Department
for Environment
Food & Rural Affairs

Annual Report and Accounts 2018–19

HC 2389

Department for Environment, Food and Rural Affairs

Annual Report and Accounts 2018–19

(For the year ended 31 March 2019)

Accounts presented to the House of Commons pursuant to Section 6(4) of the Government Resources and Accounts Act 2000

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This is part of a series of departmental publications which, along with the Main Estimates 2018-19 and the document Public Expenditure: Statistical Analyses 2018, present the Government's Outturn for 2018–19 and planned expenditure for 2019–20.

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Chapter 1 – Overview

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

Tamara Finkelstein

Defra group has achieved a great deal over the last year – undertaking significant preparations for exiting the EU, delivering an ambitious policy agenda and serving the public day to day. Considerable progress has been made because our highly capable and skilled people have worked exceptionally hard and continued to build a group that is effective, diverse and inclusive.

As part of our extensive work in preparing for EU exit, the department has worked on 53 exit related projects, developed six new digital services, made 160 Statutory Instruments, and continued to adapt our departmental structure and governance to support the scale of this task.

Alongside these preparations, Defra group has supported Minsters in delivering an ambitious reform agenda. We have made considerable progress in delivering the 25 Year Environment Plan which launched in January 2018. Achievements in the first year include publishing a comprehensive Resources and Waste Strategy. This sets out plans to overhaul our waste system, as well as a plan to ban plastic straws, cotton buds and stirrers, and extend the 5p plastic bag charge. Alongside this we introduced one of the world's toughest bans on microbeads. We also published draft clauses for the first Environment Bill for 20 years, which will help put environmental ambition and accountability at the heart of government. 2019 is our Year of Green Action – a year-long drive to get more people from all backgrounds involved in projects to improve the natural world.

The department has been managing a significant programme of legislation this year, having introduced both a landmark Agriculture Bill, as well as our flagship Fisheries Bill. By introducing one of the world's most stringent ivory bans and hosting the global Illegal Wildlife Trade Conference, we strengthened the UK's position as a global champion for combatting the illegal wildlife trade. We are also at the forefront of an international campaign to protect 30 percent of the world's oceans by 2030.

As we prepare for EU exit and progress a significant reform agenda, the core business of the Defra group is delivering services to our sectors and the public. I am incredibly grateful for the hard work of people across the group who make this happen. From delivering flood protection schemes to thousands of homes and businesses, to responding to the Salisbury nerve agent poisoning incident.

To deliver our ambitious agenda, we welcomed approximately 1400 additional people to the Defra group this year. In the final quarter, we were also supported by staff on loan from the Department for Education, Department for International Development and Ministry of Defence to ensure we were as prepared as we could be for leaving the EU without an agreement. I am so grateful to these departments and their Ministers for this support. We also welcomed two new Ministers to Defra – David Rutley, Parliamentary Under Secretary of State for Food and Animal Welfare and Robert Goodwill, Minister of State for Agriculture, Fisheries and Food.

We continue to work on being an inclusive and diverse workplace. Having identified particular concerns about race, we started a large scale culture change project which aims to improve outcomes for Black, Asian and other ethnic minority colleagues' representation, performance management and engagement. The Defra Project Race Strategy launched in November and sets out how we aim to meet our ambitions in this area. There has also been steady progress on addressing our gender pay gap, reducing the mean pay gap by 1.7 percent on 2017 figures.

Since joining Defra in April 2018, taking up appointment as acting Permanent Secretary in April 2019 and becoming permanent in June, I have been incredibly impressed by our dedicated and talented people who work hard to support Ministers in delivering a vision of a green and healthy future. I am immensely proud of Defra group's achievements and would like to thank everyone across the group for their role in delivering an ambitious policy and delivery agenda, preparations for a safe and green EU exit, and a wide range of critical services for individuals and communities. I am confident that we will build on this success in the year ahead.

Non-Executive Directors' Report

The Permanent Secretary has set out in her introduction the hugely impressive achievements of the Defra group during the past year. These include of course an enormous amount of work to prepare for EU exit on 29 March with or without a deal. This work continues, as does preparation for a post EU exit world in which the Defra group will take on a range of new responsibilities. In addition, the Defra group has achieved a great deal in the last year to advance its wider domestic and international agenda. The Permanent Secretary has highlighted the introduction of landmark legislation covering agriculture, fisheries and the environment; bringing in bans on microbeads and on ivory; and hosting the global Illegal Wildlife Trade conference. We have also continued the vital work to deliver key services to the public including for example support to farmers under the Basic Payments Scheme, and the delivery of flood protection schemes protecting homes and businesses from the devastating impacts of flooding. I want to add my own personal thanks and tribute to those of the Permanent Secretary, to all staff right across the Defra group who have worked so hard during the year and demonstrated incredible levels of expertise and professionalism in the face of enormous challenges.

The five non-executive directors; myself, Colin Day, Lizzie Noel, Elizabeth Buchanan, and Ben Goldsmith have also played a full part during the last year in supporting the Department to achieve this ambitious agenda. We have done this in a number of ways which have included offering advice and insights; providing challenge to ministers and officials; and leading reviews in specific areas. Our involvement has included attendance at Board and Audit and Risk Assurance Committee (ARAC) meetings, plus a lot of activity outside of these formal settings.

The Defra Board (the Board) met five times during 2018–19, and its agenda included performance and risk; Departmental finance and business planning; Defra's Strategy; and preparations for the forthcoming Spending Review. We also discussed EU exit preparations on a regular basis which provided the non-executive directors the opportunity to scrutinise and challenge the Department's plans. Two new Ministers joined the Board, Robert Goodwill MP and David Rutley MP, and also additional senior executive members to ensure full representation of all aspects of Defra's work. The ARAC chaired by Colin Day and with Lizzie Noel as one of its members, met on four occasions. It regularly discussed the Department's finances and the accounts, internal and external audit reviews, strategic risk management and fraud risk, challenging the Department to improve performance where this was necessary. Other topics that featured on the ARAC agenda included cyber security, data protection, whistleblowing, EU exit and IT transformation.

Outside of these formal meetings, the Secretary of State asked Lizzie Noel to conduct a review into the growing problem of industrial scale organised waste crime. The review set out to understand the impact of this activity and what needed to be changed. The recommendations of the review which reported in November 2018 have been accepted by ministers and work to introduce these changes is underway. In addition, I have been appointed to conduct a review of our food system, from farm to fork, culminating in the publication of a National Food Strategy later this year.

Beyond these specific projects, the non-executive directors have provided support in many other ways. For example, I attend and provide advice and challenge at the weekly meeting of the Secretary of State with the Department's senior executive team to review ongoing operational and delivery issues. The Departmental non-executive directors have also been involved in selection panels for a number of key non-executive positions across the Defra group including the appointment of a new Chair at Natural England. Elizabeth Buchanan has provided advice to officials on the challenges likely to face farmers after the UK leaves the European Union, and Ben Goldsmith has been involved in discussions on many aspects of the delivery of environmental and agricultural policies.

Looking at the year ahead, this will be an exciting but challenging time, and the non-executives will continue to provide support and advice to the Department as we move towards EU exit and beyond. At the Defra Board, we will in particular seek regularly to review the Department's finances, risks and performance including in depth reviews of operational risks as I believe that these will be vital issues in the coming year. I and my fellow non-executive directors look forward to continuing our support for the Department and its dedicated and excellent staff as they work to deliver their goals and objectives which are vital on both the national and international stage.

Henry Dimbleby
Lead Non-Executive Director

Overview

This chapter provides a concise description of the department, our purpose, and the key risks that we face in achieving our objectives.

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.

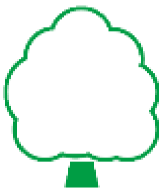
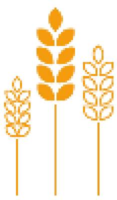
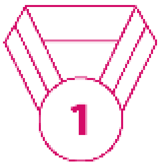
The department is overseen by the Secretary of State for Environment, Food and Rural Affairs who is accountable to Parliament. He is supported by junior ministers from the House of Commons and a Lords minister. The Permanent Secretary has responsibility for managing the department and safeguarding public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

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

Our Vision and Objectives

The Defra group is here to make our air purer, our water cleaner, our land greener and our food more sustainable. Our mission is to restore and enhance the environment for the next generation and to leave the environment in a better state than we found it.

Our four strategic objectives guide our work to achieve our shared vision across the Defra group:

	**EU exit**	Deliver a smooth transition to new regulatory and delivery frameworks after we leave the EU
	**Protecting and improving the environment**	Pass on to the next generation a natural environment protected and enhanced for the future
	**Food, farming and rural affairs**	Be one of the world's leading food and farming nations, with a thriving rural economy
	**An outstanding organisation**	Be the most effective and efficient department in government

Our 25 Year Environment Plan (25 YEP)

Our 25 YEP sets out how government will achieve the aim of being the first generation to leave the environment in a better state than we found it. It puts forward a long-term programme of policy reform to reverse decades of environmental decline and respond to future pressures, such as climate change. We will report annually to Parliament on the plan, ensuring we are transparent about our progress and achievements and that we can be held to account. We published the first progress report in May this year. We are also currently developing a framework of indicators that will be used to track progress towards the goals of the plan and will be linked to the indicator we report on more frequently as part of our SDP performance monitoring.

Key Issues and Risks

A description of the Defra group approach to risk management and an overview of risk discussions held in 2018–19 is set out in the governance statement in Chapter 4.

EU Exit

On 23 June 2016, the EU referendum took place and the people of the United Kingdom voted to leave the EU. Until the United Kingdom leaves the EU all the rights and obligations of EU membership remain in force. During this period the Government will continue to negotiate, implement and apply EU legislation. The Government has negotiated with the Union on the terms of its withdrawal, and future relationship with, the Union. The terms on which the UK leaves the EU will determine what arrangements apply in relation to EU legislation in future once the UK has left the EU.

The UK is due to leave the EU on 31 October or earlier if a deal has been ratified. The Government's proposed Withdrawal Agreement allows for a time limited implementation period. During this time, the UK would no longer be a Member State of the European Union, but market access would continue on current terms. To give businesses and citizens certainty, common rules would remain in place until the end of the period meaning businesses would be able to trade on the same terms as now up until the end of that period. In the event of the UK leaving the EU without a withdrawal agreement and implementation period, there would be impacts on Defra group responsibilities and the sectors we support, for which Defra groups has put in place a wide range of no deal contingency plans.

As we leave the EU, we will take new approaches that are tailored to the needs of this country. We are transforming to meet the changing context of EU exit and to take advantage of opportunities that arise as we leave the EU. We estimate that 80 percent of Defra group's work is framed by EU legislation and a quarter of EU laws apply to sectors for which we are responsible. We work with the Devolved Administrations to administer more than £3 billion of EU funding each year to support farming, fisheries and environmental projects; this is more than 70 percent of the EU funding allocated to the UK government to manage.

Chapter 2 – Performance Analysis

Our 25 Year Environment Plan (25 YEP), launched in January 2018, sets out how we will improve the environment over a generation – by creating richer habitats for wildlife, improving air and water quality, and curbing the scourge of plastic in the world's oceans. It outlines the steps we are taking, many of them long-term in nature, to achieve our ambition of leaving our environment in a better state than we found it.

Defra's annual Single Departmental Plan (SDP), published in May 2018, supports the delivery of our 25 YEP by setting out in more detail how we will enact the 25 YEP and organise our work to deliver all the commitments we have made. The SDP is underpinned by a more detailed business plan and performance framework for the whole Defra group.

The Defra group strategy was refreshed in November 2018 and shows how we are working across the country and across the Defra group towards a shared vision. The strategy is a high level roadmap which sets the priorities and direction for Defra. The revised strategy resulted in some amendment to our strategic objectives, which are being used for business planning in 2019–20.

This chapter shows how we performed in relation to the key performance indicators (KPIs), in delivering our objectives for 2018–19. Progress is reported quarterly and updates are published on gov.uk.

We are refining our performance framework so that it clarifies the line of sight between the strategic, longer term outcomes we set out in the 25 YEP and the performance measures that we use at delivery and operational level.

How we measure performance

Our strategic objectives for 2018–19 were split into four categories: a single objective that covers all our work to deliver a safe and ambitious exit from the EU; two impact objectives built around the work we do to deliver our priority environmental outcomes and an organisational objective that show how Defra group should operate in order to deliver its outcomes.

Red/Amber/Green ratings are shown for each of the indicators under the relevant strategic objective, based on thresholds set for each performance target and agreed at director general level.

Green: performance on target
Amber: target narrowly missed
Red: target significantly missed

Future delivery risk is applied to KPIs and is reported to Executive Committee (ExCo) and Defra Board by publishing forecasts for year-end outturn performance as an integral part of in year performance reporting. We are continuing our work to better integrate our performance reports that bring together strategic risk management, financial updates and workforce information alongside performance indicators, in order to ensure that ExCo receives regular insight on issues that are both retrospective and forward looking.

Performance by Strategic Objective

1. A smooth and orderly exit from the EU.

Defra group's overarching priority is the delivery of a safe and ambitious exit from the EU, and the impact is felt throughout the department. We are managing the challenge of preparing Defra group and our stakeholders for EU exit despite planning simultaneously for different possible scenarios.
We have achieved a great deal in preparations for EU exit across a number of key policy and delivery areas:

➲ Animal and plant health
We are making preparations for all things which affect animal and plant health. This includes controlling the import of animals and animal products, regulating veterinary medicines, and enabling individuals to travel with their pets.

➲ Environmental regulations
We want to ensure EU exit has no adverse effects on the environment. We are actively managing the regulation of chemicals and pesticides, the protection of habitats and species, air quality, and upholding the Convention on International Trade in Endangered Species of Wild Fauna and Flora. We are also creating a new environmental governance body to maintain high standards.

➲ Farming
As the UK leaves the Common Agricultural Policy, we are moving away from a system where farmers and land managers receive government subsidies, to one where public money pays for public goods, underpinned by policies for sustainable, productive farming and fair returns from the supply chain. A new Agriculture Bill, alongside a new Environmental Land Management system and an effective regulatory framework, will allow the UK to build its own independent agricultural and environmental system outside the EU.

➲ Fisheries
By leaving the Common Fisheries Policy, the UK will be shaping its independent fisheries policies through the Fisheries Bill. We are delivering on potential changes required for importing and exporting of fish (catch certificates) and marine control and enforcement, as well as future fisheries management and agreements.

➲ Food standards
We are committed to ensure the safety of food available in the UK is not compromised. We are also ensuring that much loved British products such as Cornish pasties, Hereford cider and Stilton blue cheese retain protected status.

➲ Other Government Departments
We are also supporting work led by other government departments, such as helping develop our new relationship with the World Trade Organisation and looking at tariff operations.

Our aims were to…	In 2018–19 we…
Achieve the best deals for UK consumers, Defra group's sectors and the environment as we leave the EU	Took an active role in the negotiating process for the EU Withdrawal Agreement and our new relationship with the EU.
Establish new economic relationships with Europe and other countries around the world.	Held negotiations around fisheries and contributed to development of the political declarations.
Support ministers in sustaining the UK Union and constitutional elements	Ensured a consistent and coherent trade policy. Provided ministers and policy teams with high quality constitutional and handling advice.
Support ministers to deliver the legislative framework needed to support a safe and ambitious exit from the EU.	Helped to develop primary and secondary legislation, including 122 Statutory Instruments, the highest number of any government department. Contributed to the EU (Withdrawal) Bill, to achieve a smooth exit and our longer-term end state.
Enable effective senior stakeholder reporting, planning and decision making for Defra group's EU exit portfolio	Built new delivery systems to enable a smooth and orderly exit, and put in place robust governance arrangements for EU exit planning and delivery.

Summary of performance against published KPIs for this objective

**Amber:
EU exit readiness**

This indicator covers work to support an orderly exit from the EU under all scenarios, but with a significant focus during 2018–19 on contingency plans for the possibility of leaving the EU without a deal.

Our achievements in order to secure an orderly exit from the EU have included:
- 122 statutory instruments made.
- Making progress on a portfolio of 53 EU exit related projects.
- Creating brand new digital systems and services.
- Setting up our Emergency and Operations centres as well as public call centres.
- Engaging extensively with businesses and the public.

2. Protecting and enhancing the environment

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. This means ensuring that the nation is protected against environmental pressures, with government leading the way and everyone playing their part.

To deliver an improved environment, we need to adopt a more integrated management approach, recognising that natural assets and the benefits they provide are part of a wider system. There are interactions and dependencies within environmental systems that need to be understood and managed so that the potential benefits we could get from the environment are realised in practice.

The 25 YEP is at the heart of the government's commitment to improve the environment, and as such our approach spans the whole of Government. To deliver the 25 YEP successfully, we have put in place four other important government strategies:

- the Industrial Strategy, which sets out how we will boost productivity across the UK.
- the Clean Growth Strategy, which sets out the UK's reaffirmed ambition to promote ambitious economic and environmental policies that will mitigate climate change and deliver clean, green growth.
- the Clean Air Strategy, which sets out how we intend to cut air pollution and the costs of it to public health, the environment and our economy.
- the Resources and Waste Strategy, which sets out how we intend to reduce resource use and move towards a circular economy.

In December 2018, we published the draft Environment (Principles and Governance) Bill, which sets out how the government will maintain environmental standards as we leave the EU. It also details how we will build on the vision of the 25 YEP.

This includes creating an independent body – the Office for Environmental Protection – which will:

- scrutinise environmental law and the government's environmental improvement plan.
- investigate complaints on environmental law.
- take enforcement action on environmental law.

Our aims were…	In 2018–19 we…
Clean air	Launched our ambitious Clean Air Strategy which aims to cut the costs of air pollution to society by £1.7 billion every year by 2020, rising to £5.3 billion every year from 2030. Awarded £3 million in grants to local authorities to support 28 innovative projects to improve air quality.

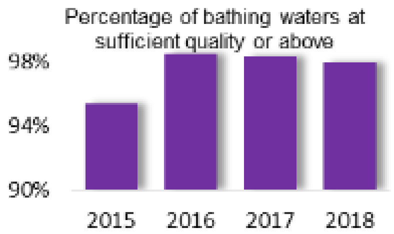
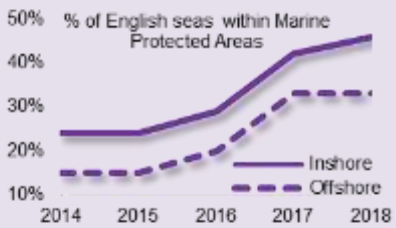
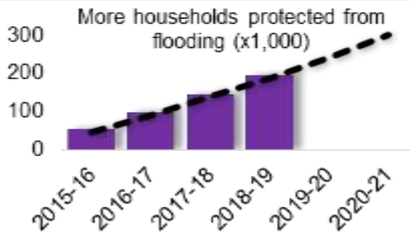
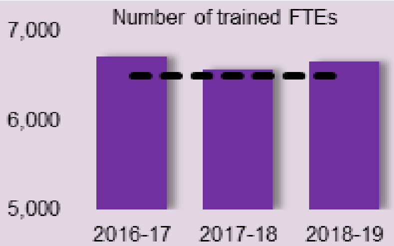
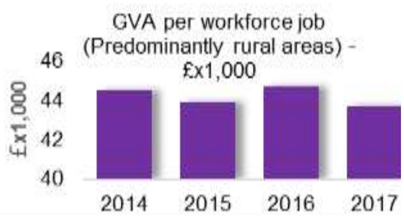
Our aims were…	In 2018–19 we…
Clean and plentiful water	Addressed unsustainable water abstraction by putting in place plans to reform water abstraction management to protect the environment and improve access to water.
Thriving plants and wildlife	Created 896 hectares of new woodland habitat and maintained 59 percent hectares of woodland in active management. Increased the expanse of marine protected areas to cover 36 percent of English seas. Tightened regulations to prevent the release of non-native invasive animal species. Put the UK at the forefront of combatting illegal wildlife trade through introducing our landmark Ivory Act.
Reducing risk of harm from environmental hazards	Worked with multiple agencies in Salisbury to complete the decontamination and clean-up operation following the nerve agent attack in March 2018. Completed the £67 million major flood protection scheme at Ipswich, and delivered a number of smaller schemes that helped us reach nearly two thirds of the way to our aim of protecting 300,000 more homes and businesses from flooding by 2021.
Using resources from nature more sustainably and efficiently	Helped to maintain 31 of 45 fish stocks at maximum sustainable yield and deliver fishing opportunities to maximise landings against most targets.

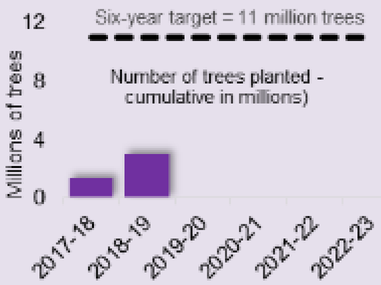
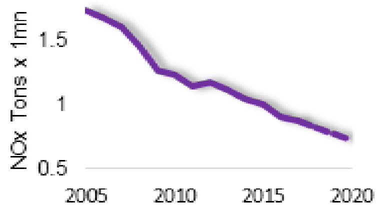
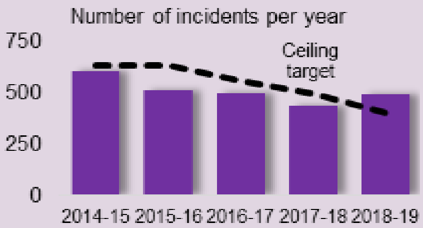
Our aims were…	In 2018–19 we…
Enhancing beauty, heritage and engagement with the natural environment	Launched the Year of Green Action 2019, to connect people with nature, and show how we can all take positive action to improve our environment. The Monitor of Engagement in the Natural Environment survey, published in September 2018, shows that more people – across all parts of the population – are visiting nature than ever before.
Mitigating and adapting to climate change	Published the second National Adaptation Programme (NAP), showing the actions government is, and will be, taking to address the risks and opportunities posed by a changing climate.
Minimising waste	Sought out and closed over 200 illegal waste sites and, through legislation, continued to penalise landfill use to the benefit of recycling rates. Implemented a world-leading ban on the sale of products containing microbeads. Published the Resources and Waste Strategy for England, with robust actions for recovering resources and managing waste, and tackling waste crime. Launched the UK Plastics Pact, with major supermarkets and businesses signing up to eliminate unnecessary single use packaging by 2025.
Managing exposure to chemicals	Continued to respond to serious pollution incidents, contributing to a decrease in those from industry compared to the previous year.
Developing a rural economy that works for everyone	Supported improvements in rural broadband speeds by adding an additional £45 million to the Rural Broadband Infrastructure scheme in 2018–19.

Summary of performance against published KPIs for this objective

Green: Bathing Water	**Green: Water Quality**	**Green: Flood Protection**	**Green: Incident Response**	**Green: Rural Productivity**
Amber: Trees Planted	**Amber: Air Quality (emissions)**	**Red: Pollution incidents**		

Detailed Performance 2018–19:

Indicator	Previous report	Latest report	Trends and targets	Commentary
Bathing water (quality)	2017 **98.3%**	2018 **97.9%**		The proportion of UK bathing waters classified as excellent (the highest, cleanest class) or good (generally good water quality) is at expected levels.
Water quality (marine protection)	2017 **42% inshore** **33% offshore**	2018 **46% inshore** **33% offshore**		Marine Protected Areas 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.
Flooding protection	2017–18 **142,850**	2018–19 **193,604**		More houses have reduced risk of suffering from a flood event. Improved flood protection makes it easier for people to arrange financial services, such as mortgages and insurance.
Incident response	2017–18 **6,568**	2018–19 **6,657**		We have sufficient numbers of trained and capable staff to provide a robust and professional response to incidents. We are training new people, which will further increase the number by next year.
Rural productivity	2016 **£44,740**	2017 **£43,704** (latest available data due to complexity of calculations)		This is expressed as Gross Value Added (GVA) per workforce job, measuring the extent to which rural activity contributes to the economy in England.

Indicator	Previous report	Latest report	Trends and targets	Commentary
Trees planted (Woodland creation)	2017–18 **1.42m**	2018–19 **3.02m**		The number of trees planted has fallen behind target due to slow take up of planting schemes.
Air quality emissions (NOx in millions of tons)	2016 **0.90** (Up from 0.89 in last report due to improved calculations)	2017 **0.87** (Latest available data)		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 lower emissions ceilings in 2020 and 2030.
Pollution incidents (category 1 and 2 Common Incident Classification scheme)	2017–18 **431** (Up from 402 in last report due to data cleansing)	2018–19 **493**		The number of serious pollution incidents reported has increased this year, largely due to natural causes as a result of the dry summer of 2018. Incidents from industry reduced over the same period.

Examples of flooding protection schemes in 2018–19

Morecambe sea wall, Cumbria
5,400 homes protected

Pevensey Bay flood defences, Sussex
3,100 homes protected

Sustainable Development

Defra plays a crucial role in ensuring a sustainable future. Defra's performance against the sustainability objectives of its estate and operations can be viewed in Annex 2. The report focuses on the impacts measured against the Greening Government Commitments (GGC), a summary is provided below.

Greening Government Commitments

Comparing to baseline figures, the Defra group in 2018–19 has reduced its greenhouse gas emissions by 49 percent; domestic flights by 19 percent; paper use by 65 percent; and reduced waste sent to landfill to 17.5 percent of total waste. Water consumption has decreased by 9 percent.

Defra group Commercial 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; the Small to Medium Enterprises agenda and modern slavery 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.

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.

We now have in place a practical framework for assessing impacts on natural capital and identifying a broad range of methods and valuation resources to support non-market valuation for appraisal.

We are working closely with industry representatives to identify exemplars to demonstrate natural capital thinking within the private sector. Defra continues to work alongside a wide range of government departments to drive forward sustainable development thinking to promote the approaches set out in the HM Treasury Green Book - for example, through the use of the Outdoor Recreation Valuation Tool (ORVal)[1] which enables the value of natural spaces to be quickly calculated, and is relevant to other policy agendas such as transport and housing. The Green Book also places emphasis on appraising specific distributional impacts on types of geographic areas which links to Defra’s Rural Proofing guidance. Defra is now building on the Green Book to develop further online resources to facilitate the use of natural capital approaches and economic valuation evidence in analysis and decision-making.

[1] https://www.leep.exeter.ac.uk/orval/

Defra continues to work very closely with the Office for National Statistics (ONS) to develop natural capital accounts for the UK, covering both a range of ecosystem and abiotic services, and all the broad land covers (such as woodland, urban, farmland and so on). Recent notable ONS publications that Defra has supported include natural capital accounts for UK urban areas[2] and for Scotland[3].
We are working closely with a wide range of government departments to drive forward the implementation of the Sustainable Development Goals (SDGs). The SDGs are embedded throughout the SDP to ensure that Defra is able to progress and report on them.

Adapting to Climate Change

We have continued to lead across government on domestic climate change adaptation, taking action to ensure that relevant policies and initiatives account for the risks of climate change. We have also:

- Published the second NAP in July 2018. The second NAP addresses risks identified in the second Climate Change Risk Assessment. We are driving implementation of the NAP, working with teams within Defra, with other Departments, Arm's Length Bodies, and other stakeholders such as local government groups and businesses.
- Delivered the updated UK Climate Projections in November 2018, with the Met Office. These include updated probabilistic projections for the UK and global and regional projections providing a range of snapshots of future climate across the whole UK simultaneously. In 2019, we will release further products, such as high resolution projections for a more detailed local view on climate change.
- Published the Third Strategy for Climate Adaptation Reporting, alongside the NAP, in July 2018. We have engaged with key public bodies, regulators, and infrastructure providers from the water, energy, transport, environment, heritage, health and finance sectors on their approach to adaptation reporting. The third round of reporting opened in January 2019 and runs until the end of 2021, and follows a voluntary approach. By December 2018, 90 organisations had confirmed their participation.
- Continued to work with the Committee on Climate Change's Adaptation Sub-Committee in preparing an evidence review updating their previous assessment of risks and opportunities associated with climate change. This will support delivery of the next Climate Change Risk Assessment, due in 2022.

[2] https://www.ons.gov.uk/economy/environmentalaccounts/bulletins/uknaturalcapital/ecosystemaccountsforurbanareas
[3] https://www.ons.gov.uk/economy/nationalaccounts/uksectoraccounts/bulletins/scottishnaturalcapital/ecosystemserviceaccounts2019

3. A world-leading food and farming industry.

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

We endeavour to fundamentally reform agricultural and land management policy to deliver a better environment based on a system of public money for public goods.

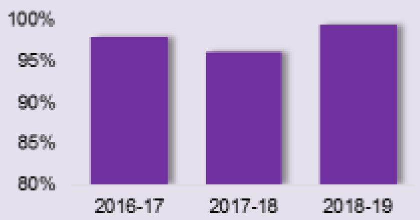
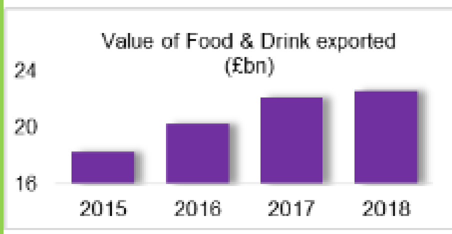
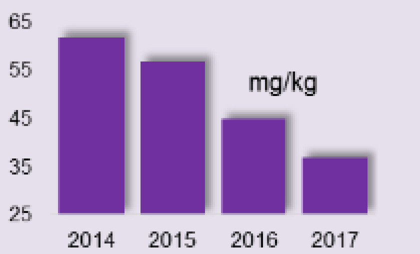
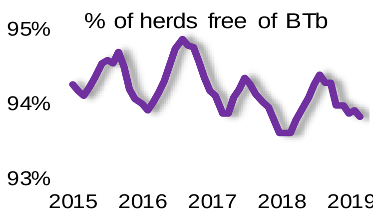
Our aims were to…	In 2018–19 we…
Develop a world leading food and farming system	Helped farmers and businesses to increase the value of British food and drink exported from the UK to £22.6 billion in 2018, an increase of two percent on the previous year. Administered annual direct payments to over 80,000 farmers through the Basic Payments Scheme. Brought about a continued decrease in antibiotic use in livestock, reducing the risk of bacterial resistance. Announced £30 million for further rounds of the popular Countryside Productivity Small Grants scheme, which helps farmers buy the equipment they need to boost productivity and increase yields. Received more than 44,000 responses to the government's proposals for the future for food, farming and the environment. Launched the Catchment Sensitive Farming partnership between Defra, the Environment Agency and Natural England, supporting farmers to take action to reduce harmful ammonia emissions.
Develop a future farming policy based on public money for public goods	Laid our landmark Agriculture Bill before Parliament to introduce a fairer, more sustainable system of environmental land management. Reformed our arrangements for delivering the Environmental and Countryside Stewardship schemes, to provide a more joined up service to support farmers and landowners making environmental improvements.

Our aims were to…	In 2018–19 we…
Enhancing biosecurity	Published a 20-point biosecurity action plan aimed at reducing the incidence and spread of bovine tuberculosis (bTB).

