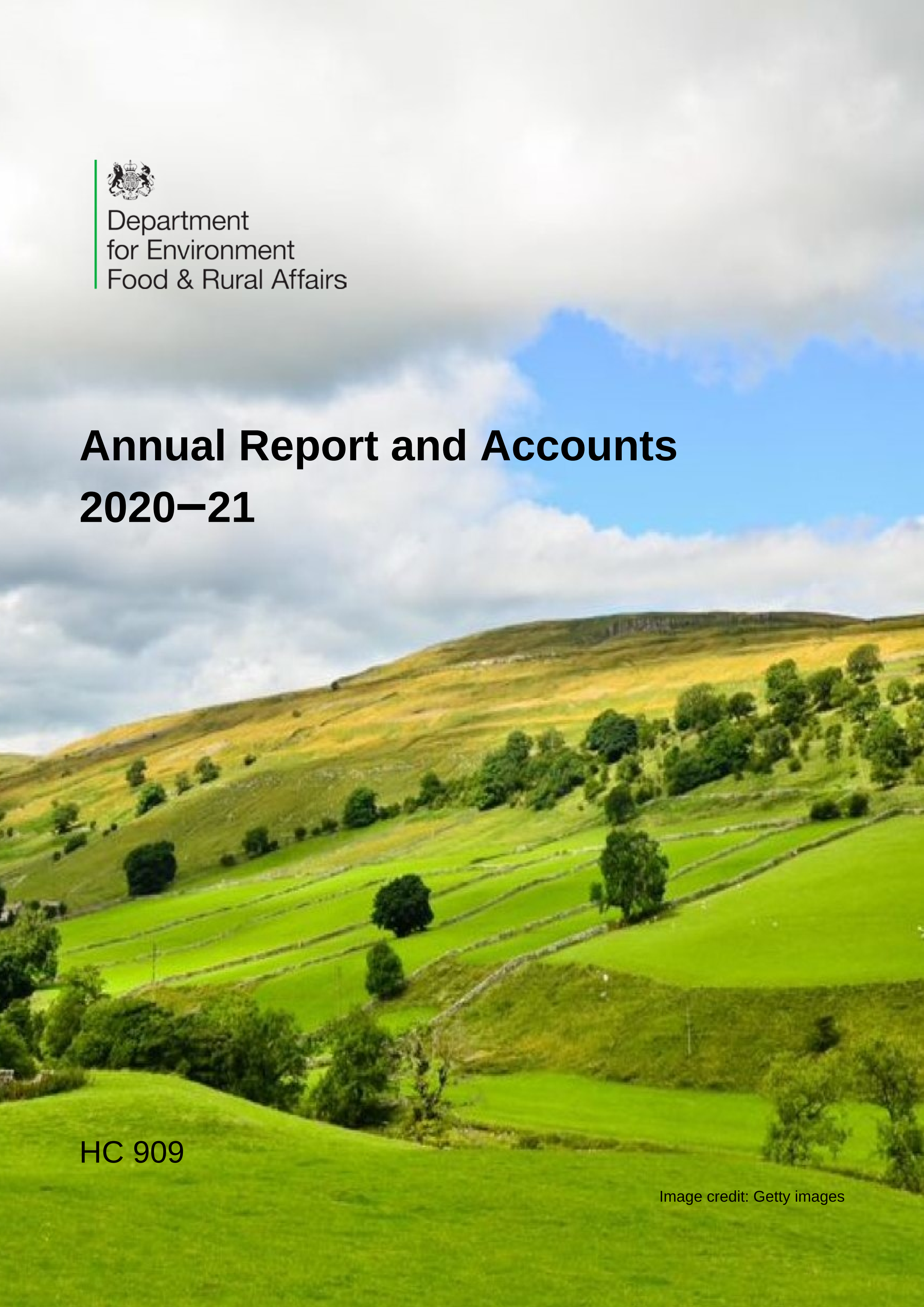
Department
for Environment
Food & Rural Affairs

Annual Report and Accounts
2020–21

HC 909



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Department for Environment, Food and Rural Affairs

Annual Report and Accounts 2020–21

(For the year ended 31 March 2021)

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This is part of a series of departmental publications which, along with the Main Estimates 2020-21 and the document Public Expenditure: Statistical Analyses 2020, present the Government's Outturn for 2020-21 and planned expenditure for 2021-22.

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Chapter 1 – Overview

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

Tamara Finkelstein

Defra has an interesting and diverse portfolio focused on improving our environment, achieving net zero and supporting the food, farming and fisheries sectors. I am proud of the progress we have made under challenging circumstances this year. The opportunity to work on our agenda at this time continues to energise and transform the department.

We are managing new responsibilities for EU repatriated functions, accelerating the country's sustainable recovery from the impacts of COVID-19 for the sectors for which we are responsible, and supporting the Government's agenda on levelling up and build back better for all. In doing so, we are demonstrating UK leadership internationally - using science, overseas programming, new trade agreements and new independent negotiating roles to further our policy goals.

The ongoing pandemic together with multiple changes from the end of the Transition Period and the impact of natural emergencies including avian flu and flooding have continued to challenge us to work with flexibility and agility. Our dedicated staff have established a departmental operations centre, successfully managed the challenges caused by the UK-France border temporary closure in December, helped supermarkets and the agri-food industry minimise disruption to food supply chains and supported food access for the vulnerable. We responded quickly to flooding, including during the Christmas period, while the Animal and Plant Health Agency effectively managed the latest avian influenza outbreak in England and Northern Ireland introducing new housing measures to help protect poultry and captive birds.

Our Free Trade Agreement negotiations with the EU concluded on 24 December 2020, and we introduced a new Trade and Cooperation Agreement, as well as supporting UK trade negotiations with the rest of the world. We managed new border and Sanitary and Phytosanitary controls, undertook extensive fisheries negotiations, and worked on the Northern Ireland Protocol, including introducing the Movement Assistance Scheme to support traders moving agri-food goods from Great Britain to Northern Ireland. In November 2020, we introduced a number of Statutory Instruments in preparation for leaving the EU, with the passing of the Agriculture Act, launch of the Agricultural Transition Plan for England, and the Fisheries Act becoming law to give the UK full control of its fishing waters for the first time since 1973. We have made progress in supporting negotiations for new Free Trade agreements for the UK, including progress on Australia and New Zealand trade deals with sectoral safeguards.

Our landmark Environment Bill has gained Royal Assent. The Environment Act will strengthen the delivery of the UK's commitments to the UK's ambitious environmental programme and the wider 25 Year Environment Plan. July 2021 marked the second phase of the Green Recovery Challenge Fund, a further £40 million boost for green jobs and nature recovery through tree planting at a huge scale across England's countryside, towns and urban areas, which will help deliver our 25 Year Environment Plan.

We have contributed to the UK's hosting of the Presidency of the G7 and the UN Conference of Parties (COP26) climate summit, which places the UK in a unique position to drive forward environmental action on a global scale including on ambitions to deliver net zero targets. The G7 meeting in May 2021 saw the introduction of a new commitment to tackle global biodiversity loss and conserve or protect at least 30 per cent of the world's land and ocean by 2030 which was built on furthered agreements at COP.

This year saw the launch of landmark consultations to ban the export of live animals for slaughter and fattening, and our contribution to move forward ambitious legislative and non-legislative animal welfare reforms as set out in the Government's Action Plan for Animal Welfare, published on 12 May 2021, and progress a bill that recognises animals as sentient beings in domestic law and the Animal Welfare (Kept Animals) Bill.

We continued to build our One Health Official Development Assistance Programme to support the prevention, detection and management of animal and plant disease outbreaks including increasing threats from zoonotic diseases like COVID-19, and safe, sustainable and productive aquaculture and agriculture globally, and saw the introduction of the Plant Healthy Certification Scheme to improve biosecurity standards across the different sectors and along their supply chains.

We have completed our six-year flood capital programme resulting in over 300,000 homes being better protected from flooding, involving over 700 projects. Our ambitious new £5.2 billion flood and coastal defences capital programme has started and will create around 2,000 new defences and better protect 336,000 properties in England by 2027.

I thank our staff for their unwavering professionalism and dedication in the delivery of our services throughout the pandemic and beyond. We extend a warm welcome to Lord Benyon who returns to Defra group as a Lords Minister and to Jo Churchill who joins Defra as Parliamentary Under Secretary of State. We are grateful to Lord Gardiner for his six years of dedicated service to the department.

We remain committed to the wellbeing, inclusion and equality of our staff, and take great pride in being a part of a forward-looking and changing organisation. We are learning from the experience of the last year to embrace more blended ways of working. We have adopted a new outcome-focused planning and performance framework to better deliver our priorities and measure future results, and a set of new strategic enablers to strengthen our capacity, capability and efficiency. We will continue to look for ways to transform Defra's operating model, plan for investment in digital and data strategy and science, embed strong project management delivery, increase sustainability and become increasingly efficient and innovative across the core department and our arms-length bodies.

In the year ahead, I am confident we will continue to build on our ambitious, professional, outward looking and inclusive approach.

Non-Executive Directors' Report

2020-21 has been a challenging and pivotal year for Defra group. The department has played a major role in the Government's response to COVID-19 and the transition to the UK's new relationship with the EU, which has tested our individual and collective resilience.

During this period, we have supported the food, farming and fisheries industries, and responded to emergencies caused by COVID-19 and the EU transition, and delivered vital services to customers.

We have introduced legislation on agriculture, fisheries and the environment that will transform how farmers, landowners and the fishing industry will be incentivised to restore biodiversity, husband our natural resources and both mitigate and adapt to climate change.

The ministerial and non-executive board members remained the same throughout the year, providing continuity. The board met five times in 2020-21. It has increasingly focussed on challenging the delivery of major departmental objectives, while providing support and challenge on the more urgent challenges caused by the EU transition and COVID-19.

Areas on which the board provided advice and oversight included the UK's trade agreement with the EU, winter emergencies response, international nature strategy, rural affairs, cyber security risks and technical debt. Colin Day, as Audit and Risk Assurance Committee chair, provided active challenge on matters within the committee's remit.
As lead Non-Executive Director (NED), I have undertaken this year's board effectiveness review: board members rated the board's performance overall as good or excellent and identified improvements to be made. Further details are included in the governance statement.

In addition to their contributions to board and committee meetings, individual NEDs have built relationships within the department which have allowed them to provide insight to and challenge some of the most critical areas of work. Colin Day and Elizabeth Buchanan have been supporting ministers to scrutinise and assess the Scientific Capability for Animal Health programme, which will rebuild the critical animal health facility at Weybridge. Elizabeth has also been advising on and supporting the future farming and countryside programme. Ben Goldsmith and I, working alongside international facing arm-length bodies non-executive directors as part of the International Climate and Biodiversity Advisory Group, have provided advice and challenge on the International Nature Strategy, G7, COP26 and Convention on Biological Diversity including on how domestic leadership can support the Government's international ambitions. Lizzie Noel has supported Defra to publish its first annual rural affairs report drawing on cross-departmental contributions and has been involved in corporate services reform. Lizzie has supported the improvements in management information to the board. In my role as independent lead, I have also published Part Two of the National Food Strategy, an independent review for government.

My fellow non-executive board members and I would like to express our gratitude to staff across the Defra group for their fortitude and commitment over the past year.

Looking ahead, Defra will continue to progress its' ambitious future farming, domestic and international environmental agendas. The non-executive team look forward to the next year as we continue to advise and challenge to help ensure priorities are effectively delivered to achieve the Government’s levelling-up priority and the department’s vision of making our air purer, our water cleaner, our land greener and our food more sustainable.

Henry Dimbleby,

Lead Non-Executive Director

Overview

This chapter describes our department and how we are structured, our vision, strategic objectives, the key risks that we face in achieving our objectives and how we responded to COVID-19 and EU exit. It includes a performance summary that shows some of our key performance successes across Defra group.

Who we are

Defra is the UK Government department responsible for safeguarding our natural environment, supporting our world-leading food and farming industry, and sustaining a thriving rural economy[1]. Our broad remit means we play a major role in people's day-to-day life, from the food we eat, and the air we breathe, to the water we drink. We are a ministerial department that is supported by, and works collaboratively with, over 30 public bodies. Together we are the Defra group.

Our structure

The department is led by the Rt Hon George Eustice MP, 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 two Lords ministers. Our Permanent Secretary, Tamara Finkelstein, has responsibility for managing the department and safeguarding public funds provided under the Defra Estimate.

Further information on our governance, including the Defra Board and the three committees which support it, is set out in Chapter 4.

Our vision

We are 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, leaving it in a better state than we found it.

Our delivery plan

The Defra group delivery plan sets out our strategic objectives (SOs) and what we will do to deliver them. Our four strategic objectives are underpinned by outcomes which capture what success against each objective will look like.

Strategic objective 1 (SO1): Trade and international

- Deliver a successful transition over 2020 by negotiating and preparing for ambitious new regulatory and trading arrangements within the UK, with the EU and the rest of the world.

Strategic objective 2 (SO2): Environment and climate

- Tackle climate change and pass on to the next generation a natural environment protected and enhanced for the future.

[1] https://www.gov.uk/government/organisations/department-for-environment-food-rural-affairs

Strategic objective 3 (SO3): Agriculture, food and fisheries

- Lead the world in food, farming and fisheries with a sustainable model of food production and robust protection and promotion of animal welfare.

Strategic objective 4 (SO4): Organisational capability and development

- Be a more ambitious, professional, outward-looking and inclusive organisation which is focused on getting things done.

Within each strategic objective we plan and organise our work through seven planning blocks that cover both policy and delivery:

- Five outcome systems: marine and fisheries, natural environment and rural, environmental quality, floods and water, and food, farming and biosecurity (which include core department policy directorates and all delivery bodies)

- Two functional systems: group strategic direction and corporate services (which include all strategic and functional core department directorates)

Our 25 Year Environment Plan

Our 25 Year Environment Plan (25 YEP)[2] is the Government's commitment to improve the environment within a generation by working with communities and businesses. It spans the work of Defra group, not only in relation to the environment and climate (SO2), but also for agriculture, food and fisheries (SO3). We have continued to put the levers in place that will help us secure lasting change for the environment.

We introduced our Environment Bill[3] to Parliament which, along with our Agriculture Act[4] and Fisheries Act[5], sets a new legal foundation for government action to improve the environment and deliver the goals of the 25 YEP. We have also put the UK at the forefront of combatting the illegal wildlife trade through introducing one of the world's toughest ivory bans in our landmark Ivory Act. The Environment Bill will facilitate major reforms on waste, air quality and water, together with a new governance framework to drive decision making across government and powers to set legally binding targets to drive environmental improvement.

We became the first major economy to legislate for net zero greenhouse emissions with Defra responsible for reducing emissions from land use, agriculture, F-gases, waste and wastewater. As an example of our drive towards achieving net zero, the three waste collection and packaging reforms we are consulting on (extended producer responsibility for packaging; a deposit return scheme; consistency in recycling collections) are estimated to deliver over 30 million tonnes of CO2 emissions savings between 2023 to 2035 - more than all the emissions of UK heavy goods vehicles in one year.

[2] 25 Year Environment Plan - GOV.UK (www.gov.uk)
[3] https://www.gov.uk/government/publications/environment-bill-2020
[4] https://www.legislation.gov.uk/ukpga/2020/21/contents
[5] https://www.legislation.gov.uk/ukpga/2020/22/contents

We are also looking at ways to reduce agricultural emissions controlled directly within the farm boundary, considering a broad range of measures. The three schemes we are introducing will reward environmental benefits: The Sustainable Farming Incentive, Local Nature Recovery and Landscape Recovery. Woodlands and peatlands are two of our largest natural climate-regulating ecosystem types and they need to be managed sustainably.

There remains much to do, both in our country and with international partners, to halt and reverse the decline of nature and to address climate change. The interlinked international crises of climate change and biodiversity loss must be tackled together. Not only is nature heavily impacted by climate change, it also provides vital tools to help mitigate climate change and adapt to its impacts.

As the country recovers from the global COVID-19 crisis, we have a crucial role to play in both economic and broader recovery. In November 2020, the Prime Minister announced his Ten Point Plan for a green industrial revolution, setting the blueprint for building back better, supporting green jobs and accelerating our path to net zero. Measures in this plan include advancing offshore wind energy, accelerating the shift to zero emission vehicles and greener buildings and protecting our natural environment.

The UK hosted the United Nations climate change summit, COP26, in November 2021. This bears testament to our global credentials as an ambitious and effective leader on climate change. We are putting nature at the heart of COP26, championing and driving forward the protection of the marine environment and nature-based solutions for climate, biodiversity, and people.

Risks affecting delivery of our objectives

This past year has marked a turning point for our country; a year where we have faced unprecedented challenges from the pandemic (increasing our organisational risk exposure) and from the transition from our trading arrangements with the EU, but also a year of opportunity to regain control of our regulation, our expenditure and our borders as we begin our journey outside the EU.

Defra group has managed a wide range of risks to the achievement of our strategic objectives over the course of the financial year. We have demonstrated resilience and adaptability in our changing landscape, carefully considering new and evolving risks such as cyber security and the urgency to replace legacy IT systems as technology enables much of our work and really impacts our customer experience. With the huge change to how we work over the last 12 months, we have increased our focus on staff wellbeing and built in additional capacity to ensure we can effectively respond to concurrent incidents (for example major flooding, animal disease outbreaks and food supply issues). Risks to our sectors remain, including from the post-transition environment and the impacts of COVID-19.

More detail on management of our principal risks is given in Chapter 2.

Our response to COVID-19

COVID-19 required Defra group to mount an unprecedented response. Throughout the pandemic we have worked closely with external stakeholders across multiple forums. This engagement and dialogue with our sectors allowed us to ensure that policies have considered the needs of Defra sector businesses and their employees, so that critical activities could continue during lockdowns and open safely during periods of easing. We took decisive action to ensure the continuity of food supply across the UK and worked closely with major retailers and local government to help ensure that the vulnerable and shielding had access to food. We maintained vital surveillance and controls to guard against a range of plant and animal diseases and pests. In addition, we have provided guidance and support to our businesses whose sustainability was threatened by lockdowns, including the provision of funding support for zoos and aquariums, the establishment of a Fisheries Response Fund and the Dairy Response Fund. We also worked closely with key sectors such as waste and water to ensure the continuity of services. See Chapter 3 for an analysis of the actual COVID-19 expenditure in 2020–21.

We have worked to ensure that seasonal agricultural workers can travel to the UK safely, by implementing bespoke isolation and testing regimes. More broadly we have promoted access to testing in our sectors by encouraging Defra sector businesses to take up the workplace testing offer. In response to a new French border entry requirement for a negative COVID-19 test in December 2020 we worked at pace to ensure depot operators could access testing for hauliers, contributing to the re-establishment of border fluidity.

We set up emergency structures to deliver rapid policy responses to the two significant waves of the virus in the spring and winter of 2020. In early 2020, we stood up a central Emergency Operations Centre (EOC) to coordinate and respond to the emerging pandemic, acting as the critical interface between our stakeholders, Defra policy teams and the rest of government. The EOC was supported across the department by the reprioritisation of work and pivoting staff towards management of the emergency, enabling us to mount a robust response to the pandemic and other concurrent risks.

Our response to EU exit

2020–21 was a year of change in our relationship with the European Union (EU). The United Kingdom formally left the EU on 31 January 2020 and entered a Transition Period until 31 December 2020. The Transition Period allowed the UK and the EU time to negotiate new arrangements for the future relationship, while maintaining pre-existing arrangements for business, trade and travel.

In this context, achieving as smooth as possible an end to the Transition Period for our sectors and organisations has been our primary aim. Despite the additional and unforeseen challenges brought on by the pandemic, the wider and more potentially damaging impacts in our predictive planning were largely successfully avoided or mitigated. While there were some disruptions post 1 January 2021(for example for seafood exporters), we worked with HM Treasury and government partners to mobilise support schemes rapidly, designing these to reduce the economic impact on UK businesses, and adapting them appropriately and flexibly during 2021. We maintained testing and controls to protect the UK's biosecurity from disease threats.

Through and after the Transition Period, we have seized the opportunity of the UK's exit from the EU to continue to build on our long-term commitment to leaving the environment in a better state than we found it. We are reforming our agricultural and fisheries policies to better support our farmers and fishing industries, while continuing to build a healthy, long-term, environmentally responsible approach to our land and seas. We have taken on independent regulatory functions, for example, in the chemicals sector. We have ambitious plans to reform our agricultural and land management, replacing the EU Common Agricultural Policy (CAP) with a series of targeted schemes to support farmers and land managers to maintain and enhance the environment, improve health and welfare of the livestock they manage and invest in the productivity and resilience of their businesses. We want to continue to support our fishing industries with our marine life sustainably managed for the future. We will control our own environmental protection measures and oversight and will establish independent oversight and scrutiny of them. Most importantly, through this period and beyond, we are working with delivery partners and businesses to ensure that we support them in adapting to operating in the new, post-EU environment. We played a crucial part in securing the Trade and Cooperation Agreement with the EU that was agreed in December 2020 and will ensure that the needs of our sectors are reflected in all trade negotiations.

For an analysis of EU exit expenditure in 2020–21, see chapter 3.

Our performance summary

Chapter 2 describes our group performance framework and sets out how we performed in delivering the key outcomes in our 2020–21 delivery plan.

In summary, Defra group maintained a positive level of performance across these outcomes alongside the challenges of transition from the EU, winter storms and associated flooding and, early in the financial year, the onset of COVID-19.

Over 314,000 homes protected from the risk of flooding (2015–2021)

Image credit: Getty Images

Identified and closed over 200 illegal waste sites

Image credit: Environment Agency

Over 4,000 kilometres of enhanced water environment

Image credit: Environment Agency

Fisheries Act, Agriculture Act, Environment Bill and numerous Statutory Instruments laid before Parliament

Image credits: Getty Images

2,178 hectares of woodland planted in England

Image credit: Forestry Commission

Played a key role in negotiating a Free Trade Agreement with the EU

Image credit: Pixabay

Provided £309 million of funding for schemes to support the most vulnerable in society during the COVID-19 pandemic

Image credits: ©coldsnowstorm via E+/Getty Images

Provided our 24,000* people with guidance and support in response to the COVID-19 pandemic.

*This covered Core Defra, APHA, VMD, RPA, EA and NE.

Image credit: fizkes via istock/Getty Images Plus.

Chapter 2 – Performance Analysis

This chapter is structured by the four strategic objectives in our internal Defra group delivery plan for 2020–21. Each strategic objective is aligned to outcomes and the plan sets out what we intended to do to achieve those outcomes, including the key performance indicators (KPIs) we would use to assess our success. Performance against KPIs is reported quarterly to our Executive Committee (ExCo) and to Defra's Board, as part of an integrated reporting cycle that brings together operational activity and risk, quarterly outcome monitoring, and progress in delivering our priority portfolios and programmes.

As part of the annual business planning process, we continually refine our performance framework so that it covers both our strategic, longer-term outcomes and the performance measures that we use at delivery and operational level (known as delivery assurance indicators). This explains why the list of indicators may change from one year to the next, with some being removed completely whilst other indicators more relevant to the latest plan have been added in. Looking forward to our 2021–22 Annual Report and Accounts, which will be based on our corresponding outcome delivery plan, our performance framework will evolve again to ensure we have the most suitable indicators that measure our performance against the new priority outcomes.

Through prioritisation decisions, Defra group maintained delivery of the strategic outcomes set in our 2020–21 delivery plan despite the challenges of COVID-19, with few significant impacts on organisational performance. Where there have been COVID-19 impacts – for example in our consequent inability to carry out bathing water sampling – these are noted in the relevant section of this chapter. There is information on the financial impact of COVID-19 in chapter 3.

Performance by strategic objective

Strategic Objective 1 (SO1): Deliver a successful transition over 2020 by negotiating and preparing for ambitious new regulatory and trading arrangements within the UK, with the EU and the rest of the world

We ensured as smooth as possible an end to the Transition Period for our sectors and organisations. The following sections demonstrate this in more detail and illustrate how we have seized the opportunity of the UK's exit from the EU to continue to build on our long-term environmental commitments. We worked directly with businesses and representative bodies to ensure a high level of preparedness for the end of the Transition Period, and we continue to engage and to support them in adapting to operating in the 'new normal'.

We played an important role in supporting the negotiations on the Northern Ireland Protocol (NIP), together with taking forward the implementation of the Protocol, working with the Northern Ireland Executive and Northern Ireland Department of Agriculture, Environment and Rural Affairs.

Our priority in 2020–21 was to ensure that the needs of our sectors were reflected in all trade negotiations. We played a crucial part in securing the Trade and Cooperation Agreement with the EU that was agreed in December 2020. This is the first free trade agreement the EU has ever reached based on zero tariffs and zero quotas. It creates excellent trade opportunities for UK producers whilst maintaining the UK's high animal, plant and food standards and protection for the environment. This agreement means that trade between the

UK and EU since 1 January 2021 is based on a new, comprehensive bilateral agreement that covers Defra group interests across food, fisheries, science, and the environment. Alongside this we agreed temporary arrangements to maintain the free flow of food into Northern Ireland under the Protocol.

Since the end of the Transition Period our priorities have been supporting UK exports by advising on trade to the EU – including rules of origin and agri-food certification – and working with Foreign, Commonwealth and Development Office (FCDO) posts to resolve issues where exports have been held up at Member State borders. Negotiations on the NIP continue to be a significant focus, and finding practical solutions for sustainable supermarket trade, plant and seed movements, and pet travel from and to GB-NI have been key priorities.

2020–21 marked the first year in which the UK was an independent member of the World Trade Organisation (WTO). On behalf of the UK, we have continued to lead negotiations at the WTO to move towards certifying the UK's independent Goods Schedule. The UK is approaching a conclusion with the majority of members in this process.

Many businesses, industry groups and individuals have faced challenges adapting to new trade requirements. We have delivered the support and services necessary to achieve a smooth and secure transition, safeguarding food supply, ensuring sectors could trade and operate, whilst continuing to protect our environment. Where post-transition issues arose, such as in impacts to the seafood sector, we worked at pace with government partners to mitigate these and support businesses.

Indicator: We have tracked the business readiness of the agri-food, biosecurity and environment sectors, specifically around trading under new arrangements affecting imports and exports, travel, and border readiness. Readiness has varied across the sectors and most issues that have arisen for traders have been expected as a natural consequence of our new trading relationship with the EU. UK traders have experienced some difficulties navigating new processes at the border. We are continuing to engage with Her Majesty's Revenue and Customs (HMRC) to monitor how traders are adapting to the new arrangements and ensuring that movements taking place during the contingency period are retrospectively followed up on.

In parallel with the trade negotiations with the EU, we have supported the Government's negotiations to establish free trade agreements (FTAs) with countries from the rest of the world. As part of the Continuity Negotiations Programme, we have played a central role in securing 36 agreements across 67 non-EU countries, equating to 99 per cent of the programme, and £183 billion in trade in 2020[6]. 19 of these agreements were secured during 2020–21, including with Canada, Mexico and Turkey. Negotiations on agreements also took place with the USA, New Zealand and Australia during 2020–21 and these negotiations will continue during 2021–22.

We played a crucial role representing our sectors in negotiations on the UK-Japan Comprehensive Economic Partnership Agreement which was reached in September 2020.

[6] UK total trade: all countries, non-seasonally adjusted - Office for National Statistics (ons.gov.uk)

Strategic Objective 2 (SO2): Tackle climate change and pass on to the next generation a natural environment protected and enhanced for the future.

