OCI)	42,900	(44,300)	(1,400)	396,235	(303,883)	92,352	33,461	(49,734)	2,070	(14,203)
Fair value of employer assets	271,900	-	271,900	2,960,722	-	2,960,722	288,831	-	-	288,831
Present value of funded liabilities	-	(671,900)	(671,900)	-	(3,366,455)	(3,366,455)	-	(297,864)	-	(297,864)
Present value of unfunded liabilities	-	(78,800)	(78,800)	-	-	-	-	(45,887)	-	(45,887)
Less irrecoverable surplus	-	-	-	-	-	-	-	-	(1,811)	(1,811)
Closing position as at 31 March 2017	271,900	(750,700)	(478,800)	2,960,722	(3,366,455)	(405,733)	288,831	(343,751)	(1,811)	(56,731)

14.4 History of Experience Gains and Losses

	EA Closed Scheme (funded)					EA Active Scheme (funded)				
Year Ended :	**31/03/18**	31/03/17	31/03/16	31/03/15	31/03/14	**31/03/18**	31/03/17	31/03/16	31/03/15	31/03/14
	£000	£000	£000	£000	£000	**£000**	£000	£000	£000	£000
Fair value of employer assets	276,100	271,900	219,400	213,000	165,800	3,063,215	2,960,722	2,462,257	2,418,943	2,091,318
Present value of defined benefit obligation	(709,200)	(750,700)	(753,900)	(829,100)	(852,600)	(3,463,535)	(3,366,455)	(2,921,733)	(3,126,206)	(2,544,001)
(Deficit)/surplus	(433,100)	(478,800)	(534,500)	(616,100)	(686,800)	(400,320)	(405,733)	(459,476)	(707,263)	(452,683)
Experience gains/(losses) on assets	(5,400)	42,900	(2,300)	38,800	(10,600)	14,935	396,235	(44,638)	228,030	78,494
Experience gains/(losses) on liabilities	(900)	(700)	22,400	6,900	24,900	-	228,033	25,844	14,700	(130,360)
Actuarial gains/(losses) on employer assets	(5,400)	42,900	(2,300)	38,800	(10,600)	14,935	396,235	(44,638)	228,030	78,494
Actuarial gains/(losses) on obligation	(7,400)	(44,300)	25,400	(24,500)	(24,400)	74,912	(303,883)	343,746	(449,234)	(177,053)
Actuarial gains/(losses) recognised in SoCTE	**(12,800)**	(1,400)	23,100	14,300	(35,000)	**89,847**	92,352	299,108	(221,204)	(98,559)

14.5 Fair Value of Assets in the Fund

The assets in the scheme and the expected rate of return were:

	EA Closed Scheme	EA Active Scheme
as at 31 March 2018	**£000**	**£000**
Equities	-	1,475,013
Bonds	257,700	1,129,720
Property	-	382,137
Cash	18,400	76,345
Insurance policy	-	-
Total 31 March 2018	**276,100**	**3,063,215**
Percentage of closing fair value	**%**	**%**
Equity	-	48
Bonds	93	37
Property	-	12
Cash and insurance policy	7	3
Total	**100**	**100**
as at 31 March 2017	£000	£000
Equities	-	1,641,512
Bonds	255,900	847,808
Property	-	258,670
Cash	16,000	212,732
Insurance policy	-	-
Total 31 March 2017	271,900	2,960,722
Percentage of closing fair value	%	%
Equity	-	55
Bonds	94	29
Property	-	9
Cash and insurance policy	6	7
Total	100	100

14.6 Financial Assumptions

The major financial assumptions, based on market data, are used by the actuary when providing the assessment of the accrued liabilities as at the following dates.

	EA Closed Scheme	EA Active Scheme
	% pa	% pa
as at 31 March 2018		
Inflation/pension increase rate (CPI)	2.5	2.1
Salary increase rate	-	2.4
Discount rate	2.6	2.7
as at 31 March 2017		
Inflation/pension increase rate (CPI)	2.6	2.1
Salary increase rate	-	2.4
Discount rate	2.8	2.6

14.7 Mortality Assumptions

There is also uncertainty around the life expectation of the UK population. The value of current and future pension benefits will depend on how long they are assumed to be in payment. The mortality assumptions (with life expectancy based on the Funds' VitaCurves) used by the actuary were:

	EA Closed Scheme		EA Active Scheme	
	Male	Female	Male	Female
Average future life expectancies at age 65				
Current pensioners (years)	20.6	22.7	22.6	24.4
Future pensioners (years)	21.1	23.3	24.3	26.7

14.8 Sensitivity Analysis

IAS 1 requires the disclosure of the sensitivity of the results to the methods and assumptions used. Any changes in assumptions would impact on the EA pension schemes. Please note that the above sensitivities are approximate and only show the likely effect of an assumption being adjusted whilst all other assumptions remain the same.

The sensitivities regarding the principal assumptions used to measure the EA Closed scheme liabilities are set out below:

Change in assumptions at year ended 31 March 2018	Approximate % Increase in Employer Liability	Approximate Monetary Amount
	%	£000
0.5% decrease in real discount rate	3	22,512
1 year increase in member life expectancy	3	21,276
0.5% increase in pension increase rate	3	22,422

The sensitivities regarding the principal assumptions used to measure the EA Active scheme liabilities are set out below:

Change in assumptions at year ended 31 March 2018	Approximate % Increase in Employer Liability	Approximate Monetary Amount
	%	£000
0.5% decrease in real discount rate	11	392,323
0.5% increase in salary increase rate	2	78,567
0.5% increase in pension increase rate	9	308,338

15 Contingent Liabilities and Contingent Assets

15.1 Contingent Liabilities

15.1.1 Quantifiable

The department has the following quantifiable contingent liabilities as at 31 March 2018. Unless otherwise stated liabilities relate to the core department.

- A £30 million (2016–17, £30 million) liability is expected to arise to meet the shortfall in Environment Agency (EA) pensions as a result of staff transferring from EA to the core department. The transfer of staff to Defra group corporate services took place on 1 November 2017. Information on pension rights and options will be provided approximately 9 months after transfer (1 August 2018), at which point staff will be given further time to make a decision. A reliable estimate of Defra's obligation can only be made once transferred staff have made a decision, therefore, disclosure as a contingent liability rather than as a provision is deemed appropriate.