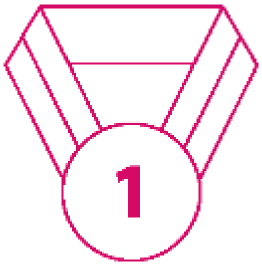
Summary of performance against published KPIs for this objective

Green: Farm Basic Payments	Green: Food and Drink	Green: Antibiotic Use	Amber: Bovine TB

Detailed Performance 2018–19:

<table>
<tr><th>Indicator</th><th>2017–18</th><th>2018–19</th><th>Trends and targets</th><th>Commentary</th></tr>
<tr><td>Farm Basic Payments</td><td>96% farmers paid (accuracy and timeliness)</td><td>99% farmers paid (accuracy and timeliness)</td><td>
</td><td>We paid 99.5 percent of claims by the end of March. Bridging payments were made in the small remainder of cases where complexity or size of claims affected the time taken to process accurate payments.</td></tr>
<tr><td>Food and Drink</td><td>2017 (calendar year) £22.1bn</td><td>2018 (calendar year) £22.6bn</td><td>
</td><td>This indicator shows the total annual value of UK food and drink exports to all countries, showing the success of rural enterprise in exporting their goods.</td></tr>
<tr><td>Antibiotic Use (in farm animals, companion animals, horses and fish)</td><td>2016 45 mg/kg</td><td>2017 37 mg/kg (latest available data)</td><td>
</td><td>Sales of antibiotics dropped 40 percent between 2013 and 2017, meeting a government target two years early. (Overuse of antibiotics can cause drugs resistance leading to the prevalence of superbugs such as MRSA).</td></tr>
<tr><td>Bovine tuberculosis (England)</td><td>2017–18 94%</td><td>2018–19 94%</td><td>
</td><td>There are positive early results from test sites, showing that new methods to combat the disease may prove beneficial in the long-term national eradication programme.</td></tr>
</table>

4. An outstanding organisation



Our ambition is for Defra group to be the most effective and efficient department in HM Government, recognised for delivering services that are timely, consistently high quality, and which offer outstanding value for taxpayers and customers (including industry, delivery partners, public bodies, non-government organisations and Parliament). We aim to be a highly responsive, customer-focused, open and data-driven department that is a trailblazer for the rest of government.

Our aims were to…	In 2018–19 we…
Maintain services that are timely, high quality and offer outstanding value for taxpayers and customers.	Issued 99 percent of animal and plant export health certificates within target timescales. Achieved the 95 percent target of responding to planning application consultations (where Natural England (NE) and the Environment Agency (EA) are a statutory consultee) within agreed deadlines.
Be an efficient, focused and innovative group, with shared priorities.	Implemented a Smarter Ways of Working initiative to embed agile working across the Defra estate, optimising our use of resources and extending best practice. Built six new digital services in readiness for exiting the European Union.
Create more joined up, more efficient corporate services.	Consolidated and integrated Defra group corporate services. Commenced migration of Defra group email accounts and mailboxes to a single platform, enabling staff to share knowledge and work more efficiently across departments. Increased our use of telephone and video conferencing, reducing unproductive time, travel cost and contributing to a lower carbon footprint.

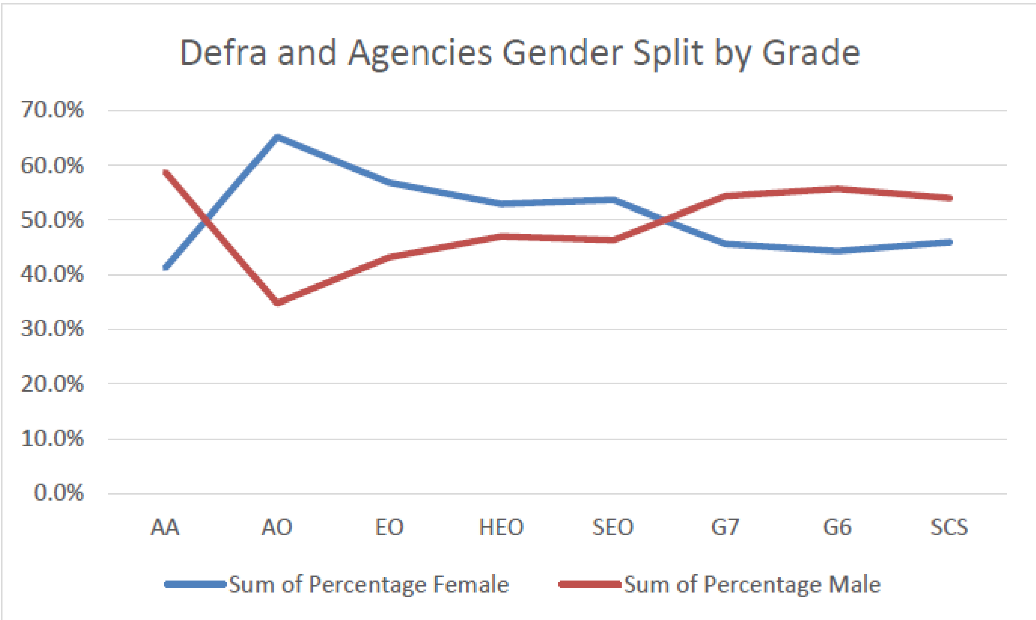
People Survey

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

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. Scores have remained level in seven out of the nine themed areas compared with last year's survey, which is encouraging given the ongoing pace of change, EU exit and the numbers of people joining Defra within a short timeframe.

See pages 55–57 for detailed survey results, and online[4] for the full results from across government.

In December 2018, we published our updated gender pay gap results. This shows that the percentage difference in the average pay between all men and women in the organisation is narrowing since the first survey in 2017. As at 31 March 2018, Defra had a mean gender pay gap of 9.8 percent, a reduction of 1.7 percent on the 2017 figure, and a median pay gap of 11.7 percent, a reduction of 0.4 percent on the 2017 figure. The graph below shows the gender split by Civil Service grade:



This is only the second year that new methodology for the gender pay gap has been used so it is not yet possible to draw any conclusions from trend analysis. However, we see this as a move in the right direction.

Actions we are taking in response to these findings include:

- Providing support for women returning to work following parental leave.

[4]https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/788277/defra-civil-service-people-survey-2018.pdf

- A range of employee-led networks are in place, supported and championed by Defra's senior management and Equality and Diversity and Inclusion teams.
- Improving the recruitment process through anonymised application processes, mandating that all interviewers have undergone unconscious bias training and using diverse interview panels for selection.

See Chapter 5 for more about our people.

Responding to public correspondence in 2018–19

Our Ministerial Contact Unit dealt with:

- 11,599 letters and emails from the public.
- 10,474 letters or emails from MPs and/or major stakeholders, answering 66 percent within the target of 15 working days.
- 2,175 Parliamentary questions, 92 percent of which were completed by the various deadlines.
- 30 e-petitions of which 80 percent were completed before the 21 day deadline.
- 51,168 calls on our helplines, (Defra Helpline and Pet Travel Scheme), answering 94 percent within the target of 60 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).

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.

Chapter 3 – Financial Analysis

This chapter provides an overview of our financial performance across 2018–19, including setting out our budget and confirming our spend against this, giving an overview of our Statement of Financial Position (SoFP) and Common Agricultural Policy (CAP) disallowance.

Financial Performance

Across 2018–19, the department was heavily challenged by the uncertain climate surrounding EU exit, with preparations for the possibility of a no deal exit in March 2019 requiring additional investment. At the same time, we still had the target of reducing our baseline spending by £130 million, as agreed at the last Spending Review. We have achieved both of these conflicting targets – investing a total of £337 million funding into our preparations for EU exit, whilst also delivering our underlying reductions. This is a significant achievement. Our robust financial processes have facilitated this, seeing us spend 99 percent of our non-ring-fenced Departmental Expenditure Limits (DEL) budgets – in line with our targets and equivalent to a £16 million underspend against a £1.9 billion budget.

Our spending on EU exit preparations is driven by the fact that 80 percent of Defra's business is framed by our membership of the EU. Our investment has ensured that the department is prepared for all possible scenarios – enabling robust plans to be in place for a smooth and orderly exit, including effective arrangements to implement domestic schemes and functions.

Whilst EU exit preparation has been the key priority for the department, there have also been a number of other successes:

- Through rigorous prioritisation of investment we have continued to increase the number of homes protected from flood and coastal erosion – seeing us fully invest our £486 million budget. Maximising our remaining capital budget has seen us carry out essential maintenance of the department's Estate, including improving our science laboratories and investing in information and communications technology.

- The devastating chemical attacks in Salisbury and Amesbury necessitated a significant decontamination process, for which we were the lead department. We worked with HM Treasury to manage this requirement, funding £13 million across 2018–19.

- In order to deliver our underlying budget reductions, we have continued to transform the department's corporate services functions to create new group-wide functions, with common employment arrangements creating a platform for improving prioritisation, decision making, professionalism and efficiency. We have progressed these efficiencies despite the need to separately increase our corporate services support for the new staff we have brought in to prepare for EU exit. We are on track to deliver total savings of £99 million by the end of 2019–20, with £28 million savings delivered in 2018–19.

- Support the rural economy with £1,967 million in CAP Basic Payment Scheme (BPS) expenditure in England, plus £427 million of EU funding for rural development schemes, along with a further £64 million from Exchequer funding for rural development.

- We have again significantly reduced 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.

Whilst 2018–19 has been a strong year, we will face increased challenges in 2019–20: we face further reductions to our baseline budget of £67 million and will continue to implement our plans in order to deliver these reductions, whilst continuing to invest in EU exit preparation, with £410 million allocated to this. We will also be working with HM Treasury on the Spending Review in order to agree budgets beyond 2019–20. We will therefore need to continue our strong financial performance in order to successfully maximise our budget and continue to deliver our objectives.

The Defra Group Budget

2018–19 Voted Net Funding £2.8bn Consisting of:			
Non-ring-fenced DEL £1.9bn	Ring-fenced DEL £0.9bn	AME -£40m	Non-Budget £10m
Net of			
External income £3.2bn			
2018–19 Voted Gross Funding £6.0bn			

The Statement of Parliamentary Supply shows that our total parliamentary approved (‘voted’) funding for the 2018–19 financial year was £2.8 billion. This consisted of £2.8 billion in DEL, -£40 million 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 (£2.1 billion in 2018–19, of which £0.4 billion ring-fenced) 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 -£241 million in 2018–19). Since 2017–18, the resource DEL budget excluding depreciation has increased by £81 million, mainly due to a £222 million increase for EU exit preparation offset by a £130 million underlying budget reduction.

The capital DEL budget (£0.7 billion in 2018–19) covers investment in the assets we need to deliver our objectives. This includes building IT systems in preparation for EU exit, expenditure on flood defence assets and the Defra group Estate, as well as the payment of capital grants. Since 2017–18, the capital DEL budget has increased by £96 million, mainly due to £39m million additional funding for Flood defence schemes; £20 million additional funding for EU exit preparation and reclassifications from resource DEL.

Our total EU exit funding of £320 million was mainly secured from HM Treasury – £310 million – with the remaining £10 million redirected from internal budgets.

The AME budget (-£40 million in 2018–19) is mainly for movements in provisions, including for CAP disallowance and the Environment Agency closed pension fund. The expenditure by Defra group levy funded bodies – the Agriculture and Horticulture Development Board and Sea Fish Industry Authority, as well as the Defra group body Flood Re, are also included within AME. Compared to 2017–18, the AME budget has decreased by £323 million, mainly due to a reduction in the value of long-term provisions, caused by updates to the underlying assumptions used to calculate them.

The final area of Defra group funding, called non-budget (£10 million in 2018–19), is mainly held for any exchange rate differences that may arise on payments made by the Rural Payments Agency (RPA) in their role as the UK Funding Body, to the Devolved Administrations, due to the timing differences between the payment date and the date of actual reimbursement by the Commission.

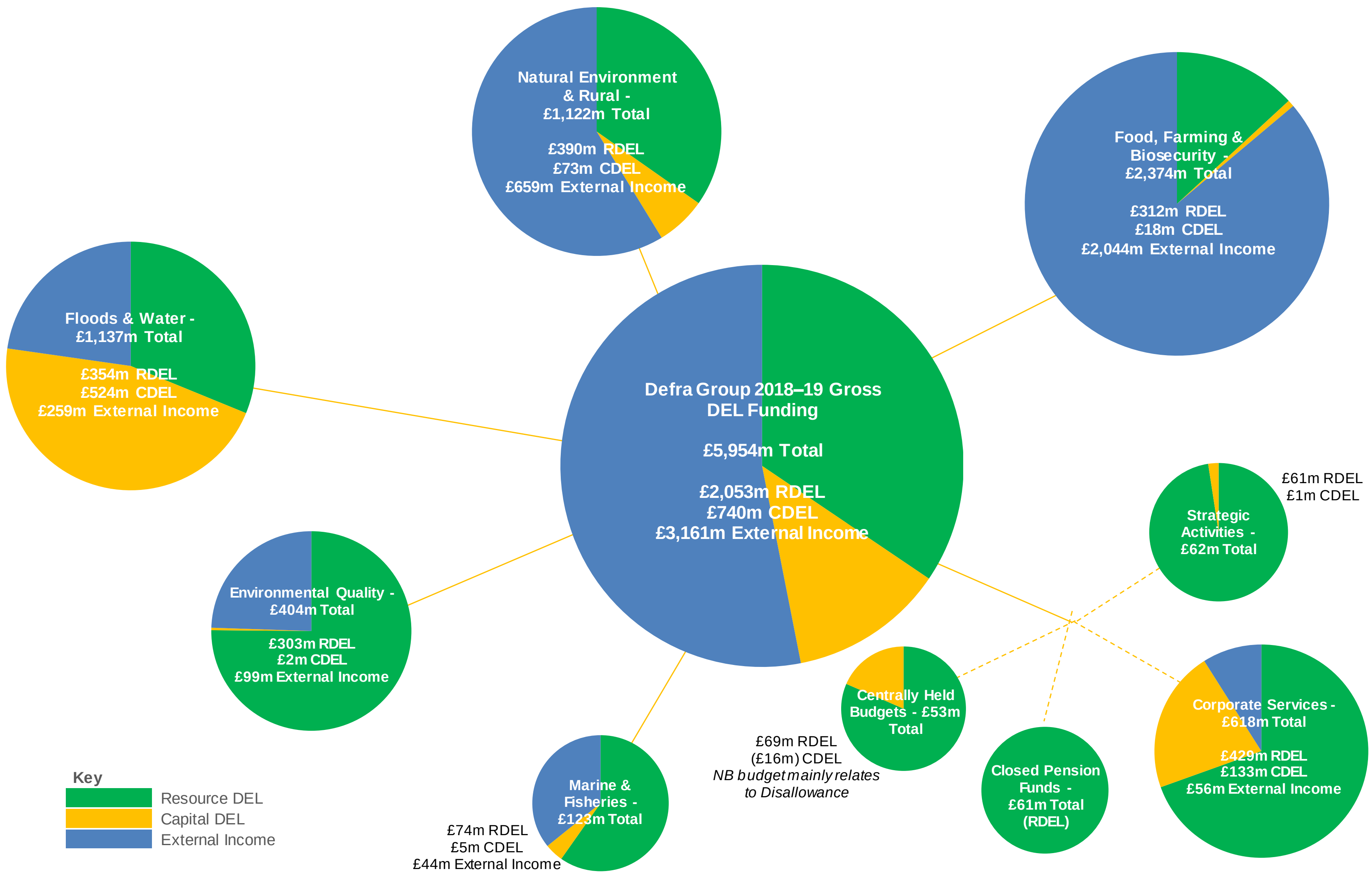
Our gross spending in the economy is actually twice the size indicated by our DEL budget, because it includes payments made, mainly to farmers, in respect of CAP and rural development schemes, for which income is received from the Commission. This income was budgeted at £2.5 billion in 2018–19. Other sources of income include grant income, fees, levies and licences payable to some of Defra's group bodies. This was budgeted at £0.2 billion for Core Defra and the Agencies; and £0.5 billion for other group bodies, netted off against the DEL expenditure. Our total external DEL income budget was therefore £3.2 billion in 2018–19. A further £1.5 billion of income received from the Commission for the devolved administrations was treated as non-budget rather than DEL.

Our total gross funding in 2018–19 was therefore £6.0 billion, consisting of £2.8 billion DEL, -£30 million AME and non-budget, plus £3.2 billion of external income.

Defra Group Gross Funding by Outcome System

The following chart shows how our gross funding of £6.0 billion was allocated to each Outcome System. These are the groupings of Defra organisations that contribute to the delivery of outcomes in each area, which are used in planning and delivering our activities. For completeness and so that our entire budget is covered, we are also including the Support Systems, such as Corporate Services, which support the delivery of our outcomes.

NB figures are rounded to the nearest £m



Spend Against Budget

This information has been subject to audit.

The final DEL outturn against the £2,793 million budget (£2,053 million resource DEL, £740 million capital) was £2,692 million – an underspend of £101 million. Excluding ring-fenced items, this moves to a £16 million underspend, which is only 0.8 percent of our DEL budget excluding ring-fenced items of £1,901 million.

The administration outturn against the £701 million budget was £623 million, an underspend of £78 million. This was mainly due to later than planned capitalisation of assets in DDTS and Estates, meaning that the full administration depreciation budget was not required. Also some Corporate Services costs were ultimately determined to be programme by some of the bodies.

The final AME outturn against the -£40 million budget was -£501 million – an underspend of £461 million. This reflects the less predictable and controllable nature of AME spending compared with DEL. This underspend was largely caused by the need to hold budget cover for Flood Re in the event that a significant flood event occurs, with the lack of such an event allowing us to release £210 million of AME budget. The other large element of the underspend is mitigation of EC disallowance risks allowing us to release £170 million of a provision (see disallowance section for further information).

The final non-budget outturn against the £10 million budget was -£0 million – an underspend of £10 million, reflecting the unpredictability of exchange rate movements.

The table below sets out these figures in more detail.

Defra Group Spend Against Budgets (£m)

Type	Budget	Spend	Variance	% of Budget
Resource DEL – Total	**2,053**	**1,963**	**-90**	**-4.4**
Of which ring-fenced – Depreciation	241	199	-42	n/a
Of which ring-fenced – Other[1]	149	107	-42	n/a
Of which non-ring-fenced	1,663	1,657	-6	-0.4
Capital DEL – Total	**740**	**729**	**-11**	**-1.5**
Of which ring-fenced – ODA	16	15	-1	n/a
Of which non-ring-fenced – floods	486	486	-	n/a
Of which non-ring-fenced	238	228	-10	-4.2
Total DEL	**2,793**	**2,692**	**-101**	**-3.6**
Of which ring-fenced	892	807	-85	n/a
Of which non-ring-fenced	1901	1885	-16	-0.8
Total AME	**-40**	**-501**	**-461**	**-1,153**
Of which Resource AME	-56	-501	-445	n/a
Of which Capital AME	16	-	-16	n/a
Non-Budget	**10**	**0**	**-10**	**-100**

[1] Other ring-fences include Official Development Assistance (ODA), Air Quality budgets, Salisbury and Amesbury Decontamination costs.

Net Cash Requirement (NCR)

This information has been subject to audit.

In order to fund the spending set out above, we needed to work with HM Treasury to ensure that we had sufficient cash – this is called the Net Cash Requirement (NCR). Our actual cash requirement in 2018–19 was £636 million lower than our NCR of £3,346 million. This is mainly because when we agree the NCR, we make a prudent estimate in order to mitigate the risk of any Defra entities going overdrawn. The biggest risk relates to the difficulties faced in forecasting CAP payments and subsequent reimbursement from the Commission some months later.

Indeed our £636 million reduced requirement relates to CAP – mainly because our NCR covers UK-wide paying agencies, whereas some of these agencies, outside of the department's control, faced difficulties making BPS payments.

Although the £636 million unspent balance is significant, 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.

Consolidated Statement of Financial Position

Over the 2018–19 financial year, Defra group's total assets less liabilities increased from £2,101 million to £2,823 million. This £722 million increase was mostly driven by:

- Defra's investment in flood infrastructure was largely responsible for the £70 million increase in the value of the group's Property, Plant and Equipment.
- Maximising activity on CAP payments and RDPE schemes in the lead up to EU exit has correspondingly meant that our expected reimbursements from the EC have increased, resulting in a £279 million increase in accrued income.
- Tighter cash drawdowns resulted in a decrease of £84 million left unspent and treated as payable to HM Treasury.
- An adjustment to the discount rate set by HM Treasury led to a re-calculation of provisions, which was the main reason for a decrease of £250 million in the value of the Metal Mines and FMD sites provisions.
- £170 million of provisions no longer required following the successful outcome of the 2015 and 2016 BPS entitlements audit. See the disallowance section for further details.
- This is offset by a £188 million increase in the group's non-current pension provision mostly driven by movements in the EA pension schemes due to changes in financial assumptions on inflation and pension costs.

Core Tables

The Core Tables section of the accounts provides an analysis of departmental expenditure and plans covering the period 2014–15 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. Analysis of the Core Tables figures can be found at Annex 1.

Common Agricultural Policy (CAP) Disallowance

The CAP is the agricultural policy of the European Union (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 (EAGF) 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 (EAFRD).

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.

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

- Stage 1: Cost is initially recorded in the Statement of Comprehensive Net Expenditure (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 12.3.

- 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

	2018–19		
£million	**DEL**	**AME**	**Total**
Stage 1: Allowance created in year for anticipated liabilities based on receipt of initial audit findings	-	10	10
Stage 2: Provisions unwound in year for liabilities expected to materialise after accepting corrections (accruals)	1	(1)	-
Stage 2: New accruals where no previous provision existed[1]	8	-	8
Total charge	**9**	**9**	**18**
Write back in previous accrual/provision (credit)[1]	(2)	(170)	(172)
Net charge	**7**	**(161)**	**(154)**

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

During 2018–19, Defra group made total charges to the SoCNE of £18 million (2017–18, £nil). We wrote back £170 million of provisions no longer required relating to 2015 and 2016 BPS entitlements audit, as a result of successful engagement and negotiation with the European Commission that reduced the financial correction. The new charges relate to audits as described below.

- A new provision for Fruit and Vegetable Trader Schemes of £8 million.
- A new provision for Promotions Schemes of £2 million.
- BPS 2015 Late Payment Penalties of £8 million.

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

<u>Current CAP Scheme Years - 2015–2020</u>

- BPS Entitlements for 2015 and 2016 of £0.6 million.
- Other smaller Rural Development schemes of £0.2 million.

Balances from the SoFP for CAP Disallowance

Scheme years 2005–2014

£million	Total as at 31 March 2019	2018–19	2017–18	2016–17	Up to 2015–16
Stage 1: Provisions outstanding at year end on SoFP[1]	**-**	-	-	15	18
Stage 2: Accruals outstanding at year end on SoFP[2]	**-**	-	7	16	139
Stage 3: Cash payments made to the Commission	**634**	6	12	112	504
Cumulative total for disallowance as at 31 March 2019	**634**				

1. Note 12, CAP disallowance closing balance at 31 March 2019.

2. Note 11, as part of the core department and agencies accruals and deferred income £555 million (2017–18, £547 million).

Defra group's accounts include cumulative transactions for disallowance penalties totalling £634 million relating to CAP Scheme years 2005–2014.

Of this total, £634 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 £64 million.
- Cross Compliance for 2005–2014 of £36 million.
- Rural Development Programme 2005 to 2014 of £20 million.
- Other smaller schemes of £4 million.

Scheme years 2015–2020

£million	Total as at 31 March 2019	2018–19	2017–18	2016–17	Up to 2015–16
Stage 1: Provisions outstanding at year end on SoFP[1]	**23**	**23**	184	230	-
Stage 2: Accruals outstanding at year end on SoFP[2]	**1**	**1**	33	8	-
Stage 3: Cash payments made to the Commission	**63**	**40**	23	-	-
Cumulative total for disallowance as at 31 March 2019	**87**				

1. Note 12, CAP disallowance closing balance at 31 March 2019.

2. Note 11, as part of the core department and agencies accruals and deferred income £555 million (2017–18, £547 million).

Defra group's accounts include cumulative transactions for disallowance penalties totalling £87 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 £63 million to the Commission relating to late payment penalties arising from BPS 2015 payments for £31 million, along with £25 million relating to BPS Area Aids Scheme Years 2015 and 2016 and £7 million relating to Cross Compliance for 2015 and 2016 and other smaller Rural Development schemes.

We also hold accruals of £1 million relating to:
- BPS Entitlements for 2015 and 2016 scheme years

Finally we hold provisions for potential future liabilities totalling £23 million relating to:
- Rural Development public procurement (£12 million).
- Fruit and Vegetable Trader schemes 2015–2017 (£9 million).
- Rural Development Promotion Schemes (£2 million).

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. Disallowance will be accounted for once audits have taken place and reliable estimates are available. Until an estimate can be made, a contingent liability is disclosed within Note 14 where an audit has taken place. Where there has not been an audit then we declare a remote contingent liability within the accountability section.

The outstanding years for the larger schemes still to be potentially audited (based on the assumption there will be an EU exit in October 2019 and no inclusion in CAP for scheme year 2020 onwards) are:

- Basic Payment Scheme 2017–2019.
- Cross Compliance 2017–2019.
- Rural Development Programme 2015 onwards.

It should be noted that, under the terms of the withdrawal agreement, while BPS 2019 is the last EU funded year of the scheme, for Rural Development Schemes we will be participating in the RDPE for the remainder of the 2014–2020 period.

Tamara Finkelstein 11 July 2019
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

Governance Statement

Purpose

This statement describes the governance, risk management and internal control arrangements for the Defra group and how these have evolved in response to a changing business environment and risks environment over 2018–19.

Introduction

The impact of preparations for EU exit has been felt throughout the group during this year. Reports from the Public Accounts Committee (May 2018)[5] and National Audit Office (NAO) (September 2018)[6] set out the scale of the challenge. The NAO report recognised that Defra has achieved a great deal in its preparations for EU exit, despite planning simultaneously for multiple scenarios.

The Executive Committee (ExCo), together with relevant senior officials, acts as the EU exit Portfolio Board which was established specifically to deal with the pressures of EU exit. Sitting below the Portfolio Board is a set of specific arrangements that support rapid and integrated decision making around EU exit. During this year, we created two new directorates focused on business and public readiness, and preparedness and response. We also welcomed around 2000 new and redeployed staff into roles supporting EU exit within Defra, including around 220 staff into EU and International trade, around 120 into Marine and Fisheries and around 120 into Future Farming and Countryside. The speed and scale of this growth has created a challenging operating environment in terms of logistics, training and development. We slowed or paused some existing activities in order to focus resources on preparations for EU exit.

Alongside this challenge, Defra group bodies also delivered important services and policy goals, and managed significant change, including the consolidation of group corporate services. Through more collaborative working across the Defra group we strengthened our approach in areas such as strategic risk management, counter-fraud and whistleblowing, bringing greater consistency in our practices and processes. Over the coming year, we expect to mature and embed this work, step up corporate services transformation, further consolidate group IT architecture and continue to improve the end user experience.

The Government is committed to a strong deal that enables an orderly exit from the EU. As a responsible government must, however, Defra group has been preparing for the possibility of a no deal EU exit, while continuing to work on the negotiations. Our preparations are

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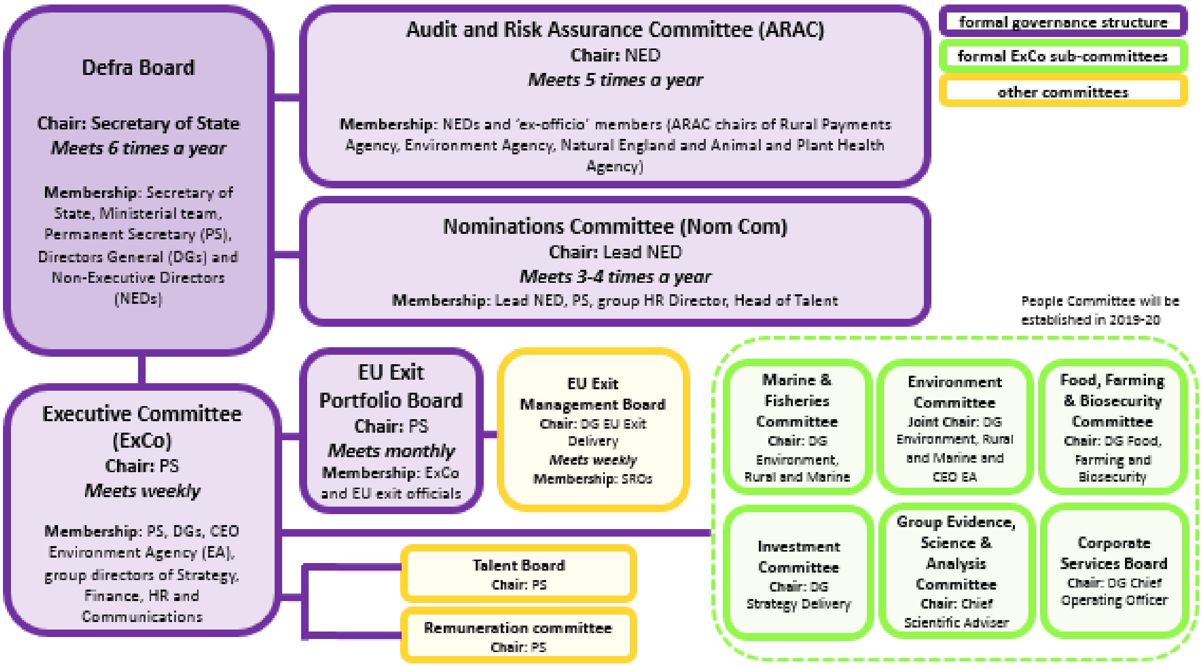
[5] https://www.parliament.uk/business/committees/committees-a-z/commons-select/public-accounts-committee/inquiries/parliament-2017/exiting-eu-defra/
[6] https://www.nao.org.uk/wp-content/uploads/2018/09/Defra-Progress-Implementing-EU-Exit.pdf

extensive, to ensure we are ready for different outcomes, including a deal and an implementation period. This work includes international agreements, new IT services, and primary and secondary legislation. From September 2018, our main focus was on preparing for no deal and its potential impacts. Despite short delivery timelines, high pressure and uncertainty, we were as ready as we could have been for no deal on 29 March.

Governance structure: Defra Board and Sub-Committees



Defra Board (the Board)

The Board is responsible for providing strategic and operational leadership to the Defra group. It advises on setting the strategic vision, and the operational implications and effectiveness of policy proposals. It provides scrutiny and challenge on financial management, major programmes, performance and risk management, against the delivery of agreed plans. It is chaired by the Secretary of State and brings together the ministerial team, senior officials and non-executive Board members. There were a number of changes to membership during 2018–19, including the appointment of an additional Parliamentary Under Secretary of State in recognition of the significant role the department has in preparations for leaving the EU. This, along with a number of other membership changes, is reflected in Table 1 below.

The Board has placed an even greater focus on EU exit this year, overseeing developments and providing a steer on delivery challenges. The information provided to the Board during 2018–19 has therefore predominantly been on this topic. The Board has also continued to advise on Defra group planning and strategy. Performance and risk reporting to the Board will become more of a focus at future meetings. The Board is supported by three sub-committees as set out in the diagram above

Executive Committee

ExCo is the senior executive decision making body for the Defra group. It sets the strategic direction and ensures alignment of priorities, work and resources. It is supported by six sub-committees. These include the three outcome system committees (described under Operating as the Defra group) as well as investment, corporate services and evidence, science and analysis. In order to meet the challenges of preparing to leave the EU, ExCo has dedicated a significant proportion of its time to EU exit matters over the year. Over the course of the year, ExCo has also addressed key corporate and operational matters, including: risk management; preparations for the spending review; and development of key strategies.

Audit and Risk Assurance Committee (ARAC)

ARAC supports and advises the Board and Principal Accounting Officer on issues of governance, risk management and control. EU exit, financial management including Shared Services Connected Ltd. (SSCL) performance, transformation of corporate services and cyber security have all been significant issues for consideration at ARAC this year. Counter-fraud has also been an important area of focus for the committee. ARAC has advised on development of the Defra group risk management approach; scrutinised major projects and programmes, in particular relating to IT; and reviewed the Annual Report and Accounts (ARA) and the results of work carried out by the Government Internal Audit Agency (GIAA) and the NAO, who conducted studies on packaging, environmental impacts and EU exit preparations. It met six times this year.

Nominations Committee

The nominations committee provides succession planning for Board members and other senior appointments. It also ensures there are robust systems in place for identifying and developing leadership and high potential across the Defra group. It met twice this year and looked at the future talent agenda for the Defra group; challenged director general performance outcomes; and reviewed director general talent grids.