Our 25 Year Environmental Plan (25 YEP) is a living blueprint for the environment covering the next quarter of a century. The plan will continue to evolve and be updated as our policies develop and exceed the original actions set out in 2018. The plan leads the world in using a natural capital approach as a tool to support decision-making, helping us make the policy choices that will deliver long-term improvements. This approach takes into account the often hidden benefits to our economy and wellbeing derived from our air, water, soil and ecosystems – which support all forms of life.

The Environment Bill sets out ambitious commitments on waste, air quality, water and biodiversity. It will transform our environmental governance by creating a new system tailored specifically to the UK.

The UK Marine Strategy for all UK waters is a three-part strategy that sets out a comprehensive framework for assessing, monitoring and taking action across our seas to achieve the UK's shared vision for clean, healthy, safe, productive and biologically diverse seas. Protecting the ocean will be critical in boosting resilience to future emergencies and helping to tackle the climate and biodiversity crises. We launched the £500 million Blue Planet Fund in June 2021, to help developing countries protect their marine resources from key threats including climate change, pollution, overfishing and biodiversity loss. We will continue to develop and invest in our world-leading marine and fisheries science to further understand the key areas of ocean climate research including: blue carbon, nature-based solutions, ocean acidification and global monitoring systems, with a particular focus on the evidence base on carbon stock and sequestration services of marine habitats to improve understanding and qualification of potential mitigation co-benefits.

To support delivery of the Nature Recovery Network (NRN)[7], in November 2020 we established a National Delivery Partnership. Led by Natural England (NE), the Partnership will initiate, coordinate and advise on action to recover nature. The NRN will be an expanded and increasingly connected set of places that are richer in wildlife and more resilient to climate change, and will be developed through three key components: introducing Local Nature Recovery Strategies; integrating nature recovery into a wide range of funding streams, from Nature for Climate to schemes that reward environmental land management; and developing strong partnerships to deliver action, including the National Delivery Partnership.

The £80 million Green Recovery Challenge Fund[8] (GRCF) is bringing forward a range of nature projects across England that will contribute to 25 YEP goals over the next few years, while creating and retaining thousands of jobs in the nature sector. Grants are being awarded to environmental charities and their partners to restore nature, tackle climate change and connect people with the natural environment. We launched the first funding round in 2020-21 which was awarded to 69 projects.

[7] https://www.gov.uk/government/publications/nature-recovery-network
[8] https://www.gov.uk/government/news/800000-trees-set-to-be-planted-as-green-recovery-challenge-fund-projects-announced

The Natural Environment Investment Readiness Fund (NEIRF)[9] was launched and will be delivered by the Environment Agency on behalf of Defra. It provides grants of up to £100,000 to environmental groups, local authorities, businesses and other organisations to help them develop nature projects in England to a point where they can attract private investment.

Through the Environment Bill we are modernising water regulatory processes - notably abstraction and taking further action to complement the 2017 Abstraction Plan - and improving long term planning processes to better manage water resources and making drainage and wastewater management planning statutory.

Greenhouse gas emissions have consistently fallen over the last six years, and the UK has decarbonised its economy faster than any G20[10] country since the start of the 21st century. We will continue to deliver against the 25 YEP's ambition, to protect and enhance nature domestically – for climate, for people and for wildlife – through new legislation, incentives and measures set out in the Ten Point Plan.

The Natural Capital Committee had identified serious gaps in the evidence base for environmental decision-making, leading it to recommend a 'Baseline Census' relating to knowledge of the location, condition and trends of England's ecosystems and their natural capital assets. We are investing in environmental improvements through the Environmental Land Management schemes (ELMs[11]), NRN, England Tree planting grant schemes, Local Nature Recovery Strategies and biodiversity net gain[12]. The same is the case for our net zero efforts which will also affect our ecosystems, and for improvements to the planning system. To maximise value for money and inform trade-offs, up-to-date ecosystem information is essential, a need also highlighted in various chapters of the Dasgupta Review[13].

HM Treasury awarded Defra £5 million during 2020–21 to commence a pilot programme to meet these gaps and needs. We have called this the Natural Capital and Ecosystem Assessment Programme and it covers all our land, water and marine environment. Defra secured a further £20 million in Spending Review 2020 (SR20) to continue this pilot during 2021–22 and will use the pilot to inform future investment decisions in environmental monitoring.

SO2 - outcome: Climate change is mitigated and adapted to, and net zero delivery by 2050 is maintained, through reducing greenhouse gas emissions, restoring peatlands and expanding woodlands and forestry

We continued to contribute to the Department for Business, Energy and Industrial Strategy (BEIS) led cross-cutting net zero ambition. Our key programmes take a dual approach: to minimise emissions or maximise carbon sequestration whilst taking account of our wider environmental commitments. We are responsible for reducing emissions from agriculture,

[9] New £10 million fund to drive private sector investment in nature - GOV.UK (www.gov.uk)
[10] https://www.g20.org/about-the-g20.html
[11] https://www.gov.uk/government/publications/environmental-land-management-schemes-overview/environmental-land-management-scheme-overview
[12] Biodiversity Net Gain is an approach which aims to leave the natural environment in a measurably better state than beforehand
[13] https://www.gov.uk/government/publications/final-report-the-economics-of-biodiversity-the-dasgupta-review

land use (including peat), fluorinated gases and waste / wastewater, whilst simultaneously increasing England's carbon sequestration potential through our forestry policies.

We worked under the £50 million Woodland Carbon Guarantee fund, and the £640 million Nature for Climate Fund (NCF) to drive a step change in tree planting, peatland restoration and nature recovery. We have already begun to ramp up peatland restoration by investing in a number of peatland restoration projects that were deliverable in 2020-21, for example, work has started through the Great North Bog to identify projects that will restore peatlands across northern England.

Indicator: We have a target to restore 35,000 hectares of England's peatland to be brought into favourable condition or more sustainable forms of management within 5 years (by 2025). In 2020–21, we restored 3,600 hectares which was below our target of 4,700 hectares. There was a reporting lag with delays to works being carried out due to the COVID-19 pandemic and because the results may not be evident for some time after the restoration works. The delayed restoration results are expected in April/May 2022.

Image credit: Think Stock Images

Image credit: Forestry Commission Images

Indicator: Our overall aim is to increase the new planting of woodland and trees across the UK to 30,000 hectares per year by 2025. 2020–21 was our first year of measurement under this programme. 2,178 hectares of woodland was planted in England during 2020–21, of which 1,892 hectares (equivalent to 3.9 million trees) were delivered with government support. This is broadly equivalent to the area planted over the same period last year (1,956 hectares). The acceleration in planting rates seen in 2019-20 has not been maintained, but evidence is that many landowners have preferred to wait for new grant schemes to come online.

Indicator: The percentage of woodland in active management in England was 59 per cent in 2020–21 (equating to 770,000 hectares at 31 March 2021).

SO2 - outcome: clean air

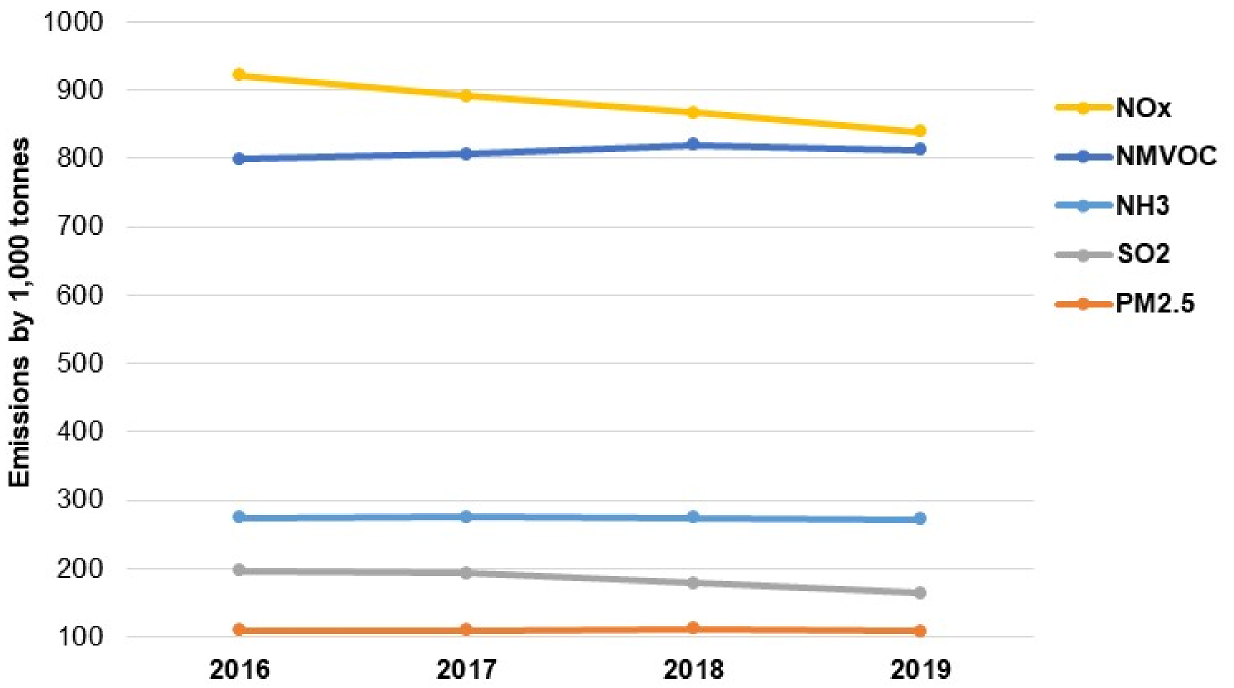
Air pollution has improved significantly since 2010 but remains the greatest environmental risk to human health. The Government has committed to reducing ammonia (NH_3) emissions by 8 per cent of 2005 levels by 2020, and a 16 per cent reduction by 2030.

Image credit: Getty Images

In November 2020, we consulted on policy options to reduce ammonia emissions from urea fertiliser; 87 per cent of the UK's ammonia emissions come from farming. To support innovative projects to improve air quality we awarded £5.1 million in grants to 29 local authorities[14]. The NO2 Programme has provided over £550 million to date to local authorities to take forward their NO2 plans.

We launched the first Clean Air Zone (CAZ) in Bath in March 2021. Clean Air Fund grants have helped to encourage fleet turnover to newer, less polluting vehicles, with specific grant types depending on the type of CAZ being implemented.

Indicator: We are developing a critical pathway to deliver policy action set out in the Government's 2019 Clean Air Strategy to achieve statutory 2020 and 2030 emissions ceilings. We measure the trends in five main air pollutant emissions: particulate matter (PM2.5), nitrogen oxides (NOX), sulphur dioxide (SO2), non-methane volatile organic compounds (NMVOCs) and NH3. In 2020–21, emissions of pollutants (except NH3) have long-term decreasing trends, although the declines are not currently steep enough to meet long-term targets (except for SO2). In recent years, there has been little change in NMVOC and PM2.5 emissions although emissions of these pollutants decreased marginally in 2019. Emissions of NH3 increased between 2013 and 2017, but over the last 2 years, NH3 emissions have decreased marginally. Figure 1 shows the overall trends in these five pollutants and in particular the reduction in NOX and SO2 between 2016 and 2019.



Defra copyright © 2021. This data is licensed under the Open Government Licence 3.0. Data source: Emissions of air pollutants in the UK.

Figure 1: trends in the five main air pollutant emissions

[14] https://www.gov.uk/government/news/5-million-boost-for-local-authorities-to-tackle-air-pollution

SO2 - outcome: clean and plentiful water

The long-term trend for bathing water quality in England remains upward and overall quality is high. In 2019, 98.3 per cent of bathing waters achieved the minimum standard of sufficient. Bathing waters in England were not classified in 2020 due to COVID-19 restrictions which prevented this data from being collected.

Indicator: This year a total of 4,551 kilometres of the water environment have been enhanced. As shown in Figure 2, there has been an upward trend in the number of kilometres enhanced and we exceeded our 2020–21 target of 3,900 kilometres. This brings the total to over 11,000 kilometres enhanced since the publication of the 2015 updated river basin management plans, exceeding the overall target of achieving 8,000 kilometres by December 2021.

Examples of enhancements achieved include tackling pollution, improvements at sewage treatment works and pumping stations, providing advice and support to farmers, removal and treatment of the highly invasive non-native species.

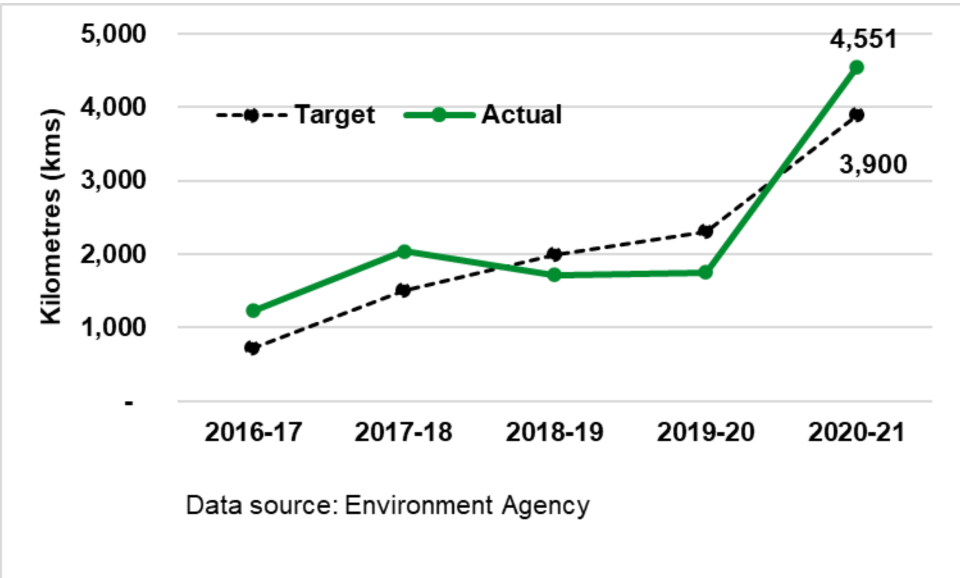


Figure 2: Kilometres of water environment enhanced

Water companies have made good progress in reducing leakage and are on track to meeting their Periodic Review (PR19) commitment of reducing leakage by 16 per cent by 2025. They have also committed to reducing leakage by 50 per cent by 2050. In 2019–20, leakage fell by 6.5 per cent.

SO2 - outcome: Thriving terrestrial, marine and freshwater plants and wildlife, and minimised marine waste

We established the NRN National Delivery Partnership[15], a broad network of cross-sectoral organisations, to initiate, coordinate and advise on cohesive actions to deliver and promote

[15] https://www.gov.uk/government.news/biggest-ever-nationwide-initiative-to-restore-nature-in-england-set for-launch

biodiversity. In September 2020, the Prime Minister committed to protecting 30 per cent of the UK's land by 2030 to support the recovery of nature.

Further designation of marine protected areas (MPAs) means the UK now has 372 MPAs, covering 38 per cent of our seas. Our MPA network covers 40 per cent of English waters within 178 sites. MPAs protect some of the best examples of our marine biodiversity by protecting specific habitats or species while allowing sustainable economic and recreational marine activities to continue.

We launched the Offshore Wind Enabling Actions Programme to address barriers to offshore wind deployment whilst protecting the marine environment.

We supported Fishing for Litter, a litter bycatch removal scheme for commercial fishers, which provides fishing boats with bags to dispose of marine litter collected during normal fishing operations.

We delivered community-led pilot projects in Nigeria and Myanmar in partnership with the Global Ghost Gear Initiative to reduce abandoned, lost and discarded fishing gear that harms marine life.

Indicator: The 25 YEP commits us to restoring 75 per cent of our one million hectares of terrestrial and freshwater protected sites to favourable condition by 2042. There has been a small increase in the area in favourable condition, from 36.6 per cent in 2011 to 38.9 per cent (of Sites of Special Scientific Interest (SSSI's)) in 2020.

Indicator: Two England marine plans were already in place and the remaining four England plans were published in June 2021. The National Marine Plan for Northern Ireland is under development and is anticipated in 2021.

SO2 - outcome: Reducing the risk of harm from flooding, drought and other environmental hazards

We published the Government's long-term Policy Statement which sets out our ambition to create a nation more resilient to future flood and coastal erosion risk which will accelerate progress to better protect and prepare the country against flooding and coastal erosion. We better protected over 57,000 properties from flooding during winter storms and flood events in 2020–21.

We announced the 25 places which will benefit from a share of £150 million as part of the Government's new Flood and Coastal Resilience Innovation Programme[16]. Local authorities, businesses and communities will test and demonstrate innovative practical resilience action in their area, reducing the cost of future damage and disruption from flooding and coastal erosion.

Indicator: We achieved our current six-year target and have protected over 300,000 households from flooding between 2015 and 2021. Our cumulative total by the end of 2020–21 was 314,361 properties. Figure 3 shows the upward trend in the annual

[16] https://www.gov.uk/guidance/flood-and-coastal-resilience-innovation-programme

number of households protected since 2016, and shows we exceeded our target in 2020–21. Some of the most significant protection was achieved for schemes at Duke Shore Wharf, London, beach management between Mablethorpe and Skegness on the Lincolnshire coast, the Boston Barrage and the frontage in Hull. The Government is investing a record £5.2 billion over six years from April 2021 to better protect a further 336,000 properties.

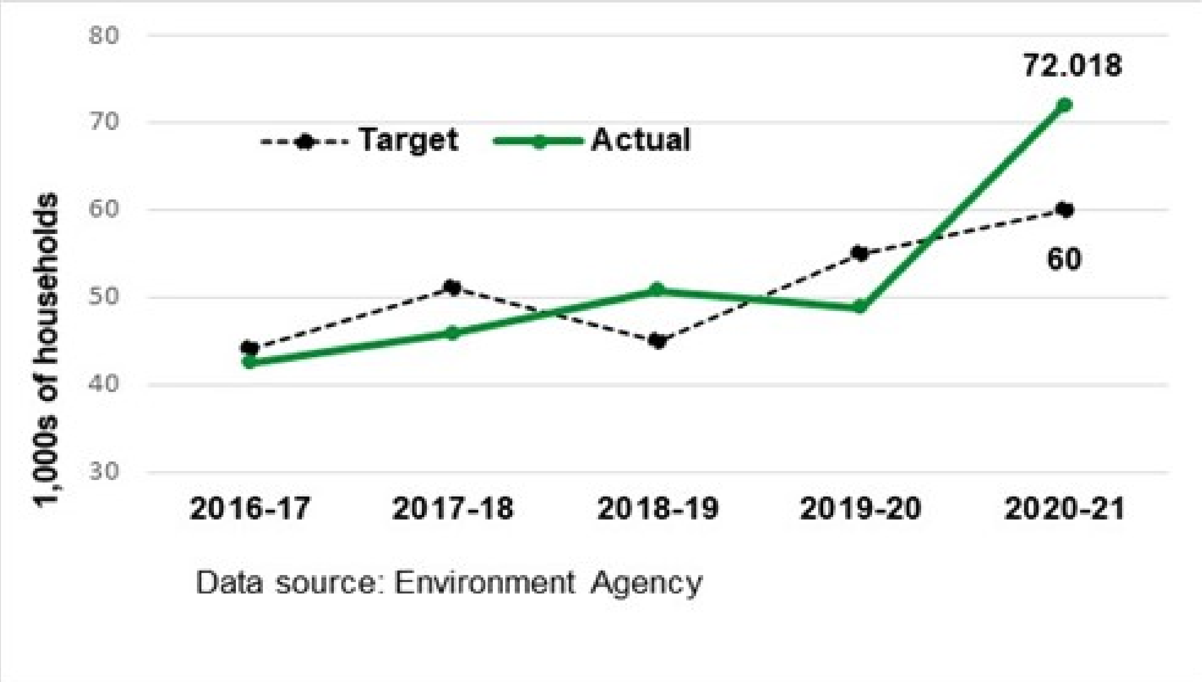


Figure 3: Households protected from flooding

SO2 - outcome: Using timber and soil more sustainably and efficiently

We announced the creation of the Lowland Agricultural Peat Task Force to generate solutions for improving the condition of England's farmed lowland peat soil, which is responsible for 86 per cent of England's peatland's carbon emissions.

SO2 - outcome: Encouraging the enhanced beauty, heritage and engagement with the natural environment

We launched the People and Nature Survey for England in April 2020[17] which is NE's successor survey to the Monitor of Engagement in the Natural Environment survey.

In 2020–21, the Nature Friendly Schools and Community Forest and Woodland Outreach projects worked with over 140 schools in disadvantaged areas, continuing to support many of them during periods of lockdown. The Growing Care Farming project continues to support care farmers and health professionals and bring them together with a common purpose of providing therapeutic, mental health, social and educational care services. About 30 per cent of care farms have received or are working towards accreditation.

We continued to progress work on the England coast path, despite necessary adjustments resulting from the COVID-19 pandemic. 431 miles are now complete and open to the public.

[17] https://www.gov.uk/government/collections/people-and-nature-survey-for-england

We refreshed the Countryside Code as part of a wider campaign to support safe enjoyment of the outdoors, aligned with COVID-19 restrictions lifting.

We led the ‘Preventing and tackling mental ill-health through green social prescribing’ project, a £5.77 million cross-governmental project to help improve mental health and wellbeing by connecting more people to nature. The project will work with communities disproportionately affected by COVID-19 and run from October 2020–April 2023.

Indicator: We want to increase biodiversity and promote an environmental net gain by creating more and better water habitats. Despite the impact of the pandemic on the release of funding and issues of site access and working patterns, we exceeded our annual target of creating more than 1,200 hectares of better water habitats. Working with our partners we created 744 hectares of new priority habitat and restored a further 1,153 hectares. Since 2010-11, we have created a total of 8,353 hectares of new priority habitat.

SO2 - outcome: UK is a global leader in climate adaptation as well as mitigation and is influencing international action on climate change and biodiversity

We established the UK as central to the global push for securing the most ambitious global biodiversity targets at COP15 (which has been delayed to 2021), including leading the Global Ocean Alliance and co-chairing the High Ambition Coalition for People and the Planet which are advocating targets to protect 30 per cent of the land and the ocean by 2030. We also established the Friends of Accountability group of countries to work towards strengthening reporting and review mechanisms to hold countries to their commitments.

Fulfilling a key commitment of the Paris Agreement, we published our UK Adaptation Communication, setting out what the UK is doing to prepare for the effects of climate change at home, and support those facing impacts overseas.

We continued to work closely with COP26 Unit and FCDO on the development of the COP26 Adaptation and Resilience campaign, including on event proposals and climate science. Adaptation and Resilience is a priority for COP26.

SO2 - outcome: minimising waste

Indicator: This year we aimed to reduce the number of high-risk illegal waste sites to below a ceiling target of 216, which we achieved, recording 206 sites. Figure 4 shows how the number of illegal sites has reduced steadily from 2017–18 onwards, with 2020–21 being the first year we achieved site numbers below our ceiling target. During early 2020–21, the impact of COVID-19 on EA operations was noticeable and more desk-based assessments and other remote interventions were introduced to allow work to continue despite the restrictions.

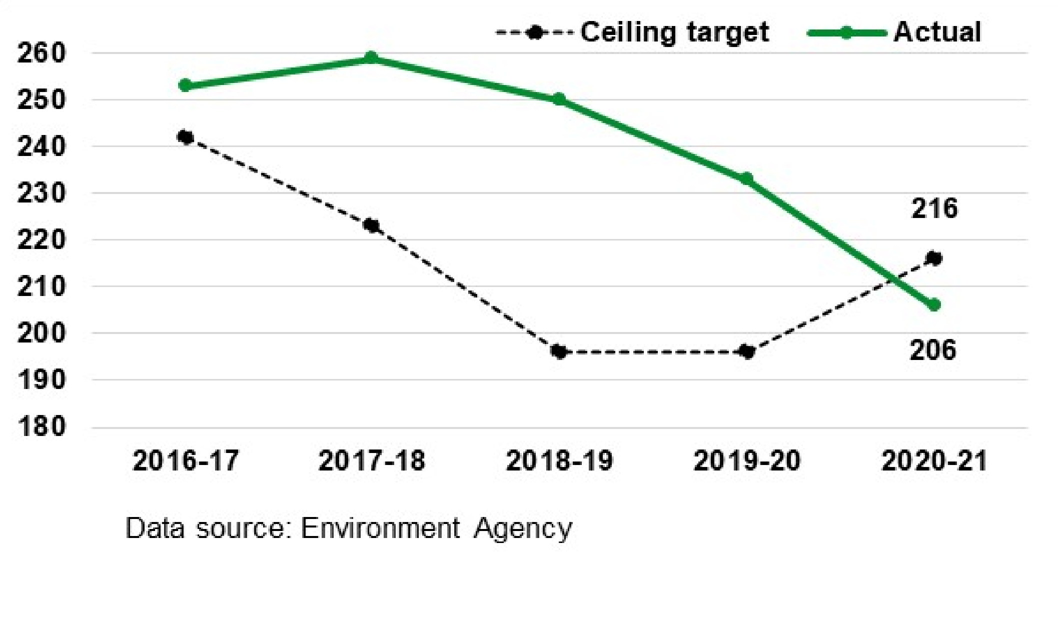


Figure 4: Number of high-risk illegal waste sites

Indicator: Until we have a formal methodology for calculating the increase in the municipal waste recycling rate**,** we currently collect data for the closely linked 'waste from households' (WfH) recycling rate. In 2019–20, the recycling rate for WfH was 45.5 per cent, up 3.6 percentage points on the equivalent figure for 2010–11 (when the measure was first reported) and 0.4 percentage points on the equivalent figure for 2018–19. On a calendar year basis, the WfH recycling rate was also 45.5 per cent in 2019, an increase of 0.9 percentage points relative to the year prior (2018) and the highest annual improvement since 2012.

We introduced a ban on the supply of plastic straws, stirrers and cotton buds to end users in October 2020.

Our food redistribution projects to help cut food waste by redistributing surplus stock to vulnerable people during the COVID-19 outbreak.

SO2 - outcome: managing exposure to chemicals

We launched UK REACH[18], the UK's independent chemicals regulatory framework, which came into force on 31 December 2020. The 'Comply with UK REACH' IT service (and accompanying helpline support) was launched on 1 January 2021, enabling companies to meet their UK REACH registration obligations in 2021.

SO2 - outcome: Thriving rural economies and communities are supported

We continued to work with the Rural Payments Agency (RPA) to manage 18 projects under the Defra rural broadband scheme.

[18] https://www.hse.gov.uk/reach/index.htm

We published the first in a series of annual reports[19] designed to show how rural proofing is being implemented across government.

Strategic Objective 3 (SO3): Lead the world in food, farming and fisheries with a sustainable model of food production, and robust protection and promotion of animal welfare

We passed the landmark Agriculture Act, the most significant agricultural legislation for a generation. This gave government the powers to start the agricultural transition on time in January 2021, moving away from the Common Agricultural Policy towards a system where farmers are rewarded for delivering environmental improvements, over the next seven years.

Our ambition is for the UK to be one of the world's leading food nations, renowned for excellence in every aspect of the food system. We are committed to ensure the safety of food available in the UK is not compromised. We will ensure that UK producers can continue to access markets and consumers have access to affordable foodstuff. We will build the UK as a world leader in maintaining consumer confidence in food and drink, leading work on food standards and consumer information labelling, and working with partners on food safety.

Having left the Common Fisheries Policy, the Fisheries Act 2020, now provides the opportunity to reform how we manage our fisheries, control our waters and support our marine environment. We aim to ensure that our actions support sustainable, diverse, responsible and profitable fishing industries and improve the marine environment.

SO3 - outcome: Develop a profitable farming industry, producing food to high standards and providing ecosystem services

We gained Royal Assent for our Agriculture Act, laid before Parliament in November 2020. It will introduce a fairer, more sustainable system for regulating and supporting farming, and will reward farmers and land managers for the good work they do.