- Defra is responsible for recovery following an incident involving the deliberate release of highly toxic chemical materials. Defra is therefore heavily involved in the recovery work in Salisbury and in particular the decontamination of nine sites in and around the city. Defra led activity at the sites will continue until they are deemed safe by the Government's Decontamination Science Assurance Group and returned back to the local authority for the return to public use. The extent of these activities and the amount of waste generated is uncertain, therefore, a provision has not been recognised, with a contingent liability of £18 million instead being appropriate.

- There is a potential £14.3 million liability for mine water remediation work at Nent Haggs. Planning permission has been applied for the scheme to go ahead and any liability is dependent on the outcome of this application.

- Rural Payments Agency (RPA) has a potential liability for further amounts payable on some of the part payment claims in the assessed populations of up to £13 million. There is more uncertainty of the potential for, and the valuation of these additional payments and they are therefore disclosed as a contingent liability. In accordance with the RPA accounting policies the European Commission (the Commission) funding for these claims will be recognised as income as these additional payments are recognised.

- Small potential liabilities against the Defra group are estimated at no more than £4.8 million (2016–17, £7.2 million).

15.1.2 Unquantifiable

The department has the following contingent liabilities which are unquantifiable due to their variable nature. Unless otherwise stated liabilities relate to the core department.

- As part of the revised contract with Defra's facilities management providers it has been agreed that under certain conditions arising from the rationalisation of the estate and subsequent reduction in demand, any restructuring costs such as redundancies or early retirement will be recharged to the core department.

- In addition to the provision for dilapidations where Defra leases properties from landlords, there remains a potential liability for dilapidations where Defra occupies properties leased by other government departments under a memorandum of terms of occupation (MOTO) agreement. The potential for and the value of a dilapidation claim for these properties is more uncertain, hence is disclosed as a contingent liability, rather than as a provision.

- Rural Payments Agency (RPA) is currently in receipt of appeals from scheme claimants of claims covering the Basic Payment Scheme (BPS), Single Payment Scheme (SPS) and trader related schemes. If the appeals are successful they could either result in a liability for EU or Exchequer funded payments.

- In August 2016 the Chancellor announced that the current level of agricultural funding under CAP Pillar 1 will be upheld until 2020 as part of the transition to new domestic arrangements. He also announced that where UK organisations bid directly to the Commission on a competitive basis for EU funding projects while we are still a member of the EU, the Government will underwrite the payments of such awards, even when specific projects continue beyond the UK's departure from the EU. In October 2016 the Chancellor confirmed that the government will guarantee EU funding for structural and investment fund projects signed before EU Exit which continue after we have left the EU, so long as they are good value for money and in line with domestic strategic priorities.

The Joint Report agreed between the UK and the European Commission on 8 December 2017 that, in a negotiated scenario, the UK will continue to participate in all EU programmes during the remainder of the 2014–2020 Multiannual Financial Framework. Therefore, the Government's guarantee will only be called on if the UK and EU do not confirm this agreement in a withdrawal treaty before the UK's exit from the European Union. The guarantee still applies for any funding for CAP Pillar 2 and EMFF projects signed before EU Exit that are good value for money and in line with domestic strategic priorities not covered by the 8 December 2017 agreement.

Defra has taken on the responsibility for managing and administering the guarantee from 7 February 2018.

The guarantee is considered to be a contingent liability in accordance with the Government Financial Reporting Manual (FReM) as it is largely dependent on the outcome of negotiations with the EU and the expected payments cannot be reliably estimated at present as it will depend on structural and investment fund projects that are still to be entered into.

- The European Commission can apply financial corrections if Defra (through the RPA) does not comply with European Commission regulations for payments funded by the European Agricultural Guarantee Fund. Any amounts disallowed (and hence funded by Defra instead) will depend on the assessed severity of the breach of regulations and on subsequent clarification negotiations with the European Commission in accordance with the European Commission's clearance of accounts procedure. There is an ongoing potential liability in respect of financial corrections which is unquantifiable.

- The department is currently involved in a number of ongoing judicial review cases.

15.2 Contingent Assets

- The core department is entitled to a future share of enhancement in value on a number of properties and land previously sold. These enhancements generally arise from the planning and development process and are based on a number of trigger points, planning thresholds and increased values.

- The Defra group has other potential small assets, with an estimated value of £1.4 million (2016–17, £3.2 million).

16 Related Party Transactions

The department is the sponsor of the executive agencies, Non-Departmental Public Bodies (NDPBs) and levy funded bodies, all of which are within the departmental accounting boundary, shown in Note 17. Public corporations are outside the accounting boundary, and are shown in Note 18. All the bodies above are regarded as related parties with which the department has had various material transactions during the year. These bodies also trade with each other and have had material transactions during the year.

In addition, the department has had a number of transactions with other government departments and the devolved administrations.

Where Defra Board (the Board) members claim Common Agricultural Policy (CAP) scheme payments as detailed below, the standard EU terms and conditions for these schemes apply.

Lord Gardiner (Parliamentary Under Secretary of State for Rural Affairs and Biosecurity and Lords Minister) has a one-third share in a farm which received £52,808 in respect to Basic Payment Scheme.

Details for related party transactions for executive agencies, NDPBs and levy funded bodies can be found in the notes to their Annual Report and Accounts.

Other than those disclosed above, none of the Board members or other related parties has undertaken any material transactions with the department during the year.

Compensation (including remuneration) paid to key management personnel falls within the definition of related party transactions. Please see the Remuneration Report for further details.

17 Entities Within the Departmental Boundary

The entities within the departmental boundary during 2017–18 comprise supply financed agencies and those entities listed in the designation and amendment orders presented to Parliament.

Executive Agencies

Animal and Plant Health Agency
Centre for Environment, Fisheries and Aquaculture Science
Rural Payments Agency
Veterinary Medicines Directorate

The executive agencies' Annual Reports and Accounts (ARAs) have been prepared under the direction of HM Treasury in accordance with Section 7(2) of the Government Resources and Accounts Act 2000 and are published separately.

Forestry Commission (FC) is a non-ministerial department but is included in Defra's Estimate and therefore is fully consolidated and included within the results for the core department and executive agencies.