Table 1 below sets out Board membership during 2018–19 and attendance at meetings.

Table 1 - Departmental Board membership and attendance	
	Meetings attended out of those eligible to attend 1 April 2018 to 31 March 2019
Ministerial team	
The Rt Hon Michael Gove MP, Secretary of State for Environment, Food and Rural Affairs	5/5
George Eustice MP, Minister of State for Agriculture, Fisheries and Food (to 28 February 2019)	3/4

Table 1 - Departmental Board membership and attendance	
	Meetings attended out of those eligible to attend 1 April 2018 to 31 March 2019
Thérèse Coffey MP, Parliamentary Under Secretary of State for Environment	3/5
Lord Gardiner Parliamentary Under Secretary of State for Rural Affairs and Biosecurity	3/5
David Rutley MP, Parliamentary Under Secretary of State for Food and Animal Welfare (from 3 September 2018)	3/4
Robert Goodwill MP, Minister of State for Agriculture, Fisheries and Food (from 5 March 2019)*	0/0
Non-executive members	
Henry Dimbleby, Lead Non-Executive Director and Chair of the Nominations Committee	5/5
Paul Rew, Chair of the Audit and Risk Assurance Committee (until 30 June 2018)	1/1
Colin Day, Chair of the Audit and Risk Assurance Committee (chair from 1 July 2018)	4/5
Peter Bonfield (until 10 May 2018)*	0/0
Lizzie Noel (from 11 May 2018)	3/5
Ben Goldsmith	4/5
Elizabeth Buchanan	5/5
Emma Howard Boyd, Chair of the Environment Agency (ex officio)	3/5
Andrew Sells, Chair of Natural England (ex officio, until 18 January 2019)	2/3
Executive members	
Clare Moriarty, Permanent Secretary**	5/5
Betsy Bassis, Director General, Chief Operating Officer (until 31 January 2019)	2/4
Sarah Homer, interim Director General, Chief Operating Officer (from 4 March 2019)	1/1
Nick Joicey, Director General for Strategy, Europe and Finance (until 27 July 2018)	1/1
Heather Smith, Defra group Finance Director (from 5 November 2018)***	3/3

Table 1 - Departmental Board membership and attendance	
	Meetings attended out of those eligible to attend 1 April 2018 to 31 March 2019
Tamara Finkelstein, Director General for EU Exit Delivery (from 5 November 2018)	3/3
Shaun Gallagher, Director General for Strategy Delivery (from 5 November 2018)	1/3
Sonia Phippard, Director General for Marine, Natural Environment and Rural (from 4 March 2019)	1/1
David Kennedy, Director General for Food, Farming and Biosecurity (from 4 March 2019)	1/1

*During 2018–19, a Board meeting did not take place before 11 May 2018 or after the 5 March 2019.
** Claire Moriarty stood down as Permanent Secretary and Principal Accounting Officer on 31 March 2019. Tamara Finkelstein took up the post on an interim basis on 1 April 2019 and was appointed on a permanent basis on 19 June 2019.
*** Attended from 13 September 2018, before formal appointment as a permanent member from 5 November 2018.

Quality of Information

Board papers were of sufficient quality that strategic direction was set.

Board Effectiveness

The lead non-executive director carried out a Board effectiveness review as required by the corporate governance code of good practice. Board members considered the Board was operating satisfactorily. We will work in the coming year to develop a more structured Board forward programme balancing deep dives on major projects and operational issues, with regular insight into finance, performance and risk. We will improve communication between Board meetings.

Compliance with the Corporate Governance Code

The core department continues to operate broadly 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). We diverge from the code in a small number of areas. The absence of a Board approach to risk appetite will be addressed in the coming year. We delayed updating our Board operating framework in 2018–19 until we had completed our governance review. We have framework agreements in place for most arm’s length bodies (ALBs), and progress is being made to complete a programme of refreshing these. Compliance with the code is mandatory for ministerial departments only, and Defra’s delivery bodies are encouraged to adopt the principles wherever relevant and practical.

Conflicts of Interest

A system is in place to record and manage conflicts of interest of Board members and a register is maintained by the Board secretariat. The three conflicts reported in last year's governance statement continue to be managed. One relates to the Client Earth legal action against Defra on its air quality plans. The other two are due to two members of the Board being in receipt of Common Agricultural Policy (CAP) payments.

Four further conflicts have been identified this financial year which relate to Board members with stakes in companies or charities with links to Defra business. An additional four members are also in receipt of CAP payments. All conflicts are being managed through appropriate measures and in line with departmental and Cabinet Office guidance. This includes restricting access to certain information.

Operating as the Defra group

The core department and its delivery bodies operate as the Defra group, a model organised around the outcome areas of: food, farming and biosecurity; floods and water; environmental quality; marine and fisheries; natural environment and rural. In this model, 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. Governance for the outcome systems is provided by grouping them into three ExCo sub-committees for marine and fisheries, food, farming and biosecurity and environment (representing the outcome systems for floods and water, environmental quality and natural environment and rural).

Group working does not affect the role and accountability of delivery bodies, 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. The 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, and are canvassed for any group wide issues arising in them for inclusion in the core Defra governance statement. These are 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.

In the second part of this year, we carried out a review of Defra group's high level corporate governance arrangements, to identify areas for improvement. As a result of this review, we will: establish a group People Committee reporting to ExCo; refresh ExCo and sub-committee terms of reference to improve clarity on their respective roles; and strengthen the flow of information between ExCo and its sub-committees.

As part of the Defra group vision, we have this year finalised the transfer of corporate services teams from five delivery bodies[7] into consolidated Defra group functions. This will enable more integrated services for Communications, Commercial, Finance, Human Resources, Digital, Data and Technology Services, Facilities and Estates. The group functions are overseen by the Corporate Services Board which is a sub-committee of ExCo. As our shared service approach matures, the Corporate Services Board is reviewing and

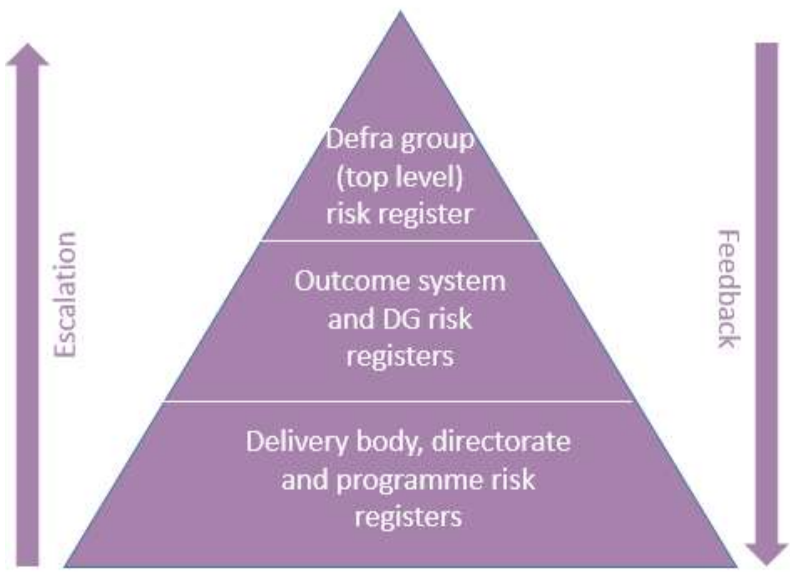
[7] Environment Agency, Natural England, Rural Payments Agency, Animal and Plant Health Agency, Forestry Commission.

strengthening the partnership agreements that will enable effective service delivery and future strategic development of capability across the group.

Collaborative working through the Defra group put the department in a good position for meeting the principles and standards set out in the Cabinet Office *Partnerships between departments and arm's-length bodies: Code of Good Practice*. Since completing the first gap analysis exercise in 2017, we have continued to implement our action plan to close gaps identified against the principles and standards set out in the code. This includes framework documents reviews and a group-wide risk management strategy. This year Defra and Natural England worked closely to address issues arising from a legal challenge which resulted in the revocation of three general licences for controlling certain wild birds. Teams from both organisations worked to issue new licences as quickly as possible and will continue to collaborate on a review of general licences, with the aim of delivering a licensing system which takes account of the needs of people and wildlife.

Risk Management

Our aim is to put risk management at the heart of Defra group decision-making. We introduced a group-wide risk strategy in November 2018. The strategy establishes a more collaborative and consistent approach to managing risk across the core department and delivery bodies, and addresses gaps identified in our previous arrangements. For example, we have strengthened the role outcome systems have in risk escalation and feedback. This helps to ensure that decisions about risk escalation are integrated with wider business discussions. We have reviewed our principal risks and also defined the roles and responsibilities of different individuals, teams and governance bodies involved in risk management and oversight.



The strategy sets out the following principles which underpin our approach to risk management:

- Risk management is the responsibility of all employees.
- Risks will be systematically identified and assessed, and clearly articulated.
- Risks will be managed at the lowest appropriate level, with a named owner.

- We will keep our processes as simple as is consistent with the needs of the group.

ExCo continues to review the top-level risk register on a quarterly basis, including any newly escalated risks. The outcome is shared with both ARAC and the Board. This year we introduced ExCo reviews of individual risks on the top-level register, which provide support and challenge for risk owners. A network of risk practitioners from across the Defra group has also been established to help embed the new approach and further develop risk management capability.

In the coming year, we will develop Defra group's approach to risk appetite.

Risks in 2018–19

The table below sets out high level risk areas considered by ExCo over the reporting year which are not reported elsewhere in this governance statement. Mitigating activity includes a mixture of action taken so far, as well as further planned action.

Risk area	What we are doing to address the risks
EU exit Adverse impact on delivery of Defra services and products arising from the UK's exit from the EU, and negative impact to Defra sectors	Actions that have increased Defra group's capacity to mitigate EU exit risks include the creation of two new temporary directorates. An EU exit operations and emergency centre was also established. These measures helped ensure Defra was in a good position at 29 March 2019 and 12 April 2019, including to manage the potential impacts of a no deal exit. We continue to adapt and develop our preparations in anticipation that the UK will cease to be a member of the EU on 31 October, but are also covering the scenarios of deal and extension in our current planning activity.
Emissions targets Nitrogen Dioxide (NO2) emissions limits not met as soon as possible/other emissions targets not met	We have prioritised actions this year to address the risk of missing 2020 national emissions ceilings for fine particulate matter and ammonia. We continue to work with local authorities to deliver compliance as soon as possible as set out in the 2017 plan for tackling roadside emissions of NO2. This includes placing legal requirements on, and providing funding to local authorities, to establish clean air zones and deliver other local measures to deliver compliance.
Agri-environment schemes Countryside and Environmental Stewardship schemes not delivered successfully within expected timescales	There have been some difficulties in the delivery of Environmental Stewardship (ES) and Countryside Stewardship (CS) across 2018–19. Bridging payments were issued by Natural England in 2018 and by the Rural Payments Agency in 2019 to eligible ES and CS claimants. The administration of these schemes moved from Natural England to the

Risk area	What we are doing to address the risks
	Rural Payments Agency from 1 October 2018. While a Memorandum of Understanding between the organisations has been drafted, and will shortly be signed off, there are regular discussions on the performance of the schemes through established governance arrangements. The RPA announced on 19 June 2019 that all eligible farmers and land owners in Countryside Stewardship and Environmental Stewardship agreements with revenue payments outstanding for the scheme years 2015–2018 would receive full payments for their claims by the end of July 2019. These payments are initially Exchequer funded and once fully processed reimbursement will be sought from the EU in line with the current process. An announcement has been made that these payments will be in excess of £115 million.
Incident response Defra's ability to respond compromised should serious incidents occur alongside delivery of EU exit	Major incident plans are in place to deal with flooding, animal or plant disease outbreak. Supporting governance continues to oversee the risks in these areas. In addition, we have established additional resource, protecting existing incident response capacity.
Supplier failure Key subcontracted Defra group services not delivered effectively due to supplier failure	Following the collapse of Carillion, we began a review of Defra's supplier risk management, engaging with Cabinet Office to draw on cross government support where required. As part of this we carried out credit checks and enhanced monitoring to identify at risk suppliers. Where key suppliers issued profit warnings, we reviewed potential impact and put in place appropriate counter-measures, including reviews of contingency plans and developing commercial response strategies. As a result, we were well prepared to respond to Interserve's managed administration process. Working with Cabinet Office, we had a full understanding of how it might impact on service delivery which allowed us to take a measured response focused on maintaining sub-contractor support. We have begun the rollout of Cabinet Office's Contract Management Capability Programme across Defra group contract managers to help them to identify and mitigate risks.

Risk area	What we are doing to address the risks
Facilities management Failure to effectively manage high containment laboratory facilities results in biosecurity implications	Further to risks reported in previous years at the Animal and Plant Health Agency (APHA) laboratory in Weybridge, we have continued to expand the permanent facilities management team. This is helping build capacity in the site operations and assurance functions. In the longer term, the intention is to carry out a major site development programme to upgrade the laboratory facilities. We have established more robust systems and procedures to provide greater assurance over facilities management in general. This includes new safety policies to improve the management of bio-risk associated assets. Risk and assurance plans are also in place and being tracked.
Staffing, capability and wellbeing Defra group is unable to recruit and retain enough people with the right skills and capabilities, morale deteriorates and delivery is undermined	Existing staff resources have been, and continue to be, re-prioritised to support EU exit work. We are carrying out a range of targeted activity to fill vacancies, which includes sourcing candidates with requisite skills from Defra delivery bodies and other government departments. A group workforce plan has been developed and remains under review for the next 12 months. We are increasing the range of support, advice, training and tools available to staff and managers.

Financial Controls

The rapid expansion of the Defra group workforce to prepare for EU exit has significantly increased the challenge in ensuring that all staff understand and comply with financial systems and processes. A specialist team has been put in place to monitor and report on the accuracy of transactions, and is cleansing data and providing training where appropriate. Key performance indicators are monitored on a regular basis to provide assurance over the balances in the accounts, as well as highlighting trends in order to identify possible misuse of finance systems. Training for non-finance staff, who originate the majority of transactions, started towards the end of 2018–19. In spite of these measures, there remain a number of areas where the accuracy of transactions needs to be improved. An improvement plan will be launched in this financial year to improve compliance, awareness of issues and capability.

The department has a number of material new, complex or unusual transactions where judgements and assumptions are required to establish the appropriate amounts to be disclosed in the annual report and accounts. During the 2018–19 audit, issues were found with the current valuation assumptions for the abandoned tin mines and foot and mouth disease burial sites provisions. Given the material nature of such balances, these assumptions and judgements require greater scrutiny and continuous validation going forward to ensure they are based on the most relevant information.

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, although at an advanced stage, 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. The department received a further temporary exemption from the Chief Secretary to the Treasury with regard to senior pay controls, because a number of individuals employed by Flood Re received remuneration in excess of £150,000 in 2018–19. HM Treasury and Defra have agreed to conduct a joint review on the operation, governance and effectiveness of Flood Re to be concluded in 2019–20.

Some weaknesses have been identified in the oversight of the contract management process for a contract. Concerns were initially identified in 2016–17, however these were not escalated through all the appropriate governance and assurance channels until 2018–19. Since then work has been ongoing to understand the position and the Environment Agency and Defra are working to investigate the root causes and address any potential financial implications. There are no financial reporting implications for the audited financial statements.

During the course of the year, the commercial team has been working across the Defra group with managers and boards strengthening contract management practice including billing, authorisations and payment processes and to assure supplier resilience. This has been reviewed by Internal Audit in 2018–19 and will continue as part of the Annual Audit Plan in 2019–20. This has required the auditing of a number of existing supplier contracts. Although this work is ongoing (and will be monitored as part of the 2019–20 audit plan) specific areas identified already and included in the work to strengthen contract management practice are: appropriate use of contractual mechanisms such as open book accounting to manage the risk of charging issues arising; ensuring appropriate governance mechanisms are in place; and ensuring processes for escalations across the Defra group are appropriate and timely.

Counter-fraud

Over the course of the year, we have continued to raise the profile of counter-fraud activity across the Defra group. Our work has been shaped by both our awareness that EU exit will create new fraud risks for the Defra group and the Cabinet Office-led initiative to tackle fraud across government. It has included targeted internal communications, as well as placing greater focus on counter-fraud in top level governance forums, in particular at ExCo and at ARAC where it has become subject to more regular and rigorous review. Counter-fraud specialists have worked directly with teams developing systems and schemes that will be introduced after we leave the EU so that consideration is given to mitigating fraud risks at the design stage. The Defra group counter-fraud network provides for closer working links between core Defra, ALBs and our delivery partners, helping to strengthen our collective counter-fraud capability.

Our policies, guidance and procedures for fraud investigations have been updated to meet the expectations of the Government Counter-Fraud Profession Investigation Standards. Crucially, we have also achieved ISO17025 accreditation this year, meaning the environment in which we examine and produce digital evidence is certified as meeting the Forensic Science Regulator's expectations.

In the coming year, we will refresh the counter-fraud and anti-bribery and corruption strategy in response to the new Government Functional Fraud Standard. We have commissioned GIAA to carry out a fraud risk assessment, which will help us identify and prioritise future activity.

Security and Information Management

The context for security and information assurance has changed significantly over the last two years. The Defra group has been subject to increased threats due to its critical role in EU exit activities. We have also had to respond to new data protection legislation, introduced on 25 May 2018.

A Senior Security Advisor has been appointed to lead on physical, personnel and cyber security across the Defra group. As part of the annual Cabinet Office security health check exercise, a review of departmental security was carried out. This review established a number of areas where improvement was required to ensure Defra is compliant with new minimum baseline standards. A group-wide security improvement plan has been developed to address these areas, and as part of this plan a single group-level security management and assurance function and governance structure has now been established.

A new cyber security service has been established to provide oversight and protective monitoring across suppliers and ensure that cyber security risks are proactively managed. Defra's UnITy Programme to replace and upgrade Information and Communications Technology (ICT) services across the Defra group, is also in the process of replacing existing IT infrastructure and systems with more secure alternatives. All UnITy suppliers are required to maintain comprehensive security management plans and to report incidents and events centrally. Defra also continues to be actively engaged with cross government security initiatives.

Work to support compliance with the new data protection legislation has continued throughout the year. This includes arrangements for monitoring data protection risks and maturity, introduced by the Defra group Data Protection Officer. 11 personal data incidents have been deemed sufficiently high risk to report to the Information Commissioner's Office (ICO). These involve a range of incidents where personal data relating to Defra staff or customers has not been handled in line with correct procedures. None have resulted in further regulatory action by the ICO. Two examples are:

- An incident on one of the Defra IT systems used for managing staff records where a risk of inappropriate access was identified and swiftly closed down.
- An incident where a number of payslips were issued based on out of date data.

In all cases where personal data breaches have occurred or risks have arisen Defra has worked with staff and suppliers to learn lessons, address faults and revise processes.

Digital, Data and Technology Services

Defra has been managing a suite of ambitious ICT programmes that underpin its business as usual, transformation and preparations for EU exit. In the period up to the end of March 2019, our focus was investment and preparation for the possibility of day one with a no deal exit. Six new digital or IT services were delivered as part of this contingency planning. During 2018–19, progress has been made on the UnITy programme. Procurement is complete and the majority of services are either being delivered or will be delivered during 2019. However, in order to prioritise EU exit work, some ICT update implementations and transformation opportunities have been deferred. Work on plans to manage and upgrade legacy systems across the Defra group continues, and risks are being managed accordingly.

Whistleblowing, Bullying, Harassment and Misconduct

We want to build a culture where employees feel comfortable in raising concerns, having confidence that these will be promptly investigated and addressed. During 2018–19, we undertook further activity to encourage early identification of wrongdoing. This included the second group-wide awareness campaign Speak Out, as well as training for nominated officers. Enhanced tracking arrangements have also been introduced to ensure actions arising from whistleblowing and grievance cases have been completed and to time.

Defra has also worked with Cabinet Office to build capability in carrying out investigations and we are simplifying our reporting processes. In response to high levels of external recruitment this year, a managers' hub has been introduced to provide new appointees with a suite of information, including on the Civil Service Code and whistleblowing.

On 24 September 2018, Sue Owen, the Permanent Secretary at the Department for Culture, Media and Sport, published a report into how the Civil Service tackles harassment and misconduct. In response to this, the Defra group is strengthening the approach to bullying, harassment and whistleblowing including refreshed policies, communications and guidance.

Quality Assurance of Analytical Models

The department continues to apply the quality assurance guidance set out in HM Treasury's Aqua Book which is a good practice guide for those working with analysis and analytical models. This ensures that there is a consistent approach to effective quality assurance across government. Each model has a Senior Responsible Owner, who makes sure that assurance activities are appropriate, including regular internal and external peer-review of assumptions and developments, verification, change management and governance procedures. These activities have resulted in increased user confidence in the outputs from models and increased understanding of current limitations, which continue to inform future research and prioritisation. Guidance and increasing support is available to staff carrying out assurance of analytical models in order to promote continuous improvement.

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. There is a robust audit process in place for such funds through the accountability requirements placed on local authorities. Accountability for local funding is set out in Defra’s Accounting Officer Systems Statement[8].

Ministerial Directions

No ministerial directions were issued during 2018–19.

Defra Group Chief Internal Auditor Opinion

Overall the Group Chief Internal Auditor (GCIA) has provided a moderate opinion on the framework of governance, risk management and control within Defra and for Defra group for the 2018–19 year.
The GCIA review is informed by the work of internal audit (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. While the overall opinion remains the same as last year, themes highlighted in 2017–18 remained prevalent in findings.

Three improvement themes have emerged through consultation with Defra group heads of internal audit. These are:

- **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 delivery bodies, and in governance for corporate services.

- **People** – The ebb and flow of people in, and out, of the core department has contributed to a loss of continuity in key areas and corporate knowledge. The uncertainty surrounding the EU exit agreement and timetable is having a noticeable impact.

- **Control** – Weakness in management oversight is a continuing theme from last year. The group review of financial controls highlighted an improving position, but the culture of control needs to be refocused to improve the overall control environment for Defra.

Overall, the GCIA is satisfied that Defra group has adequate governance, risk management and internal controls in place. Progress has been made in a difficult operating environment. The group finance transformation has progressed well and the department has been successful in establishing capacity and appropriate governance to oversee the challenges of EU exit. Nonetheless, this coming year requires a renewed focus on control improvements.

[8] https://www.gov.uk/government/publications/defra-accounting-officer-system-statement-aoss

Principal Accounting Officer Conclusion

I was appointed as interim Principal Accounting Officer on 1 April 2019 and formally appointed on 19 June 2019. I met Clare Moriarty, outgoing Principal Accounting Officer, the Defra GCIA and the chair of ARAC, to review assurances that a sound system of internal control had been in place during 2018–19. These assurances were also confirmed in writing. My review has further been informed by the work of the GIAA, the Audit and Risk Assurance committee, assurances from senior managers with delegated responsibility within the department, and the 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. Overall, I am satisfied that the core department and Defra group as a whole has effective governance, risk management and internal controls in place.

Tamara Finkelstein 11 July 2019

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

Statement of Accounting Officer's Responsibilities

Under the Government Resources and Accounts Act 2000 (the 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 (and other arm's length) public bodies designated by order made under the GRAA by Statutory Instrument 2018 no 313 (together known as the Defra group, consisting of the department and sponsored 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 department and the Defra group and of the income and expenditure, Statement of Financial Position and cash flows of the Defra group 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;
- prepare the accounts on a going concern basis; and
- confirm that the ARA as a whole is fair, balanced and understandable and take personal responsibility for the ARA and the judgements required for determining that it is fair, balanced and understandable.

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. 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[9]. These appointments do not detract from the head of department's overall responsibility as accounting officer for the department's accounts.

[9]https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/742188/Managing_Public_Money__MPM__2018.pdf

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 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 13 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 2018–19 no such payments were made by Defra or its delivery bodies (2017–18, £Nil).

Personal Data Related Incidents

The Defra Security and Information Assurance Group[10] 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.

Incidents recorded centrally within the department that were deemed by the Data Controller not to fall within the criteria for reporting to the ICO 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.

Summary of Other Protected Personal Data Related Incidents in 2018–19

Category	Nature of Incident	Total
I	Loss of inadequately protected electronic equipment, devices or paper documents from secured government premises	5
II	Loss of inadequately protected electronic equipment, devices or paper documents from outside secured government premises	30
III	Insecure disposal of inadequately protected electronic equipment, devices or paper documents	1
IV	Unauthorised disclosure	88
V	Other	13

[10] 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).

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 1,289 reports of injuries or ill health were received across the Defra group between 1 April 2018 to 31 March 2019. Of these, 20 had to be reported to the Health and Safety Executive (HSE) in accordance with the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations (RIDDOR) – six were specified injuries, ten were injuries or illness resulting in more than seven days absence from work or normal duties, and four were for occupational disease. This is a significant decrease compared to the same period in 2017–18 where 34 RIDDORs were reported.

	Full Time Equivalent (FTE) at 31 March 2019 (includes payroll and non-payroll)	**Total RIDDOR reports**	**Lost Time injuries or ill health reported** (excludes RIDDORs)	**Lost Time Injury Frequency Rate**[11] (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) (excludes RIDDOR)
AHDB	480	3	0	0.36 →	18	21	11
APHA	2,500	1	15	0.37 ↓	139	155	298
CCW	73	0	1	0.80 ↑	0	1	4
Cefas	629	0	2	0.18 ↓	18	20	42
Defra	4,366	0	1	0.01 ↓	22	23	42
EA	10,399	7	9	0.09 ↓	614	630	1,453
FC	1,013	6	0	0.34 ↑	82	88	0
JNCC	196	0	0	0.00 →	5	5	3
Kew	809	3	5	0.58 ↑	52	60	41
MMO	321	0	0	0.00 →	7	7	5
NE	1755	0	23	0.77 ↑	157	180	280
NFC	23	0	0	0.00 ↓	0	0	1
RPA	1650	0	18	0.64 ↑	77	95	16
VMD	155	0	0	0.00 →	4	4	0
TOTAL	**24,369**	**20**	**74**	0.22 ↑	**1195**	**1289**	**2196**

[11] Any injury or episode of ill health reported that results in the employee losing one day or more is generally regarded as a Lost Time Injury. The Lost Time Injury 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 2018–19.

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

The most common cause of all significant accidents causing absence from work duties remains as slipping, tripping or falling on the same level, followed by contact with objects/equipment (stationery or fixed), and lifting, handling, carrying or physical overexertion. 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

In addition to incidents or events which resulted in work-related injuries and ill health, employees are encouraged to proactively report all near miss (non-injury) events[12]. 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 2196 near misses were reported by employees across the group meaning that, on average, one in every 11 employees reported a near miss incident during the reporting period reflecting a reasonably positive reporting culture. However, in addition to these non-injury incidents, 1901 reports were also received by employees proactively reporting hazards, or unsafe conditions, thereby enabling faults to be repaired/rectified before any near miss, or more significant, incidents occurred.

Prosecutions/HSE Interventions

In June 2018, the HSE served a Prohibition Notice on a staff passenger lift at Royal Botanic Gardens Kew (RBG Kew) following repairs by a contractor. The matter was fully investigated by RBG Kew's Health and Safety team, and steps agreed with the HSE to prevent a future recurrence.

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 2018–2019, two were either upheld or partially upheld.

[12] 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.

RPA – 2 cases upheld by PHSO required the following action:

- Pay the customer £300 and write a letter of apology
- Pay the customer £500 and write a letter of apology

Defra's complaints procedure can be found online[13]. 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 2018 and March 2019, 12 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	-	-	-	-	-	-
VMD	-	-	-	-	-	-
Forestry Commission	-	-	-	-	-	-
APHA	2	-	-	-	-	-
RPA	4	2	-	1	2	-
MMO	3	-	-	1	-	-
Cefas	-	-	-	-	-	-
EA	3	-	-	3*	-	-
Total	12	2	-	5	2	-

EA – 3* not the same cases accepted for investigation
These figures are a snapshot of complaints with PHSO between April 2018 and March 2019. 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. All Defra primary legislation introduced into Parliament and all Defra statutory instruments during the relevant 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.

[13] 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

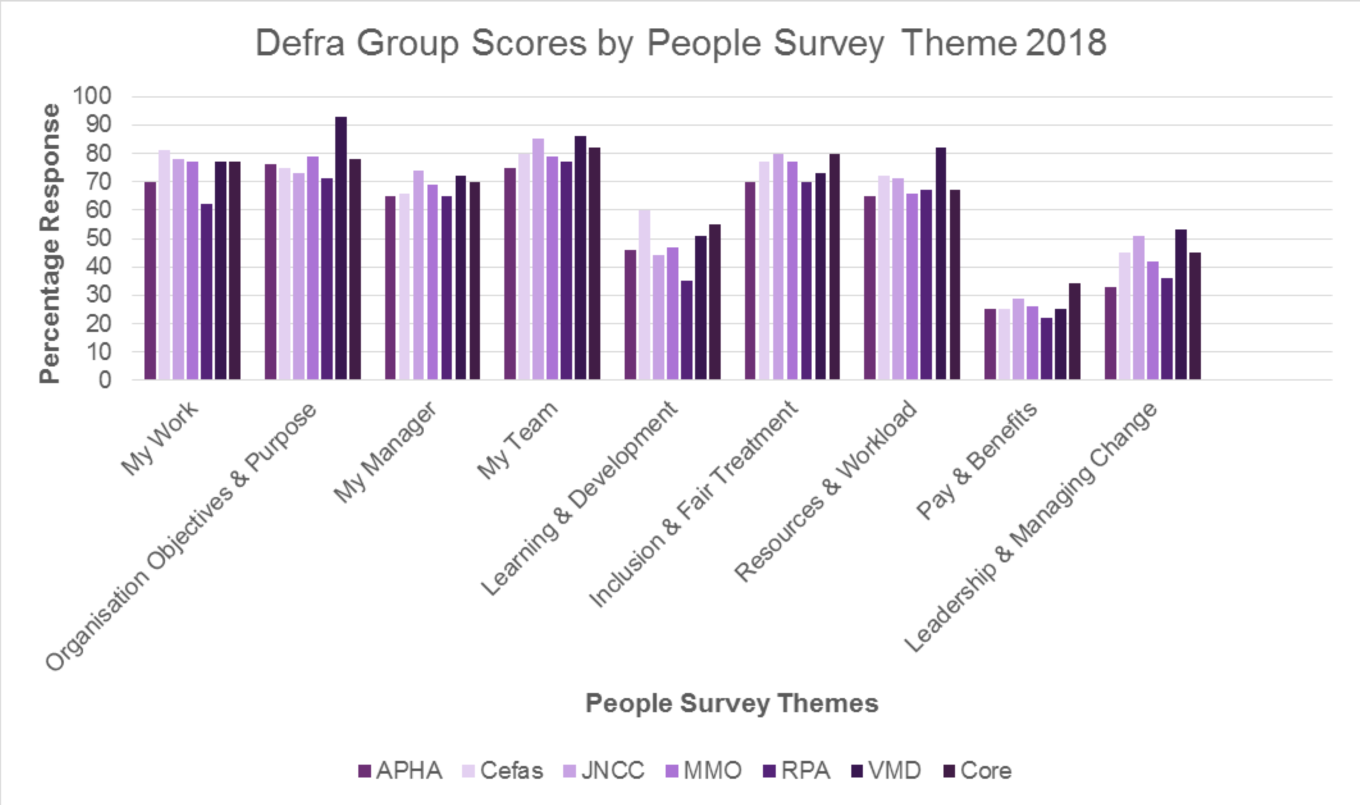
In 2018–19, the requirements of EU exit has continued to be the main reason for increases in staff numbers in the Core department.

People Survey

2018 was the tenth consecutive year in which the Cabinet Office have conducted the annual People Survey. The results for Defra and the participating agencies (Rural Payments Agency, Animal and Plant Health Agency, Veterinary Medicines Directorate, and Centre for Environment, Fisheries and Aquaculture Science) saw an increase in the numbers completing the survey, from 5,503 in 2017 to 6,772 in 2018, giving a response rate of 70 percent.