Image credit: Getty images

Farming payment performance (the Basic Payment Scheme) has significantly improved as a result of several simplification measures implemented by the RPA, since its introduction in 2015. 80,464 customers (95.3 per cent) were paid £1.67 billion on the opening day of the payment window, and a record 82,541 (97.8 per cent) by the end of December 2020. By 31 March 2021 the total had increased to 83,716 (99.1 per cent) worth £1.81 billion which meant that we had also achieved our end of June 2021 EU regulatory target.

[19] https://www.gov.uk/government/publications/rural-proofing-in-England-2020

SO3 - outcome: Develop a productive and competitive food industry, selling food of high standards at home and internationally

We launched the initial phase of the Farm Resilience Fund[20], providing £1 million worth of grants to multiple recipients to provide farmers and land managers with different types of resilience support, to determine what kind of interventions would help prepare them for the agricultural Transition Period. This is ahead of the launch of a national scale-up in 2022.

We delivered over 4.7 million food boxes to individuals advised to shield, supporting over 500,000 extremely vulnerable individuals to access food and essentials without leaving home. The first food boxes arrived on doorsteps only five days after the shielding announcement was made. We ensured that food supply could keep flowing following the short-notice requirement for hauliers arriving in France to have negative COVID-19 test results.

In collaboration with large food retailers and the Department of Health and Social Care (DHSC), we piloted COVID-19 testing in the workplace. Using lessons learned from the pilots, DHSC was able to roll out a flexible mass testing programme that suited business models in the food sector.

Indicator: The value of UK food and drink exports decreased in April and May 2020 which coincided with the strictest UK COVID-19 lockdown restrictions. They continued to fall every month of 2020 except November and December. This was most likely due to a combination of Christmas trading and anticipation of the end of the Transition period of EU exit. Figure 5 shows that the value of exports had been increasing steadily from 2016–17 but with a sharp drop from 2019–20.

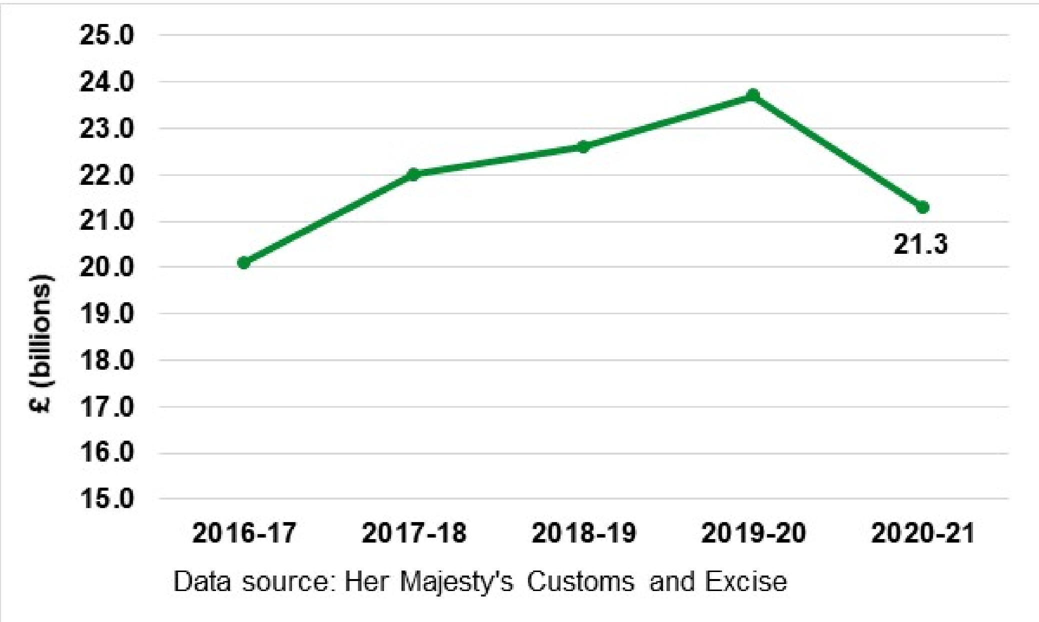


Figure 5: Value of food and drink exports from the UK in £ billions

[20] https://defrafarming.blog.gov.uk/2021/03/25/the-future-farming-resilience-fund-supporting-farmers-through-transition

SO3 - outcome: Protect animal, plant and human health from risk while ensuring high animal welfare standards

Having published our response to the Bovine Tuberculosis Strategy Review in March 2020, we continue to harness our world-leading science to develop a deployable cattle vaccine that will be invaluable to other countries trying to fight this disease.

Working with the devolved administrations, we developed the new UK SPS Trade Assurance Office[21]. This repatriates some of the essential biosecurity and trade assurance functions carried out by the European Commission; for example, managing third country trade risk assessments and audit controls.

Following the USA's longstanding ban on EU beef – introduced in the wake of the BSE outbreak in 1996 – market access for UK beef was granted in March 2020. This marked a historic moment for UK farmers and food producers who now have access to the US market for the first time in over 20 years.

To enhance animal welfare, we introduced the animal cruelty sentencing Bill to Parliament, a manifesto commitment. We developed new animal sentience proposals, supported by proposed reforms to the Animal Welfare Committee, another manifesto commitment. Our proposals to tackle live animal exports, an iconic campaign issue and another manifesto commitment, included a Call for Evidence and subsequent detailed expert reports and research. We also ran a major public information campaign 'Petsfished' to highlight the risks of buying a pet from deceitful low-welfare sellers who breed and keep animals in poor conditions. The campaign was supported by a range of animal welfare charities, veterinary organisations and commercial partners.

We launched the Plant Healthy Certification Scheme, aimed at improving biosecurity standards across the different sectors and along their supply chains.

As part of our commitment to improving animal health we introduced new housing measures to help protect poultry and captive birds, following the biggest ever outbreak of avian influenza (bird flu) in the UK and introduced the requirement, from October 2020, for all equine owners to microchip their animals. Despite the challenges of COVID-19, we successfully delivered a major programme of proactive badger control to control the spread of bovine TB within the High Risk and Edge areas of England in autumn 2020.

We are developing a new Animal Health and Welfare Pathway, mapping out how farmers and government will work together to improve continually the health and welfare of farmed animals now and in the future, supported by the best science and evidence. This will include schemes initially focusing on improving animal health across cattle, pigs, sheep and poultry. The schemes will cover pragmatic steps to better control or eradicate endemic diseases.

We provided support funding for licensed zoos and aquariums in England affected by COVID-19, which was extended from the initial £14 million to £100 million.

[21] Trading with the UK: exporting animals and animal products to the UK - GOV.UK (www.gov.uk)

Indicator: Bovine tuberculosis (bTB) is a slow-moving epidemic disease. We measure the percentage of cattle herds that are bTB free in England and our aim is to be 100 per cent bTB free by 2038. We have observed signs of improvement in all key measures of disease spread this year compared to last. In England overall at end of 2020, 95 per cent of herds were bTB free, an increase of 94.7 per cent at end of 2019.

Figure 6 shows an overall upward trend from 94 per cent 2016–17 to 95 per cent in 2020–21.

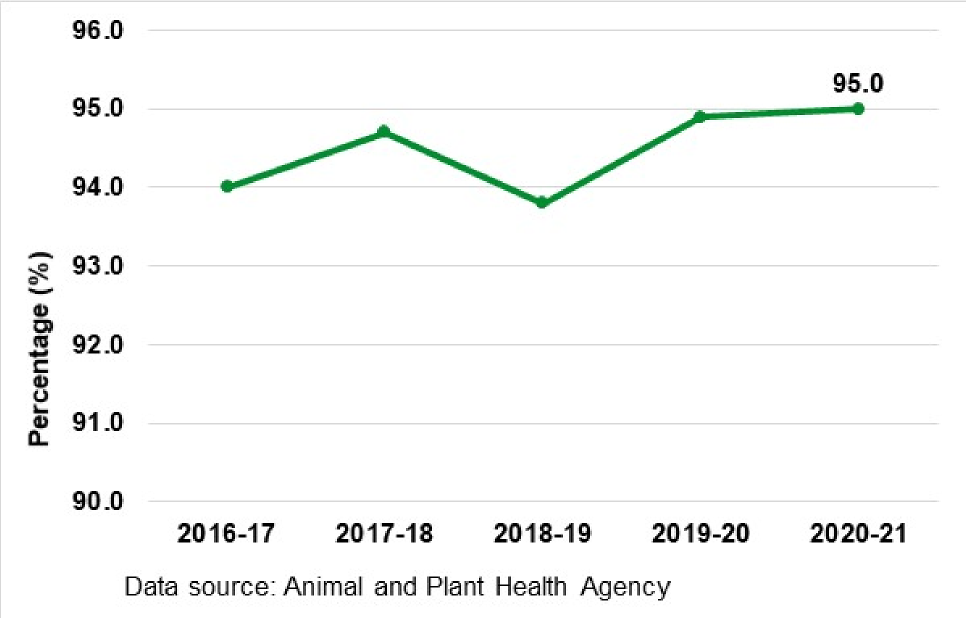


Figure 6: The percentage of cattle herds that are free of bTB in England

SO3 - outcome: Mitigate climate change and people and nature adapt to it by reducing agricultural emissions

We published a plan on sustainable farming[22] which sets out how the Government will support farmers and land managers by investing the money freed up from phasing out direct payments to pay for improvements to the environment, improve animal health and welfare and reduce carbon emissions.

SO3 - outcome: Thriving fishing industry that uses resources from nature more sustainably and efficiently

The Fisheries Bill achieved Royal Assent in November 2020 becoming the Fisheries Act, the first major domestic fisheries legislation in nearly 40 years. This Act requires the production of a Joint Fisheries Statement (JFS) which must set out policies to achieve or contribute to the fisheries objectives in the Act. The JFS has to be produced jointly by the four fisheries administrations.

To help industry adjust to new post-Brexit trading arrangements, we launched a three-month fisheries support scheme providing grants for eligible fishing and aquaculture businesses.

[22] Agricultural transition plan 2021 to 2024 - GOV.UK (www.gov.uk)

Under Clean Catch UK, a Defra led collaborative research programme, we launched a wildlife bycatch reporting app, developed with and for the fishing industry.

Strategic Objective 4 (SO4): Be a more ambitious, professional, outward-looking and inclusive organisation which is focused on getting things done

To support delivery of Defra group strategic plans and ambition our portfolio of corporate services provided the necessary capability, workforce skills, IT architecture and resources. These services were agile in challenging circumstances and we continue to ensure they deliver excellent value for taxpayers, our partners, and customers (including industry, delivery partners, public bodies, non-government organisations and Parliament). We need to continue to attract and retain the best talent and develop the skills and capability necessary as we face new challenges. We aim to be a customer-focused, outward looking and data-driven department. We strive to ensure Defra group's priorities are based on the best scientific, analytical and legal insights and that we effectively prioritise to ensure we deliver against our plans.

SO4 - outcome: Defra has a fit for purpose operating model and a reputation for delivery

We provided technology to keep Defra group operational throughout COVID-19. This included doubling our network capacity, supplying over 4,000 phones and laptops within two weeks at the start of the pandemic, moving 350+ contact centre staff to home working, developing a staff capacity tracker and deployment system – and were shortlisted for an award for this work at the government project delivery conference in March 2021.

We published our Greening Government: Information Communication and Technology (ICT) and Digital Services Strategy 2020-2025[23] in September 2020. We now have targets and KPIs that relate to our key sustainability objectives and commitments across government, for example for net zero.

A new suite of performance reporting on Defra projects and programmes was implemented giving better oversight of delivery against milestones and associated risks, which is reviewed monthly by the Executive Committee with visibility at Defra Board.

The Defra Investment Committee issued new guidance and toolkits to support the organisation deliver higher quality business cases with robust and appropriately resourced delivery plans. These ensure we set our programmes up for success and we can evaluate delivery of benefits and outcomes.

Indicator: Our percentage availability of critical IT services has been close to 100 per cent throughout the year. This metric shows whether the overall service is available, but does not take into account more nuanced issues affecting performance or ability of specific users to access the service. It therefore does not reflect the continuing high number of priority incidents affecting these services due to the range of ageing technology in use across Defra group.

[23] https://www.gov.uk/government/publications/greening-government-ict-and-digital-services-strategy-2020-2025

Indicator: By March 2021, our time to hire (TTH) average was 89 days over the last 12 months. This was impacted at the end of 2020, by a significant increase in the volume of applications for roles, a slower service from Government Recruitment Service (prioritising COVID-19 recruitment), and some IT sourcing and supply issues. We have identified and agreed an improvement plan through a combination of tactical quick fixes and fundamental changes to recruitment to meet an ambition to improve TTH performance to 68 days.

See the end of this chapter for performance information on how we have responded to public correspondence within our set target times.

SO4 - outcome: Defra will strengthen our Research and Development (R&D) base to support and enhance Defra policy and operational functions

Following the announcement in the March 2020 budget for investment in the UK's animal health scientific capability, we set up the Science Capability in Animal Health (SCAH) Programme. This is a £1.4 billion commitment over 10 years to deliver enhanced infrastructure and capability from the Animal and Plant Health Agency (APHA). This will transform how we deliver animal health science, grow scientific capability, attract even more high-quality scientists and technical experts and build APHA's global influence.

Our Earth Observation Data Service (EODS) went live and we can now access analysis-ready satellite data for England which will help us prepare for flooding, monitoring our woodlands, and with mapping crops and habitats.

We identified countries to prioritise global science engagement, and implemented engagement plans for new international partnerships, including the signing of a Memorandum of Understanding with Qatar to deliver priorities and agree project funding mechanisms.

SO4 - outcome: Defra has a talented, skilled and committed workforce which is ambitious, outward looking, professional and inclusive

We published the 2020-24 Defra group Equality, Diversity and Inclusion (EDI) Strategy, which focuses on improving EDI across the internal workforce and external-facing policy making and service delivery, and on developing inclusive cultures where all employees thrive. We continued an ambitious programme of work to improve the lived experience of all employees and address issues raised in our Staff Survey.

We engaged closely with the IPA (the Government's Infrastructure and Projects Authority) to recruit and develop better project and programme management capability and reduce the need for external contractors.

SO4 - outcome: Defra leads the public sector with their own net zero ambitions and sustainability actions

In 2020, we set ambitious environmental and social sustainability goals for achievement by 2025. These include achieving net zero emissions for IT (including 45 per cent emission reductions through efficiencies and 40 per cent emission reductions through use of renewables), sending zero electronic waste to landfill, reporting on due diligence, making sustainability part of business as usual and providing net gains for the environment. For a more detailed breakdown of our sustainability performance see Annex 3.

Sustainable Development

Defra plays a crucial role in ensuring a sustainable future. We continue to work with a wide range of government departments to drive forward sustainable development thinking especially on developing the Sustainability Pillar of the Government Strategic Framework.

Defra's role in sustainability leadership

Greening Government Commitments

Defra co-ordinates the Greening Government Commitments (GGCs), which set targets for all departments to improve the sustainability of their own estates and operations, and report publicly on the progress made. The current GGC framework sets targets for reducing the Government's greenhouse gas emissions, domestic flights, waste, paper and water, as well as promoting sustainable procurement. It also commits departments to reporting publicly on their actions on climate change adaptation, biodiversity, sustainable food and catering, and sustainable construction, as well as any other significant aspects of their work.

We have overseen the development of the new GGC target framework for 2021-25 and aim to publish these new commitments in summer 2021. The new framework will ensure the public estate continues to reduce its environmental footprint, align with commitments in our 25 YEP and be consistent with a trajectory to achieving net zero greenhouse gas emissions by 2050.

Compared to 2009–10 baseline figures, in 2020–21 Defra group reduced its greenhouse gas emissions by 59 per cent; domestic flights by 98 per cent; paper use by 97 per cent; and reduced waste sent to landfill to 16 per cent of total waste. Water consumption has decreased by 10 per cent.

COVID-19 has had a huge impact on our sustainability performance in 2020–21. We have shut and reopened our office estate in line with BEIS guidance leading to reduced paper, energy and carbon use. However, these savings have been balanced by the increased operational demands of our laboratories due to increased testing requirements. Our travel requirements have dropped dramatically with government lock downs. Our waste and water use are primarily driven by operational requirements to support living plant collections, national forests and science operations so have been unaffected by the pandemic.

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, a sustainability appraisal is undertaken at the strategy stage and, where possible, Government Buying Standards and the balanced scorecard are applied.

For further commentary on our sustainable performance see Annex 3.

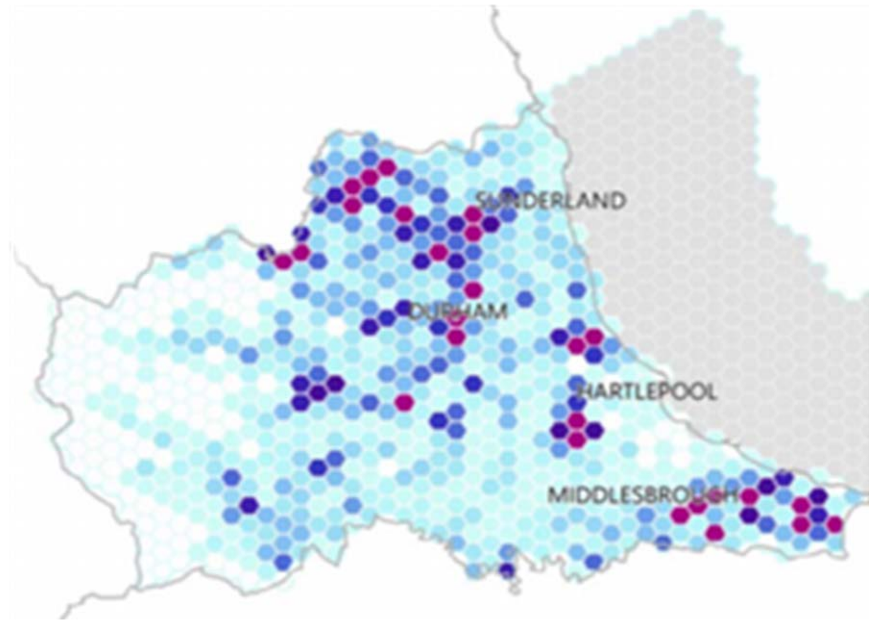
Sustainable Development Goals

Defra works closely with a wide range of government departments to drive forward the implementation of the Sustainable Development Goals (SDGs) at home and overseas. The SDGs were embedded throughout Defra's 2019–20 Single Departmental Plan (SDP) to ensure that we can progress and report on them. There were no SDPs published in 2020–21 but from 2021–22, the replacement for SDPs, Outcome Delivery Plans, will again focus strongly on SDGs.

Natural Capital

Defra engages with government departments, Non-Governmental Organisations (NGOs) and the private sector to embed natural capital thinking and approaches to support strategic and long-term decision-making, as set out in the 25 YEP. Building on the leadership and advice of the independent Natural Capital Committee, we are playing a leading role in developing the evidence and tools to support the consideration of environmental impacts in decision-making and in reporting. In particular, we will continue to support development of the Enabling a Natural Capital Approach (ENCA) online resource which is incorporated into the HM Treasury's Green Book appraisal guidance (December 2020).

The development of official natural capital accounts is key to mainstreaming understanding of the value of nature across all policy areas. Defra experts played a leading role in the UN adoption of a new ecosystem accounting framework in March 2021 and continue to work closely with the Office for National Statistics to develop physical and monetary accounts for the UK covering a wide range of services and natural assets. Progress during the year includes an updated UK-wide account of ecosystem services (with an asset value of over £900 billion) and a new natural capital account for semi-natural habitats.



Key: the purple hexagons show the highest ten per cent of woodland quantity, followed by the dark blue to white.

Figure 7: Natural capital map for woodland quantity in north east England.

Following the 2019 publication of its Natural Capital Account for its National Nature Reserves (NNRs), Natural England (NE) has undertaken significant further work to explore the use of natural capital to identify strategic priorities for a place and better make the case for investment in nature. They tested natural capital accounting at a regional scale, demonstrating the significant benefits delivered by natural capital in the Tees Valley. See figure 7 for an example map which shows the woodland quantity for broadleaved, mixed and yew woodland (map ID 28) in North East and Tees Combined Authorities.

Natural capital is becoming an increasingly important tool to manage the Environment Agency's (EA) estate, such as using natural capital evidence when reviewing surplus land disposal decisions to maximise the benefits for people and wildlife.

The EA is also exploring how to include natural capital accounting in the quinquennial review process (a rolling 5 year programme of formal financial valuation of its assets on the Defra Fixed Asset Register) to improve understanding of the wider value of the land asset data that is held.

Risks affecting delivery of our objectives

This section outlines how Defra group's principal risks link to our strategic objectives (as shown in Chapter 1), which include: trade and international (SO 1); environment and climate (SO 2); agriculture, food and fisheries (SO 3); and organisational capability and development (SO 4). It summarises the mitigating actions taken over the course of the financial year to control each risk and indicating future action planned. These include the active role that Defra group has played in managing some of the most severe threats facing the UK (which are recorded on the National Risk Register), including flooding, severe weather, air quality, chemical, biological, radiological and nuclear (CBRN) emergencies and animal disease outbreaks. Defra group has also managed a range of corporate risks of the type that affect many large organisations, such as: security incidents, cyber security, risk of failure of key suppliers; strategic and financial risks; and specific risks associated with the delivery of both Defra group's core business and its change programmes.

The impact of COVID-19 increased the likelihood of existing principal risks materialising and placed constraints on the controls Defra group has been able to operate in some areas. A significant volume of new mitigations were introduced in the 2020–21 financial year to manage the changing nature and increased level of risk. New and emerging risks relating to the potential impact on the businesses and sectors that our policies and activities affect, and on our strategic objectives, were also identified and assessed. Plans were then put in place to control them. These included risks relating to domestic food supply chain disruption, international environmental programmes and business failure in Defra sectors.

Risk: Defra is not sufficiently ready for the end of the EU Transition Period**.**

Following the UK's departure from the EU, our focus shifted to managing the Transition Period. (Links to **SO 1, 2, 3 and 4**).

Mitigating activities:

- To ensure a smooth end to the Transition Period (TP), we supported devolved administrations (DAs), local authorities and delivery bodies to help deliver our policies and programmes and ensure businesses were ready and aware of changes resulting from the UK's departure from the EU.
- We instigated a weekly Management Board to enable agility and urgent decision making in the rapidly changing COVID-19 environment. This, alongside cross-government collaboration and business engagement, maximised our readiness within the department and on the wider stage.

- This risk was closed at the end of the EU Transition Period in December 2020. Residual risks from EU Transition are being managed by the appropriate boards below ExCo level. Escalation routes from the boards to ExCo remain open for any future needs.

Risk: DAs – EU Transition Period interdependencies.

As we approached the end of the Transition Period, it was essential that all parts of the UK worked together to coordinate their preparations. (Links to **SO 1, 2, 3 and 4**).

Mitigating activities:

- We put in place extensive Defra / DA governance structures to facilitate engagement, information sharing and decision making related to TP preparations.
- We identified and managed live risks where planning/reporting discussions indicated there may have been difficulties in delivering exit preparations to time/quality.
- We involved DAs in end-to-end testing arrangements and supported DA involvement in intergovernmental discussions covering readiness preparations. This risk has now been closed and attention has re-focussed on implementing the Trade and Cooperation Agreement agreed in December 2020 and strengthening the UK Union.

Risk: Defra group's ability to respond is compromised due to serious incidents occurring simultaneously.

We have continued to develop our capability to reduce the impact of multiple serious incidents affecting Defra group and its sectors at the same time. COVID-19 added further complexity and we have responded to this. (Links to **SO 1, 2 and 4**).

Mitigating activities:

- We ran staff training events and exercises to test our capabilities and define procedures.
- We established a COVID-19 emergency operations centre, using volunteers from across Defra group. We ring-fenced some specialist emergencies staff to ensure continuity of response to any other significant incidents.
- We audited our volunteer network to assess available supplementary resourcing, and we retain a pool of trained volunteer staff we will further enhance this coming year.
- We responded to flooding incidents in December 2020 and the effects of Storm Christoph in 2021, maintaining capability and COVID-19 secure operations.

Risk: Defra fails to reach NO2 compliance limits in the fastest possible time; and fails to meet 2020-2030 emissions ceilings for ammonia (NH3) and fine particulate matter (PM2.5).

We rely heavily on partners to make changes to meet the targets set. We have worked closely with local authorities and others, and to minimise delays due to COVID-19. (Links to SO 2 and 3).

Mitigating activities:

- We provided targeted government funding and Defra support to local authorities to implement NO2 measures, primarily in areas implementing Clean Air Zones (CAZs). We launched a CAZ in Bath in March 2021 and an online vehicle checker to support delivery of CAZs. We also delivered digital, service and legal infrastructure to enable delivery of future planned CAZs. The NO2 Programme has provided over £550 million to local authorities to take forward their NO2 plans.

- We provided £5.1 million in grants to 29 local authorities to support air quality improvement projects. We introduced domestic burning legislation in England and consulted on ammonia emissions policy options and industrial emissions Best Available Technique. Finally, we commissioned the Air Quality Expert Group to publish a report on the potential impacts of air pollution in the early stages on the COVID-19 pandemic.

Risk: Failure to regulate Environmental Outcomes.

There is growing stretch on Defra group's capacity and capability because of funding and resourcing pressures. This puts our regulators – particularly the Environment Agency (EA) and Natural England (NE) – at risk of not being able to regulate effectively, resulting in risks to reputation and environmental outcomes including those in the 25 YEP. (Links to **SO 2**).

Mitigating activities:

- Core Department: Defra has robust internal governance and oversight of regulator spend across business areas.
- Environment Agency (EA): The majority of EA's environmental work is funded by charges paid by those that EA regulates. EA regularly reviews these charges to ensure they reflect the cost of the work they are required to do and they review the allocations process to ensure income streams link to the activity for which it is raised.
- Natural England (NE): NE's new governance arrangements include the development of new data to understand issues and mitigations, such as demand levels, funding challenges and income shortfalls against projections.

Risk: Failure of Defra infrastructure results in harm to human, animal or plant populations and/or undermines national capability and global reputation.

The physical condition of two of our most internationally important facilities remains a concern. We have focused on actions to minimise deterioration while working longer term plans for improving both sites. (Links to **SO 2, 3 and 4**).

Mitigating activities:

- We have further strengthened the facilities management team to provide assurance on site operations at the APHA laboratory in Weybridge.
- Work is underway on the Science Capability in Animal Health (SCAH) Programme to upgrade this site and animal health scientific capability. Activity has commenced at Weybridge to safeguard the existing facilities, with detailed work underway to ensure the overall vision will be realised. We have continued to reduce and actively manage risks of fire, flood and pest damage, within the constraints of the Grade 2 listed Herbarium at the Royal Botanic Gardens, Kew, until adequate facilities can house the globally significant national collections. Our focus remains on a long-term plan to redevelop our science buildings.

Risk: Defra group may not be able to meet budgetary controls.

Controlling our finances is a key Defra group priority, and we have put measures in place to support budget holders in their responsibilities. The public finance context has meant longer-term strategic financial planning is more challenging. (Links to **SO 1, 2, 3 and 4**).

Mitigating activities:

- During 2020–21, we implemented a Financial Leadership plan to improve and strengthen financial culture across the Defra group including robust senior leadership and sponsorship, clearer responsibility for budget holders and measurement of how they have performed in managing their financial responsibilities.
- As part of our financial culture work, we have strengthened our quarterly reviews with Directors General and delivery body Chief Executive Officers to ensure greater financial responsibility and accountability.
- We used improved monthly forecasting and budget planning to ensure emerging pressures were better managed during the year.
- 97 per cent of senior civil servants from the core department completed new budget holder training.
- We assess Defra group's strategic priorities and outcomes each year to ensure that our plans enable us to meet our budget controls. The Spending Review process has been a key instrument to help deliver this.