Executive NDPBs

Consumer Council for Water
Environment Agency
Joint Nature Conservation Committee
Marine Management Organisation
Natural England
Royal Botanic Gardens, Kew (includes RBG Kew Enterprises Limited)

Levy Funded Bodies

Agriculture and Horticulture Development Board (includes Meat and Livestock Commercial Services Limited and Sutton Bridge Experimental Unit Limited)
Sea Fish Industry Authority

Non-profit institution within the public sector, specifically Central Government

National Forest Company

Other

Flood Re is a not-for-profit reinsurance body, run and managed by the insurance industry. Its net expenditure/income is classified as Annually Managed Expenditure and in accordance with the requirements of the Government Resources and Accounts Act 2000 (Estimates and Accruals) (Amendment) Order 2017, is consolidated into these accounts. The latter is done on the basis that HM Treasury has assessed that it would expect payments by insurers to Flood Re of levies mandated by the Water Act 2014 to be classified as taxation. Although Flood Re is awaiting classification by Cabinet Office and the Office for National Statistics, HM Treasury have further indicated their expectation that Flood Re will be classified as a central government public body.

Executive Non-Departmental Public Bodies (NDPBs), levy funded bodies, National Forest Company and Flood Re's ARA are published separately.

Advisory NDPBs (Defra Funded)

Advisory Committee on Releases to the Environment
Independent Agricultural Appeals Panel
Science Advisory Council
Veterinary Products Committee

Tribunal NDPBs (Defra Funded)

Plant Varieties and Seeds Tribunal (dormant)

The advisory and tribunal NDPBs do not produce a separate ARA as they are accounted for as part of the core department accounts.

18 Entities Outside the Departmental Boundary

The public sector bodies which have not been consolidated in these accounts, but for which Defra's ministers had lead policy responsibility during the year, are as follows:

Public Corporations

Covent Garden Market Authority
Forest Enterprise England

Other Bodies

National Parks Authorities (x9)
Water Services Regulation Authority (Ofwat)
Broads Authority

19 Events After the Reporting Period

Defra's financial statements are laid before the House of Commons by HM Treasury. IAS 10, Events after the reporting period, requires Defra to disclose the date on which the accounts are authorised for issue.

Defra received notification on 3 July 2018 that the Greater Manchester Combined Authority has lodged a claim for a Judicial Review seeking to challenge the decision to terminate their Waste Infrastructure Grant (WIG) which was withheld from the final quarter of 2017-18. The value of the grant is £10 million per annum.

The Annual Report and Accounts were authorised by the accounting officer for issue on the date of the Comptroller and Auditor General's audit certificate.

Annexes

These annexes do not form part of the financial statements and have not been subject to audit.

Annex 1: Core Tables 2017–18

These tables provide an analysis of departmental expenditure, split between resource consumption and capital investment, covering the period from 2013–14 to 2019–20.

These tables follow the layout of the Part II Table of the 2017–18 Supplementary Estimate and have been produced from HM Treasury's Online System for Central Accounting and Reporting (OSCAR) database and are on the same basis as the Statement of Parliamentary Supply. Details of the Parliamentary Main Estimate[13] and Parliamentary Supplementary Estimate[14] are published separately.

Table 1 sets out a summary of the net resource and capital expenditure for the department. It shows Departmental Expenditure Limit (DEL) and Annually Managed Expenditure (AME) elements separately for control purposes. Future years' figures reflect the budgeted figures agreed with HM Treasury for the department.

Table 2 shows the administration costs of running the department in more detail. The administration budget includes staff costs, resource expenditure on accommodation, utilities and services etc., where they are not directly associated with front-line service delivery. The commentary on administration costs is included in the detailed analysis below, but in general terms, the administration budget reflects the savings required by the 2010 Spending Review (SR10), the 2013 Spending Round (SR13) and the 2015 Spending Review (SR15).

The overall reductions required by the Spending Reviews have been met to a large extent by the transformation of Defra's corporate services. As explained in chapter 3, staff from HR, IT, Estates, Communications and Finance have been brought in to the core department and have formed new group-wide functions, which will improve prioritisation, decision-making, professionalism and efficiency. This included the transfer of budgets for staff and the associated running costs for these functions. The effect of this can be seen in the Core Tables where Departmental Operating Costs see an increase across the years from 2015–16 to 2018–19 as this phased transition occurs. Corresponding decreases occur in other areas.

Tables 1 – Defra's Resource and Capital Budget

Resource Budget (Programme and Administration) DEL

Food and Farming

The changing profile is primarily due to the profile of Common Agricultural Policy (CAP) Disallowance payments. CAP Disallowance has been transferred between years to match the expected profile of payments, with the largest decrease being seen in 2016–17. These transfers were agreed with HM Treasury and are in line with the spending review settlements to allow flexibility between years to handle the timing of Disallowance costs which are outside the department's control, being dependent on the timing of European Commission (the Commission) decisions. The increase from 2017–18 onwards reflects the transfer of the Rural Development Programme England (RDPE) from Countryside and Rural Services, due to an internal restructure. This is partially offset by the transfer of corporate service functions from the Rural Payments Agency (RPA) following the centralisation of corporate services within the core department.

Improve the Environment

The increase in 2017–18 and 2018–19 reflects the additional ring-fenced resource for official development assistance, following a transfer from the Department for International Development (DfID). The further increase from 2018–19 reflects additional budget announced in the 2017 Autumn Budget in relation to the Clean Air Fund.

[13] https://www.gov.uk/government/publications/main-supply-estimates-2018-to-2019
[14] https://www.gov.uk/government/collections/hmt-supplementary-estimates

Protect the Country from Floods

Decreases in 2015–16 and 2016–17 reflect the end of a number of schemes in 2014–15 such as the Community Pathfinder Grants and Land Management schemes; and the transfer of the Local Service Support Grant for Lead Local Flood Authorities to the Department for Communities and Local Government from 2016–17.

Animal and Plant Health

Overall, we are maintaining expenditure on Animal and Plant Health and investing in vital scientific facilities. The decrease from 2016–17 onwards is due to the transfer of corporate service functions from the Animal and Plant Health Agency (APHA) following the centralisation of corporate services within the core department.

Countryside and Rural Services

The changing profile is mainly due to RDPE. The RDPE scheme provides a degree of flexibility over the percentage split between Exchequer and EU funded payments across years, as long as the overall total is in line with the scheme rules. There was also a planned decrease in RDPE through SR10 as several RDPE schemes came to an end and fewer new agreements were signed. The large decrease from 2017–18 onwards is due to the transfer of RDPE to Food and Farming, due to an internal restructure.