People Survey 2018: Summary

- Scores for the Defra group have remained level in seven out of the nine themed areas – given ongoing transformation, EU exit and the numbers of people joining us within a short timeframe, this is encouraging news.
- One theme decreased (Organisational Objectives and Purpose, down 3 percent to 76 percent). This is disappointing, albeit not surprising given the high levels of organisational change, detailed above.
- More people commented positively about their Pay and Benefits, which increased by 3 percent to 29 percent. This is the first increase in this theme since 2015.
- The two questions related to discrimination, bullying and harassment both increased by 1 percent. Slightly fewer people reported the issues they experienced but of those that did, more felt their issue had been resolved. This is an area we continue to focus on.
- Questions on wellbeing were generally answered positively giving a PERMA index score of 72 percent with 34 percent of those answering the survey saying they felt anxious the day before and 31 percent indicating they felt stressed. Ensuring the wellbeing and resilience of our people is a high priority for Defra. We will be appointing a senior organisation resilience and wellbeing lead. We have also established a virtual multi-disciplinary team to coordinate the activity and delivery of wellbeing and resilience material and interventions for teams and leaders across the organisation.



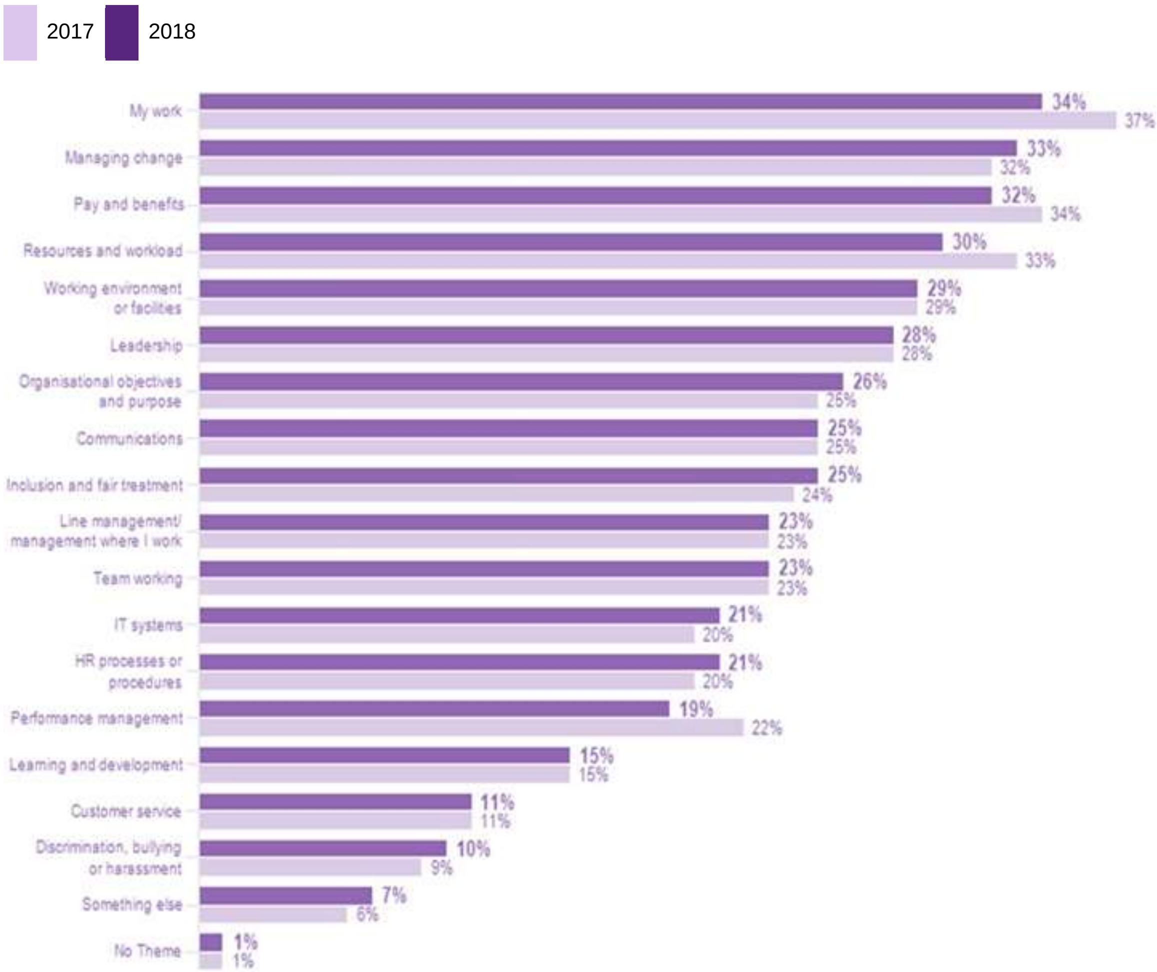
Note – Marine Management Organisation and Joint Nature Conservation Committee took part in the People Survey this year but were not included in the Cabinet Office figures. Other delivery bodies (non-Civil Service) may conduct their own survey.

Further Work

Although there are many positive scores within the People Survey we are far from complacent and realise the importance of what our people are telling us; there is much work still to do.

The graph below shows the free text comments received to the question “What would you like Defra to change to make it a great place to work?” compared to responses in 2017.

What would you like Defra to change to make it a great place to work?



Being recognised by employees and leaders as an engaging organisation that is a great place to work is of critical importance to us and so we were delighted that this year we achieved our highest group engagement score of 57 percent (up two percent on last year).

Defra will continue to increase opportunities for employee engagement by ensuring that employees can participate in the decisions that impact the department. The Defra group's senior leadership will maintain engagement 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. Rather than produce a separate People Survey Action Plan we will use the People Survey data and other Management Information to reinforce and check on a range of priorities already being taken forward at an organisational level in response to EU exit and rising work pressures – for example reinforcing EU exit behaviours, increased focus on wellbeing, reprioritisation and continuing to balance longer term strategic thinking with short term delivery.

In addition we will continue to encourage and expect teams to address the results in their own areas. Human Resources (HR) will continue to support individual areas in capturing cross learning and supporting specific leadership interventions as appropriate.

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.

From November 2018, Defra has started to use the Civil Service Success Profile tools to conduct recruitment selection. This model provides applicants with the opportunity to present their full and more authentic self, an approach more likely to improve diversity outcomes of recruitment. This also provides a better experience for candidates, particularly external candidates unfamiliar with the Civil Service.

We continue to develop 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 2019.

Gender Split	Male	Female
Senior officials on the Defra Board	2	5
Ex Officio on the Defra Board	0	1
Ministers	4	1
Non-Executive Directors for the Defra group[1]	61	26
Management employees (SCS grade or equivalent) for the Defra group (excluding senior officials on the Defra Board)	206	158
All other employees for the Defra group	11,741	11,887
Total	**12,014**	**12,078**

1. Defra group includes the core department, executive agencies, Non-Departmental Public Bodies (NDPBs), levy-funded bodies, Flood Re, and the National Forest Company (NFC). 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 Executive Committee (ExCo) has agreed to seven priorities to underpin Defra group's 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 EDI strategy was launched in January 2017 and sets out an ambitious agenda for our equality, diversity and inclusion priorities to 2020. Our focus is to create a great place to work that is truly inclusive and diverse. The group strategy uses the four themes of Respect; Include; Support; Engage (RISE) as an anchor for our strategic and underpinning action plans.

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 strive to create a supportive and inclusive culture which is fundamental to creating an equal, diverse and inclusive workforce. Following the introduction of the new Civil Service Diversity and Inclusion Strategy in November 2017, the Defra strategy was reviewed to ensure it was aligned to, and supported, the wider aims of the Civil Service. As we approach the second half of the delivery timeline, a review of the strategy has taken place to ensure it remains fit for purpose and continues to support the wider Defra agenda.

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. At the end of March 2019, there was an increase in the sexual orientation declaration rate of 7.9 percent, an increase in the disability declaration rate of 11.1 percent and an increase in ethnicity declaration rate of 10.4 percent compared to declaration rates at the end of March 2018.

Promoting Diversity in Recruitment

We are committed to improving the diversity of our workforce and reach into diverse groups by running inclusive recruitment campaigns which encourage a diverse range of candidates and appointees. We are always keen to adopt good practice and also share our approach with others. We have adopted diverse interview panels, reflecting a mix of gender, ethnicity, disabled and non-disabled staff, which aligns to our strong commitment to being an organisation in which fairness, respect and equality of opportunity is central to our approach.

Our senior leaders talk authentically and with passion about what they are doing personally to support equality, diversity and inclusion. We have passionate EDI champions operating across our business areas, supported by thriving EDI networks relating to age, disability, gender identity, race, religion, sexual orientation and social mobility.

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 workplace adjustments they may need to carry out their role. All recruitment is blind sifted which removes details such as name, university and any identifiable information which could make the sift unfair or biased.

Supporting and Developing Under Represented Groups

Our EDI strategy sets direction for improving equality across our workforce and developing a culture that is respectful, inclusive, supportive and engaging. There are a number of activities that directly deliver this.

In November, we launched the Project Race strategy. This is an ambitious strategy with clear objectives, success measures and actions that aim to address the race disparities in Defra group and work towards creating a truly inclusive culture. Project Race is a two year project with an overall objective of improving the career outcomes of Black, Asian and Minority Ethnic (BAME) staff in Defra.

We want Defra to be a department where BAME staff can thrive and feel valued. Project Race is a Defra group-wide project with a real focus on the implementation of our actions and monitoring of progress within the Defra Civil Service. Our actions target three key objectives; create a more inclusive culture and improve Performance Management outcomes for BAME staff, to support junior BAME staff into middle management and increase BAME representation at Senior Civil Service (SCS).

The first Disability Board, chaired by our ExCo disability champion took place on 30 May and was the first time disability champions, network chairs and disability and inclusion stakeholders have come together to own and drive Defra's disability action plan, including looking into how Defra can become more disability confident, equipping line managers with the information and skills they need to provide the right support for their staff.

Core Defra continues to build strong relationships with its employee networks, of which there are 13. New networks launched recently include support for autism, carers, stammering and single parents. A number of our networks are increasingly supporting employees from across the Defra group including executive agencies and 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 under representation at specific grades. For the 2019 intake of Future Leaders Scheme candidates, we exceeded Civil Service benchmarks in the representation of female, disabled, lesbian, gay, bisexual and transgender and BAME candidates. For the Senior Leaders Scheme there is work to do to increase representation from lesbian, gay, bisexual or other (LGBO) and disabled candidates. We will consider how forging closer links to recruitment and taking positive action can improve these results. The Positive Action Pathway is currently open for applications and we have actively encouraged our Higher Executive Officer/Senior Executive Officer BAME and disabled staff to apply by promoting through the networks and through line manager conversations.

In 2019, Defra have committed to take on 52 interns through the Summer Diversity Intern Programme, increasing on numbers from 2018. These interns were deployed in a wide variety of roles within Defra for periods of between 6 to 9 weeks. In previous years some interns were successful in securing an extension to their contracts and supporting our aim to increase the number of high calibre individuals we recruit from underrepresented groups.

Defra's quarterly data dashboard, that covers Defra and its agencies, highlights that as at 31 March 2019, 13.5 percent of the overall workforce is made up of employees who identify themselves as disabled, 8.6 percent who identify themselves as from an ethnic minority and 5.9 percent who identify their sexual orientation as LGBO.

Grade[14]	Disabled %	Ethnic minority%	LGBO %
AA/AO	18.1	8.5	7.0
EO	13.4	10.4	5.7
HEO/SEO	12.1	8.4	5.4
G7/G6	10.9	7.0	5.6
SCS	11.1	9.0	7.0

For Defra and its Civil Service executive agencies the 2018 gender pay gap analysis shows an improvement in closing the gender pay gap. As at 31 March 2018, Defra has a mean gender pay gap of 9.8 percent, a reduction of 1.7 percent on the 2017 figure, and a median pay gap of 11.7 percent, a reduction of 0.4 percent on the 2017 figure. This is only the second year that new methodology for the gender pay gap has been used so it is not yet possible to draw any conclusions from the trend analysis. However, we see this as a move in the right direction and look forward to making sure our actions continue to have real impact.

We continue to embrace new policies and actively seek out developments to ensure we provide the best possible support to our employees. We continually work with the NDPBs to align the Civil Service policy on tackling bullying, harassment and discrimination across Defra group and are adopting the new sexual harassment guidance, new standards for speaking up safely and also a tool to support inclusive meetings.

We continue to monitor our People Survey outcomes and 2018 saw a 76 percent positive score under the Inclusion and Fair Treatment theme, the highest positive score for Defra in this theme since the survey began.

2018 results also saw a 3 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 and a 1 percent gap in the 2017 survey. Further work and data analysis is needed to establish why the gap may have increased in 2018 however, the engagement index score for staff reporting a long term limiting condition, illness or disability is 60 percent, only 1 percent lower than the overall Defra index score of 61 percent.

Employee Health and Wellbeing

The Defra employee Health and Wellbeing Programme, led by the Safety, Health and Wellbeing team, 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.

We take a holistic approach linking employee health and wellbeing with our health and safety agenda. These are intrinsically linked – both from a legislative perspective and from a practical/common sense view. Defra has a legal duty under the Management of Health and

[14] https://www.defrajobs.co.uk/workinghere/civil-service-grades-explained/

Safety at Work Regulations to identify both physical and psychological risks of harm and put measures into place to minimise work-related ill health and injury.
Our employee health and wellbeing themes, and priorities, align with the Civil Service strategic priorities for health and wellbeing:

- *Culture* – Visible leadership for health and wellbeing.
- *Prevention* – encouraging open dialogue on health and wellbeing risks and challenges, leading to action to prevent harm; promoting the benefits of safe and healthy working practices and lifestyles; and promoting national health and wellbeing campaigns.
- *Intervention* – Supporting people to stay at or return to work.

The past 12 months has seen an increased spotlight on our employees' health and wellbeing, due to the pressure on employees whilst preparing for various EU exit scenarios, including no deal.

Working collaboratively with HR colleagues we have developed and delivered additional awareness sessions such as webinars (stress awareness, personal resilience and tips for line managers), refreshed our intranet pages and guidance and improved our offer on support mechanisms such as our Employee Assistance programme (EAP). We also developed a new Wellbeing Toolkit, a team tracker tool to enable wellbeing check ins.

We have also rolled out Wellbeing Confident Leaders workshops, based on the PERMA model, as part of a Civil Service wide initiative to improve awareness and competence at SCS and G6/7 level.

We continue to promote our ongoing services such as our EAP, Occupational Health Service, Ergonomic and Disability Support, and Corporate Eye Care contracts.

Additionally, our annual health kiosk (enabling employees to measure their weight, BMI, blood pressure etc.) visited over 30 locations.

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 (Culture, Prevention, Intervention) 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 3.7 working days per employee was lost to sickness absence during the year to 31 March 2019, compared with 4.3 days in the year to 31 March 2018.

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 2018–19 year.

In core Defra and it's agencies, 68 (66.24 Full Time Equivalent) employees were Trade Union (TU) representatives. Of these, 57 employees spent up to 50 percent of their working hours on facility time, and 11 spent none of their time on TU business.

The total cost of the facility time was £191,802 which is 0.05 percent of the total pay bill. There were no paid TU activities during 2018–19. The total pay bill cost was £374.9 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

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	38	68
SCS Pay band 1	143	284

Flood Re employees are excluded as they cannot be allocated against SCS pay bands.
The figures stated are as at 31 March 2019.

Consultancy and Temporary Staff Expenditure

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

	2018–19			2017–18		
£000	**Core Department**	**Core Department and Agencies**	**Defra Group**	**Core Department**	**Core Department and Agencies**	**Defra Group**
Consultancy Expenditure	30,019	32,063	54,542	11,422	11,656	37,553
Temporary Staff Expenditure	86,544	105,622	124,569	43,298	53,059	73,166
Total	**116,563**	**137,685**	**179,111**	**54,720**	**64,715**	**110,719**

Overall, consultancy expenditure has increased by £17 million and temporary staff costs have increased by £51.4 million compared with the prior year.

The core department's consultancy costs have increased by £18.6 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.

The core department's temporary staff costs have increased by £43.2 million, this is due to a greater workload in regards to EU exit and the UnITy IT programme as described above.

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:

	2018-19 Permanent Employed Staff	2018-19 Others	2018-19 Ministers	2018-19 Special Advisors	2018-19 Total	2017-18 Total
	£000	£000	£000	£000	£000	£000
Salaries and wages	761,454	143,050	227	187	904,918	810,585
Social security costs	90,627	1,252	26	23	91,928	83,797
Other pension costs	92,682	481	-	38	93,201	80,797
Sub total	**944,763**	**144,783**	**253**	**248**	**1,090,047**	975,179
Less: recoveries in respect of outward secondments	(5,957)				(5,957)	(1,895)
Total net costs	**938,806**	**144,783**	**253**	**248**	**1,084,090**	973,284

	2018-19 Charged to Administration Budgets	2018-19 Charged to Programme Budgets	2018-19 Total	2017-18 Charged to Administration Budgets	2017-18 Charged to Programme Budgets	2017-18 Total
	£000	£000	£000	£000	£000	£000
Of which:						
core department and agencies	289,238	215,285	504,523	191,938	206,160	398,098
NDPBs	39,998	491,015	531,013	56,001	478,376	534,377
Net total SoCNE	**329,236**	**706,300**	**1,035,536**	247,939	684,536	932,475
Staff costs capital:						
core department and agencies			10,894			1,741
NDPBs			43,617			40,963
Less: recoveries in respect of outward secondments			(5,957)			(1,895)
Total net costs			**1,084,090**			973,284

Defra Board (the Board) remuneration is included in the Remuneration Report.

For 2018–19, out of the total, £6 million recoveries in respect of outward secondments have been netted off, £54.5 million has been charged to capital and the balance of £1035.5 million has been charged in the Statement of Comprehensive Net Expenditure (SoCNE). For 2017–18, out of the total, £1.9 million recoveries in respect of outward secondments were netted off, £42.7 million was charged to capital and the balance of £932.5 million was charged in the SoCNE.

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[15].

For 2018–19, employer's contributions of £83.1 million (2017–18, £71.4 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

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

rates are set to meet the cost of the benefits accruing during 2018–19 to be paid when the member retires and not the benefits paid during this period to existing pensioners.

Other Pension Schemes

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. For 2018–19 employer's contributions of £1.9 million (2017–18, £2.9 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 £21,000 for 2018–19 (2017–18, £18,000), 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 £Nil (2017–18, £34,000). Contributions prepaid at that date were £Nil (2017–18, £Nil).

In addition to the schemes listed above, Environment Agency (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 were three individuals in the core department (2017–18, one) who retired early on ill health grounds of these employees. Their total additional accrued pension liabilities in the year amounted to £3,439 (2017–18, £23,000).

Loans are made to employees to cover season ticket advances and to relocate. As at 31 March 2019, 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;

Activity	2018-19 Permanent Employed Staff	2018-19 Others	2018-19 Ministers	2018-19 Special Advisors	2018-19 Total	2017-18 Total
	Number	Number	Number	Number	Number	Number
Environment Agency	8,628	505	-	-	9,133	9,540
Natural England	1,919	252	-	-	2,171	2,276
Animal and Plant Health Agency	2,050	193	-	-	2,243	2,077
Rural Payments Agency	1,560	480	-	-	2,040	1,656
Core department	3,622	880	5	2	4,509	3,226
Others	3,311	96	-	-	3,407	3,321
Staff engaged on capital projects	1,114	226	-	-	1,340	1,040
Total	**22,204**	**2,632**	**5**	**2**	**24,843**	23,136
of which						
core department and agencies	8,475	1,798	5	2	10,280	8,252
NDPBs	13,729	834	-	-	14,563	14,884
Total	**22,204**	**2,632**	**5**	**2**	**24,843**	23,136

Reporting of Civil Service and Other Compensation Schemes – Exit Packages

	2018-19 Number of Compulsory Redundancies	2018-19 Number of Other Departures Agreed	2018-19 Total Number of Exit Packages	2017-18 Number of Compulsory Redundancies	2017-18 Number of Other Departures Agreed	2017-18 Total Number of Exit Packages
	Number	Number	Number	Number	Number	Number
Cost band						
< £10,000	17	14	31	7	3	10
£10,000 - £25,000	2	16	18	-	27	27
£25,001 - £50,000	3	25	28	-	31	31
£50,001 - £100,000	1	18	19	-	14	14
£100,001 - £150,000	-	2	2	-	1	1
£150,001 - £200,000	-	1	1	-	-	-
Total number of exit packages by type	**23**	**76**	**99**	7	76	83
Total resource cost (£000)	**254**	**3,080**	**3,334**	30	2,723	2,753
Of which:						
Number of cases	**Number**	**Number**	**Number**	Number	Number	Number
core department and agencies	2	44	46	7	56	63
NDPBs	21	32	53	-	20	20
Total	**23**	**76**	**99**	7	76	83
Resource cost	**£000**	**£000**	**£000**	£000	£000	£000
core department and agencies	9	2,231	2,240	30	1,855	1,885
NDPBs	245	849	1,094	-	868	868
Total	**254**	**3,080**	**3,334**	30	2,723	2,753

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.

Redeployment of EU staff to Defra from Other Government Departments

The Core department had 245 staff on informal loans from Other Government Departments to aid in the work to prepare Defra for exit from the EU. The number by grade of loan staff is shown in the table below. The majority of these people were from the Department for Education where the initial agreement was for staff to join Defra for six months or finish within a month should the Cabinet Office announce we are no longer in an immediate no deal scenario. As the Cabinet Office announced an extension to article 50, some people returned immediately to their home departments and some loans were reduced in length. As work continues on EU exit and a no deal scenario, 45 staff were extended to 12 month loans, with a further 32 remaining on short term loan for up to six months.

Grade	**No**
G6	10
G7	44
SEO	79
HEO	85
EO	26
AO	1
Total	**245**

The costs of the staff on short term loan classified as admin cost is £2,202,037 (excluding VAT).

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 2019, 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	AHDB	EA	FC	Kew	MMO	NE	
Number of existing engagements as of 31 March 2019	536	2	6	6	10	5	11	3	20	1	600
Of which:											
Number that have existed for less than one year at time of reporting	312	-	2	5	10	4	4	3	16	1	357
Number that have existed between one and two years at time of reporting	163	1	4	1	-	-	3	-	4	-	176
Number that have existed between two and three years at time of reporting	45	-	-	-	-	1	3	-	-	-	49
Number that have existed between three and four years at time of reporting	7	-	-	-	-	-	1	-	-	-	8
Number that have existed for four or more years at time of reporting	9	1	-	-	-	-	-	-	-	-	10

*Bodies not listed in the table above provided a nil return.
The increase in the core department's numbers is caused primarily by EU exit work.

New off-payroll engagements, or those that reached six months in duration, between 1 April 2018 and 31 March 2019, for more than £245 per day and that last for longer than six months.

	Core Department	Executive Agencies		Delivery Bodies						Total
	Defra*	RPA	VMD	AHDB	EA	FC	Kew	MMO	NE	
Number of new engagements, or those that reached six months in duration, between 1 April 2018 and 31 March 2019	336	9	5	10	2	5	3	10	1	381
Of which:										
Number assessed as caught by IR35	15	9	-	-	-	-	-	-	1	25
Number assessed as not caught by IR35	321	-	5	10	2	5	3	10	-	356
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	127	9	1	1	2	5	-	-	1	146
Number of engagements that saw a change to IR35 status following the consistency review	-	-	-	-	-	-	-	-	1	1

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

Off-payroll engagements of Board members and/or senior officials with significant financial responsibility between 1 April 2018 and 31 March 2019.

		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***	1	17
Executive Agencies	**APHA**	-	14
	Cefas	-	15
	RPA	-	16
	VMD	-	6
Delivery Bodies	**AHDB**	-	16
	CCW	-	16
	EA	-	17
	FC	-	25
	Flood Re	-	8
	JNCC	-	17
	Kew	-	12
	MMO	-	20
	NE**	1	8
	NFC	-	11
	SFIA	-	15

* The off-payroll contract relates to the Director General, interim Chief Operating Officer and ran from 29 January to 15 April 2019. They were brought onto the Department's payroll at this point as a fixed term appointment. The off-payroll appointment was contracted on the basis of the contractor's unique, extensive and relevant experience and the ability to commence work with minimal delay.

** The off-payroll contract relates to the interim Planning and Performance Chief Officer and ran from 11 February 2019. This was a new urgent and critical role for Natural England (NE) to help ensure the organisation delivered against it Roadmap and the 25 Year Environment Plan and NE had to bring someone in that would be effective quickly. Longer term requirement decisions are being worked through and will be dependent on the scoping of the role and its accountabilities in light of future organisational needs.

Remuneration Report

The information shown within the tables of this report are audited by the Comptroller and Auditor General.

Remuneration Policy

The remuneration of the 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 2018–19, NCVP for 2017–18 performance was paid to approximately 25 percent of the SCS and was paid at £10,000 for deputy directors, £11,000 for directors and 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 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 2017–18 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. Unless otherwise stated 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. Sarah Homer (interim Director General, Chief Operating Officer) was initially employed on a temporary contract but from 15 April 2019 she has been employed on a fixed term contract which ends 19 April 2020.

Remuneration (Including Salary) and Pension Entitlements

The following sections provide details of the remuneration and pension interests of the ministers and the Board members who were employees of the department during 2018–19. The following tables in the Remuneration Report have been subject to audit.

Ministers

£	2018–19 Salary	2017–18 Salary	2018–19 Pension Benefits**	2017–18 Pension Benefits**	2018–19 Severance Payments	2017–18 Severance Payments	2018–19 Total (to nearest £1000)	2017–18 Total (to nearest £1000)
Rt Hon Michael Gove MP	67,505	54,379*	15,000	12,000	-	-	83,000	66,000
Dr Thérèse Coffey MP	22,375	22,375	6,000	6,000	-	-	28,000	28,000
Lord Gardiner	105,076	105,076	17,000	16,000	-	-	122,000	121,000
Robert Goodwill *(from 5 March 2019)*	2,640*	-	1,000	-	-	-	4,000	-

Ministers who have served during 2018-19 but were not in post as at 31 March 2019

£	2018–19 Salary	2017–18 Salary	2018–19 Pension Benefits**	2017–18 Pension Benefits**	2018–19 Severance Payments	2017–18 Severance Payments	2018–19 Total (to nearest £1000)	2017–18 Total (to nearest £1000)
George Eustice MP *(until 28 February 2019)*	29,040*	31,680	7,000	8,000	7,920	-	44,000	40,000

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

£	2018–19	2017–18
Rt Hon Michael Gove MP *(from 11 June 2017)*	-	67,505
George Eustice MP *(until 28 February 2019)*	31,680	-
Robert Goodwil MP *(from 5 March 2019)*	31,680	-

** 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.

David Rutley MP joined the department on 3 September 2018. As Minister Rutley is also a Government Whip, his salary is paid by HM Treasury.

Ministerial Salaries

The current Government has committed to continue to freeze ministerial salaries.

Senior Officials on the Board

£000	2018–19 Salary	2017–18 Salary	2018–19 Bonus Payments	2017–18 Bonus Payments	2018–19 Pension Benefits	2017–18 Pension Benefits	2018–19 Total	2017–18 Total
Clare Moriarty *Permanent Secretary* *(until 31 March 2019)*	165–170	160–165	15-–20	15–20	40	14	220–225	190–195
Betsy Bassis *Director General* *(until 31 January 2019)*	115–120*	140–145	-	10–15	10	23	125–130	175–180
Nick Joicey *Director General* *(until 27 July 2018)*	40–45*	115–120	10–15	10–15	29	37	80–85	165–170
Heather Smith *Defra group Finance Director* *(from 5 November 2018)*	40–45*	-	-	-	18	-	60–65	-
Tamara Finkelstein *Director General* *(from 5 November 2018)*	65–70*	-	10–15	-	26	-	100–105	-
Shaun Gallagher *Director General* *(from 5 November 2018)*	45–50*	-	10–15	-	72	-	130–135	-
Sonia Phippard *Director General* *(from 4 March 2019)*	10–15*	-	10–15	-	-	-	20–25	-
David Kennedy *Director General* *(from 4 March 2019)*	10–15*	-	-	-	3	-	10–15	-
Sarah Homer** Interim Director General (from 4 March 2019)	20–25	-	-	-	-	-	20–25	-

*Full year equivalent salary for part year officials

£000	2018–19	2017–18
Betsy Bassis	140–145	-
Nick Joicey	120–125	-
Heather Smith	105–110	-
Tamara Finkelstein	140–145	-
Shaun Gallagher	120–125	-
Sonia Phippard	130–135	-
David Kennedy	130–135	-

** Sarah Homer was a consultant who joined Defra on 29 January 2019 on a six month contract. The annualised contract salary for 2018–19 would equate to £275,000. On the 4th March she joined the Board. On 15 April 2019 she was taken onto Defra's payroll on a fixed term appointment.

The start dates for senior officials on the Board are based on their first Board meeting in their official capacity. Although Andrew Pattison joined Defra on 18 February 2019 to cover the post of Defra group finance director, he did not attend any Board meetings during 2018–19 in an official capacity.

Ex Officio Board Members

The Board has ex officio members, Emma Howard Boyd from EA and Andrew Sells from Natural England (NE). Andrew Sells left NE and his role as ex officio on 18 January 2019 and was replaced by Tony Juniper on 23 April 2019.

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 ARA 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 2018–19 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 (£77,379 from 1 April 2018) 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, NFC 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 2018–19 relate to performance in 2017–18 and the comparative bonuses reported for 2017–18 relate to the performance in 2016–17.

Non-Executive Directors (NEDs)

£	2018–19 Fees Entitlement	2018–19 Fees Paid**	2018–19 Benefits in Kind	2017–18 Fees Entitlement	2017–18 Fees Paid**	2017–18 Benefits in Kind
Henry Dimbleby *(from 2 March 2018)*	20,000	16,667	600	1,667*	-	-
Elizabeth Buchanan *(from 2 March 2018)*	15,000	12,500	3,000	1,250*	-	-
Ben Goldsmith *(from 2 March 2018)*	15,000	Fee waived	-	1,250*	-	-
Colin Day *(from 2 March 2018)*	20,000	15,000	200	1,667*	-	-
Lizzie Noel *(from 11 May 2018)*	13,750	-	-	-	-	-

NEDs who have served during 2018–19 but were not in post as at 31 March 2019

£	2018–19 Fees Entitlement	2018–19 Fees Paid**	2018–19 Benefits in Kind	2017–18 Fees Entitlement	2017–18 Fees Paid**	2017–18 Benefits in Kind
Peter Bonfield *(until 10 May 2018)*	1,250	-	-	15,000	Fee waived	-
Paul Rew *(until 30 June 2018)*	5,000	10,000	200	20,000	20,000	-

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

£	2018–19	2017–18
Peter Bonfield *(until 10 May 2018)*	15,000	-
Paul Rew *(until 30 June 2018)*	20,000	-
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
Lizzie Noel *(from 11 May 2018)*	15,000	-

**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 2019	Real Increase in Pension at Pension Age	*CETV at 31 March 2019	*CETV at 31 March 2018	Real Increase in CETV
Rt Hon Michael Gove MP	10–15	0–2.5	181	159	7
Dr Thérèse Coffey MP	0–5	0–2.5	26	20	3
Lord Gardiner	5–10	0–2.5	187	158	14
Robert Goodwill *(from 5 March 2019)*	0–5	0–2.5	89	88	1

Ministers who have served during 2018–19, but were not in post as at 31 March 2019

£000	Accrued Pension at Pension Age as at 31 March 2019	Real Increase in Pension at Pension Age	*CETV at 31 March 2019	*CETV at 31 March 2018	Real Increase in CETV
George Eustice MP *(until 28 February 2019)*	0–5	0–2.5	42	35	3

*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[16].