Risk: Financial management or control failures.

Controlling our finances is a key Defra group priority, and we have put measures in place to support budget holders in their responsibilities. The public finance context has meant that longer-term strategic financial planning is more challenging. (Links to **SO 1, 2, 3 and 4**).

Mitigating activities:

- During 2020–21, the Financial Leadership Plan improved and strengthened financial culture through workstreams including training programmes and clearer responsibility for budget holders and measurement of how they perform in respect of their financial responsibilities. This work continues as a key priority.
- As part of our financial oversight work, we have strengthened our accounts review processes, tightened controls over accruals and journals, and introduced in-year transaction sampling to identify and prevent recurrence of control weaknesses and reduce error rates, with findings fed back directly to approvers and monitored centrally.

Risk: The resilience and wellbeing of Defra group staff deteriorates.

We have a clear ambition to support all our staff mentally and physically ensuring a healthy, resilient and motivated team. Amid a range of pressures including COVID-19, we actively engaged with staff to design and adapt support to meet people's needs. (Links to **SO 4**).

Mitigating activities:

- We continued to develop and refine our wellbeing offer for staff, providing a comprehensive set of resources including our Employee Assistance Provider; Mental Health First Aiders; work-related stress diagnostics and support; a wellbeing toolkit; and provision of the Headspace mindfulness app.

- We improved engagement with staff by integrating wellbeing messages into corporate communications, supporting national campaigns, and delivering a range of webinars, engagement sessions and bespoke interventions with teams.
- We have shared wellbeing data, insight and analysis with governance forums to inform decision-making.
- We have established a Mental Health and Wellbeing Board, chaired by the ExCo Mental Health Champion who provides senior leadership and champions mental health across Defra and executive agencies.
- We continue to share intelligence and good practice across the Defra group through our cross-functional Wellbeing and Resilience team.

Risk: Defra group suffers from a major security incident and/or increased cyber-attacks.

Increasingly sophisticated cyber-attacks and other security incidents are an ongoing and evolving challenge. We launched six new digital platforms to support post EU exit processes and large-scale remote working during the COVID-19 pandemic which increased some security risks. (Links to **SO 4**).

Mitigating activities:

- We replaced significant amounts of ageing technology infrastructure and there is a forward programme to continue this work.
- We began the complex work to update ageing applications.
- We baselined our crisis management approach to support response to incidents.
- We continue to seek appropriate funding to address security vulnerabilities, IT risks and resilience.

Risk: Defra group's technology is not able to support its business resilience, operations or transformation.

The age of, and growing demand for, digital and technology services has reduced the resilience of Defra group's systems. Increased remote working has changed the nature of the technology required for Defra group to operate effectively. (Links to **SO 4**).

Mitigating activities:

- We delivered additional collaboration tools, mobile device technology and support to enable smarter ways of working.
- We replaced significant amounts of our ageing infrastructure, providing new laptops to thousands of staff and upgrading our network.
- We are preparing the complex work of stabilising our older applications and have already upgraded some of our most business critical.
- We are investing in priority infrastructure and producing roadmaps for the technology needed to support Defra's future ways of working.

Risk: Business continuity within the Defra group is impacted by failures of key suppliers.

As a department that delivers a lot through others, we carry a high-risk profile across third party suppliers. In a difficult economic landscape for some businesses we acted to safeguard Defra group's commercial exposure to the risk of market failure. (Links to **SO 4**).

Mitigating activities:

- We are in the second year of a three-year programme to address the risk of supplier failure and build a stronger contract management culture and capability across Defra group. Within this, we launched a contract assurance and audit programme, and tested the controls on our largest contracts.
- Over the year, Defra strengthened its contract management capabilities, including starting to roll out a large scale commercial accreditation training programme across the group, embedding controls and regular monitoring of supplier health and strengthening business continuity plans for critical suppliers to address combined, external risk factors.
- In response to COVID-19 we enabled suppliers to access relief funding and addressed any prompt payment issues (in Quarter 2 2020, Defra paid 87 per cent of invoices within 5 days and 94 per cent of invoices within 30 days).

Risk: Budget pressures undermine Defra's strategic science capability and affect its ability to support key policy areas and emergency response.

Defra group's work depends on strong scientific evidence. We prioritise our most critical and vulnerable areas of research, and are taking steps to minimise the impact of COVID-19 on our evidence base. (Links to SO 4).

Mitigating activities:

- We prepared a strong strategic case for investment in scientific research and development, resulting in a single-year uplift and prioritised award.
- Budget pressures remain due to the uncertainty of long-term budgets and the challenge of delivering on single-year timeframes. We are preparing the case for the next spending review to support government priorities.
- We worked with other funding partners and developed plans to encourage Defra-related research spending from other organisations. We updated Defra group research and innovation interests which was published in June 2021.
- We are addressing the effects of COVID-19 on science and evidence, including the impact of delayed fieldwork and monitoring. We are re-prioritising the budget to address new in-year requirements.
- We initiated a review to improve our evidence procurement processes and use annual planning and prioritisation to get the best value for money from research contracts.

Risk: Defra group may be exposed to fraud committed by its employees, its suppliers, its service users or wider fraudsters.

Loss of funds through fraud and error undermines Defra group's policy objectives. Fraud causes both financial and reputational damage. It is imperative that Defra maintains its integrity to maintain trust with delivery partners and the public. (Links to **SO 1, 2, 3 and 4**).

Mitigating activities:

- We have undertaken targeted Post Event Assurance activity on our COVID-19 support schemes to identify any irregular payments and fed into a cross-government Lessons Learned review to strengthen the government's ability to prevent future fraud.
- We are updating our Fraud Risk Assessment to capture the range and severity of threats across the core department. This will feed into a wider group assessment to determine

our total fraud risk exposure; enabling us to ensure that sufficient mitigating controls are in place.

- We have worked alongside teams developing new grants and EU successor schemes to identify fraud risks so they are designed out at the outset.

Risk: Defra fails to deliver its Priority Outcomes (staff capacity and business planning).

Effective strategic workforce planning and business planning ensures value for money in the use of public funds and delivery of outcomes for citizens. (Links to SO 1, 2, 3 and 4).

Mitigating activities:

- We adopted a flexible approach to resourcing and redeployment across Defra group to increase capacity in critical business areas and bolster our emergency response capability.
- We strengthened recruitment controls and identified capability gaps to fill through targeted recruitment or development of current staff.
- We reviewed our supply pipeline to ensure business need could be met, identifying opportunities for greater use of career entry schemes, including apprenticeships, internships and fast stream.
- We increased automation in resourcing management to accelerate the pace of recruiting.
- We ran a robust business planning cycle for 2021–22 to collectively agree priorities and better align our resources to deliver those priorities.
- We developed our performance reporting framework to allow us to track delivery progress against our outcomes and identify areas of emerging risk on a monthly and quarterly basis.

Responding to Public Correspondence

Our Ministerial Contact Unit dealt with:

- 12,831 letters and emails from the public.
- 17,576 letters or emails from Members of Parliament and/or major stakeholders, answering 42 per cent within the target of 20 working days.
- 3,316 Parliamentary questions, 95 per cent of which were completed by the various deadlines.
- 27 e-petitions of which 70 per cent were completed before the 21-day deadline.
- 12,216 calls on our helplines, (Defra Helpline), answering 90 per cent 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.

Chapter 3 – Financial Analysis

This chapter provides an overview of our financial performance across 2020–21, 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 2020-21, the department supported the Government in the extensive preparations for exiting the EU and the end of the Transition Period, including the possibility of exiting without a deal. At the same time, we still had to complete the target agreed at the 2015 Spending Review of reducing our baseline. We have achieved both of these conflicting targets – investing a total of £530 million (£500 million Resource DEL £30 million Capital DEL) funding into our preparations for EU exit whilst also delivering our underlying reductions. We spent 95.89 per cent of our non-ring-fenced Departmental Expenditure Limits (DEL) budgets – a £75 million underspend against a £1.82 billion budget.

Our £500 million RDEL spending on EU exit was driven by the need to negotiate our new EU relationship; negotiate new trade relationships with countries around the world; and deliver a significant programme of changes and provide help to stakeholders and businesses for when the EU Transition Period ended. Our investment has ensured that the department was prepared for all possible scenarios and included the development of new IT systems and associated supporting services to meet either the required initial operating capability or with contingency plans in place to minimise and mitigate impacts of EU exit on the public, business and economy in the event of a no-deal scenario. These were essential to ensure a functional border to enable trade to continue after exit and replaced access to EU systems.

Investment in EU exit preparations has focussed primarily on:

- Ensuring the ongoing operability of Common Agricultural Policy (CAP) schemes on EU exit and enabling a smooth transition to a new agricultural policy in England and ensuring the operational readiness of CAP on Day 1 of Exit in both deal and no-deal scenarios (£93 million).
- Establishing systems and processes for Animal Imports/ Exports and Livestock Information which take account of the new requirements due to EU exit (£108 million).
- (£30 million) was spent on ensuring the opportunities presented by EU exit for the marine environment and the UK fishing industry are realised. Activities included work on the UK's first major domestic fisheries legislation in nearly 40 years. The Fisheries Act 2020 gives the UK full control of its fishing waters for the first time since 1973. The workstream also developed the systems and processes necessary for effective fisheries management and frictionless trade in fisheries products including an IT system to deal with the increased number of certificates, and a 24/7 Environment Agency contact centre to support end-users has been set up.
- Ensuring that environment and chemicals regulation previously managed by the EU, is operable by the UK on EU exit (£50 million). This included developing new IT systems - UK REACH IT, CITES, Habitats and Species and F-Gases ensuring that Pesticides and Waste policy led responsibilities, previously managed by the EU, were

operable by the UK at the end of the Transition period. A comprehensive programme of legislation was also delivered ensuring that Environmental regulation could continue post transition period upholding standards and providing the Government with new flexibilities, and the creation of the Office for Environment Protection.

- Designing EU Free Trade agreements, preparing for membership into the World Trade Organisation (WTO) and establishing international commodity agreements and preparing for future trade agreements; (£16 million).
- Ensuring appropriate legal, regulatory and delivery frameworks are in place for Agri-food sectors following EU exit (£15 million).
- Building a UK Animal and Plant Health and Animal Welfare framework for the future in support of the Global Britain brand (£6 million).
- Ensuring that veterinary medicines (VM) continued to be safe, effective and available after EU exit, and to support the UK remaining an attractive market for investment, manufacture, innovation, research and development (£8 million).
- Establishing UK Science programmes relevant to Defra policy areas after EU exit (£2 million).
- Identifying and resolving any problems that would prevent our borders from being operable on day one, with particular focus on issues preventing goods moving smoothly between Great Britain and Northern Ireland or via the 'Short Straits' (£23 million).
- The remaining balance of spend relates to the Portfolio's enabling functions and centres of excellence (£148 million) which includes policy workstreams (£9 million), enabling functions (£91 million) and Centres of Excellence (£48 million).

Defra played a significant part in the Government's response to the COVID-19 emergency response, introducing a number of support packages to support businesses, communities and other Defra sectors most affected by COVID-19. Spend on COVID-19 totalled £424 million (£386 million provided by HM Treasury) and significant interventions included:

- **Food packages for Clinically Extremely Vulnerable individuals** (£212 million) – setting up and managing contracts with two national food distributors to deliver food boxes to individuals defined as Clinically Extremely Vulnerable.

- **Food for economically vulnerable individuals** (£34 million) – funding was distributed as grants to support national and local charities and food redistributor services (via Waste and Resources Action Programme (WRAP)) in providing emergency food support to economically vulnerable people during the pandemic. The majority of funding was provided as grants to the nationwide food redistribution charity Fare Share (£26.6 million). Support for vulnerable people included the development of IT infrastructure to help Non-Shielded Vulnerable people secure supermarket delivery slots. Overall expenditure was £2 million less than originally estimated as the capital development costs were lower than originally estimated.

- **The Local Authority Emergency Assistance Grant** (£63 million) – a further scheme to support people struggling to afford food and other essential supplies was established through the distribution of Section 31 grants to Local Authorities to make discretionary one-off emergency payments to people in their communities in most need.
- **Support for Zoos and Aquaria** (£10 million) – support was made available to zoos and other animal collections which, due to a COVID-19 related drop in income, were experiencing severe financial difficulties and needed support to ensure the welfare of zoo animals, including when zoos were closing, downsizing or rehoming their collections. This was a demand led scheme which HM Treasury provided a total of £12 million of funding to support. An initial scheme, the Zoo Support Fund, was replaced during the year by the Zoo Animals Fund with funding of up to £100 million available for grants running into 2021-22.
- **Support for the fishing industry** (£9 million) – The Marine Management Organisation managed grant schemes to provide funding for catching and aquaculture businesses with payments to individual businesses capped at £10,000 and to support projects to encourage domestic selling through the Domestic Seafood Supply scheme.
- **Support for ports and coastal communities** (£0.8 million) - funding was also made available in England through the European Maritime and Fisheries Fund (EMFF) to mitigate the impacts of COVID-19. This included £0.3 million for improvements to health and safety on board fishing vessels and £0.5 million for ports or harbour infrastructure projects which reduced the impact of COVID-19.
- **Support for Dairy farmers** (£1 million) - the Dairy Response Fund (DRF) provided support to eligible dairy farmers in England who had been significantly impacted by the COVID-19 outbreak. Eligible farmers were entitled to up to £10,000 each to cover 70 per cent of their losses incurred across April and May as a result of a drop in price.
- **Arms length bodies** (£17 million) – A number of Defra arms-length bodies including Royal Botanic Gardens Kew and the Forestry Commission faced a significant reduction in revenue generating activity. Additional budget cover of £19 million was agreed with HM Treasury to ensure bodies retained a sustainable operating model going into 2021-22.
- **Green Recovery Challenge Fund** (£40 million) – This fund enabled environmental charities and their partners to kick-start a range of nature projects that had been adversely affected by the pandemic. Funding was made available quickly in order to create and retain jobs in the nature sector. The £40 million funding was transferred to the Department for Digital, Culture, Media and Sport (DCMS) through the supplementary estimate process for them to allocate to the fund in 2020-21.
- **Wastewater monitoring** (£5 million) - the Environment Agency undertook additional monitoring of waste water on behalf of the Department of Health and Social Care (DHSC) as part of an advance warning system to detect new outbreaks of COVID-19.

Whilst EU exit and Transition and response to COVID-19 have been key priorities for the department, there have also been a number of other achievements:

- Through rigorous prioritisation of investment, we have continued to increase the number of homes protected from flood and coastal erosion – seeing us invest £669 million. Careful management of 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.
- 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, 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 an annual reduction in running costs of £110 million by the end of 2020-21 and cumulative total savings of £380 million since 2015.
- Support the rural economy with £1.84 billion in Basic Payment Scheme (BPS) expenditure, plus £399 million of EU funding for rural development schemes, along with a further £92 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.

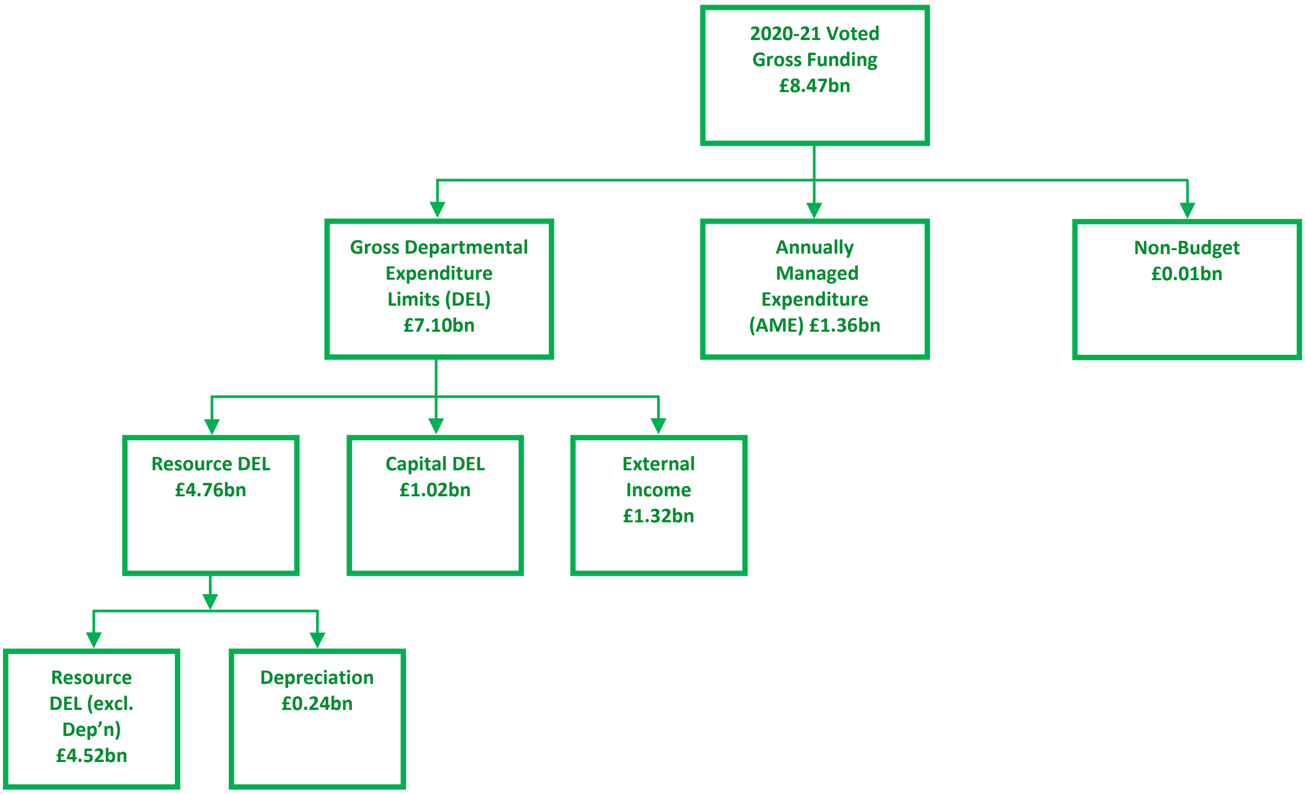
The Defra Group Budget

<table>
<tr><td colspan="4">2020–21 Voted Net Funding
£7.15bn
Consisting of:</td></tr>
<tr><td>Non-ring-fenced DEL
£1.82bn</td><td>Ring-fenced DEL
£3.96bn</td><td>AME
£1.36bn</td><td>Non-Budget
£0.01bn</td></tr>
<tr><td colspan="4">Net of</td></tr>
<tr><td colspan="4">External income
£1.32bn</td></tr>
<tr><td colspan="4">2020–21 Voted Gross Funding £8.47bn</td></tr>
</table>

The Statement of Parliamentary Supply shows that our total net parliamentary approved (voted) funding for the 2020–21 financial year was £7.15 billion. This consisted of £5.78 billion in DEL, £1.36 billion in Annually Managed Expenditure (AME) and £0.01 billion outside of the department's budgetary boundary (Non-Budget).

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

Our total gross funding in 2020–21 was therefore £8.47 billion, consisting of £7.10 billion DEL including £1.32 billion of external income, £1.36 billion AME and £0.01 billion non-budget.



Resource DEL £4.76 billion

The resource DEL budget (£4.76 billion in 2020-21, of which £3.08 billion ring-fenced) includes the administrative costs of running the Defra group; and programme spend on delivering the COVID-19 response and our outcomes in environmental quality; food, farming and biosecurity; floods and water; marine and fisheries; and natural environment and rural. It also includes an allowance for the consumption of our assets over time (depreciation £0.24 billion in 2020-21). Since 2019-20, the resource DEL budget excluding depreciation has increased by £2.47 billion, mainly due to an additional £1.87 billion for farm support payments.

Capital DEL £1.02 billion

The capital DEL budget (£1.02 billion in 2020-21, of which £0.88 billion ring-fenced) 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 2019-20, the capital DEL budget has increased by £24 million, mainly due to £61 million additional funding for Flood defence schemes.

Flood defence capital spending ranges from purchase and creation of small demountable barriers and culvert screens up to large scale flood defence barriers such as the Boston Barrier in Boston Haven. It also includes capital research and development to enable strategic planning of future flood defences and mapping the potential extent of flooding. The main objective of the capital programme is to better protect homes. The Environment Agency completed its £2.6 billion six-year capital programme in 2020-21 and achieved 314,361 homes better protected, exceeding the 300,000 target.
Our total EU exit funding for the 2020–21 financial year was £531 million (£492 million resource DEL and £39 million capital DEL).

External Income £1.32 billion

Our gross spending in the economy exceeds our DEL budget in practice, 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 £0.56 billion in 2020–21 as some payments began to be Exchequer Funded. Other sources of income include grant income, fees, levies and licences payable to some of Defra's group bodies. This was budgeted at £0.16 billion for the core department and the Agencies; and £0.6 billion for other group bodies, netted off against the DEL expenditure. Our total external DEL income budget was therefore £1.32 billion in 2020–21.

AME £1.36 billion

The AME budget (£1.36 billion in 2020–21) is mainly for movements in provisions. Compared to 2019–20, the AME budget has increased by £480 million, mainly due to an increase approved in the expected value of provisions, particularly in anticipation that a new provision would be required for a contribution to the EU Copernicus earth observation programme (for which AME budget of £1.02 billion was provided through the Supplementary Estimate).

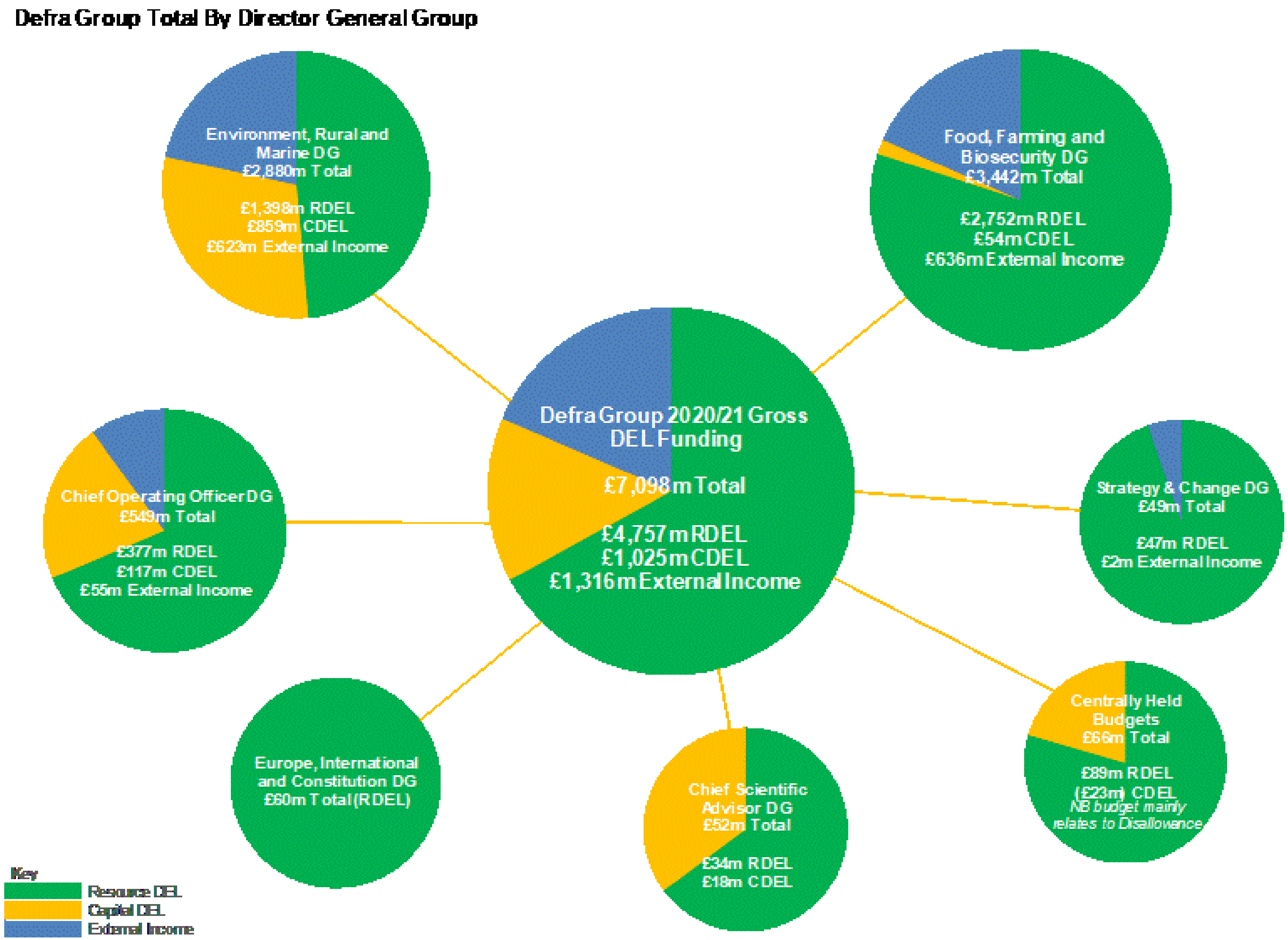
Other provisions include CAP disallowance (which reduced by £560 million) and the Environment Agency closed pension fund. The expenditure by Defra group levy funded bodies – the Agriculture and Horticulture Development Board and Sea Fish Industry Authority, as well as the Defra group body Flood Re, are also included within AME.

Non-Budget £0.01 billion

The final area of Defra group funding, called non-budget (£0.01 billion in 2020–21), 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. A further £0.33 billion of income received from the Commission for the devolved administrations was treated as non-budget rather than DEL as this does not represent spending by Defra. Non-budget funding has reduced due to UK exiting the EU and a reduction of income received from the Commission.

Defra Group Gross Funding by Director General (DG) Group

The following chart and table show how our gross DEL funding of £7.10 billion (£4.76 billion resource DEL, £1.02 billion capital DEL and £1.32 billion external income) was allocated to each DG Group. These are the groupings of Defra Core directorates and Arms Length Bodies which contribute to the delivery of outcomes and are used in planning and delivering our activities.


Defra Group Total By Director General Group
Environment, Rural and Marine DG
£2,880m Total
£1,398m RDEL
£859m CDEL
£623m External Income
Food, Farming and Biosecurity DG
£3,442m Total
£2,752m RDEL
£54m CDEL
£636m External Income
Defra Group 2020/21 Gross DEL Funding
£7,098m Total
£4,757m RDEL
£1,025m CDEL
£1,316m External Income
Chief Operating Officer DG
£549m Total
£377m RDEL
£117m CDEL
£55m External Income
Strategy & Change DG
£49m Total
£47m RDEL
£2m External Income
Europe, International and Constitution DG
£60m Total (RDEL)
Chief Scientific Advisor DG
£52m Total
£34m RDEL
£18m CDEL
Centrally Held Budgets
£66m Total
£89m RDEL
(£23m) CDEL
NB budget mainly relates to Disallowance
Key
Resource DEL
Capital DEL
External Income

2020-21 Defra Group Gross DEL Funding £m				
Director General (DG) Group	RDEL	CDEL	External Income	Total
Environment, Rural Marine DG	1,398	859	623	2,880
Food, Farming and Biosecurity DG	2,752	54	636	3,442
Chief Operating Officer DG	377	117	55	549
Europe, International and Constitution DG	60	-	-	60
Chief Scientific Advisor DG	34	18	-	52
Strategy and Change DG	47	-	2	49
Centrally Held Budgets	89	-23	-	66
Total Defra group	**4,757**	**1,025**	**1,316**	**7,098**

Spend Against Budget

This information has been subject to audit.