Departmental Operating Costs

As explained earlier, the overall operating costs of the Defra group are reducing over the Spending Review period due to the transformation of the department's corporate service functions. The increases in Departmental Operating Costs across the latter years reflect this transformation and the phased transfer of these functions from APHA, the Forestry Commission (FC), Natural England (NE), RPA and the Environment Agency (EA) in to the core department. This completes in 2018–19 with the final transfer of EA budgets. There was also an increase in 2017–18 following a claim on the Reserve to support preparations for exiting the EU. The claim on the Reserve for 2018–19 will be processed in the 2018–19 Supplementary Estimate.

Improve the Environment (ALB) (Net)

The downward trend reflects savings identified by an internal efficiency programme and the phased transfer of corporate service functions from NE and the EA following the centralisation of corporate services within the core department.

Protect the Country from Floods (ALB) (Net)

The increases from 2014–15 and 2016–17 reflect the additional funding allocated to flood and coastal erosion risk management announced in the 2014 and the 2016 Budgets. The further increase in 2017–18 reflects a claim on the Reserve to fund additional flood recovery work. The decrease in 2018–19 and 2019–20 is due to the transfer of corporate service functions from EA following the centralisation of corporate services within the core department.

Resource Budget AME

Resource AME balances vary greatly over the years due to the volatility of provisions recorded as AME. A debit (a positive) is recorded as provisions are created, and a credit (a negative) recorded when a provision is utilised.

Food and Farming

As described in the DEL section earlier, the changing profile in this area is primarily due to the CAP Disallowance provision. Disallowance has been transferred between years so that the AME credit entries recorded here match the expected profile of the payments recorded under resource DEL. In addition to this, any movements to the CAP Disallowance provision are recorded in this section. Debit balances are seen where increases to the provision are higher than payments made in that particular year. As with the timing of Disallowance payments, changes in the value of the provision are also reliant on Commission decisions. The increase in 2016–17 is due to the increase in the CAP Disallowance provision following the Commission audits for the Basic Payment Scheme (BPS) and cross compliance covering 2015 and 2016. The decrease in 2017–

18 reflects a net underspend against the 2017–18 CAP Disallowance provision as no significant European Commission (the Commission) audits took place this financial year.

Improve the Environment

The increase in 2015–16 is due to the upward revaluation in the Metal Mines provision following a decrease in the discount rate used for valuing provisions, as per HM Treasury guidance, and an increase to cover Defra's commitments in relation to South West Water for the financial years 2016–2020. The increase in 2017–18 reflects a further change in the discount rate for the Metal Mines provision.

Departmental Operating Costs

The increase in 2014–15 is primarily due to property impairments across the Defra estate, as a result of the quinquennial property valuation, and also the change in classification of the Sand Hutton site to an investment property. In addition to this, a provision was created for Foot and Mouth Disease (FMD) burial sites, which represents the ongoing future liabilities relating to preventing and remediating any leachate pollution arising from burial sites. In 2015–16 this provision was revalued upwards following a decrease in the discount rate used for valuing provisions, as per HM Treasury guidance. The decrease in 2017–18 relates to reductions in central provisions including the onerous lease provision, partially offset by an increase in the FMD provision following a further change in the discount rate.

Improve the Environment (ALB) (Net)

The increase in 2018–19 relates to a reduction in the expected returns on assets held by the EA pension fund.

Protect the Country from Floods (ALB) (Net)

The changing profile is due to the creation of Flood Re, a limited company set up to administer the Flood Re scheme which aims to protect property owners who were previously unable to procure home insurance against the risk of flooding. The increase in 2015–16 reflects the set up costs of Flood Re. The 2016–17 and 2017–18 outturn reflects the surplus position for Flood Re's final accounts in those years. From 2018–19 onwards, budget cover is needed in case a significant flood event occurs in those years and reflects the maximum impact Flood Re can have on public sector net borrowing.

Capital Budget DEL

Food and Farming

The increase in 2014–15, and reductions in subsequent years, mainly reflects the profile of investment in the CAP delivery programme. The programme completed in 2016–17.

Improve the Environment

The changing profile is mainly due to the ring-fenced International Climate Fund. The large drop in 2017–18 is due to a transfer to the Department for International Development in relation to the Global Environment Facility (International Climate Fund) and Knowledge for Forests Programme. A smaller budget transfer took place in the 2018–19 Main Estimate.

Protect the Country from Floods

The 2014–15 and 2015–16 outturn included claims on the Reserve for the Repair and Renew Grant scheme, for households affected by the 2013–14 winter floods. This was a time-limited project that completed in 2015–16, in which grants were made to property owners affected by flooding to increase flood resilience.

Animal and Plant Health

The reduction from 2014–15 is due to various projects completing, including the Veterinary Delivery Partnership project for the delivery of veterinary managed services and the changing profile of research and development expenditure on Animal and Plant Health programmes.

Departmental Operating Costs

The decrease in 2014–15 is due to various projects completing within the Defra network estate and an increased level of capital income, following the sale of various properties. Similarly in 2015–16, where capital income exceeds spend. The phased increase from 2016–17 reflects the first tranche of the investment from the Spending Review to fund critical health and safety works ensuring science and containment facilities (Weybridge) are fit for purpose, invest to save works in rationalising the estates footprint, and investment in our IT infrastructure, such as new IT hosting services and improvements in connectivity, across Defra. This additional investment reduces in 2019–20 and will lead to efficiencies in future running costs.

Improve the Environment (ALB) (Net)

The increase from 2016–17 onwards primarily reflects increased investment in the group wide capital estate, including investment in the science estate.

Protect the Country from Floods (ALB) (Net)

The increase from 2014–15 reflects additional investment in flood and coastal erosion risk management. This includes additional funding announced in the 2012 Autumn Budget Statement and the 2014 Budget, the majority of which was allocated to 2014–15. The profile from 2016–17 onwards reflects the funding profile following the SR15 settlement and the increased funding announced in the 2016 Budget and Autumn Statement. This included additional funding following the 2015 winter floods and flood resilience work. The increase in 2019–20 reflects the re-profiling of part of the flood and coastal erosion risk management budget from 2017–18 and 2018–19 into 2019–20, as announced in the 2017 Autumn Budget.

Capital Budget AME

Food and Farming (ALB) (Net)

The increase in budget for 2018–19 and 2019–20 is required for potential reclassification of research and development expenditure from resource to capital in the Agriculture and Horticulture Development Board.