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 1.775 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.

[16] 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 2019 and Related Lump Sum	Real Increase in Pension and Related Lump Sum at Pension Age	*CETV at 31 March 2019	*CETV at 31 March 2018	Real Increase in CETV	Employer Contribution to Partnership Pension Account (Nearest £100)
Clare Moriarty *Permanent Secretary* *(until 31 March 2019)*	85–90	2.5–5	1,627	1,429	36	-
Betsy Bassis *Director General* *(until 31 January 2019)*	-	-	-	-	-	10,400
Nick Joicey *Director General* *(until 27 July 2018)*	35–40 Plus 70–75 lump sum	0–2.5 Plus 0–2.5 lump sum	574	534	16	-
Heather Smith *Finance Director* *(from 5 November 2018)*	25–30	0–2.5	360	346	8	-
Tamara Finkelstein *Director General* *(from 5 November 2018)*	60–65	0–2.5	975	952	12	-
Shaun Gallagher *Director General* *(from 5 November 2018)*	35–40 Plus 85–90 lump sum	2.5–5 Plus 5–7.5 lump sum	695	632	54	-
Sonia Phippard *Director General* *(from 4 March 2019)*	80–85	0–2.5	1,688	1,685	-	-
David Kennedy *Director General* *(from 4 March 2019)*	40–45	0–2.5	640	638	1	-

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

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 4.6 percent and 8.05 percent for members of classic, premium, classic plus, nuvos and alpha. Benefits in classic accrue at the rate of one-eightieth 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 one-sixtieth 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[17].

Cash Equivalent Transfer Values

A Cash Equivalent Transfer Value (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 current 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.

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

Fair Pay Disclosures

This information has been subject to audit.

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.

	2018–19	**2017–18**
Banded remuneration of the highest paid director in the core department	£270,000–275,000	£180,000–185,000
Median remuneration of the workforce of the core department and the executive agencies	£31,323	£30,815
Ratio of remuneration of highest paid director to median remuneration of the workforce	8.7	5.9
The range of banded remuneration for employees in the core department and the executive agencies	£10,000–15,000 to £270,000–275,000	£10,000–15,000 to £200,000–205,000

For this reporting period, the highest paid director was not the Accounting Officer. In 2018–19 the employees receiving the lowest pay in the range are students and agency staff. No employees (2017–18, two) received remuneration in excess of the highest paid director. The movement in the ratio of remuneration of the highest paid director to the median remuneration of the workforce is due to the increased banding of the highest paid director in the core department relating to an agency worker joining part way through the year.

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, the Government Financial Reporting Manual 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 2017–18 comparatives have not been restated.

Summary of Resource and Capital Outturn 2018–19

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

		2018-19			2017-18
	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	2,052,831	1,963,037	89,794	1,836,593
Capital	SoPS 1.2	740,228	729,029	11,199	631,965
Annually Managed Expenditure					
Resource	SoPS 1.1	(55,978)	(501,135)	445,157	(28,321)
Capital	SoPS 1.2	16,000	326	15,674	199
Total Budget		**2,753,081**	**2,191,257**	**561,824**	2,440,436
Non-budget					
Resource	SoPS 1.1	10,001	254	9,747	(573)
Total		**2,763,082**	**2,191,511**	**571,571**	2,439,863
Total resource	SoPS 1.1	1,996,853	1,461,902	534,951	1,808,272
Total capital	SoPS 1.2	756,228	729,355	26,873	632,164
Total non-budget	SoPS 1.1	10,001	254	9,747	(573)
Total		**2,763,082**	**2,191,511**	**571,571**	2,439,863

The 2018–19 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 2018–19

		2018-19			2017-18
		Estimate	Outturn Voted	Voted Outturn Compared With Estimate: Saving/ (Excess)	Outturn Total
		£000	£000	£000	£000
Net cash requirement	SoPS 3	3,346,086	2,709,735	636,351	2,126,888

Administration Costs 2018–19

	2018-19			2017-18
	Estimate	Outturn Voted	Voted Outturn Compared With Estimate: Saving/ (Excess)	Outturn Total
	£000	£000	£000	£000
Net administration costs	700,977	622,918	78,059	473,463

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

The notes on pages 106–163 form part of these accounts.

SoPS 1 – Net Outturn

SoPS 1.1 – Analysis of Net Resource Outturn by Section

	2018-19										2017-18
	Outturn							Estimate			
	Administration			Programme							
	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	65,755	(404)	65,351	2,595,684	(2,467,296)	128,388	193,739	252,630	58,891	39,399	206,668
Improve the environment	55,924	(1,534)	54,390	304,296	(10,989)	293,307	347,697	393,250	45,553	1,532	274,651
Protect the country from floods	1,039	(15)	1,024	3	-	3	1,027	1,438	411	451	1,277
Animal and plant health	37,366	(3)	37,363	244,872	(84,840)	160,032	197,395	196,569	(826)	629	163,023
Marine and fisheries	13,086	2	13,088	72,198	(38,993)	33,205	46,293	47,194	901	90	32,035
Countryside and rural services	8,365	(1,394)	6,971	143,332	(17,097)	126,235	133,206	134,767	1,561	126	132,868
Departmental operating costs	294,097	(4,214)	289,883	107,733	(3,229)	104,504	394,387	508,906	114,519	40,496	353,713
Improve the environment (ALB) (net)	74,956	-	74,956	197,933	-	197,933	272,889	207,836	(65,053)	6,477	271,280
Protect the country from floods (ALB) (net)	77,201	-	77,201	280,040	-	280,040	357,241	290,557	(66,684)	-	384,898
Marine and fisheries (ALB) (net)	2,375	-	2,375	14,391	-	14,391	16,766	17,273	507	507	13,869
Countryside and rural services (ALB) (net)	316	-	316	2,081	-	2,081	2,397	2,411	14	87	2,311
Total	**630,480**	**(7,562)**	**622,918**	**3,962,563**	**(2,622,444)**	**1,340,119**	**1,963,037**	**2,052,831**	**89,794**	**89,794**	1,836,593
Spending in Annually Managed Expenditure Limits (AME)											
Voted											
Food and farming	-	-	-	(171,170)	-	(171,170)	(171,170)	36,801	207,971	207,971	(66,366)
Improve the environment	-	-	-	(235,236)	-	(235,236)	(235,236)	(199,015)	36,221	36,221	95,549
Animal and plant health	-	-	-	(1,780)	-	(1,780)	(1,780)	3	1,783	1,783	(3,901)
Marine and fisheries	-	-	-	(1,111)	-	(1,111)	(1,111)	8	1,119	1,119	233
Countryside and rural services	-	-	-	(1,133)	-	(1,133)	(1,133)	(295)	838	838	2,078
Departmental operating costs	-	-	-	(51,017)	-	(51,017)	(51,017)	(74,597)	(23,580)	-	15,119
Food and farming (ALB) (net)	-	-	-	8,081	-	8,081	8,081	3,780	(4,301)	-	(1,269)
Improve the environment (ALB) (net)	-	-	-	22,223	-	22,223	22,223	21,269	(954)	-	(12,268)
Protect the country from floods (ALB) (net)	-	-	-	(70,295)	-	(70,295)	(70,295)	156,000	226,295	197,218	(57,410)
Marine and fisheries (ALB) (net)	-	-	-	303	-	303	303	61	(242)	-	(86)
Countryside and rural services (ALB) (net)	-	-	-	-	-	-	-	7	7	7	-
Total	**-**	**-**	**-**	**(501,135)**	**-**	**(501,135)**	**(501,135)**	**(55,978)**	**445,157**	**445,157**	(28,321)
Spending in Non Budget Expenditure Limits											
Voted											
Food and farming	-	-	-	1,344,069	(1,343,815)	254	254	10,001	9,747	9,747	(573)
Total	**-**	**-**	**-**	**1,344,069**	**(1,343,815)**	**254**	**254**	**10,001**	**9,747**	**9,747**	(573)
Resource Outturn	**630,480**	**(7,562)**	**622,918**	**4,805,497**	**(3,966,259)**	**839,238**	**1,462,156**	**2,006,854**	**544,698**	**544,698**	1,807,699

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

	2018-19						2017-18
	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	4,057	(312)	3,745	9,743	5,998	4,361	5,148
Improve the environment	24,452	-	24,452	25,358	906	1,271	9,601
Protect the country from floods	264	-	264	268	4	4	353
Animal and plant health	12,834	(2)	12,832	11,776	(1,056)	-	12,852
Marine and fisheries	15,268	(1,400)	13,868	12,974	(894)	-	6,014
Countryside and rural services	30,973	(172)	30,801	36,297	5,496	5,496	25,007
Departmental operating costs	86,284	(494)	85,790	99,006	13,216	-	70,072
Improve the environment (ALB) (net)	70,278	-	70,278	58,486	(11,792)	-	71,227
Protect the country from floods (ALB) (net)	486,253	-	486,253	486,320	67	67	431,174
Marine and fisheries (ALB) (net)	543	-	543	-	(543)	-	157
Countryside and rural services (ALB) (net)	203	-	203	-	(203)	-	360
Total	**731,409**	**(2,380)**	**729,029**	**740,228**	**11,199**	**11,199**	631,965
Spending in Annually Managed Expenditure (AME)							
Voted							
Food and farming (ALB) (net)	203	-	203	16,000	15,797	15,674	116
Marine and fisheries (ALB) (net)	123	-	123	-	(123)	-	83
Total	**326**	**-**	**326**	**16,000**	**15,674**	**15,674**	199
Capital Outturn	**731,735**	**(2,380)**	**729,355**	**756,228**	**26,873**	**26,873**	632,164

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	**2018-19 Outturn £000**	2017-18 Outturn £000
Total resource outturn in SoPS	Budget	SoPS 1.1	1,461,902	1,808,272
	Non-budget	SoPS 1.1	254	(573)
			1,462,156	1,807,699
	Capital grants / income		121,352	73,759
	Capital works expensed in year		326,879	296,410
	Capital research and development		33,370	37,347
	Adjustment to IFRIC 12		(9)	101
	Sugar Levy		-	(680)
	Income payable to Consolidated Fund		(1,623)	(4,623)
			479,969	402,314
Net operating cost		SoCNE	**1,942,125**	2,210,013

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

		2018-19		
	Note/Ref	Estimate	Outturn	Net total outturn compared with Estimate: saving/ (excess)
		£000	£000	£000
Resource outturn	SoPS 1.1	2,006,854	1,462,156	544,698
Capital outturn	SoPS 1.2	756,228	729,355	26,873
Accruals to cash adjustments (Core and agencies only):				
Accrual to cash basis - capital expenditure		-	(5,323)	5,323
Accrual to cash basis - capital disposals		-	(9)	9
Service concession adjustment and other finance leases		-	384	(384)
Adjustments to remove non cash items (Core and agencies only):				
Depreciation / amortisation / impairment	3.2	(118,001)	(76,780)	(41,221)
New provisions and adjustment to provisions	3.2	152,006	402,388	(250,382)
Other non cash items		(5,300)	26,349	(31,649)
Adjustments for NDPBs:				
Remove voted resource		(699,194)	(684,417)	(14,777)
Remove voted capital		(560,806)	(557,602)	(3,204)
Add cash grant-in-aid		1,078,493	1,021,166	57,327
Add Defra Contribution to EA Closed Pension Scheme Fund		-	58,700	(58,700)
Adjustments to reflect movements in working capital balances (Core and agencies only) :				
Increase/(decrease) in inventories	SoCF	-	(8,617)	8,617
Increase/(decrease) in receivables excluding derivatives	SoCF	670,000	286,208	383,792
Adjustment for derivative financial instruments	SoCF	-	9,793	(9,793)
Movement in receivables affecting items not passing through the SoPS	SoCF	-	(45)	45
(Increase)/decrease in payables excluding derivatives	SoCF	-	58,589	(58,589)
Movement in payables affecting items not passing through the SoPS	SoCF	-	(79,473)	79,473
Use of provisions	SoCF	65,806	66,912	(1,106)
Funding to / from other bodies	SoCF	-	1	(1)
Net cash requirement		**3,346,086**	**2,709,735**	**636,351**

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 2018-19		Outturn 2017-18	
	Income	***Receipts***	Income	*Receipts*
	£000	***£000***	£000	*£000*
Income outside the ambit of the Estimate	1,623	*1,623*	4,623	*4,623*
Total income payable to the Consolidated Fund	**1,623**	***1,623***	4,623	*4,623*

SoPS 4.2 – Consolidated Fund Income

Consolidated Fund income shown in SoPS 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 principal.

The department collected and paid over £31.3 million in 2017–18 from Covent Garden Market Authority for overage payments when acting as agent for the Consolidated Fund.

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.

	2018-19		2017-18	
	Core Department and Agencies	Defra Group	Core Department and Agencies	Defra Group
	£000	£000	£000	£000
Losses values				
Cash losses	12,408	13,038	3,908	5,112
Stores losses	-	-	26	26
Administrative write-offs	-	2,042	2	9,810
Fruitless payments	1	1	-	-
Claims abandoned	191	191	118	118
Total	**12,600**	**15,272**	4,054	15,066
	Core Department and Agencies	Defra Group	Core Department and Agencies	Defra Group
	Number	Number	Number	Number
Number of cases				
Cash losses	1,668	1,948	2,947	3,306
Stores losses	-	-	1	1
Administrative write-offs	-	242	4	423
Fruitless payments	1	1	-	-
Claims abandoned	31	31	9	9
Total	**1,700**	**2,222**	2,961	3,739

Details of Cases over £300,000

Cash Losses (shown in the table above)

Rural Payments Agency (RPA) has a realised exchange loss of £1.4 million (2017–18, £2.8 million) arising from the reimbursement of scheme expenditure by the European Commission (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 2019. 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.

RPA had a £10.2 million cash loss arising from a wrongful de-recognition under the Fresh Fruit and Vegetables Aid Scheme rules.

Losses and Special Payments – Special Payments

	Core Department and Agencies	**Defra Group**	Core Department and Agencies	Defra Group
Value (£000)	13,931	15,966	16,661	18,382
Number of cases	64	67	78	88

Details of cases over £300,000

An adjusting Post Balance Sheet Event was required to recognise a one-off £12.5 million exceptional payment, to resolve a delivery agreement (see note 19 for further details).

The Environment Agency (EA) had a special payment of £2 million to settle an employers' liability claim, following external legal advice in order to reduce the greater expected cost of reaching a settlement in court.

Fees and Charges

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

	2018-19		
	Income	**Full Cost**	**Surplus / (Deficit)**
	£m	**£m**	**£m**
Abstraction charges (ES)	123.3	126.6	(3.3)
Environmental Permitting Regulation waste charges (EA)	70.3	70.3	0.0

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

This information has been subject to audit.

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 & River Trust and British Waterways pension trustees in relation to the historic public sector pension liability. The potential liability is estimated at £125 million (2017–18, £125 million).
- Small potential liabilities are estimated at no more than £0.4 million (2017–18 £0.4 million).

Unquantifiable

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

- 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 non-communication of the transposition of EU legislation by a particular date; and non-compliance of UK legislation with EU requirements, could lead to fines for the Core Department from the EU. Defra is currently the lead on seven non-communication infractions and ten non-compliance infractions (three are contingent liabilities and included in Note 14.1.2) details of which are published on the European Commission's website. Liability for fines across UK administrations would depend on the specifics of individual cases and, as per Commission guidance, could entail a minimum lump sum of €9 million (£7.7 million) plus potential 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.
- 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.
- In July 2018, the UK Government announced an extension of its guarantee of EU-funded projects after the UK has left the EU. The guarantee was originally announced in 2016. Defra EU programmes that are covered by the guarantee are CAP Pillar 1, CAP Pillar 2, European Maritime Fisheries Fund, LIFE and BEST.

The guarantee now covers the following:

a) The current level of agricultural funding under CAP Pillar 1 until 31 December 2020.

b) The full Multiannual Financial Framework allocation for structural and investment funds over the 2014–20 funding period, with payments to beneficiaries made up to the end of 2023;

c) The payment of awards where UK and Overseas Territory (OT) organisations successfully bid directly to the Commission on a competitive basis for EU funding projects while we remain in the EU (e.g. before exit day), for the lifetime of the project; and,

d) The payment of awards where UK and OT organisations successfully bid to the Commission on a competitive basis to participate as a 3rd country after EU exit, and until the end of 2020, for the lifetime of the project;

The financial settlement was agreed in principle by both the UK and EU, as set out in the draft Withdrawal Agreement of 25 November 2018. The guarantee will therefore only be called in the event that the Withdrawal Agreement is not ratified in the case of no deal and UK organisations are unable to access EU funding. This has been assessed as a remote contingent liability on the basis that it does not meet the recognition criteria for a contingent liability under IAS 37. This assessment does not reflect in any way a judgement as to the likelihood of the guarantee being called upon. The current year spend and associated EU funding in relation to the schemes covered by the guarantee is in excess of £2 billion. For further details see Notes 3 and 4.

CAP Pillar 2 is covered by the structural and investment funds guarantee, but the guarantee is extended to cover all commitments that extend beyond 2023, and consequently fall outside of the scope of the Withdrawal Agreement. The CAP Pillar 2 guarantee therefore applies in both a negotiated and a no-deal scenario, as long as the projects would have been funded from future Multiannual Financial Frameworks rather than being de-committed by the European Commission. As the funding for all other structural and investment funds would have been de-committed by the EU by 2023, the guarantee will expire for all structural and investment funds apart from CAP Pillar 2 in 2023.

Tamara Finkelstein 11 July 2019

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 2019 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 2018. The financial statements comprise: the Department's and Departmental Group's Consolidated 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 Performance Report and 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 2019 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 2019 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.

Conclusions relating to going concern

I am required to 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 Department's ability to continue as a going concern for a period of at least twelve months from the date of approval of the financial statements. 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. I have nothing to report in these respects.

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 Department's internal control.

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

Gareth Davies
Comptroller and Auditor General

12 July 2019

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

1. 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).

2. The Common Agricultural Policy (CAP) is the EU framework of agricultural subsidies and rural development programmes. In 2018–19, the Department received funding of £3.8 billion (2017–18 £3.2 billion) from the European Commission (the Commission) to deliver the CAP and other initiatives. The Department is required to adhere to the CAP framework, and is subject to financial penalties where it fails to do so.

3. This report sets out my observations on the level of penalties incurred during 2018–19 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

4. 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.

5. 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

6. 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.

7. The Department reports disallowance penalties in relation to England and has explained the accounting process in Chapter 3 of their Annual Report. The Department accrues 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. On this basis, in determining my regularity opinion I consider the total value of accrued penalties in the year as irregular.

8. In 2018–19, the value of disallowance penalties accrued in year was £9.8 million (2017–18: £51.8 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 £6.8 billion. I have therefore issued an unqualified opinion on the regularity of the Department's 2018–19 financial statements.

9. The value of disallowance penalties confirmed in year can vary significantly and is dependent on internal factors including the effectiveness of the Departments control environment and external elements such as the status of Commission audits and the finalisation of their findings. The external elements can take significant time to complete and this gives rise to variability in the year-on-year value of penalties recognised.

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

10. 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 12, with a provision balance as at 31 March 2019 of £23m (31 March 2018: £184m). However, due to the uncertainty over whether these penalties will crystallise, I do not consider them alongside confirmed penalties when forming my regularity opinion.

11. 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 reliably quantify the value of any disallowance penalties it will incur as a result. The potential liabilities in respect of Commission audits yet to take place are reported within Remote Contingent Liability disclosures. The Department has highlighted the current status of disallowance penalties, including those schemes that remain subject to potential Commission audits and future disallowance, on pages 30–33.

Conclusion on disallowance penalties

12. Disallowance penalties accrued in year represent a loss to the UK Exchequer and are irregular. I do not, however, consider that the value of disallowance penalties accrued in 2018–19 is material in the context of the Department's financial statements.

13. 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. The Department has outlined measures to address ongoing concerns around the timeliness and accuracy of payments under Agri-Environment schemes on pages 41 and 42. These factors remain paramount to ensuring the safeguarding of UK Exchequer funds. In addition, there remains uncertainty around the UK's departure from the EU, which may impact the nature and quantum of disallowance penalties going forward and will need to be managed by the Department.

14. I will continue to monitor the Department's performance in managing disallowance risk and the level of disallowance penalties confirmed going forward in order to assess the impact on my regularity opinion in subsequent periods.

Gareth Davies
Comptroller and Auditor General

12 July 2019

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

Financial Statements

The Government Financial Reporting Manual requires that the department prepares financial statements and related disclosures in accordance with International Financial Reporting Standards 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 2017–18 comparatives have not been restated.

Consolidated Statement of Comprehensive Net Expenditure (SoCNE)

For the year ended 31 March 2019

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	**2018-19** Core Department and Agencies	**2018-19** Defra Group	2017-18 Core Department and Agencies	2017-18 Defra Group
		£000	**£000**	£000	£000
Income under IAS 18	4.3	-	-	(3,298,612)	(4,117,141)
Revenue from contracts with customers	4.1	(131,264)	(809,205)	-	-
Other operating income	4.2	(3,850,540)	(4,026,498)	-	-
Total income		**(3,981,804)**	**(4,835,703)**	(3,298,612)	(4,117,141)
Staff costs	3.1	504,523	1,035,536	398,098	932,475
Other costs	3.1	486,704	1,395,390	408,707	1,272,362
Non cash items	3.2	(352,985)	(17,373)	194,905	497,496
Grants and subsidies	3.3	5,272,712	4,364,275	4,563,267	3,624,821
Total operating costs		**5,910,954**	**6,777,828**	5,564,977	6,327,154
Net operating costs		**1,929,150**	**1,942,125**	2,266,365	2,210,013
Net expenditure		**1,929,150**	**1,942,125**	2,266,365	2,210,013
Items that will not be reclassified to net operating costs					
Revaluation of PPE	SoCTE	(13,567)	(68,397)	(19,879)	(144,063)
Charitable funds revaluation	SoCTE	-	(6,681)	-	(8,387)
Revaluation of intangibles	SoCTE	(4,052)	(4,601)	(2,535)	(4,421)
Revaluation of euro receivable	SoCTE	(115)	(115)	-	-
Pension actuarial movements	SoCTE	(21,031)	132,210	11,113	(82,674)
Items that may be reclassified subsequently to net operating costs					
Net (gain)/loss on					
Revaluation of investments	SoCTE	(50)	(79)	-	(6)
Revaluation of hedging instruments		1,695	1,695	(11,432)	(11,432)
Total comprehensive net expenditure for the year		**1,892,030**	**1,996,157**	2,243,632	1,959,030

EU funding for the department totalling £3,816 million (2017–18, £3,162 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 £26 million (2017–18 £25 million).
The notes on pages 106–163 form part of these accounts.

Consolidated Statement of Financial Position

As at 31 March 2019

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 2019 Core Department and Agencies	31 March 2019 Defra Group	31 March 2018 Core Department and Agencies	31 March 2018 Defra Group
		£000	**£000**	£000	£000
Non-current assets					
Property, plant and equipment	5.1	467,275	3,586,144	453,150	3,516,283
Right of use assets		612	612	994	994
Investment properties		500	4,286	545	4,223
Heritage assets	5.2	-	283,239	-	265,612
Agricultural assets		-	208	-	224
Intangible assets	6	146,627	271,999	119,475	242,024
Investments		20,623	20,603	20,617	20,526
Investment in Associate		6,670	6,670	6,670	6,670
Receivables and contract assets falling due after more than one year	10	772	1,036	11,703	11,715
Total non-current assets		**643,079**	**4,174,797**	613,154	4,068,271
Current assets					
Assets classified as held for sale		3,251	20,722	3,521	13,792
Inventories		3,577	4,892	12,194	13,357
Other financial assets	10	25,818	25,818	17,707	17,707
Trade, other receivables and contract assets	10	873,836	1,010,605	576,742	739,432
Cash and cash equivalents	9	636,351	1,181,590	720,714	1,162,389
Total current assets		**1,542,833**	**2,243,627**	1,330,878	1,946,677
Total assets		**2,185,912**	**6,418,424**	1,944,032	6,014,948
Current liabilities					
Trade, other payables and contract liabilities	11	(1,413,871)	(1,845,961)	(1,453,047)	(1,920,334)
Provisions	12.2	(32,825)	(59,219)	(197,013)	(214,448)
Net pension liability	13.2	(55,865)	(55,880)	(60,578)	(60,594)
Other financial liabilities	11	(2,583)	(2,583)	(656)	(656)
Total current liabilities		**(1,505,144)**	**(1,963,643)**	(1,711,294)	(2,196,032)
Non-current assets plus/less net current assets/liabilities		**680,768**	**4,454,781**	232,738	3,818,916
Non-current liabilities					
Provisions	12.2	(341,289)	(348,642)	(597,559)	(602,584)
Net pension liability	13.2	(338,232)	(1,012,216)	(411,692)	(824,058)
Other payables and contract liabilities	11	(127,851)	(129,687)	(147,264)	(149,559)
Other financial liabilities	11	-	(141,606)	-	(141,606)
Total non-current liabilities		**(807,372)**	**(1,632,151)**	(1,156,515)	(1,717,807)
Assets less liabilities		**(126,604)**	**2,822,630**	(923,777)	2,101,109
Taxpayers' equity and other reserves					
General Fund	SoCTE	(293,055)	443,650	(1,095,430)	(255,744)
Revaluation reserve	SoCTE	160,009	2,121,702	162,907	2,117,229
Hedging reserve	SoCTE	6,442	6,442	8,746	8,746
Charitable funds - restricted funds	SoCTE	-	75,790	-	63,705
Charitable funds - unrestricted funds*	SoCTE	-	175,046	-	167,173
Total equity		**(126,604)**	**2,822,630**	(923,777)	2,101,109

*The unrestricted charitable funds figure includes Royal Botanic Gardens Kew (RBG Kew) and National Forest Company's (NFC) revaluation reserves totalling £126.8 million (2017–18, £120.4 million).

The notes on pages 106–163 form part of these accounts.

Tamara Finkelstein 11 July 2019

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

Consolidated Statement of Cash Flows

For the year ended 31 March 2019

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.

		2018-19		2017-18	
	Note/Ref	**Core Department and Agencies**	**Defra Group**	Core Department and Agencies	Defra Group
		£000	**£000**	£000	£000
Cash flows from operating activities					
Net operating costs	SoCNE	(1,929,150)	(1,942,125)	(2,266,365)	(2,210,013)
Adjust for non cash transactions		(351,957)	(16,381)	193,246	495,857
(Increase)/decrease in trade and other receivables excluding derivatives		(286,208)	(260,539)	68,374	73,142
less movements in receivables relating to items not passing through the SoCNE		45	45	-	-
Adjustments for derivative financial instruments		(9,793)	(9,793)	(5,055)	(5,055)
(Increase) / decrease in inventories		8,617	8,465	(2,070)	(2,226)
Increase / (decrease) in trade payables and other liabilities excluding derivatives	11	(58,589)	(94,245)	213,590	198,169
less movements in payables relating to items not passing through the SoCNE		79,473	59,820	(127,653)	(129,499)
Use of provisions / pension liabilities		(66,912)	(127,983)	(127,122)	(187,805)
Net cash outflow from operating activites		**(2,614,474)**	**(2,382,736)**	(2,053,055)	(1,767,430)
Cash flows from investing activities					
Purchase of PPE, heritage and agricultural assets		(60,416)	(170,666)	(50,971)	(191,614)
Purchase of intangible assets		(34,998)	(55,909)	(14,238)	(27,830)
Purchase / repayment of financial assets		1,305	1,305	(4,191)	(4,191)
Proceeds of disposal of PPE, heritage and agricultural assets		967	4,011	919	5,904
Proceeds of disposal of intangible assets		-	-	7	7
Repayments from other bodies		44	-	44	-
Net cash outflow from investing activities		**(93,098)**	**(221,259)**	(68,430)	(217,724)
Cash flows from financing activities					
From Consolidated Fund (supply): current year	SoCTE	2,625,372	2,625,372	2,245,371	2,245,371
Advances from Contingencies Fund		2,300,000	2,300,000	2,000,000	2,000,000
Repayments to Contingencies Fund		(2,300,000)	(2,300,000)	(2,000,000)	(2,000,000)
Capital element in respect of service concession arrangements and finance leases and non balance sheet PFI contracts		(539)	(575)	(774)	(774)
Funding (to) / from other bodies	SoCTE	(1)	22	(6)	40
Net financing		**2,624,832**	**2,624,819**	2,244,591	2,244,637
Net increase/(decrease) in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund		(82,740)	20,824	123,106	259,483
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	SoPS 4	(1,623)	(1,623)	(35,873)	(35,873)
Net increase/(decrease) in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund	9	(84,363)	19,201	118,483	254,860
Cash and cash equivalents at the beginning of the period	9	**720,714**	**1,162,389**	602,231	907,529
Cash and cash equivalents at the end of the period	9	**636,351**	**1,181,590**	720,714	1,162,389

The notes on pages 106–163 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 Rural Payments Agency'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 year ended 31 March 2019

Defra Group

	Note/Ref	2018-19 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 2018		(255,744)	2,117,229	8,746	1,870,231	63,705	167,173	2,101,109
IFRS 9 Carrying amount adjustment		769		(609)	160			160
Adjusted Opening balance 1 April 2018		(254,975)	2,117,229	8,137	1,870,391	63,705	167,173	2,101,269
Net parliamentary funding - drawn down	SoCF	2,625,372	-	-	2,625,372	-	-	2,625,372
Net parliamentary funding - deemed		720,714	-	-	720,714	-	-	720,714
Funding (to)/ from other bodies	SoCF	22	-	-	22	-	-	22
Supply (payable) adjustment		(636,351)	-	-	(636,351)	-	-	(636,351)
CFER Income Payable to the Consolidated Fund	SoPS 4	(1,623)	-	-	(1,623)	-	-	(1,623)
Net operating costs for the year	SoCNE	(1,955,333)	-	-	(1,955,333)	12,085	1,123	(1,942,125)
Non-cash adjustments								
Non-cash charges-auditors' remuneration	3.2	1,083	-	-	1,083	-	-	1,083
Movement in reserves								
Recognised in other comprehensive expenditure:								
Revaluation of PPE	OCE	-	68,397	-	68,397	-	-	68,397
Charitable funds revaluation	OCE	-	-	-	-	-	6,681	6,681
Revaluation of intangibles	OCE	-	4,601	-	4,601	-	-	4,601
Revaluation of investments	OCE	-	79	-	79	-	-	79
Revaluation of euro receivable	OCE		115		115	-	-	115
Pension actuarial movements	OCE	(132,210)	-	-	(132,210)	-	-	(132,210)
Revaluation/impairments - hedging reserve		-	-	37,789	37,789	-	-	37,789
Contributions in respect of unfunded benefits		8,300	-	-	8,300	-	-	8,300
Release of reserves to SoCNE		-	-	(41,212)	(41,212)	-	-	(41,212)
Transfers between reserves		68,650	(68,719)	-	(69)	-	69	-
Other movements in reserves		-	-	1,728	1,728	-	-	1,728
Non-operating General Fund movements		1	-	-	1	-	-	1
Balance at 31 March 2019		**443,650**	**2,121,702**	**6,442**	**2,571,794**	**75,790**	**175,046**	**2,822,630**

Consolidated Statement of Changes in Taxpayers' Equity

For the year ended 31 March 2018

Defra Group

	Note/Ref	General Fund £000	Revaluation Reserve £000	Hedging Reserve £000	Taxpayers' Equity £000	Charitable Funds - Restricted/ Endowment £000	Charitable Funds - Unrestricted £000	Total Reserves £000
					2017-18			
Balance as at 31 March 2017		(298,709)	2,030,701	(2,686)	1,729,306	43,534	158,875	1,931,715
Adjusted Opening balance 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	SoCF	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	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	3.2	1,077	-	-	1,077	-	-	1,077
Notional recharges and other non cash items	3.2	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 loss	OCE	82,674	-	-	82,674	-	-	82,674
Revaluation/impairments - hedging reserve		-	-	32,087	32,087	-	-	32,087
Contributions in respect of unfunded benefits		8,500	-	-	8,500	-	-	8,500
Release of reserves to SoCNE		-	-	(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

Consolidated Statement of Changes in Taxpayers' Equity

For the year ended 31 March 2019

Core Department and Agencies

		2018-19				
	Note/Ref	**General Fund**	**Revaluation Reserve**	**Hedging Reserve**	**Taxpayers' Equity**	**Total Reserves**
		£000	**£000**	**£000**	**£000**	**£000**
Balance at 1 April 2018		(1,095,430)	162,907	8,746	(923,777)	(923,777)
IFRS 9 Carrying amount adjustment		769	-	(609)	160	160
Adjusted Opening balance 1 April 2018		(1,094,661)	162,907	8,137	(923,617)	(923,617)
Net parliamentary funding - drawn down	SoCF	2,625,372	-	-	2,625,372	2,625,372
Net parliamentary funding - deemed		720,714	-	-	720,714	720,714
Funding (to)/ from other bodies	SoCF	(1)	-	-	(1)	(1)
Supply (payable) adjustment		(636,351)	-	-	(636,351)	(636,351)
CFER Income Payable to the Consolidated Fund	SoPS 4	(1,623)	-	-	(1,623)	(1,623)
Net operating costs for the year	SoCNE	(1,929,150)	-	-	(1,929,150)	(1,929,150)
Non-cash adjustments						
Non-cash charges-auditors' remuneration	3.2	1,083	-	-	1,083	1,083
Notional recharges and other non cash items	3.2	(28,451)	-	-	(28,451)	(28,451)
Movement in reserves						
Recognised in other comprehensive expenditure:						
Revaluation of PPE	OCE	-	13,567	-	13,567	13,567
Revaluation of intangibles	OCE	-	4,052	-	4,052	4,052
Revaluation of investments	OCE	-	50	-	50	50
Revaluation of euro receivable	OCE		115		115	115
Pension actuarial movements	OCE	21,031	-	-	21,031	21,031
Revaluation/impairments - hedging reserve		-	-	37,789	37,789	37,789
Contributions in respect of unfunded benefits		8,300	-	-	8,300	8,300
Release of reserves to SoCNE		-	-	(41,212)	(41,212)	(41,212)
Transfers between reserves		20,682	(20,682)	-	-	-
Other movements in reserves		-	-	1,728	1,728	1,728
Balance at 31 March 2019		**(293,055)**	**160,009**	**6,442**	**(126,604)**	**(126,604)**

Consolidated Statement of Changes in Taxpayers' Equity

For the year 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 as at 31 March 2017		(923,706)	151,408	(2,686)	(774,984)	(774,984)
Adjusted Opening balance 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	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	3.2	1,077	-	-	1,077	1,077
Notional recharges and other non cash items	3.2	(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 loss	OCE	(11,113)	-	-	(11,113)	(11,113)
Revaluation/impairments - hedging reserve		-	-	32,087	32,087	32,087
Contributions in respect of unfunded benefits		8,500	-	-	8,500	8,500
Release of reserves to SoCNE		-	-	(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)

The notes on pages 106–163 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 2018–19 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 and estimation techniques that management have made in the process of applying the department's accounting policies are:

- Revenue recognition – Basic Payment Scheme (BPS) (see Note 1.5.1), Rural Development Programme for England (RDPE) expenditure (see Note 1.5.2) and Note 4.
- Determining the recognition points and measurement basis for disallowance penalties (see Note 12.3);
- Environment Agency (EA) accrued and deferred income, and contract assets/liabilities (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);
- Use of derivative financial instruments and hedging techniques (see Note 1.17.3);
- Provisions, including those for abandoned metal mines. See Note 12.2 for details of assumptions underpinning the discount rate and inflation rate used in related calculations. Note 12.4 highlights the uncertainties regarding the value and timing of insurance liabilities. Note 12.5 discusses the significant uncertainties regarding the costs and timeframe of the Abandoned Metal Mines Provision. Similarly, Note 12.6, covering the

Foot and Mouth Disease Burial Sites Provision, highlights significant uncertainties as to the time period over which conditions for managing environmental risks will continue at FMD Burial Sites.