Defra Group Spend Against Budgets (£m)

Type	Budget	Spend	Variance	% of Budget
Programme DEL – Total	**3,844**	**3,888**	**44**	**1.14%**
Of which ring-fenced – Depreciation	130	134	4	3.08%
Of which ring-fenced – Other[1]	2,510	2,471	-39	-1.55%
Of which non-ring-fenced	1,204	1,283	79	6.56%
Admin DEL – Total	**913**	**733**	**-180**	**-19.72%**
Of which ring-fenced – Depreciation	109	70	-39	-35.78%
Of which ring-fenced – Other[1]	330	294	-36	-10.91%
Of which non-ring-fenced	474	369	-105	-22.15%
Resource DEL	**4,757**	**4,621**	**-136**	**-2.86%**
Of which ring-fenced	3,079	2,969	-110	-3.57%
Of which non-ring-fenced	1,678	1,652	-26	-1.55%
Capital DEL – Total	**1,025**	**891**	**-134**	**-13.07%**
Of which ring-fenced – ODA	19	3	-16	-84.21%
Of which ring-fenced – Other[1]	861	792	-69	-8.01%
Of which non-ring-fenced	145	96	-49	-33.79%
Total DEL	**5,782**	**5,512**	**-270**	**-4.67%**
Of which ring-fenced	3,959	3,764	-195	-4.93%
Of which non-ring-fenced	1,823	1,748	-75	-4.11%
Total AME	**1,357**	**-608**	**-1,965**	**-144.80%**
Of which Resource AME	1,341	-612	-1,953	-145.64%
Of which Capital AME	16	4	-12	-75.00%
Non-Budget	**10**	**152**	**142**	**-1420%**

[1] Other ring-fences include EU exit, Official Development Assistance (ODA), Floods, Air Quality budgets, Farm Support Direct Payments, COVID-19 and Disallowance.

DEL – £5,512 million

The final DEL outturn against the £5,782 million voted funding (£4,757 million resource DEL, £1,025 million capital) which excludes £1,316 million external income was £5,512 million – an underspend of £270 million. Excluding ring-fenced items, this represents a £75 million underspend, which is 4.1 per cent of our DEL budget excluding ring-fenced items of £1,823 million.

The administration outturn against the £913 million budget was £733 million, an underspend of £180 million. Excluding ring-fenced items, this moves to an underspend of £105 million.

AME – (£608) million

The total AME outturn was £(608) million against the £1,357 million budget. The final Resource AME outturn against the £1,341 million budget was (£612) million – an underspend of £1,953 million. This reflects the less predictable and controllable nature of AME spending compared with DEL. The underspend included £1.02 billion relating to an expected provision for the UK's contribution to the EU Copernicus earth observation programme. Budget cover of £1.02 billion was sought in the Supplementary Estimate in the expectation that an obligation would exist at the year-end for the cost of participation over the lifetime of the Copernicus membership agreement. Since then, the department has concluded, with the help of recent HM Treasury guidance and a clarification in the UK Government's position statement on Copernicus, that no obligation existed at 31 March 2021 and therefore no provision was required.

In addition to this, the AME outturn includes a large credit relating to the write back of the CAP disallowance provision for BPS scheme years 2017-2019 following bilateral meetings and challenge on the original calculation method used. This credit could not be taken into account for the Supplementary Estimate as the write back was dependent on receiving final correction letters from the Commission, which was uncertain at the time the Supplementary Estimate was published.

Non-Budget – £152 million

The final non-budget outturn against the £10 million budget was £152 million – an overspend of £142 million. As outlined in the Statement of Parliamentary Supply (SOPS) and the Governance Statement Defra group had to adjust prior years accounting statements to reflect a change in accounting treatment for Reservoir Operating Agreement financial liabilities. As this change of accounting treatment was not anticipated at the time of the Supplementary Estimate, no allowance had been made for them and as a result the department's non-budget control total was breached.

Net Cash Requirement (NCR)

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 2020–21 was £453 million lower than our NCR of £5,395 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.

Of this, £330 million is held by the RPA. £125 million reflects the Rural Development Programme for England euro balance which is expected to be held for a further 18 months. The remaining £205 million is largely due to a receipt from the Commission for £164 million which was received in March 2021. A prudent approach was taken here to ensure that RPA had enough funds should the Commission receipt have been received after 31 March.

Although the £454 million unspent balance is significant, the majority (99.6 per cent) 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 2020–21 financial year, Defra group's total assets less liabilities decreased from £2,624 million to £2,115 million. This £509 million decrease was mostly driven by:

- Defra's investment in flood infrastructure, the group property portfolio and digital, data and technology services infrastructure were largely responsible for the £140 million increase in the value of the group's non-current assets.

- Reduction in income due relating to the European Agricultural funds is largely responsible for our reduction in current assets of £489 million.

- A decrease to CAP Disallowance provision, primarily relating to the Basic payments Scheme along with a decrease in our accrued expenses and deferred income is largely responsible for the £699 million decrease in our current liabilities.

- An increase in our group pension liabilities driven mostly by movements in the EA pension schemes due to changes in financial assumptions on inflation and pension costs is largely responsible for the £859 million increase in non-current liabilities.

Core Tables

The Core Tables section of the accounts provides an analysis of departmental expenditure and plans covering the period 2016–17 to 2021–22. 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.

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 formally left the EU on the 31 January 2020 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 14.3.

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, as 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

	2020–21		
£million	**DEL**	**AME**	**Total**
Stage 1: Allowance created in year for anticipated liabilities based on receipt of initial audit findings	-	61	61
Stage 2: Provisions unwound in year for liabilities expected to materialise after accepting corrections (accruals)	22	(22)	-
Stage 2: New accruals where no previous provision existed[1]	-	-	-
Total charge	**22**	**39**	**61**
Write back in previous accrual/provision (credit)[1]	-	(561)	(561)
Net charge	**22**	**(522)**	**(500)**

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

During 2020–21, Defra group made total transactions to the SoCNE of £500 million credit (2019–20, £658 million charge). The net credit relates to audits as described below.

- A new provision for Rural Development Forestry Measures of £4 million charge
- A new provision relating to Rural Development Non IACS audit of £36 million
- A new provision relating to 2020 Clearance of Accounts of £20 million
- A new provision for Fruit and Vegetable Trader schemes for 2020 payments of £1 million
- Release of provisions created relating to Basic Payment Scheme 2017-2019 of £561 million.

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

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

- Basic Payment Scheme Area Aids 2017-2019 of £19 million.
- 2019 Clearance of Accounts of £3 million.

Balances from the SoFP for CAP Disallowance

Scheme years 2005–2014

£million	Total as at 31 March 2021	2020-21	2019-20	2018-19	Up to 2017-18
Stage 1: Provisions outstanding at year end on SoFP[1]	**-**	-	-	-	-
Stage 2: Accruals outstanding at year end on SoFP[2]	**-**	-	-	-	-
Stage 3: Cash payments made to the Commission	**634**	-	-	6	628
Cumulative total for disallowance as at 31 March 2021	**634**				

[1.] Note 14, CAP disallowance closing balance at 31 March 2021.

[2.] Note 12, as part of the core department and agencies accruals and deferred income £453 million (2019-20, £514 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 2021	2020-21	2019-20	2018-19	Up to 2017-18
Stage 1: Provisions outstanding at year end on SoFP[1]	**122**	122	645	23	184
Stage 2: Accruals outstanding at year end on SoFP[2]	**26**	26	9	1	33
Stage 3: Cash payments made to the Commission	**81**	4	14	40	23
Cumulative total for disallowance as at 31 March 2021	**229**				

1. Note 14, CAP disallowance closing balance at 31 March 2021.

2. Note 12, as part of the core department and agencies accruals and deferred income £453 million (2019–20, £514 million).

Defra group's accounts include cumulative transactions for disallowance penalties totalling £229 million relating to CAP Scheme years 2015-2020.

We have paid over £81 million to the Commission relating to late payment penalties arising from BPS 2015 payments for £48 million, along with £25 million relating to BPS Area Aids Scheme Years 2015 and 2016 and £8 million relating to Cross Compliance for 2015 and 2016 and other smaller Rural Development schemes.

We also hold accruals of £26 million relating to:

- Basic Payment Scheme Area Aids 2017-2019 (£19.2 million).
- Fruit and Vegetable Trader schemes 2015-2017 (£5 million).
- Rural Development public procurement (£1.8 million).

Finally we hold provisions for potential future liabilities totalling £122 million relating to:

- Cross Compliance 2017 to 2019 (£61 million).
- Rural Development on IACS (£36 million).
- 2020 Clearance of Accounts (£20 million).
- Rural Development Forestry Measures (£4 million).
- Fruit and Vegetable Trade Schemes (£1 million).

While these provisions are large it should be noted that, these unusually cover 3 years worth of expenditure and are expected to reduce significantly when the final correction is agreed. 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 16 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 only remaining large scheme with outstanding years still to be potentially audited is the Rural Development Programme 2015 onwards (based on the assumption there will be no inclusion in CAP for scheme year 2020 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, we have agreed to continue to accept the controls and audits which cover the entire period of the programme and actions in accordance with the applicable rules.

Tamara Finkelstein 23 November 2021

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

Introduction

The governance statement outlines how Defra group is governed. It sets out our decision-making structure, the effectiveness of our risk management and internal controls as well as our most significant challenges. This is informed by the work of Defra group officials, the Government Internal Audit Agency (GIAA) internal audit programme, input from the National Audit Office (NAO), information from Defra group arm's length bodies and Audit and Risk Assurance Committee views.

We work as Defra group to deliver outcomes for customers and for society in line with the principles of good governance as set out by HM Treasury and Cabinet Office guidance.

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Figure 8: Defra's outcome areas

Defra (the 'core department') is a ministerial department supported by and working collaboratively with over 30 public bodies. These consist of executive agencies, non-departmental public bodies, non-ministerial departments and other public bodies. This is reflected in our governance arrangements, as shown in Figure 9 below.

How our governance works

Defra Board (the Board) and committee structure

Defra group's governance structure is set out below. All board and committee meetings in 2020–21 were held virtually.

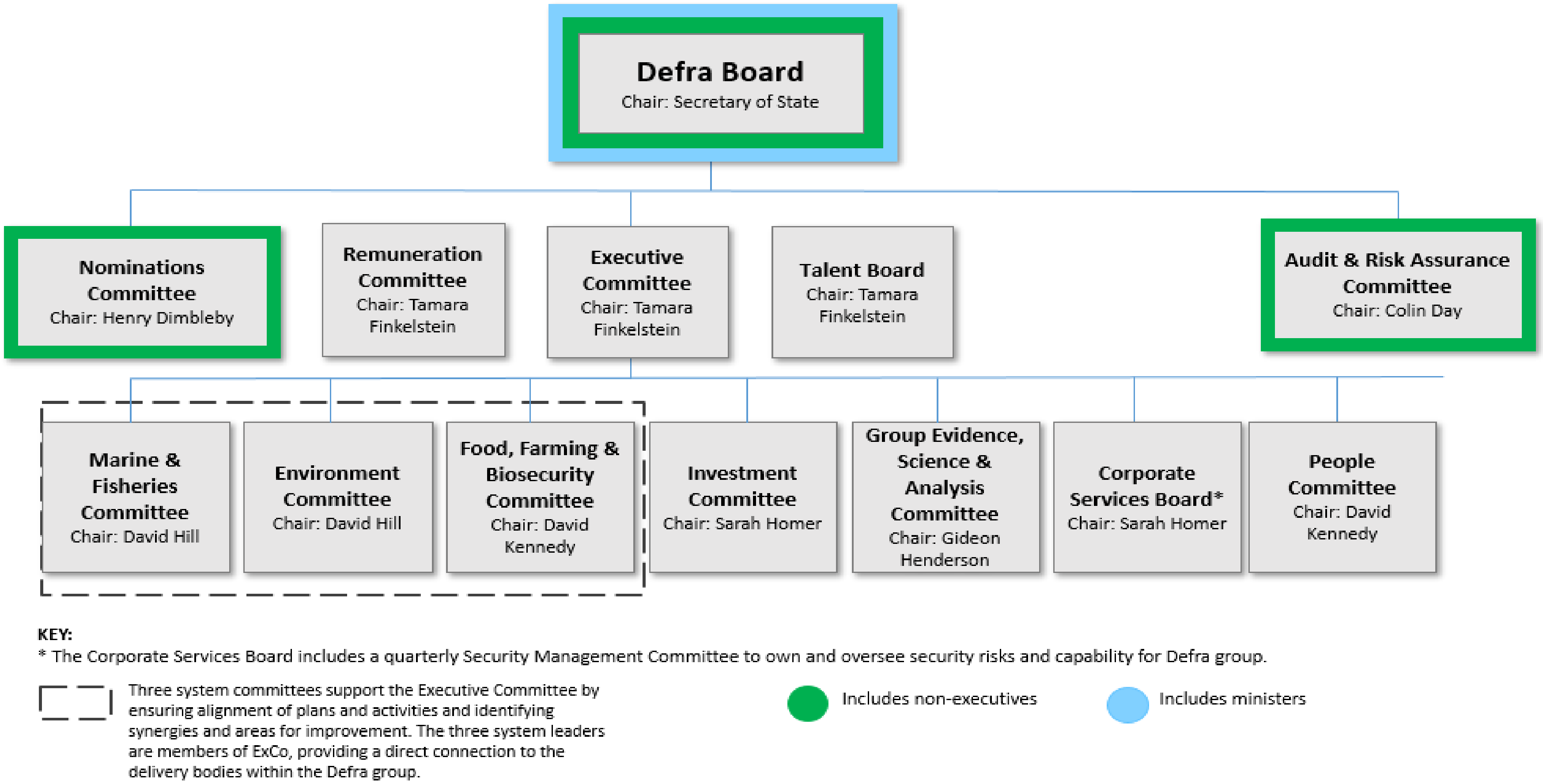

Figure 9: Defra group governance structure.

Board membership and attendance

Departmental board membership and attendance Meetings attended out of those eligible to attend 1 April 2020 to 31 March 2021			
Ministerial team			
The Rt Hon George Eustice MP	Secretary of State for Environment, Food and Rural Affairs	5	5
Victoria Prentis MP	Parliamentary Under Secretary of State (Minister for Farming, Fisheries and Food)	5	5
Rebecca Pow MP	Parliamentary Under Secretary of State (Minister for Domestic Environment)	3	5
The Rt Hon Lord Goldsmith of Richmond Park	Minister of State for International Environment and Animal Welfare. Lord's Minister from 14 February 2020	4	5
Lord Gardiner of Kimble	Parliamentary Under Secretary of State for Rural and Biosecurity and Lords Minister	1	5
Non-Executive Members			
Henry Dimbleby	Lead Non-Executive Director and Chair of the Nominations Committee	5	5
Colin Day	Chair of the Audit and Risk Assurance Committee and Non-Executive Director	5	5
Lizzie Noel	Non-Executive Director	5	5
Ben Goldsmith	Non-Executive Director	5	5
Elizabeth Buchanan	Non-Executive Director	5	5
Emma Howard Boyd	Chair of the Environment Agency (ex officio)	5	5
Tony Juniper	Chair of Natural England (ex officio)	5	5
Executive Members			
Tamara Finkelstein	Permanent Secretary	5	5
Lucy Smith	Director General for Strategy and Change, from 14 December 2020	2	2
Sarah Homer	Director General, Chief Operating Officer	5	5
David Kennedy	Director General for Food, Farming and Biosecurity	5	5
James Quinault	Interim Director General for Strategy and Change from April to October 2020 Interim Director General for Europe, International and Constitution from November 2020	5	5
Shaun Gallagher	DG EU Exit and International Trade until 26 November 2020	3	3
Heather Smith	Defra group Finance Director	4	5
David Hill	Director General Environment, Rural and Marine	5	5
Paul Kissack	Director General for Strategy and Change until April 2020	0	0

Highlights of the Board's activities

The Board is chaired by the Secretary of State and brings together the ministerial team, senior officials and seven non-executive board members, including the chairs of the Environment Agency (EA) and Natural England (NE). The Board is supported by three committees as set out in Figure 9 on page 58. Attendance and changes in membership during 2020–21 are reflected in the table above. In 2020–21, the Board met five times. Throughout the year, the Board monitored progress towards achieving departmental objectives by regularly reviewing performance, finance and risk information. The Board also focused on advising on and providing oversight on the delivery and operational implications of major Defra projects and on the effectiveness of activity in priority areas. This included:

- The UK-EU Trade and Cooperation Agreement.
- Winter emergencies response.
- HMG International Nature Strategy.
- Rural Affairs.
- Cyber Security Risks and Technical Debt.
- The Science Capability in Animal Health (SCAH) Weybridge Business Case.

Sub-committees of the Board

Some activities are undertaken on the Board's behalf by its three committees who regularly report to the Board. These are the Executive Committee (ExCo), Audit and Risk Assurance Committee (ARAC) and Nominations Committee (NomCom). The Permanent Secretary, who chairs ExCo, notifies the Board if any risk or issue threatens Defra group's ability to carry out its business or deliver government policy. The Board's committees and its members can escalate any other risks and issues they believe the Board should consider, and the Board will scrutinise and advise on the management of these. ExCo is supported by seven sub-committees. A case study of one of these sub-committees is included on page 62.

Executive Committee (ExCo)

- Chair: Tamara Finkelstein (Permanent Secretary).
- Role: ExCo is the senior decision-making body for the core department and sets the strategic direction of the Defra group.
- Membership: Permanent Secretary, all Directors General (DGs), Group Finance Director, Group HR Director, Group Director of Communications and Chief Executive Officer of EA. The Chief Scientific Advisor also has a standing invitation.
- Number of meetings in 2020-21: 49
- Areas of focus in 2020-21: COVID-19 response, Strategic Risks reports, Finance and Business plans, establishment of Emergency Operations Centre, management of Trade and Europe Portfolio, Equality, Diversity and Inclusion, improvement of sub-committee reporting.

Audit and risk assurance committee (ARAC)

- Chair: Colin Day (Non-Executive director).
- Role: ARAC supports the Board, Principal Accounting Officer and ExCo by reviewing the comprehensiveness and reliability of and advising on governance; risk

management; the control environment; the integrity of financial statements; and the Annual Report and Accounts (ARA).

- Membership: Colin Day, Alison White, John Lelliott, Catherine Dugmore, Shrinivas Honap, Paul Dillon-Robinson.
- Number of meetings in 2020-21: 4
- Areas of focus in 2020-21: Financial Leadership Plan, 2019-20 and 2020-21 ARA, NAO value for money and ARA audit, GIAA audits including 2020-21 ARA, cybersecurity risks, counter-fraud, future farming and countryside programme.

Nominations committee (NomCom)

- Chair: Henry Dimbleby (Lead Non-Executive).
- Role: NomCom advises the Board on developing leadership and high potential, succession planning of non-executive directors, Defra group delivery body Chief Executive Officers (CEO), SCS pay strategy and process and performance assessments of DGs.
- Membership: Henry Dimbleby, Group HR Director, HR Chief Operating Officer.
- Number of meetings in 2020-21: 2
- Areas of focus in 2020-21: Director General performance, talent and succession planning, Director performance and talent, 2020 SCS pay award and talent management, SCS performance management, succession planning for CEOs of delivery bodies, succession planning for Non-Executive Directors.

***CASE STUDY**: Investment Committee is an ExCo sub-committee that supports the Principal Accounting Officer execute their responsibility to Parliament and HM Treasury to ensure sound investment decision-making. The work of the Investment Committee is crucial to Defra's continued focus on improving financial governance and assurance.*

KEY ASSURANCE ACTIVITIES

- In 2020-21, the Investment Committee set the internal assurance and approvals framework for business cases and investment decisions. It developed a pipeline that covered the review of 144 Defra group business cases. Each business case was scrutinised to ensure strategic alignment, propriety including the Accounting Officer Test, value for money, viable procurement, affordability and successful delivery.
- During the COVID-19 pandemic, rapid approvals processes were introduced to support timely delivery of the Government's response.
- Independent, internal subject matter experts form a Red Team to deliver assurance reviews. 55 of these reviews took place in 2020-21.
- The Consultancy Governance Board (CGB) is a subgroup which reviews all consultancy spend over £100,000, in line with Cabinet Office standards. In 2020-21, 58 applications were reviewed, including those for extensions, and four were rejected.
- Committee Terms of Reference were updated, and an integrated Assurance and Approval Strategy and supporting guidance were developed, both of which are fully aligned with government standards and principles.
- There has been ongoing engagement with Deputy Directors across the group to develop better capability in the development of business cases and observers have attended each meeting as part of this initiative.

KEY DEVELOPMENT AREAS

- The Committee is working with the corporate Defra projects and programme office to set standards for project, programme and portfolio board roles and responsibilities. This will ensure that investment appraisal decisions are more closely aligned to accountable budget holder responsibilities further driving a good financial management culture.
- Working with the Portfolio Directorate, driving cultural change to better integrate assurance and approvals in business case development timelines.
- Improvements to business cases, in particular benefits management and realisation.
- The Committee is using insights from its business case and investment evaluations to identify organisational learning and areas where new skills and capabilities are needed e.g. Green Finance.

The Board's evaluation of its effectiveness

Our internal review of the Board's effectiveness found its overall performance to be rated as good or excellent, and more effective than the previous year. Improvements made included a more structured forward programme and considerable development in the quality of performance, risk and finance reporting. In 2021–22, our focus is to ensure all board discussions are aligned to Defra's Outcome Delivery Plan which sets out our priority outcomes and strategic enablers.

Compliance with governance code

The core department continues to operate in compliance with the principles set out in the Cabinet Office and HM Treasury *Corporate Governance in Central Government Departments: code of good practice (2017).* While compliance with the code is mandatory for ministerial departments only, Defra's delivery bodies are encouraged to adopt the principles wherever relevant and practical.

Management of interests

Board members

Every six months, individual executive and non-executive board members are required to complete a declaration of interests' statement in which they must disclose any financial and non-financial interests of their own or of family members, and are expected to discuss new interests that may create a conflict as they arise.

Where a member's interest is considered to create a potential conflict with Defra's responsibilities or the discharge of their duties, specific arrangements are agreed and put in place to manage the risk. These arrangements are set out in writing and may include excluding the member from board meetings where specified issues are discussed and not sharing the relevant papers with them. They may also specify areas of the department's work that the board member should not be involved in, and this restriction applies particularly to non-executive board members. As a further safeguard, at the start of each board meeting, members are asked to declare if they have any interests which they believe conflict with any item on the meeting agenda. Relevant senior staff are made aware where a potential conflict with a non-executive director's other interests exists.

A full list of interests is recorded in a 'register of board member's interests' on gov.uk. Defra ministers are also members of the board and their interests are published by Cabinet Office on GOV.UK[24]. During 2020–21, the department managed a small number of potential conflicts of interest, all of which involved non-executive board members.

- Colin Day is Chair of Premier Foods: it has been agreed that the board secretariat will consider the extent to which a conflict arises if the Board is scheduled to discuss the National Food Strategy or food supply arrangements. No such circumstances arose during 2020-21.

24 https://www.gov.uk/government/publications/defra-register-of-board-members-interests

- Ben Goldsmith's brother is Lord Goldsmith, Minister of State at Defra. It has been agreed that neither the Secretary of State nor the lead non-executive director, will ask Mr Goldsmith to work on issues in Lord Goldsmith's portfolio. The department does not ask Mr Goldsmith to sit on any public appointments panels where Lord Goldsmith is the appointing minister.
- Ben Goldsmith stood down from the Advisory Board of River Action (UK) immediately when this was identified as a potential conflict.

Special Advisers (SpAds)

In line with the current Declaration of Interests policy for special advisers, all special advisers have declared any relevant interests or confirmed they do not consider they have any relevant interests. The Permanent Secretary has considered these returns and the following relevant interest is set out in public;

- Special adviser Emma Pryor: parents own a small farm which receives a grant through the Basic Payment Scheme (BPS).

Management of interests and business appointments for all staff (including SpAds)

Defra's policy on declaring and handling outside interests is clearly outlined in the Defra Code of Conduct, and in its Conflict of Interest policy on the staff intranet. All staff are responsible for ensuring that there is no conflict of interest between their interests outside work and their role at the department. Outside interests, be they business, hobby or trade must not compromise or conflict with employment within Defra. There are responsibilities for the individual, their line manager and their Director. They are;

- Staff must inform their manager immediately when an outside activity or interest arises that has the potential to create a conflict with the work they do in the Civil Service.
- Line Managers must ensure that members of their team are fully aware of the requirement to declare all potential conflicts of interest involving them or close relatives.
- Where a conflict of interest has been declared the Director must ensure that a risk assessment is undertaken. This should look at the potential impact the interest might have on the work the employee is undertaking.

Staff are reminded at regular intervals of the code of conduct and the 2020 People Survey returned a 96 per cent positive response for awareness of the Civil Service Code of Conduct. However, there is currently no central record held within the core department other than the Single Operating Platform (SOP), and there is no mandatory requirement or checking that business interests have been declared on SOP, and no recording of negative business interests. Work is currently underway to commission a project which seeks to establish the following;

- a mandatory, annual declaration of business interests for the core department.
- a risk review of business interests for the core department to rate the risk to the business for declared business interests.

- a means of robustly reporting any business interests for the core department and providing oversight to the Permanent Secretary.
- a cross-Defra group approach and oversight for the group to be provided to the Permanent Secretary.
- enhanced guidance clearly setting out roles and responsibilities for employees and Line Managers in the process.

The Business Appointment Rules apply to serving civil servants who intend to take up an outside role after leaving the Civil Service, and to former civil servants for two years after the last day of paid service. This includes permanent civil servants, civil servants on fixed term contracts, civil servants on secondment to other organisations and those on secondment to the Civil Service from other organisations (except when they are returning to their employing organisation, and remain there for two years, in which case safeguards will have been provided in the terms of secondment) and special advisers. Policy and process is in place for managing applications that may require approval before job or appointment is confirmed outside the Civil Service – for example:

- if work done or knowledge gained would be of commercial value to the new employer.
- the applicant has had professional dealings on behalf of Defra, with the new employer.

There are three levels of approval depending on the grade of the applicant. They are;

- **Grade 6 and below (and equivalents)** – the application must be approved by the applicant's manager and countersigned by a member of the senior civil service if the manager is Grade 6 or below.
- **SCS1 and SCS2** – the application must be approved by a Director General and the Permanent Secretary.
- **SCS3 level or above, SpAds and their equivalents** – the application must be approved by the Permanent Secretary. The Advisory Committee on Business Appointments (ACOBA) will review the application and provide advice to the Prime Minister, who makes the final decision.

Where applications are approved, restrictions may be placed on the applicant in their new role for a defined period of time, for example not to lobby the UK Government in the course of their role.

Effectiveness of risk management

This year, we reviewed the Defra group risk strategy following publication of the updated HM Treasury Orange Book (2020) and ensured our risk management framework is supported by the 'three lines of defence' model. We began work to refresh our approach to risk appetite, drawing on cross-Whitehall work in this area. Defra group's oversight and escalation of risk is outlined in Figure 10.

In 2020–21, ExCo continued to monitor principal risks and performance in core business activities where failure would have the greatest impact and reviewed the most significant risks associated with major delivery programmes. These included risks arising from COVID-19, key legal risks, security, cybersecurity, and fraud risks. In depth discussions on Defra's response to concurrent emergencies, winter risks, end of EU transition risks and their proposed mitigations were held. Major delivery programme risks on Future Farming and Countryside Programme, and Air Quality Programme were also reviewed.