Table 1 – Defra's Resource and Capital Budget

	2013-14 Outturn £000	2014-15 Outturn £000	2015-16 Outturn £000	2016-17 Outturn £000	**2017-18 Outturn £000**	2018-19 Plans £000	2019-20 Plans £000
Resource DEL							
Food and Farming	213,713	272,719	224,889	163,012	206,668	216,340	194,003
Improve the environment	256,066	237,709	228,495	233,105	274,651	321,308	303,907
Protect the country from floods	20,991	23,184	14,696	1,156	1,277	1,572	1,409
Animal and plant health	207,023	215,617	207,595	161,812	163,023	154,953	142,309
Marine and fisheries	26,434	24,703	25,666	26,517	32,035	27,657	23,955
Countryside and rural services	238,056	191,050	201,837	205,629	132,868	134,195	136,393
Departmental operating costs	139,417	124,765	140,355	234,528	353,713	404,376	388,182
Food and farming (ALB) (net)	(837)	-	-	-	-	-	-
Improve the environment (ALB) (net)	449,749	403,238	332,543	337,582	271,280	207,413	192,771
Protect the country from floods (ALB) (net)	305,578	341,434	339,313	365,691	384,898	324,507	325,427
Marine and fisheries (ALB) (net)	24,755	19,475	19,133	12,270	13,869	14,233	12,093
Countryside and rural services (ALB) (net)	2,319	1,983	2,078	2,320	2,311	2,411	2,411
Total Resource DEL	1,883,264	1,855,877	1,736,600	1,743,622	**1,836,593**	1,808,965	1,722,860
Resource AME							
Food and Farming	(54,362)	1,337	(39,601)	207,302	(66,366)	36,801	50,801
Improve the environment	(80,480)	(44,310)	313,107	(43,272)	95,549	(44,015)	(42,415)
Animal and plant health	10,252	2,729	(2,370)	(5,986)	(3,901)	3	-
Marine and fisheries	(351)	1,198	1,899	(416)	233	8	-
Countryside and rural services	25	(885)	(497)	(340)	2,078	(295)	(250)
Departmental operating costs	6,314	123,429	91,813	50,751	15,119	50,403	50,403
Food and farming (ALB) (net)	2,149	(405)	1,682	(1,913)	(1,269)	3,780	1,127
Improve the environment (ALB) (net)	(4,786)	(20,584)	(11,448)	(35,109)	(12,268)	21,269	(2,341)
Protect the country from floods (ALB) (net)	28,841	12,659	34,335	(85,707)	(57,410)	146,000	121,284
Marine and fisheries (ALB) (net)	(96)	2,515	1,831	778	(86)	61	61
Countryside and rural services (ALB) (net)	(3)	(7)	(10)	(14)	-	7	-
Total Resource AME	(92,497)	77,676	390,741	86,074	**(28,321)**	214,022	178,670
Total Resource Budget	1,790,767	1,933,553	2,127,341	1,829,696	**1,808,272**	2,022,987	1,901,530
Of which:							
Depreciation - DEL	196,692	189,722	168,303	187,631	177,752	240,730	239,140
Depreciation - AME	21,453	88,560	12,058	4,180	2,291	735	767
Total Depreciation[1]	218,145	278,282	180,361	191,811	**180,043**	241,465	239,907
Capital DEL							
Food and Farming	38,425	51,635	33,013	21,048	5,148	4,773	-
Improve the environment	42,399	50,464	45,876	38,667	9,601	23,267	36,165
Protect the country from floods	458	11,988	12,621	(120)	353	134	-
Animal and plant health	32,378	21,045	18,018	8,707	12,852	9,596	1,785
Marine and fisheries	10,367	7,646	6,014	7,234	6,014	5,090	2,722
Countryside and rural services	25,338	27,451	25,194	25,517	25,007	34,458	27,548
Departmental operating costs	20,689	1,579	(3,026)	34,950	70,072	66,459	37,636
Improve the environment (ALB) (net)	42,045	29,292	26,459	47,946	71,227	38,823	30,444
Protect the country from floods (ALB) (net)	336,586	489,355	405,084	470,634	431,174	430,400	452,000
Marine and fisheries (ALB) (net)	493	388	261	182	157	-	-
Countryside and rural services (ALB) (net)	324	786	402	211	360	-	-
Total Capital DEL	549,502	691,629	569,916	654,976	**631,965**	613,000	588,300
Capital AME							
Food and farming (ALB) (net)	(836)	1,586	75	596	116	16,000	16,000
Marine and fisheries (ALB) (net)	91	54	167	266	83	-	-
Total Capital AME	(745)	1,640	242	862	**199**	16,000	16,000
Total Capital Budget	548,757	693,269	570,158	655,838	**632,164**	629,000	604,300
Total departmental spending[2]	2,121,379	2,348,540	2,517,138	2,293,723	**2,260,393**	2,410,522	2,265,923
Of which:							
Total DEL	2,236,074	2,357,784	2,138,213	2,210,967	**2,290,806**	2,181,235	2,072,020
Total AME	(114,695)	(9,244)	378,925	82,756	**(30,413)**	229,287	193,903

1. Includes impairments.
2. Total departmental spending is the sum of the resource budget and the capital budget less depreciation. Similarly, total DEL is the sum of the resource budget DEL and capital budget DEL less depreciation in DEL, and total AME is the sum of resource budget AME and capital budget AME less depreciation in AME.
3. The 2018–19 to 2019–20 plans figures are based on provisional allocations and are subject to change, following further business planning decisions.

Table 2 – Defra's Administration Costs

	2013-14 Outturn £000	2014-15 Outturn £000	2015-16 Outturn £000	2016-17 Outturn £000	**2017-18 Outturn £000**	2018-19 Plans £000	2019-20 Plans £000
Resource DEL							
Food and Farming	105,852	116,912	110,468	90,658	40,590	51,502	48,094
Improve the environment	32,185	31,316	24,659	23,907	20,464	26,399	26,117
Protect the country from floods	1,939	2,119	1,930	1,144	1,048	984	984
Animal and plant health	(3,830)	7,051	20,205	11,321	9,926	10,001	10,001
Marine and fisheries	2,666	2,243	3,651	7,353	4,111	6,057	6,050
Countryside and rural services	17,957	14,188	13,314	6,822	6,767	8,135	8,135
Departmental operating costs	133,025	104,858	116,485	153,450	249,578	246,652	243,493
Food and farming (ALB) (net)	(837)	-	-	-	-	-	-
Improve the environment (ALB) (net)	158,765	133,668	132,263	98,052	57,890	53,780	54,807
Protect the country from floods (ALB) (net)	73,829	69,803	69,572	56,964	80,683	54,755	54,755
Marine and fisheries (ALB) (net)	4,875	4,402	4,379	2,682	2,108	2,398	2,398
Countryside and rural services (ALB) (net)	327	323	296	281	298	403	403
Total administration budget	526,753	486,883	497,222	452,634	**473,463**	461,066	455,237

The above table shows an overall decline in administration costs across the years with the 2019–20 budget being £72 million lower than spend in 2013–14.