- Property plant and equipment valuation, including the estimation of useful expected lives of land and buildings (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;
- Satisfaction of performance obligations, and determination of transaction prices per IFRS 15 (see Note 1.12);
- IFRS 9 business model assessment and calculation of Expected Credit Losses, including the estimation of the impact of future events (see Note 8).

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 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 Chapter 6 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, see Note 17 for further details.

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 Rural Payments Agency (RPA) Reported Income and Expenditure

BPS expenditure for England is managed by the RPA on behalf of Defra. Defra has no managing authority status for BPS 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 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.

Details of scheme expenditure, classed separately as current grants for BPS, RDPE and Other Paying Agencies are to be found in Note 3.3. Corresponding details for scheme income is detailed in Note 4.1, under EU Funding.

1.5.2 RDPE Scheme Income and Expenditure

Payments under RDPE are made by RPA on behalf of Defra 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. Defra delegates authority to RPA to administer certain elements of RDPE, including validation and payments of eligible claims as authorised by Natural England (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.

1.6 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 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. This requires the application of estimates and judgements. Land and property assets are revalued at least every five years from the anniversary of their initial recognition in accordance with FReM requirements. Between valuations, the Department updates asset values through the application of appropriate indices. The selection and application of indices represents a key judgement, and there is a risk that this could result in different values in the intervening years compared to a full valuation if these had been undertaken each year.

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.

Where Defra hold the lease, the costs are recharged through allocation of floor space back to tenants. For bodies that are within Defra group the floor spaces are signed off by delivery body Finance Directors after consultation with their operational businesses, and recharged back notionally. For any Other Government Departments and external tenants, the costs are hard charged through invoicing.

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 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 (CAP), 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

Revenue is measured based on the consideration specified in a contract with a customer. Income from Government Grants (accounted under IAS 20: Accounting for Government Grants), insurance income and charity income are recorded as other operating income.

The group recognises revenue from contracts with customers in accordance with the five stage model set out in IFRS 15 Revenue from contracts with customers. The latter replaced IAS 18 in 2018–19.

Details of Defra's main performance obligations, how and when they are satisfied, and the determination of transaction prices, is detailed in Note 4. In the comparative period, revenue was measured at the fair value of the consideration received or receivable, and revenue from the sale of goods and services was recognised when the significant risks and rewards of ownership had been transferred to the customer.

EU Funding, most significantly relating to RPA scheme payments, is the biggest constituent of income. This is covered in detail in 1.5.1 and 1.5.2.

Accrued income may involve a greater element of judgement, requiring management to make an estimate of the liability accruing to the Department based on the information they hold at that point in time (for example, accruing for the value of work completed but not yet invoiced).

Within receivables and payables there are accrued and deferred income balances for EA's fees and charges where there is a surplus or deficit. Charging schemes are required to break even over a reasonable period of time and judgement is required in assessing the factors behind whether the surplus or deficit will result in a break even position over this reasonable period.

Flood Re's insurance income is accounted through IFRS 4 (Insurance Contracts). This includes

- Gross written premiums are earned on a pro rata basis over the term of the underlying insurance contract as a proxy to the underlying risk.
- Ceded premiums, which comprise the total premiums payable for the whole cover provided by contracts entered into in the period and are recognised on the date on which the policy incepts.

- Fee and commission income consists entirely of commissions receivable on ceded reinsurance contracts and
- Commission income varies with, and is directly related to, the underlying reinsurance contracts.

See Flood Re's ARA for more details.

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.

Accrued expenditure is recognised when the department has an unconditional obligation to pay customers, and is based on agreed amounts, contractually or by another form of mutual agreement.

Expenditure which is capital in nature but which does not facilitate the retention of the associated risks and rewards in the future, or cannot reliably estimate the useful life of the assets, is expensed in year. This relates to EA's activities and is included in Note 3.1. 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 and RDPE, are translated into sterling using the appropriate exchange rate. 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

These comprise financial assets and financial liabilities. See Notes 8, 9, 10 and 11 for details of financial instruments.

1.17.1 Financial Assets

Financial assets are categorised into one of three groups:

Amortised Cost

Loans and Investments are initially held at fair value plus transaction cost, then at amortised cost. Other receivables are also measured at amortised cost, which is generally invoiced value, as these are generally short term in nature. Accruals (which do not meet the definition of financial instruments), are included in other receivables.

Fair Value through Profit and Loss (FVPL).

Derivative financial instruments held for trading are valued at FVPL, with changes in fair value recorded against expenditure.

Fair Value through Other Comprehensive Expenditure (FVOCE).

The Eco Business Fund investment, forming part of the department's official development assistance spend, is classified at FVOCE, as are derivative instruments in designated hedging relationships.

The categorisation is arrived at after conducting both of the following:

- Business model assessment. This assesses the objective of holding financial assets. This could be either collecting the contractual cash flows, Selling the financial assets, or both, and
- Contractual cash flows' characteristics test (or Solely Payments of Principal and Interest (SPPI) – Test). This looks at whether cash flows are consistent with a basic loan arrangement (i.e. repayments of principal and interest on agreed dates).

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. Accruals (which do not meet the definition of financial instruments), are included in other payables.

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.

Promissory Notes payable have been classified as financial liabilities measured at amortised cost. They have been shown as due within 1 year, as they are legally payable on demand, so the maturity profile in the Consolidated Statement of Financial Position, and in Note 11, shows the earliest date at which they could be payable.

Contract liabilities are measured at amortised cost, which is the invoiced amount payable.

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 IFRS 9 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.

When option contracts are used to hedge forecast transactions, the agency designates only the intrinsic value of the options as the hedging instrument. Gains or losses relating to the effective portion of the change in intrinsic value of the options are recognised in the cash flow hedge reserve within Taxpayers' Equity. The changes in the time value of the options that relate to the hedged item are recognised within Other Comprehensive Expenditure in the costs of hedging reserve within Taxpayers' Equity.

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 13.

1.20 Provisions

The department provides for obligations arising from past events where the department has a present obligation at the end of the financial year, 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.

The main provisions relate to disallowance, which is subject to uncertainties relating to the timing of EU audits. Also, legacy liabilities relating to abandoned metal mines and foot and mouth disease (FMD) burial sites, for which Defra has a constructive obligation.

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.

See Note 12 for full details of all material provisions, together with details of judgements and estimation uncertainty.

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 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 16 - Leases. This standard is generally effective in government from 1 April 2020. 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. For all leases not covered by exemptions, lessees must recognise a right of use asset representing their right to use the underlying asset and a lease liability representing the obligation to make lease payments. The right of use asset and lease liability will be measured initially at the present value of unavoidable future lease payments. IFRS 16 is expected to have a considerable impact in financial reporting terms.

On initial application, the FReM requires government bodies to adopt the option of recognising the cumulative effects of applying IFRS 16 as an adjustment to the opening balance of taxpayers' equity. This means that the amounts disclosed in the 2019–20 accounts for lease liabilities will not be re-stated in 2020–21. Contracts that were previously assessed under IAS 17 and IFRIC 4 will not be re-assessed to determine whether they contain a lease.

Defra expects that its existing finance leases will continue to be recognised on the same basis, and that all of its existing operating leases that are not short term or low value will fall within the scope of IFRS 16. This means that the implementation of IFRS 16 will increase the value of property, plant and equipment assets and the value of lease liabilities. Note 7.2.1 includes a disclosure of undiscounted future cash flows under existing operating leases. As the values of right of use assets and lease liabilities to be recognised in the financial statements will be based on the discounted values of these cash flows, the impact on the financial statements for these contracts will, therefore, be lower than these amounts, if lease terms are unchanged and there are no other relevant cash flows that need to be taken into account. We expect some property lease terms to be longer than assumed in the operating lease disclosures, so this will partially offset the impact of discounting. Taxpayers' equity will reflect any differences between right of use assets and lease liabilities at initial application. A programme of work is underway to establish precise valuations on all former operating leases as at 1 April 2020.

The key judgements regard the elements of the definition of a lease, namely the existence of an identified asset and the ability to control the use of an identified asset. Judgement will also be required to establish the lease term over which cash flows are discounted to determine whether it is reasonably certain that extension or termination options will be exercised.

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 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.

1.23 Adoption of new and revised standards (IFRS 9 and IFRS 15)

At the date of authorisation of these financial statements, the following standards and interpretations, relevant to Defra, are now effective and have been adopted:

IFRS 9 Financial Instruments – Classification and Measurement

See Notes 8 and 16 for details on the effect of this standard on these financial statements.

IFRS 15 Revenue from Contracts with customers

See Notes 4 and 16 for more details. The introduction of the standard has not had a material impact on these financial statements.

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 (the Board) and Executive Committee. Defra reports regularly on this basis and performance is monitored against these areas. The reportable segments are split by the core department and delivery body. Where delivery bodies' reported revenue is 10 percent or less of the combined revenue of all operating segments, they have been grouped together.

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

In 2018–19 Defra received funding of £3,816 million from the EU, 79 percent of its income (2017–18, of £3,162 million, 77 percent), which falls mainly to the RPA and core department. This is mainly to fund CAP Basic Payment Scheme expenditure and funding for rural development schemes. Of the remaining income, Defra does not rely on any one major customer.

	2018-19			2017-18 Restated		
Body	**Gross Expenditure**	**Gross Income**	**Net Total**	**Gross Expenditure**	**Gross Income**	**Net Total**
	£000	£000	£000	£000	£000	£000
Core Department	957,286	(473,508)	483,778	1,231,877	(376,785)	855,092
Rural Payments Agency	3,529,772	(3,384,175)	145,597	2,927,103	(2,801,853)	125,250
Other Agencies	385,182	(119,473)	265,709	358,251	(115,604)	242,647
Environment Agency	1,412,919	(440,475)	972,444	1,334,823	(416,380)	918,443
Other Non Departmental Public Bodies	492,669	(418,072)	74,597	475,100	(406,519)	68,581
Total	**6,777,828**	**(4,835,703)**	**1,942,125**	**6,327,154**	**(4,117,141)**	**2,210,013**

The operating segments have been updated to reflect the current reportable delivery body segments of the Department in 2018–19. As a result, 2017–18 has been restated.

3 Expenditure

3.1 Staff and other Costs

	2018-19 Core Department and Agencies	2018-19 Defra Group	Re-presented 2017-18 Core Department and Agencies	Re-presented 2017-18 Defra Group
	£000	£000	£000	£000
Staff Costs				
Wages and salaries	405,694	859,478	316,434	775,833
Social security costs	34,726	88,017	28,411	80,236
Other pension costs	64,103	88,041	53,253	76,406
Other Costs				
Rentals under operating leases	26,656	53,537	25,867	52,262
Travel, subsistence and hospitality	24,605	47,872	19,728	45,163
Research and development expenditure	28,486	52,374	28,703	53,219
Veterinarian costs	25,723	25,723	24,518	24,518
Consumables	18,078	34,229	15,861	34,105
IT service costs	120,116	184,185	104,284	169,514
Vessels	6,592	6,592	6,282	6,282
Estate management	63,546	108,140	42,142	83,301
Consultancy	32,063	54,542	11,656	37,553
Hired and contracted services	15,295	91,326	11,976	89,597
Training	6,469	15,488	3,810	14,279
Publicity, marketing and promotion	1,758	20,828	1,414	20,184
Office services	20,782	21,850	24,580	25,534
Early retirement	1,028	1,572	1,915	2,509
Exchange rate (gains)/losses - realised	1,347	1,349	2,446	2,446
Exchange rate (gains)/losses - unrealised	107	107	266	266
NAO auditors' remuneration	281	581	268	580
Flood Re Statutory audit fee	-	210	-	222
Other audit fees	2,783	2,858	2,510	2,612
Internal audit fees	1,242	1,975	247	881
Flood and coastal defence works	-	326,379	-	296,288
Operational maintenance	-	13,254	-	21,584
Fees and commissions	11,643	39,178	9,965	33,738
Reservoir operating agreements	-	24,109	-	19,955
Transport and plant costs	-	18,580	-	20,680
EU disallowance	6,404	6,404	(647)	(647)
Forestry Commission subsidy to Forest Enterprise England	17,168	17,168	19,468	19,468
Corporation tax paid by NDPBs	-	25,812	-	24,726
Flood Re Reinsurance Expenditure	-	74,543	-	74,018
International Subscriptions	21,364	21,447	15,191	15,191
Credit Losses	(142)	1,786	(30)	2,408
Other	33,310	101,392	36,287	79,926
Total	**991,227**	**2,430,926**	806,805	2,204,837

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 2018–19 core department figures for NAO auditors' remuneration include cash fees for EA and NE.

Our expenditure note has been re-presented into three separate expenditure notes for 2018–19. This has been done to reduce the size of the overall note to make it easier to read. We have removed immaterial individual expenditure classifications and created new classifications depending on the amount disclosed. The following classifications have been re-presented in Other for 2017–18:

Classification	**£000**
Interest charges	83
Off balance sheet PFIs and other service concession arrangement service charges	3,271
Stationary and printing	1,428
Aerial, surface and satellite surveillance	1,754
Levy collection costs	936
Payments to Defra executive agencies	8,652
Flood Re Insurance claim expense	1,134

3.2 Non-cash items

	2018-19		Re-presented 2017-18	
	Core Department and Agencies	**Defra Group**	Core Department and Agencies	Defra Group
	£000	**£000**	£000	£000
Depreciation	38,096	128,891	27,647	117,679
Amortisation	22,170	47,737	31,691	55,639
Profit on the disposal of PPE and financial investments	(373)	(1,890)	(440)	(1,964)
Loss on the disposal of PPE and financial investments	364	569	443	1,529
Impairment on non financial assets	16,514	27,891	86	7,387
NAO auditors' remuneration	1,083	1,083	1,077	1,077
Pensions provided for in year/(written back)	11,774	177,751	14,539	157,450
Other provisions provided for/(written back) as detailed in note 12	(404,243)	(389,486)	156,153	161,442
Unwinding of discount on provisions	(9,919)	(9,919)	(4,102)	(4,102)
Capital grant-in-kind	-	-	1,300	1,300
Notional recharges and other non-cash items	(28,451)	-	(33,489)	59
Total	**(352,985)**	**(17,373)**	194,905	497,496

3.3 Grants and subsidies

	2018-19		Re-presented 2017-18	
	Core Department and Agencies	**Defra Group**	Core Department and Agencies	Defra Group
	£000	**£000**	£000	£000
Grants and subsidies: EU				
Capital grants	-	110	-	-
Current grants - Basic Payment Scheme	1,967,448	1,967,448	1,743,628	1,743,628
Current grants - Rural Development Programme for England	427,490	427,490	321,320	321,320
Current grants - payments to other paying agencies	1,344,069	1,344,069	1,006,657	1,006,657
Other EU current grants	75,223	75,552	52,109	52,109
Unrealised (gains)/losses	(630)	(630)	(4,045)	(4,045)
Grants and subsidies: other				
Capital grants	44,169	146,390	21,421	99,458
Current grants - Grant-in-Aid to NDPBs	1,021,166	-	1,030,958	-
Current grants - Rural Development Programme for England	64,482	64,482	65,649	65,649
Grants to national parks	47,938	47,938	47,127	47,127
PFI waste management grants to local authorities	106,368	106,368	118,341	118,341
Other grants to local authorities	46,730	48,978	19,988	33,616
Other current grants & subsidies	128,259	136,080	140,114	140,961
Total	**5,272,712**	**4,364,275**	4,563,267	3,624,821

To improve the disclosure of Grants and subsidies the following classifications have been separated from Current grants – Grants to Local Authorities and re-presented for 2017–18 as follows:

Classification	**£000**
Grants to national parks	47,127
PFI waste management grants to local authorities	118,341
Other grants to local authorities	33,616

4 Income – Analysis of Operating Income

Detailed in Note 4.1 below is the Revenue from Contract with Customers, assessed against IFRS 15, together with narrative assessing the impact and associated accounting judgements. Where income has been assessed as falling outside the scope of IFRS 15, this has been reported in Note 4.2. Comparative information, detailed in Note 4.3, has not been restated and continues to be reported under IAS 18. Therefore, this cannot be directly compared with the figures reported under IFRS 15 in Note 4.1.

4.1 Analysis of revenue from contracts with customers

	Core Department	Rural Payment Agency	Other Agencies	2018-19 Core Department and Agencies	Environment Agency	Other Non Departmental Public Bodies	Defra Group
	£000	£000	£000	£000	£000	£000	£000
Sales of goods and services							
Scientific advice, analysis and research	-	-	24,511	**24,511**	-	577	**25,088**
Animal disease surveillance and diagnostics	-	-	6,175	**6,175**	-	-	**6,175**
Veterinary research and development	-	-	1,280	**1,280**	-	-	**1,280**
Scientific products	-	-	1,535	**1,535**	-	-	**1,535**
Provision of corporate services (outside Defra group)	-	-	11,378	**11,378**	-	-	**11,378**
TB Compensation salvage receipts	-	-	10,509	**10,509**	-	-	**10,509**
Sale of other goods	2,871	-	-	**2,871**	-	7,102	**9,973**
Other services (including Defra group)	3,493	1,086	2,964	**7,543**	20,728	(873)	**27,398**
Fees, levies and charges							
Veterinary medicines authorisations	-	-	7,344	**7,344**	-	-	**7,344**
Veterinary medicine residues surveillance	-	-	3,656	**3,656**	-	-	**3,656**
Plant health inspections and seeds charges	-	-	8,376	**8,376**	-	-	**8,376**
Environmental protection charges	-	-	-	**-**	189,305	-	**189,305**
Abstraction charges	-	-	-	**-**	125,148	-	**125,148**
Flood risk levies	-	-	-	**-**	48,537	-	**48,537**
Flood Re Levy Income	-	-	-	**-**	-	180,000	**180,000**
Agriculture and horticulture levies	-	-	-	**-**	-	58,133	**58,133**
Sea Fish industry levies	-	-	-	**-**	-	8,244	**8,244**
Discretionary Advice	-	-	-	**-**	-	4,536	**4,536**
Other fees, levies and charges	-	-	2,171	**2,171**	-	15	**2,186**
EU funding							
Other services	463	-	16	**479**	-	74	**553**
Other EU income	-	-	3,350	**3,350**	-	245	**3,595**
Licences							
Fishing licence duties	-	-	-	**-**	21,880	-	**21,880**
Navigation licence income	-	-	-	**-**	8,738	-	**8,738**
Other licences	5,527	-	-	**5,527**	250	3,098	**8,875**
Other Income							
Other grant income	-	-	-	**-**	-	368	**368**
Recoveries for secondments outside Defra group	399	-	281	**680**	-	1,446	**2,126**
APHA income from devolved administrations	-	-	33,279	**33,279**	-	-	**33,279**
Other Income	-	-	600	**600**	-	390	**990**
Total income from contracts with customers	**12,753**	**1,086**	**117,425**	**131,264**	**414,586**	**263,355**	**809,205**

Impact of IFRS 15

Each contract with a customer has been reviewed in line with the five step model.

Defra's major income streams, and an assessment of the related performance obligations, are detailed in the table below:

Contract Type	Note 4 Heading	Entity impacted	Categories of performance obligation	Previous basis of recognition (pre-IFRS 15)	Basis of recognition (IFRS 15)	Summary of impact
Fees and charges (for environmental protection, water abstraction)	Environmental protection charges, abstraction charges	EA	EA issues licences and permits, imposes levies.	Revenue for application for a licence or permit for which revenue is recognised at the time of the application, and the subsistence charge, which covers EA's costs of regulating an activity, is recognised at the point the permit period commences.	Revenue for application for a licence or permit for which revenue is recognised at the time of the application, and the subsistence charge, which covers EA's costs of regulating an activity, is recognised at the point the permit period commences.	No impact on timing or amount.
Statutory levy	Flood Re Levy Income, Agriculture and horticulture levies	Flood Re, AHDB	Statute requires that the bodies charge levies.	Flood Re recognise the charge when it is levied against the insurance industry, which is on an annual basis. AHDB generally recognise revenue on receipt of statutory returns from customer.	Flood Re recognise the charge when it is levied against the insurance industry, which is on an annual basis. AHDB generally recognise revenue on receipt of statutory returns from customer.	No impact on timing or amount.
Flood Risk Levies	Flood risk levies	EA	Construction and maintenance of new and existing flood defences.	Costs and revenues are matched.	Costs and revenues are matched.	No impact on timing or amount.

Contract Type	Note 4 Heading	Entity impacted	Categories of performance obligation	Previous basis of recognition (pre-IFRS 15)	Basis of recognition (IFRS 15)	Summary of impact
Other income	APHA income from devolved administrations	APHA	Production of Customer Board Reports.	Upon agreement of monthly report by devolved administrations.	Upon agreement of monthly report by devolved administrations.	No impact on timing or amount.
Scientific project income	Scientific advice, analysis and research	APHA, Cefas	Production of a report (POs are contracted milestones within that process).	At completion of contracted milestones.	At completion of contracted milestones, if, as is generally the case, contract stipulates that money spent up to a specific date can be recovered from the customer prior to completion of the project.	No material impact on timing or amount.

The aggregate amount of the transaction price allocated to the performance obligations that are unsatisfied (or partially unsatisfied) as of the end of the reporting period is:

	2019-20
	£000
Flood Risk Management Charges	71,900
Water Abstraction Charges	19,800
Environmental Protection Charges	2,900

Flood risk management chiefly involves the construction and maintenance of new and existing flood defences.

Significant Estimates and Judgements

Satisfaction of performance obligations

The key area of judgement for most entities is around the timing of revenue recognition for sales of services. A performance obligation is a promise to deliver a good or provide a service (or a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer). Defra satisfies a performance obligation and recognises revenue over time, if one of the following criteria is met:

- The entity's performance does not create an asset with an alternate use to Defra, and Defra has as an enforceable right to payment for performance completed to date. Defra's scientific projects are commissioned with a view to providing evidence and furthering research, and are not of direct use or relevance to another customer. In many cases, there is a right to payment for performance to date, in the event of contract cancellation.

- The entity's performance creates or enhances an asset that the customer controls as the asset is created or enhanced. This is relevant, for example, for partnership funding arrangements at EA, with income recognised on progress on the construction of the asset.

- The customer simultaneously receives and consumes the benefits provided by Defra's performance as it performs.

For performance obligations where one of the above conditions are not met, revenue is recognised at the point in time at which the performance obligation is satisfied. For services, licences and fees levied by public bodies, control over the service and the benefit of that service is gained at the point licence is granted. EA, for instance, have a right to collect from the customer as soon as billed, which they do upon issue of permit and on 1 April for ongoing permits. This is also relevant for all retail income (for example, at RBG Kew), where the customer simultaneously receives and consumes the benefits provided.

Determination of transaction prices

The transaction price is the amount that Defra expects to receive for the goods and services it supplies.

Defra is required to determine the transaction price in respect of each of its contracts with customers and in line with Managing Public Money. Where revenue is recognised over time, Defra considers the efforts to the satisfaction of performance obligation.

For EA fees and charges, the rates are often those agreed by the EA Board or Defra's Secretary of State, determined in legislation.

Sales of goods are transacted at the value agreed on the invoice.

Defra assesses the impact of any variable consideration in the contract. These might relate to discounts or penalties, the existence of any significant financing component and any non-cash consideration in the contract. In general, these elements are not relevant to contracts within Defra.

Contract Modifications

For contracts which are open as at 1 April 2018, there have been no major modifications before the earliest period presented. Therefore, no change to opening reserves is required in this respect under IFRS 15.

4.2 Analysis of other operating income

The following income, having been assessed against the criteria for IFRS 15, is deemed to not be revenue from contracts with customers, and is therefore recorded as other operating income.

	2018-19 Core Department and Agencies	Defra Group
	£000	£000
Goods and services		
Covent Garden Market income	2,030	2,030
Other services	7,928	8,236
Income payable to the consolidated fund	1,623	1,623
Other Income		
Basic Payment Scheme	1,971,268	1,971,268
Income payable to other paying agencies	1,343,815	1,343,815
Structural fund / RDPE income	427,490	427,490
Flood Re Insurance Income	-	60,991
Lease Income	533	685
Charity Income	-	50,129
Lottery Grant Income	-	1,960
Other interest receivable	-	2,203
Current Grant Income - non EU	1,359	7,491
Current Grant Income - EU	24,243	54,578
Capital Grant Income - non EU	1,400	23,827
Capital Grant Income - EU	-	1,321
Other EU Income	68,851	68,851
Total other operating income	**3,850,540**	**4,026,498**

4.3 Income – Analysis of Operating Income

	2017-18 Core Department and Agencies	Defra Group
	£000	£000
Sales of goods and services		
Scientific advice, analysis and research	17,902	18,067
Animal disease surveillance and diagnostics	6,125	6,125
Veterinary research and development	1,793	1,793
Scientific products	1,634	1,634
TB compensation salvage receipts	25,679	25,679
Covent Garden Market income	7,032	7,032
Sale of other goods	2,560	9,965
Other services (including Defra group)	32,948	62,623
Fees, levies and charges		
Veterinary medicines authorisations	7,328	7,328
Veterinary medicine residues surveillance	4,019	4,019
Plant health inspections and seeds charges	8,569	8,569
Environmental protection charges	-	170,981
Abstraction charges	-	118,675
Flood risk levies	-	41,389
Flood Re insurance income	-	232,370
Agriculture and horticulture levies	-	60,307
Sea Fish industry levies	-	8,481
Other fees, levies and charges	1,855	1,855
EU funding		
Basic Payment Scheme	1,747,285	1,747,285
Income payable to other paying agencies	1,007,230	1,007,230
Structural fund / RDPE income	321,320	321,320
TSE surveillance	457	457
Fisheries guidance	16,348	16,348
Other services	84	3,331
Other EU income	44,637	66,221
Licences		
Fishing licence duties	-	23,312
Navigation licence income	-	8,474
Marine and coastal licencing	-	3,260
Other licences	5,274	6,413
Other income		
Current grant income - EU	-	1,161
Current grant income - non EU	28	5,139
Capital grant income - non EU	-	26,999
Charity income	-	54,018
Recoveries for secondments outside Defra group	201	201
Other interest receivable	-	366
APHA income from devolved administrations	32,157	32,157
Income payable to the consolidated fund	4,623	4,623
Other income	1,524	1,934
Total operating income	3,298,612	4,117,141

5 Property, Plant and Equipment

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 2018	87,272	440,031	35,484	4,785,011	119,111	185,342	533,609	60,796	257,891	**6,504,547**
Additions	353	(1,502)	-	-	5,142	4,735	6,591	10,129	149,052	**174,500**
Transfers	(1)	-	-	-	(779)	-	-	-	(7,237)	**(8,017)**
Disposals	(184)	(1,552)	-	(1,155)	(4,691)	(4,691)	(25,475)	(4,926)	-	**(42,674)**
Impairment	(576)	(19,364)	-	(3,762)	-	(607)	(615)	-	(2,910)	**(27,834)**
Reclassifications	(7)	2,029	-	101,759	192	26,708	1,045	-	(133,350)	**(1,624)**
Reclassified as held for sale	-	-	-	(7,200)	-	-	-	-	-	**(7,200)**
Revaluation	168	15,343	511	107,994	2,266	669	2,814	1,470	-	**131,235**
At 31 March 2019	**87,025**	**434,985**	**35,995**	**4,982,647**	**121,241**	**212,156**	**517,969**	**67,469**	**263,446**	**6,722,933**
Depreciation										
At 1 April 2018	-	99,298	10,416	2,201,854	66,755	131,710	439,597	38,634	-	**2,988,264**
Charges in year	-	15,152	874	57,408	14,061	17,472	14,696	6,512	-	**126,175**
Transfers	-	1	-	-	-	1	-	(1)	-	**1**
Disposals	-	(739)	-	(446)	(4,467)	(4,640)	(25,232)	(4,759)	-	**(40,283)**
Impairment	-	2	-	(278)	-	51	(51)	-	-	**(276)**
Reclassifications	-	(559)	-	-	6	563	-	-	-	**10**
Revaluation	-	646	163	54,832	1,797	1,825	2,650	985	-	**62,898**
At 31 March 2019	**-**	**113,801**	**11,453**	**2,313,370**	**78,152**	**146,982**	**431,660**	**41,371**	**-**	**3,136,789**
Net book value 31 March 2019	**87,025**	**321,184**	**24,542**	**2,669,277**	**43,089**	**65,174**	**86,309**	**26,098**	**263,446**	**3,586,144**
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
Assets financing										
Owned	87,025	321,184	24,542	2,669,277	42,946	65,174	86,195	26,098	263,446	**3,585,887**
Finance leased	-	-	-	-	143	-	114	-	-	**257**
Net book value 31 March 2019	**87,025**	**321,184**	**24,542**	**2,669,277**	**43,089**	**65,174**	**86,309**	**26,098**	**263,446**	**3,586,144**
of which:										
core department and agencies	31,670	279,409	-	-	24,333	41,615	15,754	372	74,122	**467,275**
NDPBs	55,355	41,775	24,542	2,669,277	18,756	23,559	70,555	25,726	189,324	**3,118,869**
Total	**87,025**	**321,184**	**24,542**	**2,669,277**	**43,089**	**65,174**	**86,309**	**26,098**	**263,446**	**3,586,144**

Plant and machinery includes vessels owned by Cefas with a net book value of £6 million (2017–18, £6 million). Infrastructure assets include flood defences owned by EA, including the Thames Barrier with a net book value of £1,139 million (2017–18, £1,132 million). Additions include a non-cash element represented by payables and transfers.