Defra group arm's length bodies are responsible for their own risk management, with internal board oversight. Work is ongoing to ensure that escalation routes from arm's length bodies to DG level and ExCo are functioning effectively to enable ExCo to have visibility of severe cross-cutting risks through their principal risk register.

Risk assessment

The top five risks that Defra has managed over the past year are listed below (in order of severity). A full list of the principal risks, and their associated mitigations, can be found in Chapter 2.

Risk: Defra group suffers from a major security incident and/or increased cyber-attacks.

Increasingly sophisticated cyber-attacks and other security incidents are an ongoing and evolving challenge. We launched six new digital platforms to support post EU exit processes and large-scale remote working during the COVID-19 pandemic which increased some security risks.

Risk: Defra group's technology is not able to support its business resilience, operations or transformation.

Growing demand for digital and technology services has reduced the resilience of Defra group's systems. Increased remote working has changed the nature of the technology required for Defra group to operate effectively.

Risk: Budget pressures undermine Defra's strategic science capability and affect its ability to support key policy areas and emergency response.

Defra group's work depends on strong scientific evidence. We prioritise our most critical and vulnerable areas of research, and are taking steps to minimise the impact of COVID-19 on our evidence base.

Risk: Failure of Defra infrastructure results in harm to human, animal or plant populations and/or undermines national capability and global reputation.

The physical condition of our most internationally important facilities remains a concern. We have focused on actions to minimise deterioration while working longer term plans for improving the sites.

Risk: Defra group's ability to respond is compromised due to serious incidents occurring simultaneously.

We have continued to develop our capability to reduce the impact of multiple serious incidents affecting Defra group and its sectors at the same time. COVID-19 added further complexity and we have responded to this.

Oversight and escalation of risk

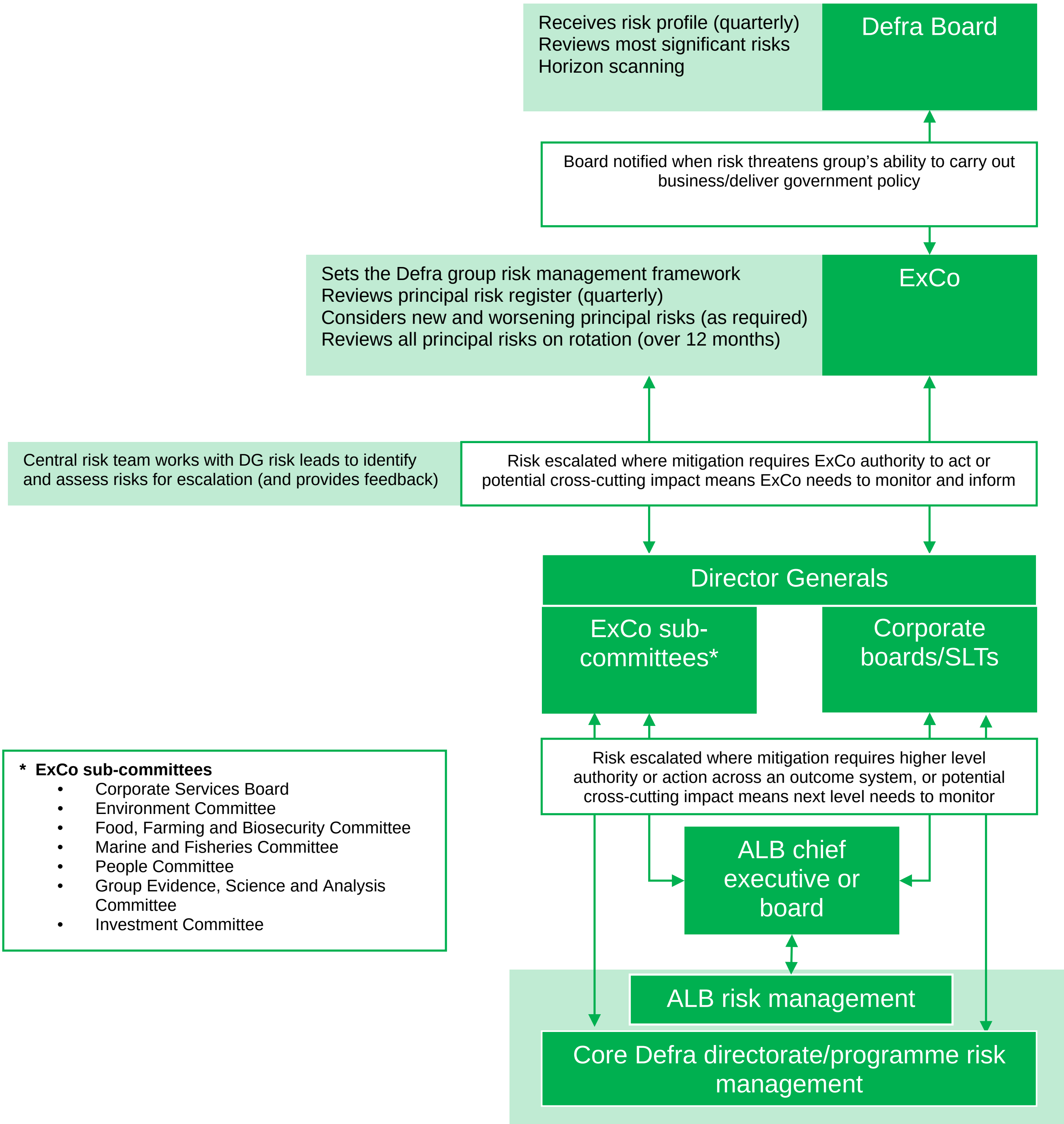

Figure 10: Defra group's oversight and escalation of risk

How we gain assurance on our risk management and internal controls

We draw assurance from multiple sources, following the Three Lines of Defence Model. Risk owners carry out direct management of risks, supported by risk practitioners who assist with identifying, managing and reporting their risks and issues. A central risk team sets policies and standards and assists ExCo to provide corporate oversight of the first line of defence. Government Internal Audit Agency (GIAA) and the National Audit Office (NAO) provide an objective evaluation of the adequacy and effectiveness of our risk management and control framework.

Management/internal assurance

Directors in the core department provided statements confirming that responsibilities delegated to them by the Principal Accounting Officer had been properly exercised in 2020–21 and explained any non-compliance. A second line of assurance was conducted by Subject Matter Experts (SME), not involved in the delivery of business, who provided enhanced assurance on the overall picture across the department. This included the following areas: Counter Fraud, Data Protection, Business Continuity, Finance, Health and Safety, Performance, Commercial, Programmes and Projects, Risk, Security and Staff Conduct. No additional issues were raised because of this exercise.

Corporate Services

Defra group has a partnership model for delivering corporate services[25]. In 2020–21, partnership agreements and the Corporate Services Board provided assurance on the effectiveness of corporate services. This was regularly reported to ExCo and the delivery bodies including the Audit and Risk Assurance Committees as required. Defra's corporate services' performance functioned strongly against other government departments and industry standards and continue to be driven by their relevant Government Functional Standards.

Recognising that the challenges and risks were increased by COVID-19 in many areas, we made progress in developing our digital services and strengthening our IT infrastructure. Defra has implemented its HR governance framework and matured the departmental crisis management plan.

Legacy technical debt and legacy technology are particular areas of concern and require significant investment. Some progress has been made in stabilising Defra's legacy applications, but in 2021–22 further development is required in this area and across the rest of our legacy IT estate. For example, continuing with improvements to comply with accessibility and data are being made to Defra group websites.

Other key digital and technology highlights in 2020–21 included six new digital services and five underpinning common platforms to support EU exit, and strengthening of the capacity and resilience of our IT infrastructure. Windows 10 laptops have now been provided to over 16,000 Defra group staff. Microsoft Teams was rolled out at pace to over 20,000 staff, as

[25] https://www.gov.uk/government/publications/greening-government-ict-and-digital-services-strategy-2020-2025

well as network capacity and mobile device provision quickly increased as part of the rapid COVID-19 response. Five other digital services were also delivered or improved, including Clean Air Zones, Digital waste carrier services and the Earth Observation Data Science Service.

As part of 2021–22 funding, we agreed with HM Treasury to safeguard, consolidate and future-proof Defra's assets, most notably £1.4 billion over ten years for the Weybridge animal health science campus and £73 million for security and legacy IT.

Shared Services

Government Business Services (GBS) are the Framework Authority for contracts with Shared Services Connected Ltd (SSCL) and have ultimate responsibility for all departments' contracts with them. Each Accounting Officer is provided with an annual Letter of Assurance on SSCL's overall performance. For 2020–21, PwC and GIAA provided their opinions on the audit work for the year. It was encouraging that SSCL were praised for their ability to maintain operations throughout the challenging COVID-19 pandemic. They have ensured that our critical services (paying our people, paying our suppliers, onboarding new starters) have continued. Defra group Shared Services continue to closely monitor the performance of SSCL to ensure that all contract key performance indicators and service level agreements are met and the services provided to Defra group are in line with our contract. We are also still looking to ensure that user experience improvements can be made both with Single Operating Platform and the SSCL processes themselves throughout the remaining contract term.

Defra group Shared Services manage our contracts with SSCL closely and monitor their performance against our key performance indicators/service level agreements and we have not seen any disruption to our service or poor performance which the audit results have indicated. SSCL's key performance indicators/service level agreement performance across the Defra group for the audit period in question was 97.4 per cent overall.

Two audits resulted in GBS issuing SSCL with "Notifiable Defaults" under the terms of the Framework Agreement; controls and information assurance. SSCL was obliged to comply with a Rectification Plan to demonstrate how failed controls would be rectified within set timelines. A subsequent PwC Agreed upon Procedures Report in September 2021 demonstrated that the underlying issues identified in the controls audit have now been addressed by SSCL. The rectification plan process for the information assurance audit (managed by GBS) is now nearing completion.

Analytical models (business critical models)

Defra continues to apply the quality assurance guidance set out in HM Treasury's Aqua Book. Each analytical model has a senior responsible owner in Defra group, 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 enable user confidence in the outputs from models and increased understanding of current limitations, which continue to inform future research and prioritisation. Guidance and support are available to staff carrying out assurance of analytical models in order to promote continuous improvement.

In 2021-22, Defra group is establishing a Data Hub to drive data science capability development, including support for the regular review, development and quality assurance of complex analytical models with our scientists and analysts. This will enable us to look afresh at both identifying what our key analytical models are and what we need to do make them more resilient. A list of all business-critical models[26] is publicly available and will be updated in November 2021. Each business-critical model has a senior responsible officer who is responsible for effective quality assurance.

Security and cybersecurity

During 2020–21, we have continued to improve our security and cyber security controls. Progress has been made in replacing or further protecting ageing technology infrastructure and applications, which has reduced our dependency on legacy technology and improved our ability to comply with secure configuration and patching standards. We have also baselined our crisis management approach to support response to incidents, and we are initiating work to develop new basic security training for all staff to be rolled out in 2021-22.

Prioritisation of security issues across the department over the past two years has improved our compliance with the Government Security Functional Standard and the HMG minimum baseline standards for physical security, personnel security, cyber security and incident management against which we self-assess as part of the Departmental Security Health Check. Investment to build our central security assurance function this financial year will enable us to improve this position further.

However, the department still needs to make further progress to comply with minimum baseline standards and develop security controls. During 2021-22, actions underway include onboarding a dedicated Cyber Incident Response partner to provide additional technical and strategic support in the event of an incident, improving security awareness, and improving our governance arrangements for technology and security risks. We are also continuing with our programme of replacing legacy systems and working to improve physical security controls across our estate.

Two incidents were reported to the Information Commissioner’s Office (ICO) during this period across the Core Department, APHA, Cefas, JNCC, MMO, NE, RPA and VMD. One of these related to disclosure of information on badger cull operations to an external party, and another related to a security incident at JNCC detected by the National Cyber Security Centre. No further action was taken by the ICO as a result of these.

Counter-fraud, whistleblowing and data protection

Counter-fraud

The Defra group expects staff to always act honestly and with integrity, and to report all reasonable suspicions of fraud, malpractice, bribery, and corruption. In 2020-21, all

[26] Defra List of Business Critical Models 2016 (publishing.service.gov.uk)

instances of reported suspected and actual fraud were dealt with. One instance of a potential high-value mandate fraud was detected and dealt with prior to payment. Other known financial losses from fraud in the core department amounted to just over £47,000 and were reported to ARAC and the Cabinet Office.

The Defra group Counter-Fraud, Bribery and Corruption Strategy, the policy and implementation have been monitored and scrutinised internally by ARAC and ExCo, and externally by the Cabinet Office counter-fraud function. Working with GIAA, we completed a departmental fraud risk assessment and register, and have risk assessed £486 million of grant schemes and programmes[27]. A network of Fraud Liaison Officers was established to increase fraud awareness in the core department. Future priorities include increasing focus on detection of fraud, further embedding the strategy, introducing quarterly reviews of the departmental fraud risk register and increasing efforts to build staff capability and awareness.

COVID-19

Fraud risk assessments were prepared where required for all COVID-19 interventions with activities to mitigate fraud risks recorded and monitored. In addition, Defra group has produced a post-event assurance action plan for COVID-19 schemes to measure the extent of fraud and error that have been shared with the Counter Fraud Ministerial Board coordinated centrally by Cabinet Office. Assurance activity is being undertaken over financial years 2020-21 and 2021-22 to detect, measure, recover (where appropriate) and report any losses due to fraud and irregular spend, working with relevant partners to learn lessons where irregular payments are found.

Development of post-EU exit payment schemes – future farming and countryside programme

Particular attention has been paid to managing the risk of fraud and error in the new domestic agricultural support schemes which are part of the Future Farming and Countryside Programme (FFCP). Our aim is to balance the need to protect public money with an approach that places greater trust in farmers. The FFCP counter-fraud and error strategy has been based on HM Treasury guidance and NAO good practice. Developed closely with the Defra counter-fraud team, this was scrutinised by ARAC in February 2021 and GIAA have been providing live time assurance. The NAO report on the Environmental Land Management Scheme highlighted that we are facing a challenging timeframe to define and implement our approach to fraud and error. We recognise this but have made significant progress since the report, in particular in developing the control framework for the Sustainable Farming Incentive (SFI) National Pilot. We will continue to iterate our approach to controls to make sure that the appropriate checks and balances are in place at each stage of the roll out of FFCP schemes.

[27] These include all core and Natural England grant schemes and programmes and some Forestry Commission schemes.

Effectiveness of whistleblowing arrangements

Defra group continues to build a culture where employees feel comfortable raising concerns and have confidence in these being promptly investigated and addressed. During 2020-21, our intranet enabled easy access to guidance and support for anyone wishing to report a concern, including through nominated officers and signposting to 'Whistleblowing' and 'Speak Up' mailboxes. 'Speak Up' campaigns are communication initiatives designed to raise staff awareness and provide greater clarity on the appropriate routes for raising a complaint. A whistleblowing register for recording and tracking reported cases was established. In 2021-22, we continue to develop our processes and assurance measures with consistent policies in place across Defra group. No whistleblowing cases were raised during the period 1 April 2020 and 1 October 2021 for RPA, NE, VMD or APHA. Defra received two whistleblowing cases. Both cases are now closed following investigation. One case identified technical issues that have now been resolved. The other case was closed and not substantiated. Eight cases were raised in the EA, of these two are currently still under investigation; one after the complainant declined to participate and left the EA and the other identified management actions and recommendations for the business. Another four of the eight cases have closed after investigation, with lessons learnt/recommendations being fed back into business, leading to changes in policy and ways of working. Four of the eight cases were not substantiated.

Data protection

During 2020-21, we continued activity to ensure compliance with data protection legislation and Information Commissioner's Office (ICO) guidance. This included replacing data protection reviews with the ICO recommended Accountability Framework. Defra Data Protection Officer, data protection teams and legal advisors continued to provide advice and guidance as required. In 2021-22, we are working with senior leaders to build data protection issues into policy and delivery planning at an earlier stage. We will also review the data protection governance structure. Two personal data breaches were reported to the ICO this year. In all cases where personal data breaches occurred or risks arose, Defra worked with staff and suppliers to act quickly and effectively, addressing faults and revising processes.

Financial controls

Financial Leadership Plan

In 2020-21, we continued to deliver our Financial Leadership Plan, a two-year plan initiated in August 2020, to improve the department's financial control environment. This includes developing its financial culture and capability, rolling out best practice, and improving oversight of transactions and balances. While good progress has been made in many areas of the Plan, significant additional work was necessary at the year-end to obtain sufficient assurance over the completeness and accuracy of some significant transactions and balances. This indicates that the department needs to take significant further steps to improve its financial control environment in 2021-22. This includes strengthening its internal financial control framework, continuing to train non-finance staff, providing more detailed guidance and timely feedback where issues are still arising, ensuring more active ownership, oversight and control of transactions, and increasing awareness of control exceptions.

Local funding

In 2020-21, the department provided direct grants to local authorities for purposes such as waste infrastructure, air quality management, local flood risk management prevention and waste recycling work. We obtained assurance over the use of this funding through the accountability requirements placed on local authorities. Accountability for local funding is set out in Defra's Accounting Officer Systems Statement[28] due to be updated later this year.

Breach of Defra's Non-budget control total

The prior year Consolidated Accounts have been restated to reflect changes to opening positions relating to the Environment Agency's Reservoir Operating Agreement financial liabilities. The liabilities were initially recognised at fair value and are subsequently measured at amortised cost. To comply fully with IFRS 9, the Effective Interest Rate method for calculating amortised cost has been adopted and retrospectively applied for the first time in 2020-21. As such the liabilities and associated interest costs have been restated to reflect the correct accounting treatment in each year since 2001-2002, the first full year of resource accounting. As this change of accounting treatment was not anticipated at the time of the Supplementary Estimate, no allowance had been made for them and as a result the department's non-budget control total was breached. This will result in an excess vote.

Arm's Length Bodies

Issues arising within individual bodies are covered in their respective governance statements, with the most significant also highlighted below.

Environment Agency – Health and Safety

In February 2021, the tragic death of an EA colleague occurred while undertaking aerial tree work at Shepperton lock. A lessons learnt report made it clear that EA processes and delivery methods need to be thoroughly reviewed for this and other similarly hazardous types of work. Following an internal review, an action plan has been created to deliver four key recommendations, with individual deputy directors responsible for leading on specific actions, and a Programme board to oversee implementation, jointly led by the Chief Operating Officer and Executive Director of Local Operations'. The actions in the plan are being delivered and these will reduce the range of high hazard activities and better manage than ever before the remaining activities. More information is provided in the EA annual report.

Environment Agency - Assets Valuation

The Government's Financial Reporting Manual requires organisations to revalue specialised operational assets using a depreciated replacement cost (DRC) approach. The EA has 8,000 operational assets and since 1996 has used a modified historic cost (MHC) method as a cost-effective proxy for DRC. In 2019–20, the NAO raised a qualification on the EA's operational asset balances. It is important to note the nature of this qualification, which is about the methodology used to value unique government owned assets. It does not relate to how the EA manages those assets, which the NAO has not raised any concerns with. The

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

EA has commenced a project to design and deliver a cost-effective solution to asset valuation which will enable compliance with the Government Finance Reporting Manual (FReM) and NAO delivery of an unqualified opinion. This is a complex programme of work, and until it is completed and implemented, the qualification of the EA's accounts will remain in place.

In 2020-21, the NAO has expanded its qualification on the reported values of assets to include components other than operational assets (which represent 85 per cent of the 31 March 2021 net book value of property, plant and equipment). This widening of the NAO qualification on asset values is due to issues with the quinquennial revaluation of land and buildings. This was a complex exercise that was a challenge to deliver as a result of pandemic restrictions as well as shortcomings in the data quality for estates assets within the EA's fixed asset register, which have been noted by the NAO. The EA plans to improve the property assets data in the fixed asset register and move to a series of annual property asset valuations, delivered by Estates RICS qualified valuers, which will deliver the same coverage of all assets within a given five-year period.

Agriculture and Horticulture Development Board (AHDB) Levy Risk

AHDB receives levy income from six sectors, two of which - Horticulture and Potatoes (H&P) - held a levy payer ballot in early 2021 on the continuance of the levy. The ballot outcome was a 'no' vote. Following this, the AHDB Board agreed a programme of managed wind-down and transition of H&P levy payer activities during 2021–22. The vote is not binding and the final decision on the continuance of a levy in these two sectors is subject to a Ministerial decision (including Ministers in the devolved administrations).

AHDB is making funding provision for 2021–22 research programmes in H&P to the end of the research contracts. Subject to a Ministerial decision, the remaining research contracts and other technical work that is wanted and valued by growers, but might need a managed transition, will be reviewed to ensure levy payers do not lose the value of their investment to date in these projects. All other activity for H&P during 2021–22 will be stopped at appropriate points in the growing season. As the levy is hypothecated, other AHDB sectors cannot bear the cost of the wind-down and transition, H&P will continue to fund their share of committed cross-sector activity programmes during 2021–22.

AHDB is required to fund operational liabilities associated with the wind-down contracts, people and assets. This means that some level of levy will be needed in 2021–22 to supplement sector reserves to cover these costs as the change is managed through.

Flood Re

Flood Re is a hybrid organisation, run and managed by the insurance industry, with direct Parliamentary accountability and its own governance structure as a not-for-profit reinsurance body. The Government does not have powers to set remuneration levels. Flood Re is funded through a statutory levy on the insurance industry, and so HM Treasury expect that it should comply with public sector pay policy. Ongoing discussions around Flood Re pay and remuneration have resulted in the Framework Document between Defra and Flood Re remaining unsigned. On 26 October 2021, Defra received a retrospective pay exemption (2020-21) for Flood Re. Flood Re continue to operate within the spirit of the draft Framework Document. Defra and HM Treasury continue to work closely with Flood Re to find an enduring solution.

Independent Assurance

The department is subject to independent oversight in several areas and implements many of the recommendations made. This includes:

- Government Internal Audit Agency programme audits and opinion.
- Infrastructure and Projects Authority reviews.
- National Audit Office reports (including Value for Money) and the audit report for the Annual Report and Accounts.

Government Internal Audit Agency (GIAA) programme and opinion

Overall, the Group Chief Internal Auditor (GCIA) has provided a moderate opinion on the framework of governance, risk management and internal control for the core department and across the Defra group for the 2020–21 financial year, albeit with some significant risks which need addressing. This opinion was reached by balancing overall effective delivery within Defra and a strong response to the EU exit and COVID-19, against two key risks in Compliance Culture and Legacy IT Systems, where improvements are required to enhance the adequacy and effectiveness of the control framework. It recognises the challenges the Defra group has successfully faced over the course of the year, and areas where improvements have been made. There is very strong senior management buy in to the two areas highlighted as key risks and action plans in place to address these already, outside the internal audit process. There was a very strong response in year to outstanding recommendations from previous years and a high number were effectively closed down. The GCIA's opinion is informed by audit activity completed during the year, including advisory work, observation for example at ARACs, review of core documents such as ExCo papers and feedback from other assurance providers such as the NAO.

Infrastructure and Projects Authority reviews

In 2020–21, all of our major projects were formally constituted with a business case, Senior Responsible Officer and project board, in accordance with the department's Integrated Assurance and Approvals Strategy. Business cases were approved by Investment Committee which oversaw investment decisions on behalf of ExCo. The level of project assurance was based on a Risk Potential Assessment and captured in an Integrated Assurance and Approvals Plan (IAAP) for each project.

The Infrastructure and Projects Authority (IPA) provide third line assurance for our Government Major Projects Portfolio (GMPP) projects and Internal Audit review our delivery activity at a project and portfolio level. All current Defra GMPP projects are subject to IPA Assurance Reviews at key stage gates or as part of an annual review cycle. IPA reviews are coordinated with the IPA in accordance with the IAAPs for each project.

NAO Value for Money reviews/Public Accounts Committee recommendations

The department has been subject to three specific Defra focussed NAO reports since April 2020, where it was the Lead Department. In addition, Defra have participated in five studies where other departments were the principals, as well as several more minor papers. An overview of the recommendations made by the NAO in 2020-21[29] is summarised in Table 1 below. This table does not include the Environmental Land Management scheme report published in September 2021. In the report, the NAO recognised that Defra have made good progress in several key areas. However, a number of risks remain and improvement works are continuing to address them. The Permanent Secretary and/or members of her leadership team attended eight hearings of the Public Accounts Committee (PAC) Table 2 below. The department will in future be considering both the NAO and PAC report recommendations.

Table 1

NAO Recommendations			
Report title	**Publication date**	**Recommendations**	**Planned Implementation Date**
How government is organised to deliver its long-term environmental goals	11-11-2020	13	1 Partially Implemented/ongoing 4 End of financial year 2021-22 1 In progress (2024) 1 Following enactment of Environment Bill 3 During FY 2022-23 2 Ongoing - no specific date
Managing flood risk	27-11-2020	9	2 Implemented 4 Spring 2022 2 Current - alongside/following Spending Review 1 August 2022
Water supply and demand management	11-06-2020	8	4 Implemented 4 In progress – 1 ongoing, 1 expected Autumn 2021, 1 early 2022, 1 2022-23

[29] All NAO recommendations published since 1 April 2019 can be found on the NAO recommendations tracker – National Audit Office (NAO).

Table 2

Public Accounts Committee	
Report title	**Publication date**
Water Supply and Demand Management	10-07-2020
How government is organised to deliver its long-term environmental goals	11-11-2020
Managing flood risk	27-11-2020
COVID-19 response – supporting the vulnerable during lockdown	21-04-2021
Principles for Effective Regulation	15-09-2021
Government's delivery through arms length bodies	24-09-2021
Environmental Land Management Scheme	21-10-2021
UK Border 2021: update	06-11-2021

NAO audit report

The NAO Annual Report and Accounts 2020-21[30] advised that Defra acts upon its recommendation to improve arrangements for engaging other departments. In response, the department informed the Public Accounts Committee that it had acted on the recommendation and established a new board, with lead directors general from all the big domestic delivery departments with a stake in the 25 Year Environment Plan.

Ministerial Directions

During the 2020-21 financial year, and up to the date of this report, one ministerial direction was issued.

During the year, APHA has worked closely with ministers following a Ministerial Direction given by the Secretary of State to Defra, on the operation of the Movement Assistance Scheme from 1 January 2021. The Principal Accounting Officer for Defra, Tamara Finkelstein, authorised the APHA Chief Executive to rely on this Ministerial Direction in operating the Movement Assistance Scheme in the agency whilst meeting his own responsibilities as Accounting Officer. This was a result of the scheme not fully meeting the Principal Accounting Officer Assessment for feasibility, propriety and value for money. Officials in core Defra and APHA refined the design and operation of this scheme during its initial phase, with the aim of ensuring that its continued operation meets the standards expected by Managing Public Money. As a result the scheme fully met the Principal Accounting Officer Assessment for feasibility and propriety, and consequently the request to extend the Movement Assistance Scheme to December 2023 was approved by HM Treasury in July 2021 and the scheme no longer relies on the Ministerial Direction to operate.

[30] https://www.nao.org.uk/wp-content/uploads/2021/06/NAO-Annual-Report-and-Accounts-20-21.pdf

Principal Accounting Officer Conclusion

I have reviewed the opinion of the GCIA and taken advice from the Defra group ARAC based on the assurances it has considered during the year. I conclude that the department had satisfactory governance, risk management and internal control arrangements in place in 2020–21, and that we have continued to build on these, through enhanced reporting and acting on NAO recommendations.