Within the detail of the table, Departmental Operating Costs increases in the latter years with other lines showing corresponding decreases. This largely reflects the administration element of the consolidation of Defra group corporate service functions, as explained in the Resource DEL section.

Annex 2: Commentary on Sustainable Performance

Background

The environmental data and associated financial costs presented in the following pages are consistent with the requirements of HM Treasury's Public Sector Annual Reports: Sustainability Reporting Guidance 2017–18.

The information contained within this Annex has not been subject to audit and does not form part of the auditors' opinion on the accounts.

Introduction

This Annex sets out Defra's performance against the sustainability objectives of its estate and operations.

This report focuses on the most significant estate and travel impacts identified through the Defra group's environmental management systems measured against the Greening Government Commitments (GGC) targets. These targets are for reductions in greenhouse gas (GHG) emissions, waste arisings, water use and for increasing procurement of more sustainable goods and services.

Other aspects of Defra group's operations contribute to its environmental impact including the embedded carbon and water of purchased items, supplier transport, waste handling and water supply. These impacts are not captured by this report but some of these are mitigated through sustainability criteria stipulated in procurement and services contracts.

The targets, which are measured from a 2009–10 baseline, are:

- Reduce GHG from the whole estate and business related transport by 44 percent;
- Reduce the amount of waste to Landfill to below 10 percent;
- Reduce water consumption and report on office water use against best practice benchmarks;
- Reduce the number of domestic flights by 30 percent;
- Ensure that more sustainable and efficient products are bought and undertake engagement with suppliers to understand and reduce the impacts of the supply chain; and
- Cut paper use by 50 percent

The targets are scheduled to run until April 2020.

Performance against these targets is defined using the following terms:

- *Exceeding target:* the target for April 2020 has been exceeded;
- *On target:* performance has met the April 2020 target;
- *Ahead of Milestone:* performance is on track to meet April 2020 target;
- *Behind Milestone:* performance has not reached the required level and therefore needs to improve in order to meet the April 2020 target;
- *Increase from baseline:* no reduction made and performance in this area has worsened since the baseline year.

Assurance and data

The data in Table 1 presents the GHG, energy consumption, water use and waste arisings figures as reported as part of the GGC and reports performance for 1 April 2017 to 31 March 2018. Cost data is not reported as part of the GGC, therefore all financial data presented in this report is sourced from accounting records for this period.

Energy and water data is primarily taken from supplier invoices. In most cases, the data in these invoices is informed by manual meter readings or half hourly Smart Meter readings. All consumption and cost data is also subject to validation and verification by Defra's Utility Bureau. These processes provide a high level of assurance that reported data is accurate and robust. The Environment Agency (EA), Royal Botanic Gardens

Kew (RBG Kew) and Forestry Commission (FC) have their own data assurance processes and produce their own Annual Report and Accounts (ARA).

Waste data is derived from figures provided by the Defra group's waste contractors. Wherever possible actual weights are used but where this is not possible waste data is calculated using a metric based on the number of bins emptied. Audits have been undertaken to validate and improve the accuracy of this data for common waste streams, using a number of key sites to establish the average weights and waste ratios. This estimation methodology will result in a small margin of error. It is not currently cost effective to weigh all waste streams.

Departmental Group Performance[15]

This section of the report provides an overview of the Defra group performance against the GGC targets. For the purposes of GGC reporting the Defra group comprises the following bodies:

- Defra core department
- Executive Agencies
    - Animal and Plant Health Agency (APHA)
    - Centre for Environment, Fisheries and Aquaculture Science (Cefas)
    - Rural Payments Agency (RPA)
    - Veterinary Medicines Directorate (VMD)
- Non-Departmental Public Bodies
    - Environment Agency
    - Marine Management Organisation (MMO)
    - Natural England (NE)
    - Royal Botanic Gardens Kew
- Forestry Commission
- Other Defra group bodies and other government departments

  (*Under the 'major occupier' rule, Defra reports the environmental impact of other government departments which occupy its buildings. Also included are some of Defra group bodies which do not meet the threshold for GGC reporting, but are of insufficient materiality to remove from the departmental dataset)*.

Governance

Progress against the GGC targets is reported to the Deputy Director of Estates on a quarterly basis.

Quality assurance is managed through the central Estates team who are responsible for producing the Defra group sustainability reports. These have been subject to internal audit in the past and found to be compliant with GGC and HM Treasury guidelines.

The department's Director of Estates is the Senior Responsible Officer for Defra's participation in the Carbon Reduction Commitment Energy Efficiency Scheme (CRC), European Union Emissions Trading System (EU ETS) and is signatory for the department's Environmental Policy.

GGC Performance and Future Strategy

The Defra group aims to keep sustainability at the heart of its business delivery and operations and the Defra group strategy puts environmental improvement as its first objective. This means that it strives to operate in the most sustainable and environmentally responsible manner: improving the way we use our work spaces; reducing energy and water use; reducing the amount of waste generated; making strategic energy and waste savings from IT services; and assessing the products and services that are purchased to support all operational activities. The commitment to the sustainability of our own operations is captured in a sustainability strategy.

[15] The data contained in this Annex is reported as absolute values. It has not been normalised against metrics such as FTE staff, financial turnover or metre squared floor space. The diverse business delivery across the Estate is influenced by numerous factors such as weather, scientific undertakings and tourism numbers. This makes it difficult to report trends and make fair comparisons to other organisations.

Estates

Business activities in the Defra group's buildings are the most significant contributor to overall environmental impact. The Defra group's portfolio comprises a diverse mix of properties which includes office buildings, storage facilities, pumping stations, forestry facilities, botanic gardens, experimental farms and complex laboratory campus facilities.