	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

5.2 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 NNR, 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

	2018-19 Operational	2018-19 Non-Operational	2018-19 Total	2017-18 Operational	2017-18 Non-Operational	2017-18 Total
	£000	£000	£000	£000	£000	£000
Valuation						
At 1 April	237,820	60,489	298,309	208,877	54,245	263,122
Additions	11,421	24	11,445	17,812	1,684	19,496
Transfers	(30,271)	-	(30,271)	-	(35)	(35)
Disposals	-	-	-	-	(215)	(215)
Impairment	-	11	11	-	(1,227)	(1,227)
Reclassifications	-	1,831	1,831	2,419	(24)	2,395
Revaluation	7,237	(486)	6,751	8,712	6,061	14,773
At 31 March	**226,207**	**61,869**	**288,076**	237,820	60,489	298,309
Depreciation						
At 1 April	32,697	-	32,697	30,475	-	30,475
Charged in year	2,379	-	2,379	2,211	-	2,211
Transfers	(30,272)	-	(30,272)	-	-	-
Revaluation	33	-	33	11	-	11
At 31 March	**4,837**	**-**	**4,837**	**32,697**	**-**	**32,697**
Net book value at 31 March	**221,370**	**61,869**	**283,239**	205,123	60,489	265,612
Net book value at 1 April	205,123	60,489	265,612	178,402	54,245	232,647
Assets financing						
Owned	221,370	61,869	283,239	205,123	60,489	265,612
Finance leased						
Net book value 31 March	**221,370**	**61,869**	**283,239**	205,123	60,489	265,612
of which:						
NDPBs	221,370	61,869	283,239	205,123	60,489	265,612
Total	**221,370**	**61,869**	**283,239**	205,123	60,489	265,612

5.3 Cash Additions

Cash additions (adjusted for capital accruals) for property, plant and equipment, heritage assets and agricultural assets amount to £171 million (2017–18, £192 million) as per the Consolidated Statement of Cash Flows (SoCF).

6 Intangible Assets

Defra Group

	2018-19				2017-18			
	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	593,419	116,869	40,441	750,729	667,926	108,248	41,872	818,046
Additions	463	384	64,941	65,788	282	312	26,940	27,534
Disposals	(36,402)	(6,168)	-	(42,570)	(102,930)	(1,342)	(7)	(104,279)
Impairments	2	(346)	-	(344)	(2)	4	-	2
Transfers	2,108	206	5,563	7,877	2,930	2,885	2,146	7,961
Reclassifications	10,758	2,503	(13,471)	(210)	20,776	9,735	(30,510)	1
Revaluation	11,899	684	-	12,583	4,437	(2,973)	-	1,464
At 31 March	**582,247**	**114,132**	**97,474**	**793,853**	593,419	116,869	40,441	750,729
Amortisation								
At 1 April	442,241	66,464	-	508,705	502,260	58,034	-	560,294
Charged in year	34,682	13,055	-	47,737	43,877	11,762	-	55,639
Disposals	(36,407)	(6,150)	-	(42,557)	(102,930)	(1,342)	-	(104,272)
Transfers	-	-	-	-	(2)	2	-	-
Reclassifications	-	(13)	-	(13)	(1,894)	1,895	-	1
Revaluation	7,590	392	-	7,982	930	(3,887)	-	(2,957)
At 31 March	**448,106**	**73,748**	**-**	**521,854**	442,241	66,464	-	508,705
Net book value at 31 March	**134,141**	**40,384**	**97,474**	**271,999**	151,178	50,405	40,441	242,024
Net book value at 1 April	151,178	50,405	40,441	242,024	165,666	50,214	41,872	257,752
Assets financing								
Owned	134,141	40,216	97,474	271,831	151,178	50,405	40,441	242,024
Finance leased	-	168	-	168	-	-	-	-
Net book value 31 March	**134,141**	**40,384**	**97,474**	**271,999**	151,178	50,405	40,441	242,024
of which:								
core department and agencies	92,248	1,577	52,802	146,627	105,315	354	13,806	119,475
NDPBs	41,893	38,807	44,672	125,372	45,863	50,051	26,635	122,549
Total	**134,141**	**40,384**	**97,474**	**271,999**	151,178	50,405	40,441	242,024

The effective date of revaluation was 31 March 2019.

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

- £57.9 million for the Common Agricultural Policy Delivery Programme held by the RPA with a remaining amortisation period of four years.
- The carrying amount that would have been recognised had the revalued class of intangible assets been measured after recognition using the cost model is £15 million for the core department.

Cash additions (adjusted for capital accruals) shown in the SoCF amount to £56 million (2017–18, £28 million).

7 Financial Commitments

7.1 Capital Commitments

Defra Group

	2018-19	2017-18
	£000	£000
Contracted capital commitments at 31 March for which no provision has been made:		
PPE	126,445	236,204
Intangible assets	12,040	17
Financial assets	36,758	117,000
Total	**175,243**	353,221
of which:		
core department and agencies	60,154	132,402
NDPBs	115,089	220,819
Total	**175,243**	353,221

At 31 March 2019, RPA had capital commitments relating to bridging payments of £8.6 million (31 March 2018, £117.0 million). These payments were made in April 2019.

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.

	2018-19		2017-18	
	Core Department and Agencies	**Departmental Group**	Core Department and Agencies	Departmental Group
	£000	**£000**	£000	£000
Land and Buildings				
Not later than one year	24,986	40,282	26,825	41,192
Later than one year and not later than five years	87,875	127,247	93,322	130,699
Later than five years	64,152	104,265	87,577	130,852
Total	**177,013**	**271,794**	207,724	302,743
Other				
Not later than one year	384	11,021	372	9,060
Later than one year and not later than five years	628	15,334	205	13,786
Total	**1,012**	**26,355**	577	22,846

7.3 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:

	2018–19		2017–18 Restated	
	Core Department and Agencies	**Defra Group**	Core Department and Agencies	Defra Group
	£000	**£000**	£000	£000
Not later than one year	266,507	306,082	267,930	302,753
Later than one year and not later than five years	910,234	927,552	763,892	789,444
Later than five years	1,248,391	1,248,400	1,408,687	1,410,139
Total	**2,425,132**	**2,482,034**	2,440,509	2,502,336

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 £1,561 million (2017–18, £1,653 million). All projects are now in receipt of grant and no further agreements are planned.

The Canal & River Trust’s grant is committed until 31 March 2027 before a review, where the grant can be terminated or renegotiated. The value of this commitment is £436 million (2017–18 £476 million). The comparative figures have been restated to show the ongoing commitment to pay grants, following a detailed review of the contract.

£227 million (2017–18 £114 million) relates to service contracts for information technology and includes contracts with IBM, ATOS, Adapt, Microsoft, Comaprex, Vodafone and Xerox.

Within the other financial commitments disclosure, £142 million (2017–18, £170 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.

8 Financial Instruments and Risk

IFRS 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.

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.

Following the introduction of IFRS 9 in 2018–19, Defra recategorised its financial instruments to accord with the requirements of the new standard. The comparatives in 2017–18 are still accounted under IAS 39, and, under the requirements of the FReM, are not restated.

The following table is in the format prescribed by IFRS 9.

	2018-19 Core Department and Agencies	Defra Group
	£000	£000
Financial Assets		
Financial assets measured at amortised cost		
Loans and investments	3,509	3,489
Cash and cash equivalents	636,351	1,181,590
Financial assets measured at fair value through profit or loss (FVPL)		
Derivative instruments classified as held for trading	4,862	4,862
Financial assets measured at fair value through other comprehensive expenditure (FVOCE)		
Derivative instruments in designated hedge accounting relationships	18,070	18,070
ECO business fund	20,000	20,000
Total	**682,792**	**1,228,011**
Financial Liabilities		
Financial liabilities measured at amortised cost		
EA reservoir agreement	-	(141,606)
Financial liabilities measured at fair value through profit and loss (FVPL)		
Derivative instruments classified as held for trading	(1,788)	(1,788)
Financial liabilities measured at fair value through other comprehensive expenditure (FVOCE)		
Derivative instruments in designated hedge accounting relationships	(795)	(795)
Total	**(2,583)**	**(144,189)**

The table below is based on financial instruments categories in IAS 39.

	2017-18 Core Department and Agencies	Defra Group
	£000	£000
Financial Assets		
Loans and investments	31,478	31,387
Cash and cash equivalents	720,714	1,162,389
Derivative financial instrument assets	13,516	13,516
Total	765,708	1,207,292
Financial Liabilities		
Derivative financial instrument liabilities	(656)	(656)
EA reservoir agreement	-	(141,606)
Total	(656)	(142,262)

Other receivables and other payables are disclosed in Notes 10 and 11 respectively. These financial instruments are simple in nature, and carried at amortised cost, which is deemed to be a reasonable approximation of their fair value. Notes 10 and 11 also include non-financial instrument balances relating to taxation, accruals and prepayments.

The introduction of IFRS 9 resulted in some classification changes to financial assets from those disclosed in 2017–18 (financial liabilities are mainly unaffected). These changes are as follows:

- Loans and Receivables are reclassified to Financial Assets at Amortised Cost (measurement basis in both cases is amortised cost).
- Eco Business Fund changed from Available for sale to FVOCE.
- Previously, all derivative assets were captured a single heading (derivative financial assets). Derivatives in a designated hedging relationship are now classed as FVOCE. Derivatives not in a designated hedging relationship are classed as FVPL.

The implementation of the standard has resulted in a small opening adjustment to the SoCTE (see Note 16.1 for more details). This has impacted the current year balances as follows:

- RPA’s opening balance adjustment of -£609k relates to hedging instruments, so would be included in the balance of derivatives.
- APHA’s opening balance adjustment of £160k relates to expected credit loss calculations relating to receivables, so is included in financial assets at amortised cost.

On 1 April 2015, Fera Science Limited was formed, with Defra acquiring a 25 percent stake in the company (Capita acquired 75 percent). The investment in FSL is accounted as an associate, and therefore falls outside the scope of the Financial Instruments standard (IFRS 9). It is therefore excluded from the above table.

Those financial instruments measured at fair value are classed under IFRS 13 as either level one or level two inputs, with no unobservable inputs being relevant. Financial assets measured at amortised cost (which is generally invoiced value) are usually short term in nature. Accordingly, their fair value is not materially different from their carrying value.

Significant Estimates and Judgements

Business model assessment

The business model of Defra is chiefly to collect payments of principal from customers. This also includes receivables from the EU in respect of money owed for schemes processed. Also, the hold to collect and SPPI test, which requires that the contractual cash flows relating to financial assets are solely payments of principal and interest on the principal amounts outstanding (i.e. cash flows that are consistent with a basic lending arrangement), is assessed as being passed. Therefore, Defra records the receivables at amortised cost which, for receivables with no financing component, is the invoiced amount.

For the Eco Business Fund the shares are neither classified as hold to collect nor hold to collect and sell, so by default would be classified at FVPL. However, under the provisions of IFRS 9, Defra has made an irrevocable election at initial recognition to present subsequent changes in fair value in other comprehensive income. This is appropriate, given that the department’s incentive is to bolster the fund and support its initiatives, with any dividends being reinvested, and not to invest for profit.

Derivative financial assets fall outside of this assessment.

Expected credit losses

Defra has reviewed receivables balances against the creditworthiness of the related customers. In general, Defra's customers tend to be other public sector entities, to which no real prospect of default applies. Defra has, where possible, adjusted for anticipated future events, although this is inherently difficult given the current pace of political and economic developments.

Defra's receivables tend to be short term in nature (for example, trade receivables). Longer term elements are not subject to financing components. Therefore, the simplified model has been applied, in which the loss allowance is equal to lifetime Expected Credit Losses.

Defra has created a provision matrix for receivables, which gives the latest estimated lifetime Expected Credit Loss for each stream. This is based on our historic experience of credit losses over the past few financial years, updated for any known future credit issues. The greatest impact across the Defra group is at EA, who base their calculation on the average experienced credit loss for each scheme over a rolling three year period. This data will be refreshed annually to create a new percentage to be used going forward.

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 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 RPA’s, EA’s and Flood Re’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 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:

	31 March 2019		31 March 2018	
	Assets	**Liabilities**	Assets	Liabilities
	£000	**£000**	£000	£000
Euro denominated	**670,771**	**127,951**	403,352	128,587

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 Sterling Appreciates by 10%		Impact of Movement in Euro/Sterling rate Sterling Depreciates by 10%	
	31 March 2019	31 March 2018	**31 March 2019**	31 March 2018
	£000	£000	**£000**	£000
(Increase)/decrease in Net operating cost[1]	**(54,282)**	(27,476)	**54,282**	27,476
Derivative instruments				
(Increase)/decrease in Net operating cost[2]	**26,145**	19,163	**(23,990)**	(15,755)
Increase/(decrease) in Taxpayers' Equity[3]	**52,126**	55,965	**(35,190)**	(52,557)

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

[2] This is the result of the changes in fair value of derivatives instruments held for trading.

[3] 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 2019 the department has £27.3 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.

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. Flood Re'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.

Flood Re 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 Flood Re 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.

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 Flood Re assumes, as Flood Re's principal objective is to enable the availability and affordability of household insurance for homes at highest risk of flooding. Accordingly, Flood Re'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.

Flood Re 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 Flood Re as a single event UK flood that:

- impacts more than 250 properties ceded to Flood Re; 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 Flood Re.

During the year ended 31 March 2019 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 Flood Re's primary mechanism for managing and mitigating insurance risk.

The Flood Re Scheme document establishes the requirement for Flood Re to set an annual aggregate loss amount (liability limit) representing the maximum gross claims that Flood Re will pay in relation to any one accounting period. The scheme liability limit for the year ended 31 March 2019 is £2,198 million (2018: £2,133 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 Flood Re to the relevant insurers.

Flood Re requires that the outwards reinsurance protections purchased match the full £2,198 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.

8.3.2 Liquidity Risk

Flood Re must maintain sufficient liquidity at all times to support its cedents by settling claims when due. Flood Re 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.

Flood Re 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 Flood Re'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.

Flood Re anticipates generating positive cash flows, absent catastrophic flood events.

8.3.3 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).

8.3.4 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 Cash and Cash Equivalents

	2018-19		2017-18	
	Core Department and Agencies	**Defra Group**	Core Department and Agencies	Defra Group
	£000	**£000**	£000	£000
Balance at 1 April	720,714	1,162,389	602,231	907,529
Net change in cash balance	(84,363)	19,201	118,483	254,860
Balance at 31 March	**636,351**	**1,181,590**	720,714	1,162,389
The following balances at 31 March are held at:				
Government Banking Services	634,963	761,875	719,311	848,147
Commercial bank accounts and cash in hand	1,388	55,219	1,403	50,026
Short term investments	-	364,496	-	264,216
Balance at 31 March	**636,351**	**1,181,590**	720,714	1,162,389

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.

10 Trade Receivables, Financial and Other Assets

	31 March 2019		31 March 2018	
	Core Department and Agencies	**Defra Group**	Core Department and Agencies	Defra Group
	£000	**£000**	£000	£000
Amounts falling due within one year				
Trade receivables	25,419	61,510	26,432	58,325
Deposits and advances	241	234	279	340
Flood Re reinsurance receivables	-	30,704	-	25,279
Other receivables	18,665	21,492	29,356	34,654
VAT	12,093	42,806	12,217	41,123
Prepayments and accrued income	141,106	174,058	111,933	186,665
Accrued income relating to EU funding	674,336	682,203	399,530	402,876
Contract Assets	4,603	6,389		
Less Expected Credit Loss for receivables and contract assets	(2,627)	(8,791)	(3,005)	(9,830)
Trade and other receivables	**873,836**	**1,010,605**	576,742	739,432
Current loans	2,886	2,886	4,191	4,191
Current part of derivative financial instrument asset	22,932	22,932	13,516	13,516
Other financial assets	**25,818**	**25,818**	17,707	17,707
Amounts falling due after one year				
Trade receivables	19	19	12	12
Other receivables	735	743	11,677	11,683
Prepayments and accrued income	18	274	14	20
Receivables due after more than one year	**772**	**1,036**	11,703	11,715
Total receivables	**900,426**	**1,037,459**	606,152	768,854

11 Trade Payables and Other Current Liabilities

	31 March 2019		31 March 2018 Re-presented	
	Core Department and Agencies	**Defra Group**	Core Department and Agencies	Defra Group
	£000	**£000**	£000	£000
Amounts falling due within one year				
VAT	1,829	3,185	1,470	2,913
Other taxation and social security	9,041	37,328	7,273	32,247
Flood Re reinsurance payables	-	17,328	-	17,037
Promissory Notes	144,625	144,625	135,842	135,842
Trade payables	42,876	69,743	27,062	74,252
Other payables:				
Other	17,999	32,956	13,442	27,597
Accruals and deferred income	554,515	789,629	546,805	909,293
Current part of finance leases	421	486	439	439
Amounts issued from the Consolidated Fund for supply but not spent at year end	636,351	636,351	720,714	720,714
Contract liabilities	6,214	114,330	-	-
Trade and other payables	**1,413,871**	**1,845,961**	1,453,047	1,920,334
Current part of derivative financial instrument liability	2,583	2,583	656	656
Other financial liabilities	**2,583**	**2,583**	656	656
Amounts falling due after more than one year				
Other payables, accruals and deferred income	127,421	129,011	146,419	148,714
Finance leases	430	676	845	845
Other Payables	**127,851**	**129,687**	147,264	149,559
Environment Agency reservoir agreement	-	141,606	-	141,606
Other financial liabilities	**-**	**141,606**	-	141,606
Total payables	**1,544,305**	**2,119,837**	1,600,967	2,212,155

Due to materiality Promissory notes have been re-presented for 2017–18 and removed from Accruals and deferred income.

Included within promissory notes payable is an amount of £18.7 million which is expected to be encashed within 1 year and £126 million which is expected to be encashed after 1 year based on non-legally binding encashment schedules.

12 Provisions for Liabilities and Charges

12.1 Provisions for Liabilities and Charges (Excluding Pension Liabilities)

	CAP Disallowance	Flood Re Insurance	Metal Mines	FMD Sites	Core Estates Provisions	Other Provisions	Total
	£000	£000	£000	£000	£000	£000	£000
Defra Group							
Balance at 1 April 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
Provided in the year	9,488	13,533	46,525	28,497	4,096	2,284	104,423
Provisions not required written back	(169,581)	-	-	(90)	(3,595)	(1,468)	(174,734)
Provisions utilised in year	(801)	(3,203)	(1,852)	(911)	(79)	(2,920)	(9,766)
Changes in discount rate	-	-	(233,115)	(80,138)	(5,922)	-	(319,175)
Unwinding of discount	-	-	(6,344)	(2,686)	(890)	1	(9,919)
Balance at 31 March 2019	**23,264**	**26,438**	**207,805**	**114,484**	**19,728**	**16,142**	**407,861**

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

	2018-19						
	CAP Disallowance	Flood Re Insurance	Metal Mines	FMD Sites	Core Estates Provisions	Other Provisions	Total
	£000	£000	£000	£000	£000	£000	£000
Defra Group							
Not later than one year	23,264	20,006	2,010	1,266	1,646	11,027	**59,219**
Later than one year and not later than five years	-	6,432	8,240	5,226	916	3,999	**24,813**
Later than five years	-	-	197,555	107,992	17,166	1,116	**323,829**
Total	**23,264**	**26,438**	**207,805**	**114,484**	**19,728**	**16,142**	**407,861**
of which:							
core department and agencies	23,264	-	207,805	114,484	19,728	8,833	**374,114**
NDPBs	-	26,438	-	-	-	7,309	**33,747**
Total	**23,264**	**26,438**	**207,805**	**114,484**	**19,728**	**16,142**	**407,861**

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.

During 2018–19 Defra has re-assessed the estimates used to calculate the Metal Mines and FMD Burial Site provisions. This assessment has led to the inclusion of additional costs of future commitments to refurbish the core infrastructure of the sites and indirect costs of the activities on site, which erroneously have not previously been included in the provision. These estimates will be assessed annually, before recalculating the basis upon which a reliable estimate is derived. The changes in year have applied additional costs of £0.331 million and £0.225 million per annum to the ongoing liabilities associated with FMD Burial sites and Metal Mines respectively. There has also been an adjustment to reflect revised running costs at the three metal mine sites (bringing the total increase for Metal Mines to c£0.3 million per annum). Due to the long term nature of both the FMD Burial Sites (82 years) and Metal Mines (rolling 99 year liability), these relatively small changes have a significant impact on the carrying amount of the liabilities. However, due to the significant impacts of discounting changes between 2017–18 and 2018–19, the impacts of including these additional estimated costs have not been applied retrospectively, as they are not material in the context of these accounts.

As can be seen from the sensitivity tables in Notes 12.5 and 12.6, a modest change in the discount rate for general provisions can have a significant impact on the stated value of liabilities. These rates are advised by HM Treasury (see below), and are therefore not within the control of the department.

	2018–19
	%
Short term (0 to 5 years)	0.76
Medium term (6 to 10 years)	1.14
Long/very long term (greater than 10 years)	1.99

In 2018–19, HM Treasury provided the Discount Factor at a nominal rate, which does not include inflation. Previously, discount factors were provided at a real rate. Therefore, inflation rates now need to be applied separately to cash flows before applying the nominal discount rate. Under HM Treasury guidance, there is a rebuttable presumption that CPI discount rate will be used unless another alternative is deemed to be more appropriate. This rate is used for each discounted provision in the ARA, as no more appropriate inflation rates have been identified.

12.3 Disallowance Provisions

The Commission can apply financial corrections if Defra (through RPA) does not comply with the Commission’s regulations for payments funded through the 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, following the conciliation process between Defra and the Commission, the department will not contest further. 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.

12.4 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.

12.5 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 scientists have concluded that the conditions for causing pollution will continue and there is no foreseeable option to dispense with treatment schemes. Beyond 100 years, the inherent uncertainties to the future costs and timing of cash flows prevent provisions being made. Significant uncertainties beyond 100 years include: new technologies; environmental regulations; price inflation of construction and other costs; positioning of schemes and related land costs and the number of future preventative schemes required. 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 following table.

Change in assumption	Effect on provision (in £)	Effect on provision (in % terms)
0.5% increase/decrease in Treasury Discount Rate (see 12.2)	decrease/increase of 44m/63m	decrease/increase of 21/30
10% increase/decrease in underlying costs	increase/decrease of 21m/20m	increase/decrease of 10/10
10 year increase/decrease in timeframe of the provisions	increase/decrease of 22m/21m	increase/decrease of 11/10

These factors impacting volatility will continue to be monitored. The Treasury discount rate remains beyond the Department's control and the Department has no reason to apply an alternative discount rate. A change in discount rates of the scale outlined above is the most likely and volatile impact on the provision value, based on past experience. The underlying cost continues to be monitored annually, in consultation with the Coal Authority. The Coal Authority continue to drive efficiencies in managing metal mine sites, whilst also analysing the useful lives of assets used in managing and maintaining the sites.

12.6 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 the need to monitor and manage leachate will continue at the sites. The provision has therefore been estimated based on 100 years from burial with 82 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. Meanwhile, monitoring is being conducted on an annual basis. Once an appropriate period of data is collected, patterns will be assessed and the SAC will advise Defra of any recommendations that can be derived from the data to inform the calculation of liabilities and the operation of the sites.

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 following table. These factors impacting volatility will continue to be monitored. The Treasury discount rate remains beyond the Department’s control and the Department has no reason to apply an alternative discount rate. A change in discount rates of the scale outlined below is the most likely and volatile impact on the provision value, based on past experience. The underlying cost continues to be monitored annually and any future increases will likely be offset by efficiencies across the sites. The ongoing review of the conceptual model will impact the way the site and environmental risk is managed and the length of time over which the environmental risks will require intervention. The risk is currently deemed negligible which suggests a decrease in costs and timeline are more likely.

Change in assumption	Effect on provision (in £)	Effect on provision (in % terms)
0.5% increase/decrease in Treasury Discount Rate (see 12.2)	decrease/increase of 21m/27m	decrease/increase of 18/24
10% increase/decrease in underlying costs	increase/decrease of 11m/11m	increase/decrease of 10/10
10 year increase/decrease in timeframe of the provisions	increase/decrease of 14m/14m	increase/decrease of 13/13

13 Pension Liabilities

13.1 Pension Schemes Managed by the Department

The department contributes to the PCSPS and 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).

- 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)
- NE Pension Scheme (by-analogy)
- Sea Fish Industry Authority (funded)
- Meat and Livestock Commission 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' ARA, 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.

13.1.1 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 £63 million.

13.1.2 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.

When the Local Government Pension Scheme (LGPS) was reformed in 2014, transitional protections were applied to older members within ten years of normal retirement age. The benefits accrued from 1 April 2014 by these members are subject to an underpin, giving them the better of the benefits between the old and reformed schemes.
In December 2018 the Court of Appeal upheld a ruling that similar transitional protections in the Judges' and Firefighters' Pension Schemes were unlawful on the grounds of age discrimination. The implications of the ruling are expected to apply to the LGPS, and other public service schemes. £28 million has been provided for in accordance with IAS 19.

On 1 November 2018, 438 staff elected to transfer their pension fund benefits from the Environment Agency pension fund (EAPF) to the Civil Service Pension Schemes (CSPS). Further information can be found in Note 14.1.1.

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 £54.0 million.

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

As at 31 March 2019

	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	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)
Opening Position as at 31 March 2018	276,100	(748,370)	(472,270)	3,626,092	(4,509,330)	(1,414)	(884,652)
Service cost							
Current service cost	-	-	-	-	(128,109)	-	(128,109)
Past service cost (including curtailments)	-	-	-	-	(25,824)	-	(25,824)
Other expenses	(600)	-	(600)	(623)	-	-	(623)
Total service cost	**(600)**	**-**	**(600)**	**(623)**	**(153,933)**	**-**	**(154,556)**
Net interest							
Interest income on plan assets	7,100	-	7,100	96,641	-	-	96,641
Interest cost on defined benefit obligation	-	(18,274)	(18,274)	-	(119,836)	-	(119,836)
Total net interest	**7,100**	**(18,274)**	**(11,174)**	**96,641**	**(119,836)**	**-**	**(23,195)**
Total defined benefit cost recognised in profit or (loss)	**6,500**	**(18,274)**	**(11,774)**	**96,018**	**(273,769)**	**-**	**(177,751)**
Cashflows							
Plan participants' contributions	-	-	-	22,808	(22,808)	-	-
Employer contributions	58,700	-	58,700	116,285	-	-	116,285
Contributions in respect of unfunded benefits	8,300	-	8,300	8,300	-	-	8,300
Benefits paid	(56,800)	58,716	1,916	(142,729)	144,661	-	1,932
Unfunded benefits paid	(8,300)	8,300	-	(8,300)	8,300	-	-
Expected closing position	**284,500**	**(699,628)**	**(415,128)**	**3,718,474**	**(4,652,946)**	**(1,414)**	**(935,886)**
Remeasurements							
Change in demographic assumptions	-	-	-	-	1,661	-	1,661
Change in financial assumptions	-	9,589	9,589	-	(337,551)	-	(337,551)
Other experience	-	1,942	1,942	(84)	1,480	-	1,396
Return on assets excluding amounts included in net interest	9,500	-	9,500	201,422	-	-	201,422
Changes in asset ceiling	-	-	-	-	-	862	862
Total remeasurements recognised in Other Comprehensive Income (OCI)	**9,500**	**11,531**	**21,031**	**201,338**	**(334,410)**	**862**	**(132,210)**
Fair value of employer assets	294,000	-	294,000	3,702,612	-	-	3,702,612
Present value of funded liabilities	-	(586,400)	(586,400)	217,200	(4,654,418)	-	(4,437,218)
Present value of unfunded liabilities	-	(101,697)	(101,697)	-	(332,938)	-	(332,938)
Less irrecoverable surplus	-	-	-	-	-	(552)	(552)
Closing position as at 31 March 2019	**294,000**	**(688,097)**	**(394,097)**	**3,919,812**	**(4,987,356)**	**(552)**	**(1,068,096)**

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 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)

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

As at 31 March 2019

	Environment Agency Closed (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	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)
Opening 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)
Service cost										
Current service cost	-	-	-	-	(126,958)	(126,958)	-	(1,151)	-	(1,151)
Past service cost (including curtailments)	-	-	-	-	(21,211)	(21,211)	-	(4,613)	-	(4,613)
Other expenses	(600)	-	(600)	-	-	-	(23)	-	-	(23)
Total service cost	**(600)**	**-**	**(600)**	**-**	**(148,169)**	**(148,169)**	**(23)**	**(5,764)**	**-**	**(5,787)**
Net interest										
Interest income on plan assets	7,100	-	7,100	82,741	-	82,741	6,800	-	-	6,800
Interest cost on defined benefit obligation	-	(17,300)	(17,300)	-	(94,419)	(94,419)	-	(8,117)	-	(8,117)
Total net interest	**7,100**	**(17,300)**	**(10,200)**	**82,741**	**(94,419)**	**(11,678)**	**6,800**	**(8,117)**	**-**	**(1,317)**
Total defined benefit cost recognised in profit or (loss)	**6,500**	**(17,300)**	**(10,800)**	**82,741**	**(242,588)**	**(159,847)**	**6,777**	**(13,881)**	**-**	**(7,104)**
Cashflows										
Plan participants' contributions	-	-	-	22,603	(22,603)	-	205	(205)	-	-
Employer contributions	58,700	-	58,700	56,402	-	56,402	1,183	-	-	1,183
Contributions in respect of unfunded benefits	8,300	-	8,300	-	-	-	-	-	-	-
Benefits paid	(56,800)	56,800	-	(72,168)	72,168	-	(13,761)	15,693	-	1,932
Unfunded benefits paid	(8,300)	8,300	-	-	-	-	-	-	-	-
Expected closing position	**284,500**	**(661,400)**	**(376,900)**	**3,152,793**	**(3,656,558)**	**(503,765)**	**281,181**	**(334,988)**	**(1,414)**	**(55,221)**
Remeasurements										
Change in demographic assumptions	-	-	-	-	-	-	-	1,661	-	1,661
Change in financial assumptions	-	8,500	8,500	-	(336,202)	(336,202)	-	(9,849)	-	(9,849)
Other experience	-	2,300	2,300	-	-	-	(84)	(820)	-	(904)
Return on assets excluding amounts included in net interest	9,500	-	9,500	184,589	-	184,589	7,333	-	-	7,333
Changes in asset ceiling	-	-	-	-	-	-	-	-	862	862
Total remeasurements recognised in Other Comprehensive Income (OCI)	**9,500**	**10,800**	**20,300**	**184,589**	**(336,202)**	**(151,613)**	**7,249**	**(9,008)**	**862**	**(897)**
Fair value of employer assets	294,000	-	294,000	3,337,382	-	3,337,382	71,230	-	-	71,230
Present value of funded liabilities	-	(586,400)	(586,400)	-	(3,992,760)	(3,992,760)	217,200	(75,258)	-	141,942
Present value of unfunded liabilities	-	(64,200)	(64,200)	-	-	-	-	(268,738)	-	(268,738)
Less irrecoverable surplus	-	-	-	-	-	-	-	-	(552)	(552)
Closing position as at 31 March 2019	**294,000**	**(650,600)**	**(356,600)**	**3,337,382**	**(3,992,760)**	**(655,378)**	**288,430**	**(343,996)**	**(552)**	**(56,118)**

As at 31 March 2018

	Environment Agency Closed (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 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)

13.4 History of Experience Gains and Losses

Year Ended :	EA Closed Scheme (funded)					EA Active Scheme (funded)				
	31/03/19	31/03/18	31/03/17	31/03/16	31/03/15	**31/03/19**	31/03/18	31/03/17	31/03/16	31/03/15
	£000	£000	£000	£000	£000	**£000**	£000	£000	£000	£000
Fair value of employer assets	294,000	276,100	271,900	219,400	213,000	3,337,382	3,063,215	2,960,722	2,462,257	2,418,943
Present value of defined benefit obligation	(650,600)	(709,200)	(750,700)	(753,900)	(829,100)	(3,992,760)	(3,463,535)	(3,366,455)	(2,921,733)	(3,126,206)
(Deficit)/surplus	(356,600)	(433,100)	(478,800)	(534,500)	(616,100)	(655,378)	(400,320)	(405,733)	(459,476)	(707,263)
Experience gains/(losses) on assets	9,500	(5,400)	42,900	(2,300)	38,800	184,589	14,935	396,235	(44,638)	228,030
Experience gains/(losses) on liabilities	2,300	(900)	(700)	22,400	6,900	-	-	228,033	25,844	14,700
Actuarial gains/(losses) on employer assets	9,500	(5,400)	42,900	(2,300)	38,800	184,589	14,935	396,235	(44,638)	228,030
Actuarial gains/(losses) on obligation	10,800	(7,400)	(44,300)	25,400	(24,500)	(336,202)	74,912	(303,883)	343,746	(449,234)
Actuarial gains/(losses) recognised in SoCTE	**20,300**	(12,800)	(1,400)	23,100	14,300	**(151,613)**	89,847	92,352	299,108	(221,204)

13.5 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 2019	**£000**	**£000**
Equities	-	1,946,965
Bonds	274,200	890,404
Property	-	412,953
Cash	19,800	87,060
Insurance policy	-	-
Total 31 March 2019	**294,000**	**3,337,382**
Percentage of closing fair value	**%**	**%**
Equity	-	58
Bonds	93	27
Property	-	12
Cash and insurance policy	7	3
Total	**100**	**100**
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

13.6 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 2019		
Inflation/pension increase rate (CPI)	2.6	2.2
Salary increase rate	-	2.5
Discount rate	2.9	2.4
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

13.7 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

13.8 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 below 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 2019	Approximate % Increase in Employer Liability	Approximate Monetary Amount
	%	£000
0.5% decrease in real discount rate	3	19,684
1 year increase in member life expectancy	3	19,518
0.5% increase in pension increase rate	3	19,684

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 2019	**Approximate % Increase in Employer Liability**	**Approximate Monetary Amount**
	%	**£000**
0.5% decrease in real discount rate	12	469,229
0.5% increase in salary increase rate	2	88,559
0.5% increase in pension increase rate	9	372,644

14 Contingent Liabilities and Contingent Assets

14.1 Contingent Liabilities

14.1.1 Quantifiable

The department has the following quantifiable contingent liabilities as at 31 March 2019. Unless otherwise stated liabilities relate to the core department.