As Defra group continues to progress policy objectives, establish, and deliver major programmes and deliver essential services in 2021–22 and beyond, we will also continue to improve our internal control environment. This year we have introduced a number of new mechanisms as part of our Financial Leadership Plan (FLP) to improve our financial culture and to support effective financial management. We will be refreshing the FLP in light of our 2020-21 audit findings to ensure it remains relevant and addresses areas of remaining concern.

Tamara Finkelstein 23 November 2021

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 2020 no 251 (together known as the Defra group, consisting of the department and sponsored bodies listed at Note 19 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 Non-Departmental Public Bodies (NDPBs) and other related bodies;
- 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 Annual Report and Accounts (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[31]. These appointments do not detract from the Head of Department's overall responsibility as Accounting Officer for the department's accounts.

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

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

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

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 15 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 2020–21, no such payments were made by Defra or its delivery bodies (2019–20, £Nil).

[31] https://www.gov.uk/government/publications/managing-public-money#history

Personal Data Related Incidents

Work to support compliance with data protection legislation has continued throughout the year. In all cases, where personal data breaches have occurred or risks have arisen, Defra has worked with staff and suppliers to act quickly and effectively, address faults and revise processes.

Category	Nature of Incident	Total
I	Loss of inadequately protected electronic equipment, devices or paper documents from secured government premises	7
II	Loss of inadequately protected electronic equipment, devices or paper documents from outside secured government premises	11
III	Insecure disposal of inadequately protected electronic equipment, devices or paper documents	0
IV	Unauthorised disclosure	184
V	Other	17

Employee Health and Safety

Each organisation in the Defra group is legally accountable for the health and safety of their employees. Each has their own arrangements for health and safety to assist senior leaders to fulfil their legal duties. Organisational level reporting requirements are developed to suit each organisations risk profile and requirements of their senior leadership teams. However, health and safety teams across the Defra group recognise the value in benchmarking and voluntarily participate in six monthly benchmarking of lagging indicators including reported cases of work-related injuries, ill health (including work-related stress), and non-injury events such as near misses and unsafe conditions.

COVID-19 saw a shift in ways of working across the Defra group, with a majority of staff working at home. It is therefore no surprise that there has been a shift in the most common locations for work-related injury, ill-health, and incidents to occur. However, those organisations with operational workforces have also maintained work within laboratories, operations or fieldwork, and other environments outside of a traditional workplace.

This period has also seen sustained reporting of work-related stress in some organisations, with the most common work-related root cause cited as demands placed upon employees. We know anecdotally that there is a risk of increase in musculoskeletal disorders (MSD) through sustained homeworking, and temporary workspace set up, and this continues to be a key focus for awareness and prevention. However, during 2020–21 across the group, fewer reports of MSDs were received than in 2019–20.

The table below provides a breakdown of reports received by health and safety teams during 2020–21[32]. Arrows indicate an increase/decrease from previous reporting periods, but it is important not to make strict 'like for like' comparisons due to organisational risk profiles, different operational risks, reporting cultures and systems and structural changes over time.

[32] Figures do not include reports of accidents involving members of the public

It is not unusual for smaller organisations, or those with less operational workforces, to have very low levels of reported incidents (or none at all) during a 12-month period.

Reports of injury and ill health

983 reports of work-related injuries or ill health (including work-related stress) were received across the Defra group in the reporting period. Of these, 36 had to be reported to the Health and Safety Executive (HSE) in accordance with the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations (RIDDOR).

- Sadly, one was a work-related fatality of an Environment Agency employee;
- 12 were specified injuries (e.g. fractures)
- 17 were injuries or illness resulting in more than seven days absence from work or normal duties; and
- Six were for occupational disease.

This is an increase compared to the 2019–20 where 33 RIDDORs in total were reported across the Defra group.

	FTE 31 March 2021[33]	Total RIDDOR reports for injuries or ill-health[34]	Lost Time injuries/ ill health (excludes RIDDORs)[35]	Lost Time Injury Frequency Rate[36]	Minor injuries/ ill health	Work-related Stress	Total reports of injuries/ ill health	Non-injury events reported[37]
AHDB	492.50	0	0	0.00 ↓	2	5	7	1
APHA	2759.00	0	4	0.10 ↓	96	80	180	510
CCW	67.29	0	0	0.00 →	0	1	1	0
Cefas	581.00	3	0	0.60 ↑	8	0	11	127
Defra	5192.00	0	2	0.02 →	13	64	79	17
EA	10967.08	21	9	0.15 ↓	251	94	375	1519
FE	1120.00	5	0	0.26 ↑	65	0	70	823
JNCC	213.83	0	1	0.29 ↓	1	3	5	0
Kew	895.00	1	1	0.13 ↓	21	0	23	41
MMO	368.26	0	0	0.00 →	5	0	5	13
NE	2100.00	3	3	0.16 ↓	73	94	173	452
NFC	27.50	0	0	0.00 →	0	0	0	0
RPA	1984.60	3	5	0.23 ↓	36	12	56	4
VMD	182.52	0	0	0.00 →	0	0	0	0
TOTAL	**26,950.58**	**36**	**25**	0.13 ↓	**571**	**353**	**985**	**3507**

The most common cause of all reported work-related injuries and ill health was work-related stress with 353 cases reported. This was followed by physical injuries caused by slips, trips or falls on the same level (132) followed by contact with moving objects/equipment (77) and Musculoskeletal Disorders (71). At individual organisational level, steps are taken to address common causes to prevent further reoccurrence. This includes local and (where applicable) group level campaigns and review of control measures to eliminate or minimise risk and provision of protective clothing and equipment as a last resort when required.

The most common location of accidents leading to injury or ill health (excluding work-related stress) was out in the field (229 – a decrease compared to 643 in 2019-20), followed by home working environments (126 – an increase compared to just 29 in 2019-20) and then Offices (37 – a significant decrease compared to 556 in 2019-20). The changes in trend are

[33] (includes payroll and non-payroll)
[34] Excludes Dangerous Occurrences which are non-injury incidents
[35] Excludes RIDDORs to avoid double counting
[36] Any injury or episode of ill health (excludes stress as absence data is not available) reported that results in the employee losing one day or more. Lost Time Injury Frequency Rate is the number of people injured over a period for every 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 2019-20.
[37] An incident which could have caused an injury e.g. A fixture falls from a ceiling but does not hit anyone. Includes RIDDOR Dangerous Occurrences

not surprising given that a large majority of the workforce across the Defra group were working at home during 2020-21.

Non-injury events

3507 non-injury events were reported during 2020–21 across the Defra group. Of these, 2 Dangerous Occurrences had to be reported to the Health and Safety Executive (HSE) in accordance with the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations (RIDDOR).

Defra group organisations encourage employees to report near miss (non-injury) events[38]. 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**.**

2718 of these were near miss incidents were reported by employees across the group meaning that, on average, one in every 10 employees reported a near miss incident during the reporting period. This is a decrease on the same period last year but reflects that fewer employees are in the physical workplace.

787 reports were also received by employees proactively reporting hazards, or unsafe conditions or working practices, thereby enabling faults to be repaired or rectified before any near miss, or more significant, incidents occurred.

Prosecutions/HSE Interventions

The Environment Agency were served with a Notice of Contravention, by the Health and Safety Executive, for the Dangerous Occurrence reported under RIDDOR outlined above. The notice was issued under contravention of Electricity at Work Regulations. The Environment Agency's Action plan was submitted to HSE and confirmation has been received that no further action will be taken.

No other prosecutions or interventions by the Health and Safety Executive were served on Defra group organisations during the reporting period.

Work-related fatality

Tragically, an Environment Agency employee lost their life after an accident whilst they were undertaking aerial tree work to remove a tree. The Environment Agency have completed a thorough internal review to find out what happened and why, with the full support and co-operation of the employee's colleagues and management. They are reviewing all field operations to ensure that the activities undertaken are conducted with the best available techniques and risk management controls. They will be actively monitoring all operational activities to ensure that those conducting them have the right skills, equipment and risk management in place at all times.

[38] 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.

The Environment Agency are also co-operating with the external investigations. The police have decided to take no further action and have handed the investigation over to the HSE. Whilst the investigation by the Health and Safety Executive continues, no further details can be provided at the time of writing this report. There will be a Coroner's Inquest later this year at which the Environment Agency will be represented.

Complaints to the Parliamentary and Health Service Ombudsman (PHSO)

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

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

Most complaints are resolved at levels one and two. Complainants who remain dissatisfied after level two can take their complaint to the PHSO.

Defra's complaints procedure can be found online[39]. 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.

From 1 April 2020 to 31 March 2021 no complaints were accepted for investigation by the PHSO relating to the Defra group.

Department for Environment, Food and Rural Affairs	Received	Concluded at prelim/ass	Premature	Not properly made	Withdrawn	Other	Resolution	Early Consideration	Accepted for investigation
2020-21	45	27	0	4	0	12	2	0	0

These figures are a snapshot of complaints with PHSO between April 2020 and March 2021. 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.

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 been accompanied by 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.

[39] 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

People Survey

2020 was the twelfth consecutive year in which the Cabinet Office has conducted the annual Civil Service People Survey. The combined response for Defra and the participating agencies (Rural Payments Agency (RPA); Animal and Plant Health Agency (APHA); Veterinary Medicines Directorate (VMD) and Centre for Environment, Fisheries and Aquaculture Science) remained at 67 per cent against an overall response rate across the Civil Service of 66 per cent. The number of responses remained very similar (7,764 this year compared to 7,679 last year) despite neither Marine Management Organisation (MMO) nor Joint Nature Conservation Committee (JNCC) being eligible to participate in this year's survey.

People Survey 2020: Summary

For the core department, our employee engagement score rose to our highest ever result of 65 per cent in 2020, up from 63 per cent in 2019. The 2020 civil service benchmark is 66 per cent. Our performance improved in eight of the nine thematic areas covered by the survey, one or two points below or above the civil service benchmark for the nine core themes. The only area with a slight drop of three points to 54 per cent was Learning and Development. The results from this annual survey run in October 2020, show an organisation where people have stepped up to support each other in an incredibly challenging year, in the forefront of supporting the national effort in the face of COVID-19 and critical to an orderly end of the EU exit Transition Period. It's a source of immense pride that Defra people feel more than ever engaged in our work, their contribution to it and their manager's and colleagues' support for them.

The proportion of staff reporting bullying and harassment decreased from 12 per cent to 7 per cent, which is below the Civil Service average of 10 per cent. Whilst the decrease is good news, we will continue to maintain a zero-tolerance approach to discrimination in any form, while continuing to support staff to report instances.

We measure wellbeing factors over the long term based on the PERMA[40] model. Our PERMA Index score rose from 72 per cent to 73 per cent in 2020 (up being a positive shift) additionally our Proxy Stress Index, which is a measure of conditions which can add to stress, went down from 29 per cent to 27 per cent in 2020 (down being a positive shift). However, in this year of unprecedented challenge, underlying personal wellbeing indicators dropped: for happiness (-9 per cent), life satisfaction (-12 per cent) and feeling that the things

[40] PERMA index is a measure of wellbeing covering Positive Emotion, Engagement, Relationships, Meaning and Achievement.

one does in one's life are worthwhile (-7 per cent) when compared to 2019. Nearly a third have an unacceptable workload – down from 2019 and 10 per cent below the civil service benchmark. Levels of high anxiety rose to 40 per cent in 2020 from 36 per cent in 2019. We are committed to continue ongoing work to address factors affecting wellbeing – mental, physical and emotional. This is crucial for our long-term sustainability, to maintain high performance, welfare and inclusion.

We are doing this at a pan-organisational level, pooling insight, sharing metrics such as this survey and providing tools and cultural and working conditions to support individuals, teams and leaders across the organisation.

	APHA	Cefas	Core Department	RPA	VMD
My work	74	82	79	71	87
Organisational objectives and purpose	81	78	80	85	94
My manager	67	72	73	75	74
My team	77	83	85	81	88
Learning and development	49	59	54	47	61
Inclusion and fair treatment	75	77	84	80	84
Resources and workload	68	75	69	76	82
Pay and benefits	28	30	42	40	36
Leadership and managing change	42	53	57	55	73

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 survey provides valuable insight into the views of staff across the Defra group, identifying areas of commonality and differences between organisations. Survey themes and indicators will be used to inform work over the coming year at both a corporate and a local level, making good use of existing channels and processes as much as possible.

In summary, our People Survey results are a valuable source of data to feed into existing organisational development and change work at a group and local level. Staff engagement will continue to be of the utmost importance, with a targeted programme of leadership events, staff roadshows and interactive sessions to keep colleagues informed and able to participate in the decisions that impact the department. Another area of focus will be the expansion of our staff networks and communities as an important way to bring people together as they work collaboratively on Defra's critical agenda.

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.

To comply with government COVID-19 guidance Defra moved its assessment processes on-line using video and telephone technology from March 2020. Guidance and training was cascaded to panel chairs and those involved in selection decisions and this continues to be the position. Defra continues to embed the use and understanding of Civil Service Success Profile tools to conduct recruitment selection and follows Cabinet Office guidance in respect of their deployment when using on-line technologies for assessment.

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 the gender split as at 31 March 2021.

Employee Composition	Male	Female
Senior officials on the Defra Board	3	4
Ex Officio on the Defra Board	1	1
Ministers	3	2
Non-Executive Directors for the Defra group[1] (excluding Ex Officios on the Defra Board)	45	27
Management employees (SCS grade or equivalent) for the Defra group[1] (excluding senior officials on the Defra Board)	222	178
All other employees for the Defra group[1]	12,629	13,353
Total	12,903	13,565

[1]Defra group includes the core department, executive agencies, non-departmental public bodies (NDPB), levy bodies, Flood Re, and the National Forest Company. Figures are by headcount.

Diversity and Inclusion

Defra's Executive Committee (ExCo) agreed five key objectives, to underpin Defra group's Equality, Diversity and Inclusion (EDI) strategy 2020-24 and contribute to meeting the Civil Service ambition to be the most inclusive employer in the UK. These are:

- Create more inclusive cultures.
- Build and sustain a diverse workforce across Defra.
- Enhance making the UK a great place to live for all citizens.
- Improve EDI capability and confidence.
- Communicate, raise awareness and report progress.

Whilst the strategy is comprehensive and encompasses all areas of inclusion, we have identified three specific priorities, to give greatest focus to improving outcomes in the areas where evidence from both statistical indicators and staff views suggests we most need to deliver improvement:

a. Black, Asian and Minority Ethnic (BAME) employees.

b. Disabled employees.

c. Cross-cutting priority on Respect at Work.

Defra group is committed to ensuring all employees have equity of access to employment opportunities. It has policies and practices in place to ensure all those with protected characteristics (under the Equality Act 2010) have equality of opportunity in recruitment, promotion, learning and career development. This includes provision of workplace adjustments to ensure disabled applicants and employees are recruited, progressed and retained.

Our EDI Strategy extends to all Defra organisations, with the core department, its executive agencies, Natural England (NE) and the Environment Agency (EA) actively supported to take action against its objectives.

Good progress has been made across priorities placing organisations in a better position to understand their workforce diversity, tackle unconscious bias, improve career support for diverse employees, minimise discrimination, bullying and harassment, and ensure policies and programmes show due regard to EDI.

A range of initiatives have been delivered to improve our EDI practice against our five strategic objectives as described below.

Improving practice

Reflecting the Civil Service Diversity and Inclusion Strategy, Defra group strive to create a supportive and inclusive culture which is fundamental to creating and nurturing a diverse workforce. As a result, 2020 saw the implementation of a number of initiatives to improve the way EDI is delivered. This includes:

- Continuing to feature social mobility data in our diversity monitoring, and via further analysis, will enable ourselves to take evidence-based action to improve socioeconomic representation, recruitment, progression and development of employees at all levels.

- Communicating and implementing our new Defra group EDI strategy 2020-2024 across Defra organisations. This included the establishment of a new governance framework to engage all parts of Defra in working together to drive EDI change and development of enhanced reporting giving a clear line of sight between our strategic objectives, outcomes and progress.

Meeting our Equality Objectives

1. Creating more inclusive workplace cultures

In 2019, the Civil Service set out a definition of what inclusion means, along with a diagnostic tool for use in measuring the extent of inclusion across departments. Inclusive culture in the Civil Service has three elements:

- Authenticity - feeling like you can be your authentic self at work.

- Belonging - feeling like you belong in your organisation and team.
- Voice - feeling like you have the opportunity to speak up.

Defra organisations took part in the culture diagnostic in the summer of 2019 when all employees were invited to complete a survey to contribute to an assessment of inclusion across the six domains below:

Domain 1: My manager cares about inclusion.
Domain 2: I am treated fairly in my team.
Domain 3: I can speak up in my team.
Domain 4: I belong in my organisation.
Domain 5: I can be myself.
Domain 6: My team supports one another.

These domains are the bedrock of how inclusion is measured across Civil Service departments, including Defra.

Results from the first year assessment of inclusion set a baseline. Our overall inclusion score of 3.57 and an average score across all questions of 3.54 are on a par with the overall Civil Service benchmark and show that Defra is inclusive. However, with a total score of 5.0 available (1.0 to 5.0 scale), there is more to do to make sure Defra is a great place to work for all its people, especially in terms of ethnicity and disability. Results by disability show some significant gaps in how included employees with long-term limiting conditions feel. They reported feeling less included across all domains, whilst ethnic minority staff reported feeling less included on domains 4, 5 and 6.

The intention was to deliver the survey annually however this did not take place due to the pandemic. The survey was rolled out in Spring 2021 and results will be included in 2021–22 reporting.

Defra organisations have a proven track record of actively promoting inclusive cultures. Employee EDI Networks are encouraged to support the inclusion of diverse employees. They are also encouraged and supported to improve inclusivity through a range of communication and awareness-building activities. They work in collaboration with ExCo EDI champions to deliver actions and communication including, for example, during Black History Month, National Inclusion Week, International Day of Disabled People, International Women's Day, International Men's Day, Interfaith Week, LGBT History month and Mental Health awareness.

Our EDI Networks are also routinely consulted during policy development and design and delivery of projects (e.g. in response to COVID-19) to ensure they are inclusive. For instance when designing and delivering the Defra group Gender Identity and Intersex Guidance published in Spring 2021.

2. Build and sustain a diverse workforce across Defra

We actively support underrepresented groups in a number of different ways, adopting an evidence-based approach. Ensuring that we have robust data on our workforce enables us to pinpoint problem areas, deploy action effectively and monitor progress.

From our data and insights, we know there is more we can do to improve both representation and declaration across Defra group organisations[41].

Overall, declaration rates have improved across Defra organisations where there has been an overall 12.9 per cent increase in those who have declared their disability, 2.7 per cent increase in those declaring their sexual orientation and 1.3 per cent increase in those declaring their ethnicity.

Our Gender Pay Gap continues to close as we achieve gender balance at senior levels – see below for more information on our gender pay gap and action we are taking to close it.

The overall diversity profile across Defra (as of 31 March 2021), its executive agencies, the EA and NE in terms of the representation of women, Black, Asian and Minority Ethnic (BAME), disabled and Lesbian, Gay, Bisexual and Other (LGBO) employees is presented in the table below.

Diversity characteristic	% Representation	% in UK Working Age Population
Women	50.5	*50.0
Disabled	14.1	13.8
BAME	6.5	13.0
LGBO	5.3	**-

*No robust data is available of the percentage of women in the UK working age population, therefore equal representation between the genders is assumed.
** No robust and representative data of the LGBO population in the UK currently exists, although the question was for the first time included in the 2021 Census.

Diversity data by grade across Defra and its executive agencies (as at 31 March 2021) is laid out in the following table - with AA/AO the most junior and SCS the most senior.

	Diversity characteristic			
Grade	% Disabled	% Women	% BAME	% LGBO
AA/AO	15.9	60.5	7.8	6.3
EO	15.2	52.5	6.9	5.9
HEO/SEO	13.6	52.5	6.5	5.3
G7/G6	12.8	45.1	5.6	4.2
SCS	7.4	47.1	8.1	7.6
Total	14.1	50.5	6.5	5.3

Supporting Diverse Talent

We actively support the development of underrepresented groups in a number of different ways.

[41] Defra organisations from this point on refers to the core department, its executive agencies (Animal and Plant Health Agency, Rural Payments Agency and Vetinery Medicines Directorate), Natural England and the Environment Agency

The Project Race team launched the Level-UP programme for Black, Asian and Minority Ethnic grade G6/7s across the Defra group in January 2021. This builds on the Advance programme where 20 out of the 51 participants were promoted since the launch. The Level-UP programme aims to:

- Build confidence and explore the soft skills required to support career progression.
- Expand participants networks and relationships through sponsorship.
- Support participants through the SCS recruitment process.

Our tri-departmental Ethnic Minority Women's Pipeline programme, delivered in conjunction with Home Office and Ministry of Housing, Communities and Local Government, completed in September 2020. From the ten Defra participants, three (30 per cent) have been promoted since programme completion.

Additionally, diverse cohorts of employees have successfully secured places on mainstream Civil Service wide and locally-driven development programmes.

Improving the methods, policies and processes supporting recruitment, selection and attraction to ensure they are effective in recruiting a diverse workforce. Action we have taken includes:

- Introducing enhanced recruitment tracking to record the diversity data of applicants and new recruits and taking steps to address unconscious bias in recruiting.
- Working with our EDI Networks to support diverse panels for all recruitment into SCS roles. We have removed the grade requirement from panels enabling our panels to be more diverse.
- Implementing a Defra jobs board to ensure all employment opportunities are visible to everyone.

Improving the process and delivery of reasonable adjustments.

Defra group has processes in place to provide workplace adjustments to employees who need them. We encourage individuals to record their adjustments on a workplace adjustment passport. This reduces the need to renegotiate arrangements when an employee moves post, moves between departments, or is assigned a new line manager.

The Defra group Disability Board, established in May 2019, is delivering an action plan to ensure workplace adjustments meet the needs of the individual and are delivered in a timely and effective manner. This initiative will also consider the needs of carers, and the implementation of carers passports across the Defra group.

A temporary home working equipment provision policy was implemented to support working from home during the COVID-19 pandemic and to manage impacts on wellbeing.

We have reduced our gender pay gaps across Defra organisations. In addition, we have formed a Cross-organisational Gender Pay Gap Action Planning Group to review good practices and take steps to reduce gender pay gaps and increase gender parity across all levels across Defra organisations.

3. Enhance making the UK a great place to live for all citizens

We ensure our policies, projects, programmes and processes show due regard for diversity and inclusion and consider the impact of decisions on under-represented groups.

Equality Impact Assessments (EIAs) are built into policy decisions to identify potential adverse impacts on employees with protected characteristics. Where a negative impact is identified, part of the process involves developing and implementing action to mitigate them. We are working to enhance consistency across the Defra group organisation by extending and improving awareness, guidance and practice. We ensure our EDI networks are consulted within this process and that there is synergy in our approach to implementing EIAs across HR, in our external facing policies and across the Defra group.

We are continuing to work on ensuring that our public bodies attract diverse, high calibre candidates for its board positions in support of the Government commitment to increasing the levels of diversity among public appointments, with specific ambitions for all public appointments to be 50 per cent female and 14 per cent Black, Asian and Minority Ethnic (BAME) by 2022. The Lord Holmes Review published in December 2018 also made recommendations relating to the representation of disabled people in public appointments.

In 2021, we launched a strategy to increase diversity in public appointments which focuses on improving the way we collect, monitor and analyse data; attracting more diverse talent; ensuring that the application process reflects our commitment to diversity; and developing a board mentorship scheme.

Within the last six months, we have progressed several important priorities. In 2019, Defra was one of the first departments to have a dedicated Twitter account for public appointments. The account has continued to thrive and now has a steady following, helping us to reach new networks and audiences. Our new LinkedIn page should also expand our reach and ability to promote vacancies to a more diverse audience. We are building a pool of independent panel members who have practical experience of EDI initiatives and we are also developing a candidate's guide to reasonable adjustments, to promote our work in supporting disabled candidates.

Progress has been made on female representation but BAME diversity remains a challenge and is a focus of the strategy. The early signs from implementing the initiatives described above have been positive and we are hopeful that this will translate to improved results. Further work on developing a diverse talent pool, hosting events and expanding the networks we use to promote vacancies are also planned for 2021–22.

Diversity characteristic	% Representation of all public appointments	% Representation of public appointments made in 2020–21
Women	38.3	46.9
Disabled	4.4	6.1
BAME	2.2	0

4. Improve EDI capability and confidence

Effectively supporting Defra organisations, teams and line managers to address, discuss and support EDI initiatives and issues is key to delivering on our overall EDI strategy. To facilitate this across teams, we included EDI content in our HR guide for managers, to ensure a consistent approach to responding to EDI issues.

As part of the National Inclusion Week activities for 2020, an EDI Strategy Playbook was published on the Defra Intranet designed as a guide for managers, teams and individuals to ensure that inclusion is always 'in play'. It gives practical tips and resources, highlighting what people across Defra can do to make inclusion their business. Complementary to this, employees have access to new resources which include best practice in learning and development; performance and development; communication and resourcing.
There is also work underway across the Defra group to review our Unconscious Bias learning offer, in line with guidance from the Cabinet Office Learning and Development, with a focus on fairness and inclusion, alignment with the employee lifecycle and everyday inclusion.

Defra group employees have access to Civil Service learning platforms or alternative learning interventions across the Arms-Length Bodies (ALBs).

Defra organisations have a zero tolerance approach to bullying, harassment and discrimination (BHD). Reducing instances is a strategic priority led by the Respect at Work Board chaired by one of our ExCo champions. It oversees and shares action underway across Defra organisations to support the work of related networks, raise awareness, and track progress.

Project Race ambassadors have been appointed to work with senior leaders and colleagues to drive inclusive behaviours and support race equality.

Over 1,000 employees have attended Project Race 'Let's Talk Race' workshops, which give the opportunity to develop confidence in discussing race, minimise unconscious bias and progress race equality, and by facilitating and starting conversations, we in turn improve feelings of belonging and inclusion for those affected.

5. Communicate, raise awareness and report progress.

In June 2020, the new Defra group EDI strategy 2020 to 2024[42] was published; this was developed with input from EDI networks, champions, HR, Trade Unions and others across Defra group organisations and is relevant to everyone working across Defra. The strategy was launched across Defra organisations during National Inclusion Week 2020.

Since publication of the new strategy, work is underway to develop robust reporting against strategic objectives. This not only helps us understand where we need to improve, it also provides an evidence base. Reporting on progress across EDI objectives is being monitored.

To coordinate delivery of actions against our strategic objectives, we have established a new internal structure of EDI Boards that bring together EDI champions and networks working on

[42] https://www.gov.uk/government/publications/defra-group-equality-diversity-and-inclusion-strategy-2020-to-2024

the same characteristics across Defra group organisation. Our EDI Boards are chaired by ExCo Champions and feed into an overarching Inclusion Leadership Group (ILG) of senior leaders. The ILG reports into our ExCo and has oversight of ongoing work to improve EDI across Defra group. It prioritises targeted action, promotes collaborative working and removes barriers to progress.

Closing our Gender Pay Gap

In December 2020, we published our Defra Civil Service gender pay gap. This shows that the percentage difference in the average pay between all men and women in the organisation has narrowed further since 2019. As at 31 March 2020, Defra had a mean gender pay gap of 7.2 per cent, a reduction of 1.2 per cent on the 2019 figure, and a median pay gap of 7.4 per cent, a reduction of 2 per cent on the 2019 figure.

The table below shows the gender and grade split for Defra Civil Service.