The wide range of activities undertaken presents considerable challenge in delivering savings in energy and water used and waste generated. The following section details performance and also summarises some future plans for meeting all of the GGC targets.

Targets and Performance

	Current Achievements	Milestone Target	Target April 2020	Current Performance
GHG Reduction **2017–18 vs. Baseline**	41.6% reduction	35.2% reduction	44% reduction	Ahead of Milestone
Landfill Waste Reduction **2017–18 vs. Baseline**	13.2% to landfill	13.7% to landfill	Below 10% to Landfill	Behind Milestone
Water Reduction **2017–18 vs. Baseline**	15.2% reduction	23% reduction	Reduce from 14–15 level of 23% reduction	Behind Milestone
Domestic Flights Reduction **2017–18 vs. Baseline**	14% reduction	24% reduction	30% reduction	Ahead of Milestone
Paper Use Reduction **2017–18 vs. Baseline**	55% reduction	40% reduction	50% reduction	On Target

Performance against the GHG target has improved during the 2017–18 year.

Defra is committed to reducing expenditure on energy costs and has contracted an Energy Performance Contract (EPC) programme under the RE:FIT Framework which has completed to date 19 measures. The completed projects include three EA solar PV projects which installed 90kw of solar PV saving £12,000 and 30 tonnes of CO2 per annum. The total predicted energy savings of the RE:FIT works are 979,384 kWh per year and total predicted CO2 savings 376 tCO2 per year.

In addition to this, further rationalisation of other parts of the estate will bring more carbon, waste and water reductions in the long term making Defra's portfolio more sustainable.

Within the EA corporate buildings have already met their emission carbon target for 2020. Following a strategic investment and maintenance plan for their buildings they have reduced their carbon footprint by 60 percent (8,759 tonnes) since 2007–08 saving over £900,000 per annum by installing energy efficiency measures such as boiler replacements, LED lighting and solar PV installations as part of regular maintenance programmes.

At our laboratory site in Weymouth, a new Building Management System (BMS) was completed in July 2017. Monitoring of the energy data shows that the building has become more energy efficient using less energy than the year before even when normalising for temperature. This also brings financial savings in excess of £20,000 per year from utility billing.

This financial year Defra has sought to tackle the issue of single use plastics by seeking to reduce and eliminate them wherever possible. Whilst this work will continue into the next financial year some improvements have already been put in place. At our Headquarters site in London we have stopped procuring plastic cups for staff use in kitchens and canteens and replaced them with glasses to be reused. Our procurement figures suggest that approximately 168,000 cups were being used each year at the site.

In addition to this the department's catering contract is being retendered and the specification requires the new contractor to help the department eliminate single use plastics from food packaging as well as single use cups, plastic cutlery and straws.

Within the EA's laboratories the adoption of a new method of testing seawater has reduced the number of plastic sample tubes by 3500 per year, plus a further reduction of 400 polystyrene sample cups.

The Defra group currently has an average performance of 5m^3 of water per Full Time Equivalent (FTE) per annum within the office estate.

There is no target for scope 1 water reduction. Scope 1 water is water controlled or owned by Defra, such as in lakes or boreholes.

The East Midland area offices within the EA challenged teams to make better use of technology with the aim of reducing the need to print and a reliance on paper. This resulted in reducing printing by 136,000 sheets of paper.

Environmental Management System

A certified ISO14001 Environmental Management System (EMS) covers 30 sites on the Defra group estate. These are the larger sites and those which carry the most significant environmental risk across the portfolio. Achieving and retaining the standard recognises continuing commitment to reducing environmental impact, implementing sound environmental practice and ensuring environmental policy is taken into account when making decisions and delivering projects across the estate. There are a number of grounds maintenance and land management regimes at Defra properties that aim to enhance biodiversity including: reducing the frequency of mowing regimes and leaving grassland patches to grow wild providing food and shelter for pollinators; incorporating features such as bird and bat boxes, indigenous planting and maintenance and care of wild flower meadows/areas. The EMS system is supported by Environmental and Energy policies.

Green Information and Communications Technology (ICT)

Defra is committed to reducing the environmental impacts of the ICT services it uses on all levels of our organisation. Sustainable initiatives are being integrated with long-term solutions to help consume fewer resources and emit less waste.

Defra group continues to lead a cross-departmental group, the Green ICT Delivery Unit (GDU) on the publication and implementation of the Greening Government; Sustainable Technology Strategy 2018–2020, carrying out assessments across departments and publishing annual reports on progress. 2016–17 figures in Summary;

- Average energy consumption reduced from 856kwh/FTE to 828kwh/FTE;
- Servers showed the greatest reduction of 75kwh/FTE, followed by networks 62kwh/FTE, telephony -58kwh/FTE and Audio-visual -26kwh/FTE;
- End User assets saw an increase of 141kwh/FTE. This is due to staff figures increasing, partly as a result of EU Exit and transformation programmes; and
- 1.43 percent to landfill/incineration, -2.53 percent less than last year.

Defra continues to drive down the amount of non-recyclables from disposal of its ICT assets. When IT hardware is no longer required, Defra's strategic supplier of ICT services (IBM) seeks to reuse it across the department. Items that cannot be reused are then collected by its subcontractor for reuse by schools and charities, recycling of components and materials and as a last resort sent for incineration. For 2017–18 the amount incinerated was 2.36 percent of some 29 metric tonnes of kit, the average across six other departments providing the assessment was 1.43 percent for 2016–17. Out of the 3755 items Defra including EA collected, 11.5 tonnes were reused or resold, almost 40 percent of the total items collected.

In its pursuit of aiding more efficient, sustainable and appropriate working for its staff Defra has embarked on implementing managed print services across the core department and its executive agencies. Saving operations resources and energy, enabling the organisation to optimise print infrastructure through device consolidation and streamlined print management. Defra is trailblazing sustainable procurement through ICT projects and programmes such as UnITy.

Transparency Reporting

In addition to the high level GGC targets, the Defra group also publishes a transparency statement as part of its commitment[16]. This covers Climate Change Adaptation, Biodiversity and Natural Environment, Procurement of Food and Catering Services and Sustainable Construction.

Further information

Quarterly updates on the Defra group's performance towards the GGC can be found online[17].

This report should be read in conjunction with the Annual Report and Account Sustainability Reports produced by each of the Defra group bodies.

GGC reporting processes use the Defra reporting standards. All energy and carbon reporting in this document uses the conversion factors described in this document.