- Small potential liabilities against the Defra group are estimated at no more than £2.6 million (2017–18, £4.8 million).

- The Department has a potential liability to HMRC for VAT on services provided by the core Department, relating to transactions both in 2018–19, and in previous years. This is subject to considerable uncertainty, as it will involve further investigation by and consultation with HMRC. An internal assessment estimates the potential liability at less than £20m.

- On 1 November 2018, 438 staff elected to transfer their pension fund benefits from the Environment Agency pension fund (EAPF) to the Civil Service Pension Schemes (CSPS). The Government Actuaries Department is verifying the value of the assets to be transferred from EAPF to CSPS. This is estimated to be approximately £60 million. These assets and the related liabilities as at 31 March 2019 are included within the accounts of the Environment Agency. At the point of asset transfer, any shortfall in funding of the CSPS in relation to the staff transfer will be funded by HM Treasury. The value will be dependent upon the returns of assets in the EA pension fund up until the point of transfer. It is anticipated to be in the region of £20 million.

- There is a potential £12 million (2017–18, £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.

14.1.2 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.

- RPA is currently in receipt of appeals from scheme claimants of claims covering the 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.

- The Commission can apply financial corrections if Defra (through the RPA) does not comply with the 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 Commission in accordance with the 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.

- The Environment Agency is currently involved in a judicial process relating to compensating events on flood alleviation contracts where payment to settle the dispute is probable.

- Infraction proceedings relating to the non-compliance of UK legislation with EU requirements could lead to fines from the EU in the following cases: a breach of the Urban Waste Water Treatment Directive at 14 sites; a breach of the Urban Waste Water Treatment Directive at 2 sites (London and Whitburn); and a breach of the Habitats Directive regarding the designation of special areas of conservation for harbour porpoises. Liability for fines across UK administrations would depend on the specifics of individual cases and, as per Commission guidance, could entail a minimum lump sum of €9 million (£7.7 million) plus potential daily charges until compliance is reached.

- Defra has contingent liabilities relating to retained rights to former staff affected by Transfer of Undertaking Protection of Employment (TUPE) Regulations.

14.2 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 (2017–18, £1.4 million).

15 Related Party Transactions

The department is the sponsor of the executive agencies, 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.

The Department has a 25 percent equity stake in Fera Science Ltd which is held within the Departments accounts as an Investment in 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). Further details on our investment can be seen in the Statement of Financial Positon as an Investment in Associate.

In addition, the department has had a number of transactions with other government departments and the devolved administrations.

Where the Board members claim 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 £52,980 in respect to BPS.

Elizabeth Buchanan (a non-Executive Director) has received £20,421 in BPS and Countryside Stewardship payments for the family farm.

Ben Goldsmith (a non-Executive Director) received £25,080 in Stewardship, BPS and Woodland payments for the family farm.

Robert Goodwill (Minister of State for Agriculture, Fisheries and Food) received and BPS and Environment payments which were paid prior to his joining the department.

Andrew Sells (retired ex officio) received £9,172 in respect of BPS payments.

Details for related party transactions for executive agencies, NDPBs and levy funded bodies can be found in the notes to their ARA.

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.

16 International Financial Reporting Standards 9 and 15 Transition Reporting

16.1 Changes in Accounting Policies

The group has applied the cumulative effect method – i.e. by recognising the cumulative effect of initially applying IFRS 9 and IFRS 15 as an adjustment to the opening balance of equity at 1 April 2018. Therefore, the comparative information has not been restated and continues to be reported under IAS 39, IAS 18 and IAS 11.

Using this transition approach for the initial application of IFRS 15, the opening position for all contracts which were not completed at 1 April 2018 has been reviewed. There has been no material impact upon transition to IFRS 15, and for Defra's significant contracts, no modifications have occurred before the earliest period presented. Therefore, no opening balance adjustment to equity was required. Similarly, for IFRS 9, the classifications and measurement of all financial instruments reported at 1 April 2018 have been reviewed, and adjustments made to opening equity. These relate to:

- (£609k) in the Hedging Reserve relating to RPA. This concerns the time value of options, where only the intrinsic value of the option is designated as a hedging instrument.
- £160k in Taxpayers' Equity, relating to APHA. They have recalculated the opening balance of their Expected Credit Loss, resulting in a small reduction as compared to the prior year.

For all other entities in the Defra group, adjustments relating to the ECL have only impacted 2018–19 figures. No opening balance adjustment has been made for IFRS 15, as no material impact results from the introduction of this standard.

16.2 Dual Reporting

This note states the impact of applying IFRS 15 in the initial year of application, 2018–19. The impact of adopting IFRS 9 and IFRS 15 is not material, and accordingly no dual reporting disclosures have been prepared.

16.3 Contract Balances and Assets

Contract balances

	31 March 2019	
	Core Department and Agencies	Defra Group
	£000	£000
Receivables which are included in trade and Other Receivables	870,005	1,005,252
Contract Assets	4,603	6,389
Contract Liabilities	(6,214)	(114,330)

Significant changes in the contract assets and the contract liabilities balances during the period

	31 March 2019 Core Department and Agencies	Defra Group	31 March 2019 Core Department and Agencies	Defra Group
	Contract Assets		Contract Liabilities	
	£000	£000	£000	£000
Increases/Decreases due to cash received/paid	1,080	1,080	(2,723)	(110,787)
Transfers from contract assets/liabilities to receivables/payables	3,523	5,309	(3,491)	(3,543)
Contract Assets/Liabilities at 31st March 2019	**4,603**	**6,389**	**(6,214)**	**(114,330)**

Contract balances note

The contract liabilities relate primarily to the advance consideration received from customers at EA. Revenue is recognised on completion of performance obligations and acceptance by the customer of the service provided (i.e. when the receivable is recognised).

Contract assets (capitalised costs) reporting

Costs to obtain a contract or fulfil a contract should be capitalised under IFRS 15. During 2018–19, this has not been relevant to Defra.

17 Entities Within the Departmental Boundary

The entities within the departmental boundary during 2018–19 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 (GRAA) 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 Sutton Bridge Experimental Unit Limited. Meat and Livestock Commercial Services Limited was disposed of in November 2018).
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 GRAA (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 ONS, HM Treasury have further indicated their expectation that Flood Re will be classified as a central government public body.

Executive 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
Canal & River Trust

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.

An adjusting Post Balance Sheet Event was required to recognise a one-off £12.5 million exceptional payment, to resolve a delivery agreement. As part of the settlement, it was agreed that the department would not seek repayment of a further amount of £2.5 million paid in 2017–18.

The RPA announced on 19 June 2019 that all eligible farmers and land owners in Countryside Stewardship and Environmental Stewardship agreements with revenue payments outstanding for the scheme years 2015–2018 would receive full payments for the their claims by the end of July 2019. These payments are initially Exchequer funded and once fully processed reimbursement will be sought from the EU in line with the current process. An announcement has been made that these payments will be in excess of £115 million.

The extension of the Article 50 negotiating period confirmed on the 11 April 2019, and discussed within the Parliamentary Accountability and Audit section above, is a non-adjusting event after the reporting period. The Department will continue to monitor negotiations between the UK and EU. The Department anticipates that the UK Government’s guarantees on funding for Defra’s EU programmes should ensure funding to our agricultural community will not be adversely affected by the ongoing discussions (further details provided in Chapter 6).

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 2018–19

These tables provide an analysis of departmental expenditure, split between resource consumption and capital investment, covering the period from 2014–15 to 2019–20.

These tables follow the layout of the Part II Table of the 2018–19 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[18] and Parliamentary Supplementary Estimate[19] 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 underlying administration budget reflects the savings required by the 2010 Spending Review (SR10), the 2013 Spending Round (SR13) and the 2015 Spending Review (SR15). These savings have been offset by increased investment in EU exit preparations.

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 Human Resources, 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. In addition to this, the EU exit budget for 2019–20 is held within Departmental Operating Costs, this will be allocated out to the policy lines during the year.

[18] https://www.gov.uk/government/publications/main-supply-estimates-2019-to-2020

[19] https://www.gov.uk/government/collections/hmt-supplementary-estimates

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.

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. The increase in 2018–19 outturn relates to an impairment to one of the buildings at the Animal and Plant Health Agency's Weybridge site.

Marine and Fisheries

The increase in 2018–19 primarily relates to increased spend on EU exit preparations.

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. 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, partly 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 completed in 2018–19 with the final transfer of EA budgets. There have also been increases in overall spend from 2017–18 to support preparations for exiting the EU. In 2019–20 this additional budget is held entirely within Departmental Operating Costs, whereas in 2017–18 and 2018–19 a smaller element of the EU exit expenditure is held against this line, with the remainder being allocated out to policy areas. The remaining increase in 2019–20 primarily relates to the budget for depreciation, reflecting an underspend against budget in 2018–19. This was due to later than planned capitalisation of assets in DDTS and Estates, leading to lower in year depreciation charges and some depreciation being charged to other policy lines.

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. The corporate services budget for 2019–20 is centrally held.

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 Commission audits took place this financial year. The decrease in 2018–19 is due to reductions in provisions no longer required relating to 2015 and 2016 BPS entitlements audit, due to successful negotiation around our Disallowance strategy bringing about this reduction in the initial findings and final correction proposal.

Improve the Environment

The increase in 2015–16 and 2017–18 is due to the upward revaluation in the Metal Mines provision following decreases in the discount rate used for valuing provisions, as per HM Treasury guidance. 2015–16 also included an increase to cover Defra's commitments in relation to South West Water for the financial years 2016–2020. The decrease in 2018–19 is a result of a downward revaluation in the Metal Mines provision following an increase in the discount rate used for valuing provisions.

Departmental Operating Costs

The 2014–15 outturn includes property impairments across the Defra estate, as a result of the quinquennial property valuation, the change in classification of the Sand Hutton site to an investment property and the creation of a provision 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. The decrease in 2018–19 is a result of a downward revaluation in the FMD provision following an increase in the discount rate.

Improve the Environment (ALB) (Net)

The fluctuations in trends mainly reflect the movements in the EA pension fund.

Protect the Country from Floods (ALB) (Net)

The changing profile is mainly 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, 2017–18 and 2018–19 outturn reflects the surplus position for Flood Re's final accounts in those years. The 2019–20 budget includes cover in case a significant flood event occurs in this year and reflects the maximum impact Flood Re can have on public sector net borrowing. The fluctuations in trends on this line also include movements in the EA pension fund.

Capital Budget DEL

Food and Farming

The higher outturn 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. The remaining increase in 2019–20 reflects additional budget as announced in the 2018 Autumn Budget for plastics and waste innovation funding, supporting the Governments ambitions to tackle plastic, waste and litter.

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.

Departmental Operating Costs

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. The credit in 2019–20 includes a negative figure to the central budget, which enabled the allocation of flood and coastal risk management budgets to EA in advance of the Reserve claim being processed by HM Treasury in the 2019–20 Supplementary Estimate.

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 2014–15 outturn reflects additional investment in flood and coastal erosion risk management as announced in the 2012 Autumn Budget Statement and the 2014 Budget. 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 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

	2014-15 Outturn £000	2015-16 Outturn £000	2016-17 Outturn £000	2017-18 Outturn £000	2018-19 Outturn £000	2019-20 Plans £000
Resource DEL						
Food and farming	272,719	224,889	163,012	206,668	193,739	202,530
Improve the environment	237,709	228,495	233,105	274,651	347,697	347,006
Protect the country from floods	23,184	14,696	1,156	1,277	1,027	1,537
Animal and plant health	215,617	207,595	161,812	163,023	197,395	158,212
Marine and fisheries	24,703	25,666	26,517	32,035	46,293	28,238
Countryside and rural services	191,050	201,837	205,629	132,868	133,206	137,087
Departmental operating costs	124,765	140,355	234,528	353,713	394,387	736,578
Improve the environment (ALB) (net)	403,238	332,543	337,582	271,280	272,889	196,951
Protect the country from floods (ALB) (net)	341,434	339,313	365,691	384,898	357,241	338,817
Marine and fisheries (ALB) (net)	19,475	19,133	12,270	13,869	16,766	13,448
Countryside and rural services (ALB) (net)	1,983	2,078	2,320	2,311	2,397	2,611
Total Resource DEL	**1,855,877**	**1,736,600**	**1,743,622**	**1,836,593**	**1,963,037**	**2,163,015**
Resource AME						
Food and farming	1,337	(39,601)	207,302	(66,366)	(171,170)	50,881
Improve the environment	(44,310)	313,107	(43,272)	95,549	(235,236)	(41,635)
Animal and plant health	2,729	(2,370)	(5,986)	(3,901)	(1,780)	2
Marine and fisheries	1,198	1,899	(416)	233	(1,111)	9
Countryside and rural services	(885)	(497)	(340)	2,078	(1,133)	(295)
Departmental operating costs[1]	123,429	91,813	50,751	15,119	(51,017)	50,368
Food and farming (ALB) (net)	(405)	1,682	(1,913)	(1,269)	8,081	1,126
Improve the environment (ALB) (net)	(20,584)	(11,448)	(35,109)	(12,268)	22,223	28,029
Protect the country from floods (ALB) (net)	12,659	34,335	(85,707)	(57,410)	(70,295)	156,000
Marine and fisheries (ALB) (net)	2,515	1,831	778	(86)	303	61
Countryside and rural services (ALB) (net)	(7)	(10)	(14)	-	-	6
Total Resource AME	**77,676**	**390,741**	**86,074**	**(28,321)**	**(501,135)**	**244,552**
Total Resource Budget	**1,933,553**	**2,127,341**	**1,829,696**	**1,808,272**	**1,461,902**	**2,407,567**
Of which:						
Depreciation - DEL	189,722	168,303	187,631	177,752	198,527	239,140
Depreciation - AME	88,560	12,058	4,180	2,291	5,655	10,435
Depreciation[2]	**278,282**	**180,361**	**191,811**	**180,043**	**204,182**	**249,575**
Capital DEL						
Food and farming	51,635	33,013	21,048	5,148	3,745	4,490
Improve the environment	50,464	45,876	38,667	9,601	24,452	53,194
Protect the country from floods	11,988	12,621	(120)	353	264	126
Animal and plant health	21,045	18,018	8,707	12,852	12,832	8,758
Marine and fisheries	7,646	6,014	7,234	6,014	13,868	3,958
Countryside and rural services	27,451	25,194	25,517	25,007	30,801	29,463
Departmental operating costs	1,579	(3,026)	34,950	70,072	85,790	(24,647)
Improve the environment (ALB) (net)	29,292	26,459	47,946	71,227	70,278	41,598
Protect the country from floods (ALB) (net)	489,355	405,084	470,634	431,174	486,253	501,190
Marine and fisheries (ALB) (net)	388	261	182	157	543	-
Countryside and rural services (ALB) (net)	786	402	211	360	203	-
Total Capital DEL	**691,629**	**569,916**	**654,976**	**631,965**	**729,029**	**618,130**
Capital AME						
Food and farming (ALB) (net)	1,586	75	596	116	203	16,000
Marine and fisheries (ALB) (net)	54	167	266	83	123	-
Total Capital AME	**1,640**	**242**	**862**	**199**	**326**	**16,000**
Total Capital Budget	**693,269**	**570,158**	**655,838**	**632,164**	**729,355**	**634,130**
Total departmental spending[3]	**2,348,540**	**2,517,138**	**2,293,723**	**2,260,393**	**1,987,075**	**2,792,122**
Of which:						
Total DEL	2,357,784	2,138,213	2,210,967	2,290,806	2,493,539	2,542,005
Total AME	(9,244)	378,925	82,756	(30,413)	(506,464)	250,117

1.The EU exit budget of £393m for 2019–20 is held centrally against the Departmental Operating Costs line. In other years, a smaller element of the EU exit expenditure is held against this line, with the remainder being allocated out to policy areas. To enable a true analysis of the trend against Departmental Operating Costs, EU exit spend needs to be excluded. The following figures state the spend allocated to Departmental Operating Costs, excluding EU exit spend: 2017–18 £296.1 million, 2018–19 £272.6 million, 2019–20 £343.6 million.

2.Includes impairments.

3.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.

The 2019–20 plans figures are based on provisional allocations and are subject to change, following further business planning decisions.

As part of the 2019–20 Main Estimate, a Machinery of Government change took place relating to the transfer of various cross-border functions from the Forestry Commission to the Scottish and Welsh Governments. Although the change affected all years of the above table the figures were not amended in order to ensure consistency with the rest of the Annual Report and Accounts (ARA).

Table 2 – Defra's Administration Costs

	2014-15 Outturn	2015-16 Outturn	2016-17 Outturn	2017-18 Outturn	2018-19 Outturn	2019-20 Plans
	£000	£000	£000	£000	£000	£000
Resource DEL						
Food and farming	116,912	110,468	90,658	40,590	65,351	51,816
Improve the environment	31,316	24,659	23,907	20,464	54,390	26,045
Protect the country from floods	2,119	1,930	1,144	1,048	1,024	1,084
Animal and plant health	7,051	20,205	11,321	9,926	37,363	12,046
Marine and fisheries	2,243	3,651	7,353	4,111	13,088	6,050
Countryside and rural services	14,188	13,314	6,822	6,767	6,971	7,375
Departmental operating costs[4]	104,858	116,485	153,450	249,578	289,883	576,686
Improve the environment (ALB) (net)	133,668	132,263	98,052	57,890	74,956	55,825
Protect the country from floods (ALB) (net)	69,803	69,572	56,964	80,683	77,201	54,755
Marine and fisheries (ALB) (net)	4,402	4,379	2,682	2,108	2,375	2,398
Countryside and rural services (ALB) (net)	323	296	281	298	316	403
Total administration budget	**486,883**	**497,222**	**452,634**	**473,463**	**622,918**	**794,483**

4.The administration element of the EU exit budget of £322m for 2019–20 is held centrally against the Departmental Operating Costs line. In other years, a smaller element of the EU exit expenditure is held against this line, with the remainder being allocated out to policy areas. To enable a true analysis of the trend against Departmental Operating Costs, EU exit spend needs to be excluded. The following figures state the spend allocated to Departmental Operating Costs, excluding EU exit spend: 2017–18 £192.0 million, 2018–19 £185.2 million, 2019–20 £254.7 million.

The underlying administration budget reflects the savings required by the 2010 Spending Review (SR10), the 2013 Spending Round (SR13) and the 2015 Spending Review (SR15). These savings have been offset by increased investment in EU exit preparations.

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. In addition to this the administration costs element of the EU exit budget for 2019–20 is held centrally in Departmental Operating Costs.

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 2018–19.

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 Departmental Group's Environmental Management Systems measured against the Greening Government Commitments (GGC) targets. These targets are for reductions in 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 2018 to 31 March 2019. 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 EA, RBG Kew and Forestry Commission have their own data assurance processes and produce their own Annual Report and Accounts.

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[20]

This section of the report provides an overview of Defra group performance against the GGC targets. For the purposes of GGC reporting the Departmental 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 (EA)
  - Marine Management Organisation (MMO)
  - Natural England (NE)
  - Royal Botanic Gardens, Kew (RBG Kew)

[20] 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.

- Forestry Commission (FC)
- 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 Director of Group Property on a quarterly basis.

Quality assurance is managed through the Sustainability and Energy 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 Defra Group Property 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.

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 2018–19 vs. Baseline	48.8% reduction	4% reduction	44% reduction	Ahead of Milestone
Landfill Waste Reduction 2018–19 vs. Baseline	17.5% to landfill	12% to landfill	Below 10% to Landfill	Behind Milestone
Total Waste Reduction 2018–19 vs Baseline	31% reduction	25% reduction	N/A	Ahead of Milestone
Water Reduction 2018–19 vs. Baseline	8.8% reduction	23% reduction	Reduce from 14–15 level of 23% reduction	Behind Milestone
Domestic Flights Reduction 2018–19 vs. Baseline	19% reduction	27% reduction	30% reduction	Behind Milestone
Paper Use Reduction 2018–19 vs. Baseline	65% reduction	45% reduction	50% reduction	On Target

Performance against the GHG target has improved during the 2018–19 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 30 measures including a 200kw combined heat and power plant at Cefas Weymouth, which has been installed and is currently undergoing commissioning.
The total predicted energy savings of the RE:FIT works are £253,212, 1,077,000 kWh per year and total predicted CO2 savings 491 tCO2 per year.

Within the Defra group all part of the organisation have already met their carbon target for 2020. This has been due to a greening of the grid as well as a strategic investment and maintenance plan for our buildings and operations.

Defra group are looking at ways to reduce our plastic use in response to the 25 year Environment Plan and the increased focus on plastics in the marine environment. This response includes the Defra and EA estates.

What we have already done to remove Consumer Single Use Plastics from our Estate:

We have already reduced our plastic use in response to these pressures in a number of ways:

- The new catering contract for Defra group will require that no single use plastics will be used as part of the contract.
- We have removed plastic milk bottles from 37 sites around our estate.
- We have removed plastic water cups, coffee cups and plastic bottles at our Defra and EA Offices.

Defra group Facilities Management have worked with the current catering contractors to remove:

- Plastic Cutlery
- Plastic Straws and Stirrers
- Single Serve Condiments
- Soft Drink Bottles
- Coffee Cups (including lids)
- Tetra Packs

We are well on the way to meeting the government's 2020 Consumer Single Use Plastics target as we work with our suppliers to remove plastic from our Estate and supply chain.

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.

Sustainable Information and Communications Technology (ICT)

Defra is committed to reducing the impacts of the ICT and maximising the benefits of the 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 also provides a cross government role, influencing and assisting departments to implement the gold standard best practices developed by Defra group.

The department continues to chair the Her Majesty's Government Sustainable Technology Advice and Reporting (STAR) team drafting and implementing the newly published Greening

Government; Sustainable Technology Strategy 2020[21], carrying out assessments across departments and publishing annual reports on progress. In January 2019 the 2017–18 report[22] was published with the following figures;

- Average energy consumption reduced from a baseline of 1467kwh/FTE to 891kwh/FTE.
- Servers showed the greatest reduction of 138kwh/FTE as departments have adhered to Cloud First and Digital transformations and closed legacy data centres.
- End User assets saw an increase of 98kwh/FTE, followed by telephony 38kwh/FTE, Audio-visual 21kwh/FTE, Imaging 16kwh/FTE and networks 2kwh/FTE. This is likely in part due to staff figures increasing, as a result of EU exit and transformation programmes.
- 2.09 percent to landfill from a baseline of 6 percent, with a total of 1.23Mkg of ICT waste, an increase in excess of 50 percent on 2016–17 again likely due to government transformation.

The 2020 Sustainable Technology strategy increases the scope of the work from estates to the services we consume, from green to sustainable technology capturing the triple bottom line, reaffirms departments commitments to the work until at least 2020 and requires individual departmental strategy statements on particular areas of sustainable ICT improvement work.

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, average across 6 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[23]. This covers Climate Change Adaptation, Biodiversity and Natural Environment, Procurement of Food and Catering Services and Sustainable Construction.

[21] https://www.gov.uk/government/publications/greening-government-sustainable-technology-strategy-2020
[22] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/774267/greening-government-ict-annual-report-2017-2018.pdf
[23] https://www.gov.uk/government/organisations/Department-for-environment-food-rural-affairs/about/our-energy-use

Further Information

Quarterly updates on the Defra group's performance towards the GGC can be found online[24].

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.

[24] https://www.gov.uk/government/organisations/Department-for-environment-food-rural-affairs/about/our-energy-use

Sustainability Data – Table 1

ENERGY			Baseline	2015-16	2016-17	2017-18	2018-19
Non financial indicators (kWh)	Energy consumption	Total energy consumption	247,207,792	193,850,034	188,241,081	173,730,107	186,252,121
		Total electricity	119,777,315	93,525,801	89,955,395	86,855,361	99,263,808
		Electricity: standard	23,281,240	3,649,962	3,747,681	8,621,510	11,783,595
		Electricity: green	96,369,935	88,880,800	85,365,988	77,634,056	87,235,083
		Electricity: Purchased CHP	126,140	995,040	841,726	599,794	245,130
		Gas	90,501,824	81,993,131	76,686,338	59,475,471	71,008,867
		Oil	23,701,612	13,076,858	13,542,255	24,095,011	12,989,052
		Biomass	2,604,841	3,404,249	6,941,837	1,372,053	1,665,995
		CHP	8,406,109	-	-	-	-
		Whitehall district heating system (WDHS)	343,300	-	-	-	-
		Self generated renewables	149,084	666,018	549,273	1,162,876	788,147
		LPG	555,812	434,071	565,984	515,595	398,405
		Other	1,167,895	749,906	-	253,741	137,847
Financial indicators ('000£)	Total energy costs		17,202	17,537	15,406	13,530	17,238

WASTE		Baseline	2015-16	2016-17	2017-18	2018-19
Non financial indicators ('000 kgs)	Total waste	8,116	5,159	4,861	6,603	5,625
	Hazardous waste	1,063	86	71	107	35
	IT waste recycled and unrecyclable	14	34	22	49	77
	Recycled	2,810	2,216	1,933	3,216	2,404
	Composted	75	49	35	207	266
	Incinerated with energy recovery	1,309	1,408	1,547	1,799	1,868
	Incinerated without energy recovery	471	508	418	470	367
	Landfill	3,437	952	904	874	986
Financial indicators ('000£)	Total disposal cost	3,374	4,523	3,447	3,510	5,038
	Hazardous waste	n/a	641	603	623	415
	Recycled, composted (combined)	n/a	453	562	698	453
	Incinerated with energy recovery	n/a	387	346	347	330
	Incinerated without energy recovery	n/a	n/a	n/a	n/a	n/a
	Landfill	n/a	177	123	119	150

WATER			Baseline	2015-16	2016-17	2017-18	2018-19
Non financial indicators (m3)	Water Consumption	Total scope 2 water consumption	651,542	485,439	691,783	552,674	593,683
		Supplied (office estate scope 2)	126,867	84,928	85,420	88,797	94,160
		Supplied (non office estate scope 2)	524,675	400,511	606,363	463,877	499,523
		Abstracted (scope 1)	n/a	37,881,537	42,992,196	n/a	n/a
Financial indicators ('000£)	Water supply costs		1,492	1,402	1,253	1,051	1,633

GREEN HOUSE GAS EMISSIONS		Baseline	2015-16	2016-17	2017-18	2018-19
Non financial indicators ('000 kgs CO2e)	Scope 1: direct emissions	38,768	27,496	27,831	27,939	23,739
	Scope 2: indirect emissions	59,230	42,753	37,066	30,535	28,099
	Scope 3: emissions from official business travel	21,110	12,565	10,073	11,234	9,290
	Total emissions	119,108	82,814	74,970	69,707	61,128
	Emissions eligible for CRC scheme	n/a	55,938	47,756	28,346	n/a
Financial indicators ('000£)	Carbon Reduction Commitment (CRC)	n/a	945	798	480	n/a
	Expenditure on official business travel	23,359	24,137	25,652	27,560	31,009

OTHER TARGET AREAS		Baseline	2015-16	2016-17	2017-18	2018-19
Non financial indicators	Number of domestic flights	3,351	2,429	2,365	2,877	2,716
	Paper use (reams)	151,529	92,200	77,168	68,295	53,625

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 2018–19 is not due to be made until September 2019.

(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) Some ICT waste is included in the recycled waste figure, which also includes the composted waste figure as per GGC reporting guidelines.

(ix) Historically, a breakdown of waste costs was not available due to the contractual agreement in place at this time.

(x) 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.

(xi) 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.

(xii) RBG Kew do not have a provision for capturing domestic travel data, however the emissions are understood to be not material.

(xiii) 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.

(xiv) 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.

(xv) 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.

(xvi) 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.

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