[16] https://www.gov.uk/government/organisations/Department-for-environment-food-rural-affairs/about/our-energy-use
[17] https://www.gov.uk/government/organisations/Department-for-environment-food-rural-affairs/about/our-energy-use

Sustainability Data - Table 1

ENERGY			Baseline	2014-15	2015-16	2016-17	2017-18
Non financial indicators **(kWh)**	Energy consumption	Total energy consumption	247,207,792	188,455,924	193,850,034	188,241,081	173,730,107
		Total electricity	119,777,315	83,313,477	93,525,801	89,955,395	86,855,361
		Electricity: standard	23,281,240	11,399,995	3,649,962	3,747,681	8,621,510
		Electricity: green	96,369,935	71,006,217	88,880,800	85,365,988	77,634,057
		Electricity: purchased CHP	126,140	907,265	995,040	841,726	599,794
		Gas	90,501,824	82,409,988	81,993,131	76,686,338	59,475,471
		Oil	23,701,612	15,487,272	13,076,858	13,542,255	24,095,011
		Biomass	2,604,841	2,682,458	3,404,249	6,941,837	1,372,053
		CHP	8,406,109	3,361,000	-	-	-
		Whitehall district heating system (WDHS)	343,300	-	-	-	-
		Self generated renewables	149,084	510,597	666,018	549,273	1,162,876
		LPG	555,812	536,181	434,071	565,984	515,595
		Other	1,167,895	154,951	749,906	0	253,741
Financial indicators **(£000)**	Total energy costs		17,202	17,149	17,537	15,406	13,530

WASTE		Baseline	2014-15	2015-16	2016-17	2017-18
Non financial indicators **(000 kgs)**	Total waste	8,116	5,424	5,159	4,861	6,603
	Hazardous waste	1,063	93	86	71	107
	IT waste recycled and unrecyclable	14	43	34	22	49
	Recycled	2,810	2,542	2,216	1,933	3,216
	Composted	75	37	49	35	207
	Incinerated with energy recovery	1,309	1,565	1,408	1,547	1,799
	Incinerated without energy recovery	471	459	508	418	470
	Landfill	3,437	780	952	904	874
Financial indicators **(£000)**	Total disposal cost	3,374	4,083	4,523	3,447	3,510
	Hazardous waste	n/a	892	641	603	623
	Recycled, composted (combined)	n/a	266	453	562	698
	Incinerated with energy recovery	n/a	229	387	346	347
	Incinerated without energy recovery	n/a	n/a	n/a	n/a	n/a
	Landfill	n/a	31	177	123	119

WATER			Baseline	2014-15	2015-16	2016-17	2017-18
Non financial indicators **(m3)**	Water consumption	Total scope 2 water consumption	651,542	508,374	485,439	691,783	552,674
		Supplied (office estate scope 2)	126,867	99,198	84,928	85,420	88,797
		Supplied (non office estate scope 2)	524,675	409,176	400,511	606,363	463,877
		Abstracted (scope 1)	n/a	28,000,000	37,881,537	42,992,196	n/a
Financial indicators **(£000)**	Water supply costs		1,492	1,502	1,402	1,253	1,051

GREEN HOUSE GAS EMISSIONS		Baseline	2014-15	2015-16	2016-17	2017-18
Non financial indicators **(000 kgs CO2e)**	Scope 1: direct emissions	38,768	32,131	27,496	27,831	27,939
	Scope 2: indirect emissions	59,230	40,413	42,753	37,066	30,534
	Scope 3: emissions from official business travel	21,110	13,506	12,565	10,073	11,234
	Total emissions	119,108	86,049	82,814	74,970	69,707
	Emissions eligible for CRC scheme	n/a	55,885	55,938	47,756	n/a
Financial indicators **(£000)**	Carbon Reduction Commitment (CRC)	n/a	944	945	798	n/a
	Expenditure on official business travel	23,359	25,328	24,137	25,652	27,560

OTHER TARGET AREAS		Baseline	2014-15	2015-16	2016-17	2017-18
Non financial indicators	Number of domestic flights	3,351	3,412	2,429	2,365	2,877
	Paper use (reams)	151,529	106,643	92,200	77,168	68,295

Notes

(i) Under GGC reporting, areas of a building occupied by non-government occupants are not included. Where this is the case buildings have been apportioned according to floor space occupancies.

(ii) 'Scope 3: Emissions from Official Business Travel' data does not include international travel in accordance with the GGC reporting requirements.

(iii) The abstracted water figure for 2017–18 is not available at the time of publication.

(iv) Gas used in CHP units is not included in the 'gas' figure as GGC reporting guidance states that this energy is reported as CHP output.

(v) The first Carbon Reduction Commitment (CRC) payment was made for 2011–12. Payment for 2017–18 is not due to be made until September 2018.

(vi) All consumption data presented in this report reflects reported GGC figures. Cost figures reflect the accounting records for the respective year.

(vii) Hazardous waste is included in the landfill waste figure as per GGC reporting.

(viii) Historically, a breakdown of waste costs was not available due to the contractual agreement in place at this time.

(ix) Previous years' data has been revised from last year's publication to incorporate any corrections, adjustments and to remove the data for the Sand Hutton Laboratory site that was sold from the Defra portfolio. For this reason tables and performance may appear differently to previous year's reports.

(x) Some Baseline figures include data from various years where data from 2009–10 was not available. In such instances data from subsequent years was substituted as per the GGC guidance.

(xi) RBG Kew do not have a provision for capturing domestic travel data, however the emissions are understood to be not material.

(xii) Composted and reused waste data was not available across the group as a separate stream to recycled waste prior to 2013–14. From 2013–14 some parts of the group provide separated compost and reused waste figures but these do not cover the entire Defra group.

(xiii) Emissions from electricity are captured across scope 2 and 3 as electricity generated and supplied to the national grid and due to losses in transmission and distribution of electricity through the national grid to the consumer, as defined by the GHG Protocol.

(xiv) Public transport emissions are captured within the scope 3 emissions. For the purposes of Taxi travel, mileage is estimated from spending on taxis using a rate of £2.39 per mile.

(xv) Reused assets are not considered to be waste for GGC reporting purposes (except reused ICT) and so is not reported or captured in these figures.

(xvi) Paper purchasing data was not available for January to March 2018 and so an estimate has been made based on the average of the rest of the 2017–18 purchasing data.

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