Grade (Increasing in seniority)	Number of women (Women as % of workforce at this grade)	Number of men (men as % of workforce at this grade)
AA/AO	1301 (64%)	741 (36%)
EO	1151 (57%)	855 (43%)
HEO	1155 (55%)	948(45%)
SEO	1099 (55%)	886 (45%)
G7	801 (50%)	799 (50%)
G6	276 (49%)	286 (51%)
SCS	108 (52%)	101 (48%)
Grand Total*	**5933 (56%)**	**4658 (44%)**

*Includes 84 (42 women, 42 men) seconded staff whose grades are not recorded.

Our gender pay gap has narrowed year-on-year since the inception of reporting in 2017 as indicated in the table below.

Defra	2017 %	2018 %	2019 %	2020 %	% difference from 2019
Mean Gender Pay Gap - Ordinary pay	11.5	9.8	8.4	7.2	1.2
Median Gender Pay Gap - Ordinary pay	12.1	11.7	9.4	7.4	2.0

We are working to close our gender pay gap by delivering initiatives which include the following:

- Establishment of an ExCo level Gender Champion and Gender Board that is accountable for taking forward the actions below. The Gender Board reports into the overall Inclusion Leadership Group which has oversight of ongoing work to improve equality working collaboratively with our Equality Diversity and Inclusion (EDI) Team, Women’s Networks and our Pay and Reward Team.

- Providing active support for women returning to work following maternity or adoption leave. We offer shared parental leave, job share, part-time working opportunities and flexible working.

- Helping women to progress their careers through talent schemes such as the 'Cross Government' Positive Action Pathways.

- We support a range of employee-led networks championed by Defra's senior management. Defra's Women's networks for example, aim to help women reach their full potential by providing advice and support, contributing to policy development and establishing good practices.

- We monitor pay to identify any pay differences and take targeted action to ensure our processes are fair and transparent. In addition, we will scrutinise our bonus gap further with a focus on identifying an hourly gap, which takes into account part-time pro-rata bonuses. This will provide important insights into the gap between women's and men's bonuses.

We continue to review and refresh our approach to resourcing to ensure the recruitment of women and men at all levels is inclusive. We anonymise our application processes, use diverse interview panels for selection and recommend that all interviewers have undergone unconscious bias training. Recruitment data is monitored throughout the attraction, recruitment and selection processes to identify areas for further improvement in achieving greater diversity in our workforce.

Health and Wellbeing

Defra has a senior Health and Wellbeing Champion assigned at ExCo level and takes an organisational level approach to create the conditions to support employee wellbeing, so our people can be well and do well.

As the COVID-19 pandemic began to impact Defra in March 2020 we continued with our collaborative virtual wellbeing team approach, building on the work first developed in 2019–20 which had seen continued emphasis on our employees' health and wellbeing whilst preparing for EU exit and the ongoing negotiations.

Our virtual team, led by HR, has membership including multiple subject matter and policy experts and process owners from across corporate services and organisations from within the wider Defra group. The team adapted to meet the challenges brought by COVID-19 to support the mitigation of the strategic wellbeing risk, against which the group HR Director reports quarterly to ExCo.

Five high level principles for organisational wellbeing were developed to help prioritise activity:

1. Equip everyone to support their own and others' health and wellbeing.
2. Equip leaders and line managers to support people to deliver well and be well.
3. Ensure mental health is understood, discussed and supported without stigma.

4. Create and maintain local and national health and wellbeing networks.
5. Identify and address organisational wellbeing status, hotspots and trends.

Each organisation within the Defra group has its own health and safety and/or wellbeing function to assist with delivery against the priorities, working in tandem with other virtual team partners delivering upstream systems and processes which impact on wellbeing. Jointly, this group shares intelligence, aligns and amplifies offers and stands up surge support. The following provides details of some of the health and wellbeing initiatives delivered during 2020–21 reporting period:

- Worked with colleagues to create a Working at Home Hub and HR Guide, and encouraged networking and sharing of good practice between colleagues via a COVID-19 wellbeing Yammer group.

- Strengthened links between equality, diversity and inclusion and wellbeing**,** and helped initiate a new Mental Health and Wellbeing Board chaired by our ExCo Health and Wellbeing Champion.

- Revised our Death in Service and Bereavement guidance to create a single site for line manager and staff support and set up a support service and mailbox.

- Offered the ‘Headspace’ App for employees in the core department, RPA, APHA, VMD and NE.

- Highlighted and promoted our existing ‘Top 5’ comprehensive suite of established resources, tools and guidance including the Employee Assistance Programme, Mental Health First Aiders, Team Stress Risk Assessments, Wellbeing toolkits, and the Headspace App.

- Promoted the ‘five ways to wellbeing campaign’, and other national campaigns such as loneliness, emphasising the need for a holistic approach to managing mental health.

- Facilitated an Active Wellbeing Challenge throughout the summer (with over 500 participants across 59 teams) which highlighted the importance of physical health and staying active to assist with good mental health.

- Refreshed processes for stress risk assessments to identify work-related stressors (based on the HSE Management Standards for Stress) and reduce work-related stress at team and individual level. We have simplified reporting of work-related stress enabling us to identify root causes, such as workloads and demands, and signpost to appropriate support and escalate key trends to senior management for action.

- Continued to deliver a series of in-house webinars on work-related stress, personal resilience, let’s talk about wellbeing tips for line managers, and ergonomics/Musculoskeletal Disorders.

- Developed a process for managers to have a one to one conversation – via a ‘Personal Needs Assessment’ - with all their team members to support their wellbeing, and health and safety, to enable safe and comfortable working practices at home or the workplace.

This included a process to enable over 500 employees to return to a COVID-19-secure workplace where it was necessary for personal wellbeing or safety.

- Provided line managers with prompts, checklists and tools to ensure they have regular, wellbeing check-in conversations with each team member. This includes signposting support for mental and physical health and ensuring follow up.

- Initiated Equality Impact Assessments for all policies and processes associated with COVID-19 response to ensure we consider mitigations and interventions to support mental health.

- Convened a panel to review surveys carried out by different functions around our COVID-19 response (i.e. pulse, cultural and Health and Safety surveys), This enabled us to spot common themes to support anecdotal feedback and escalate findings to senior management for action.

- Developed internal programme of 'Airtime' coaching sessions offering staff a one to one session with an experienced coach.

In addition to the above, the core department specifically achieved the Silver Award in the MIND[43] Wellbeing Index. We have developed our action plan to further address gaps identified and continue to highlight mental health via briefings, presentation and bespoke sessions for the business.

Defra continues to be active members of both the Cross-Government Health and Wellbeing Senior Steering Group meeting (represented by Defra's Senior Health and Wellbeing Champion) and the Wellbeing and Attendance Management network, to help shape and drive forward the civil service priorities.

Managing Attendance

A corporate strategy for managing attendance is in place across Defra, as part of supporting the wellbeing of our people and proactively maintaining good levels of attendance at work. Levels of absence are closely monitored. Our approach is to equip both the individual and their line manager to manage any issue related to their health and wellbeing so people who are able to work can do so. Our aim is to provide the support needed to not only help people return to work from a period of long-term absence, including keeping in touch, but to also ensure that short term absences are recorded, recognised and managed well. Our options for support comprise extensive guidance and tools to equip line managers and staff to maintain their own and others' wellbeing as part of delivering well. We also provide occupational health advice and intervention, counselling and other advisory services through our Employee Assistance Programme. We aim to prevent work related ill-health and injury, by implementing safe working practices, monitoring and addressing underlying causes.

The COVID-19 pandemic, moving to working at home and our role in the forefront of national delivery has meant we have ramped up our support for staff, and our focus is even sharper on tracking staff capacity, levels of wellbeing, potential causes of harm and absence. We

[43] MIND is a mental health charity in England and Wales.

also introduced policies to manage the unique situation, for example the management of COVID-19 related sickness absence and our approach to special leave.

For Defra and its executive agencies, an average of 3.4 working days per employee was lost to sickness absence during the year to 31 March 2021, compared with 4.2 days in the year to 31 March 2020. We recognise that our staff stepped up to deliver for the nation at an unprecedented time and continue our work to ensure we are all equipped and supported to be well and deliver well, in a sustainable manner.

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 it’s 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 2020–21 year.

In the core department and it’s agencies, 77 (75.07 full time equivalent) were Trade Union (TU) representatives. Of these employees 76 spent up to 50 per cent of their working hours on facility time on TU business April to August 2020 with all 77 spending up to 50 per cent from September 2020 to April 2021. One representative spent 100 per cent of their time on TU business between April and August 2020.

The total cost of the facility time was £172,795 which is 0.03 per cent of the total pay bill. There were no paid TU activities during 2020–21. The total pay bill cost was £520,180,387. 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	Defra Group

	Department	
SCS Permanent Secretary	1	1
SCS Pay band 3 or equivalent	6	14
SCS Pay band 2 or equivalent	42	74
SCS Pay band 1 or equivalent	166	311

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

The figures stated are as at 31 March 2021.

Consultancy and Temporary Staff Expenditure

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

£000	2020-21		2019-20	
	Core Department and Agencies	**Departmental Group**	Core Department and Agencies	Departmental Group
Consultancy expenditure	24,755	36,337	14,218	33,299
Temporary staff expenditure	133,080	146,205	135,724	151,084
Total	**157,835**	**182,542**	149,942	184,383

Overall, consultancy expenditure has increased by £3 million and temporary staff costs have decreased by £4.9 million compared with the prior year. The core department and the Environment Agency are the primary contributors to the year on year change for consultancy. The core department and the Rural Payments Agency are the primary contributors to the year on year change for temporary staff costs across the group.

The core departments consultancy costs have increased by £8 million, this is due to an increased demand for consultancy staff around Defra Property and EU exit preparations for the end of the Transition Period on 1 January 2021. This was offset by a reduction in EA of £5 million due to a policy of replacing Contractors with Permanent Staff.

The core departments temporary staff costs have increased by £4 million due to costs associated with finalising the EU exit portfolio projects that required specialist skills not readily available. This is offset by an £8 million reduction in the RPA, who have embarked on a plan to reduce the dependency on temporary staff and to switch to more permanent and often cheaper full time staff.

Staff Costs

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

Staff costs comprise:

	Permanent Employed Staff	Others	Ministers	Special Advisers	Total	Total
					2020-21	2019-20
	£000	**£000**	**£000**	**£000**	**£000**	£000
Salaries and wages	913,462	174,395	220	-	1,088,077	1,001,763
Social security costs	105,331	1,122	25	-	106,478	101,542
Other pension costs	139,063	2,379	-	-	141,442	153,141
Sub total	**1,157,856**	**177,896**	**245**	**-**	**1,335,997**	1,256,446
Less: recoveries in respect of outward secondments	(4,845)	(1,414)	-	-	(6,259)	(6,975)
Total net costs	**1,153,011**	**176,482**	**245**	**-**	**1,329,738**	1,249,471

	Charged to Administration Budgets	Charged to Programme Budgets	Total	Charged to Administration Budgets	Charged to Programme Budgets	Total
			2020-21			2019-20
	£000	**£000**	**£000**	£000	£000	£000
Of which:						
Core department and agencies	418,615	272,613	691,228	375,623	256,329	631,952
NDPBs	51,824	542,679	594,503	36,785	522,998	559,783
Net total SoCNE	**470,439**	**815,292**	**1,285,731**	412,408	779,327	1,191,735
Staff costs capital:						
Core department and agencies			1,871			8,071
NDPBs			48,395			56,640
Less: recoveries in respect of outward secondments			(6,259)			(6,975)
Total net costs			**1,329,738**			1,249,471

2019–20 Pension costs include a £20 million pension payment in relation to EA staff transferred to Defra.

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

Special Advisers are temporary civil servants. In order to improve efficiency, the administration of staff costs for all Special Advisers across government was moved to the Cabinet Office in July 2019, with corresponding budget cover transfers. Therefore special adviser costs are now reported in the Cabinet Office Annual Report and Accounts. Special Advisers remain employed by the respective Departments of their appointing Minister.

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 2016. Details can be found in the annual accounts of the Cabinet Office: Civil Superannuation[44].

For 2020–21, employer's contributions of £128.7 million (2019–20, £140.6 million) were payable to the PCSPS at one of four rates in the range 26.6 per cent to 30.3 per cent (2019–-20, 26.6 per cent to 30.3 per cent) of pensionable earnings, based on salary bands.

The scheme actuary reviews employer contributions usually every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing

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

during 2020–21 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 2020–21 employer's contributions of £2.7 million (2019–20, £2.4 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 per cent to 14.75 per cent (2019–20 8 per cent to 14.75 per cent) Employers also match employee contributions up to 3 per cent of pensionable pay. In addition, employer contributions of £28,000 for 2020–21 (2019–20, £26,000), 0.5 per cent 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 (2019–20, £Nil). Contributions prepaid at that date were £Nil (2019–20, £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 two individuals in the core department (2019–20, one) who retired early on ill health grounds. Their total additional accrued pension liabilities in the year amounted to £64,156 (2019–20, £Nil).

Loans are made to employees to cover season ticket advances and to relocate. As at 31 March 2021, 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;

	2020-21					2019-20
Activity	**Permanent Employed Staff**	**Others**	**Ministers**	**Special Advisers**	**Total**	Total
	Number	**Number**	**Number**	**Number**	**Number**	Number
Environment Agency	8,976	690	-	-	9,666	9,449
Natural England	1,865	74	-	-	1,939	1,771
Animal and Plant Health Agency	2,305	134	-	-	2,439	2,423
Rural Payments Agency	2,017	434	-	-	2,451	2,551
Core department	4,644	1,262	5	-	5,911	5,607
Others	3,400	101	-	-	3,501	3,535
Staff engaged on capital projects	1,009	41	-	-	1,050	1,284
Total	**24,216**	**2,736**	**5**	**-**	**26,957**	26,620
Of which						
Core department and agencies	10,182	1,911	5	-	12,098	11,926
NDPBs	14,034	825	-	-	14,859	14,694
Total	**24,216**	**2,736**	**5**	**-**	**26,957**	26,620

As at 31 March 2021 the department had one Special Adviser working with the Minister and paid by the Cabinet Office.

Staff Turnover

The departmental staff turnover rate as at the 31 March 2021 is 13.3 per cent. This is a reduction when compared to the staff turnover rate at 31 March 2020 of 15.2 per cent. This data relates to the core department only.

Reporting of Civil Service and Other Compensation Schemes – Exit Packages

	2020-21			2019-20		
	Number of Compulsory Redundancies	**Number of Other Departures Agreed**	**Total Number of Exit Packages**	Number of Compulsory Redundancies	Number of Other Departures Agreed	Total Number of Exit Packages
	Number	**Number**	**Number**	Number	Number	Number
Cost band						
< £10,000	6	15	21	8	7	15
£10,000 - £25,000	-	20	20	6	36	42
£25,001 - £50,000	3	4	7	1	40	41
£50,001 - £100,000	6	4	10	1	23	24
£100,001 - £150,000	-	-	-	-	3	3
£150,001 - £200,000	-	-	-	-	1	1
Total number of exit packages by type	**15**	**43**	**58**	16	110	126
Total resource cost (£000)	**624**	**850**	**1,474**	246	4,359	4,605
Of which:						
Number of cases	**Number**	**Number**	**Number**	Number	Number	Number
Core department and agencies	1	6	7	2	40	42
NDPBs	14	37	51	14	70	84
Total	**15**	**43**	**58**	16	110	126
Resource cost	**£000**	**£000**	**£000**	£000	£000	£000
Core department and agencies	3	196	199	79	2,112	2,191
NDPBs	621	654	1,275	167	2,247	2,414
Total	**624**	**850**	**1,474**	246	4,359	4,605

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. Where the department has agreed early retirements, the additional costs are met by the department and not by the Civil Service Pension Scheme. Ill-health retirement costs are met by the Pension Scheme and are not included in the table.

The Restriction of Public Sector Exit Payments Regulations 2020 came into force on the 4 November 2020 and this set a £95,000 cap (the cap) on exit payments which met the criteria. A review concluded that the regulations should be revoked and in the interim period HM Treasury have issued Directions to disapply the cap with effect from the 12 February 2021. HM Treasury published guidance on this in February 2021 which encouraged employers to pay any former employees to which the cap had been applied any additional sums that would have been paid in excess of the cap. The Defra group did not agree any Exit Packages to which the £95,000 cap was applied, consequently there is no liability for additional payments.

In line with the Constitutional Reform and Governance Act 2010 and the Model Contract for Special Advisers, a Special Adviser's appointment automatically ends when their appointing Minister leaves office. Special Advisers are not entitled to a notice period but receive contractual termination benefits to compensate for this.

Termination benefits are based on length of service and capped at six months' salary. If a Special Adviser returns to work for HM Government following the receipt of a severance payment, the payment is required to be repaid, less a deduction in lieu of wages for the period until their return. Termination costs for Special Advisers are reported in the Cabinet Office Annual Report and Accounts.

Redeployment of EU staff to Defra from Other Government Departments

The core department had 467 staff on informal loans from other government departments to aid in the work relating to Defra's exit from the EU. The number staff on short (six months or less) and long (over six months) term loan categorised by grade is shown in the table below. The average duration of all loans was 5.9 months. The majority of these people were from the Department for Education.

Grade	Short Term	Long Term	Total
SCS2	-	1	1
SCS1	4	5	9
G6	26	21	47
G7	46	51	97
SEO	42	49	91
HEO (Faststream)	45	61	106
HEO	44	43	87
EO	15	12	27
AO	1	1	2
Total	223	244	467

The costs of the staff on short term loan classified as administration cost is £3,172,382 (including non-recoverable VAT).

COVID-19 related Redeployment of Defra Staff to Other Government Departments

In response to the COVID-19 pandemic the core department has entered into arrangements for the short term loan of Defra Staff to other government departments and other public bodies. The table below details the number of staff redeployed as at the 31 March 2021. The staff were loaned to Department of Work and Pensions (DWP), Cabinet Office (CO), Home

Office (HO), Foreign, Commonwealth and Development Office (FCDO) Department of Health and Social Care (DHSC), National Health Service (NHS) and Public Health England (PHE). The average length of the loan arrangements was 14.4 months.

Grade	Short Term	Long Term	Total
SCS	1	3	4
G6	3	2	5
G7	-	14	14
SEO	2	6	8
HEO Fast stream	-	1	1
HEO	3	15	18
EO	2	-	2
AO	1	1	2
AA	1	-	1
Total	**13**	**42**	**55**

The costs of the staff on short term loan are £196,350 and long term loan £1,496,654 and are classed as administration costs.

Coronavirus Support Schemes

During 2020–21, the Board of Trustees of the Royal Botanic Gardens Kew received £6.4 million Coronavirus Job Retention Scheme (furlough) grant income from HM Treasury in addition to the grant in aid received from the department. This was in relation to 1146 employees (911.67 FTE), and covered the period April 2020 to March 2021. It was necessary to mitigate the financial impact of the pandemic as closure during the lockdown resulted in a significant reduction in income from visitors and commercial income from retail and catering contracts. Redeployment was discussed with the department and the Cabinet Office, however, was not feasible due to the number of staff on furlough not having access to IT systems or having highly specialised skills which were not transferable to the redeployment roles available.

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.

For all Temporary off-payroll worker engagements for £245 or more per day as at 31 March 2021.

	Core Department	Executive Agencies		Delivery Bodies									Total
	Defra	APHA	VMD	AHDB	CCW	EA	FC	Kew	MMO	NE	CEFAS	RPA	
Number of existing engagements as of 31 March 2021	778	31	41	2	8	3	2	13	22	-	3	5	908
Of which:													
Number that have existed for less than one year at time of reporting	540	31	17	-	8	1	2	10	16	-	3	5	633
Number that have existed between one and two years at time of reporting	88	-	17	-	-	-	-	3	3	-	-	-	111
Number that have existed between two and three years at time of reporting	84	-	6	-	-	1	-	-	2	-	-	-	93
Number that have existed between three and four years at time of reporting	50	-	1	-	-	-	-	-	1	-	-	-	52
Number that have existed for four or more years at time of reporting	16	-	-	2	-	1	-	-	-	-	-	-	19

All temporary off-payroll workers engaged at any point during the year ended 31 March 2021 for £245 or more per day.

	Core Department	Executive Agencies		Delivery Bodies										Total
	Defra	APHA	VMD	AHDB	CCW	EA	FC	Kew	MMO	SFIA	RPA	CEFAS	JNCC	
Number of off-payroll workers engaged during the year ended 31 March 2021 for £245 or more per day	*1164	39	51	59	10	4	2	18	32	5	5	4	14	1,407
Of which:														
Number determined as in-scope of IR35	364	39	5	-	-	-	-	-	32	5	-	-	-	445
Number determined as out-of-scope of IR35	****800	-	46	59	10	4	2	18	-	-	5	4	14	962
Number of engagements reassessed for compliance or assurance purposes during the year	**946	1	41	58	10	4	-	-	13	5	5	-	-	1,083
Of which: number of engagements that saw a change to IR35 status following review	300	-	-	-	-	-	-	-	13	-	-	-	-	313
Number of engagements where the status was disputed under provisions in the off-payroll legislation	27	-	-	-	-	-	-	-	-	-	-	-	-	27
Of which: number of engagements that saw a change to IR35 status following review	-	-	-	-	-	-	-	-	-	-	-	-	-	-

*The table shows the number of all contractors engaged throughout the year. In 2019–20, we only reported the number of new engagements or those that reached 6 months in duration throughout the year. The large increase in numbers of contractors engaged in the year is in part attributed to this change, but also reflects the scale of project and programme delivery work linked in particular to EU Transition.

**A review of all off-payroll workers tax status was completed during 2021 resulting in a large number of contractor reassessments.

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

**** This figure includes numbers of workers not subject to the off-payroll legislation.

For any off-payroll engagements of board members and/or senior officials with significant financial responsibility, between 1 April 2020 and 31 March 2021.

		Number of off-payroll engagements of board members, and/or, senior officials with significant financial responsibility, during the financial year. (1)	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 (2)
Core Department	**Defra**	-	21
Executive Agencies	**APHA**	-	13
	Cefas	-	12
	RPA	-	13
	VMD	-	7
Delivery Bodies	**AHDB**	-	19
	CCW	-	15
	EA	-	18
	FC	-	28
	Flood Re	-	9
	JNCC	-	13
	Kew	-	9
	MMO	-	16
	NE	-	8
	NFC	-	12
	SFIA	-	14

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 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 2020–21, NCVP for 2019–20 performance was paid to approximately 26 per cent of the SCS and was paid at £8,000 for deputy directors, 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 2019–20 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.

Unless otherwise stated below senior 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.

Further information about the work of the Civil Service Commission can be found on the Civil Service Commission website. All senior officials covered by this report are on permanent Civil Service contracts, with the exception of Sarah Homer who was on a fixed term contract until 24 September 2020 when following a recruitment campaign, she was appointed on a permanent contract.

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 2020–21. The following tables in the Remuneration Report have been subject to audit.

Ministers

	2020-21	2019-20	2020-21	2019-20	2020-21	2019-20	2020-21	2019-20
£000	Salary	Salary	Pension Benefits**	Pension Benefits**	Severance Payments	Severance Payments	Total (to nearest £1000)	Total (to nearest £1000)
Rt Hon George Eustice MP	67,505	26,264*	17,000	6,000	-	-	85,000	32,000
Victoria Prentis MP	22,375	2,893*	5,000	-	-	-	27,000	3,000
Rebecca Pow MP	22,375	12,431*	-	-	-	-	22,000	12,000
Lord Gardiner	107,335	107,335	17,000	18,000	-	-	124,000	125,000
Lord Goldsmith***	-	12,324*	-	-	-	-	-	12,000

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

£000	2020-21	2019-20
Rt Hon George Eustice MP *(from 13 February 2020)*	-	67,505
George Eustice MP**** *(from 25 July 2019 to 13 February 2020)*	-	31,680
Victoria Prentis MP *(from 14 February 2020)*	-	22,375
Rebecca Pow MP *(from 10 September 2019)*	-	22,375
Lord Goldsmith *(from 27 July 2019 to 13 February 2020)*	-	22,375

** 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.

*** Zac Goldsmith MP was Minister of State until 13 February 2020. The 2019-20 salary shown relates to that time. From 14 February 2020 Lord Goldsmith of Richmond joined the House of Lords. Lord Goldsmith no longer receives any reimbursement from the department.

**** George Eustice was appointed Minister of State on 25 July 2019 and remained in that post until he was appointed Secretary of State on 13 February 2020.

Senior Officials on the Board

£000	2020-21 Salary	2019-20 Salary	2020-21 Bonus Payments	2019-20 Bonus Payments	2020-21 Pension Benefits	2019-20 Pension Benefits	2020-21 Total	2019-20 Total
Tamara Finkelstein *Permanent Secretary*	165-170	170-175	15-20	10-15	124	309	305-310	490-495
Shaun Gallagher *Director General (until 26 November 2020)*	80-85*	120-125	-	10-15	32	117	110-115	245-250
David Kennedy *Director General*	135-140	130-135	0-5	10-15	61	42	200-205	185-190
Sarah Homer** *Director General*	145-150	170-175	-	-	57	42	200-205	210-215
Paul Kissack *Director General (until 5 April 2020)*	0-5*	75-80*	5-10	-	34	8	40-45	80-85
Heather Smith *Finance Director*	105-110	15-20*	-	-	46	6	150-155	20-25
David Hill *Director General*	120-125	35-40*	5-10	-	93	29	220-225	65-70
James Quinault *Director General (from 6 April 2020)*	115-120*	-	5-10	-	209	-	335-340	-
Lucy Smith *Director General (from 14 December 2020)*	35-40*	-	-	-	25	-	60-65	-

*Full year equivalent salary for part year officials

£000	2020-21	2019-20
Shaun Gallagher	120-125	-
Paul Kissack	135-140	130-135
Heather Smith	-	105-110
David Hill	-	120-125
James Quinault	115-120	-
Lucy Smith	120-125	-

Ex Officio Board Members

The Board has two ex officio members, Emma Howard Boyd from EA and Tony Juniper from NE.

The ex officio members do not receive any additional payment from the core department for their duties on the Board. For details of the remuneration of these ex officio members, please see the EA and NE ARAs 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 2020–21 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 £81,932 (from 1 April 2020) 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 19: executive agencies, NDPBs, NFC, Flood Re, Forestry Commission and LFBs) 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 2020–21 relate to performance in 2019–20 and the comparative bonuses reported for 2019–20 relate to the performance in 2018–19.

Non-Executive Directors (NEDs)

£000	2020-21			2019-20		
	Fees Entitlement	Fees Paid**	Benefits in Kind	Fees Entitlement	Fees Paid**	Benefits in Kind
Henry Dimbleby	20,000	30,000	-	20,000	10,000	-
Elizabeth Buchanan	15,000	18,750	-	15,000	15,000	100
Ben Goldsmith	15,000	Fee waived	-	15,000	Fee waived	-
Colin Day	20,000	25,000	-	20,000	20,000	100
Lizzie Noel	15,000	26,250	-	15,000	11,250	-

**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 2021	Real Increase in Pension at Pension Age	**CETV at 31 March 2021	**CETV at 31 March 2020	Real Increase in CETV
Rt Hon George Eustice MP	5-10	0-2.5	66	50	8
Victoria Prentis MP	0-5	0-2.5	6	-	3
Rebecca Pow MP*	-	-	-	-	-
Lord Gardiner	10-15	0-2.5	246	218	16
Lord Goldsmith*	-	-	-	-	-

*Lord Goldsmith and Rebecca Pow MP chose not to be covered by the ministerial pension scheme arrangements during the reporting year.

**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[45].

Those ministers who are MPs may also 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 per cent and the accrual rate is 1.775 per cent 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.

[45] 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 2021 and Related Lump Sum	Real Increase in Pension and Related Lump Sum at Pension Age	*CETV at 31 March 2021	*CETV at 31 March 2020	Real Increase in CETV	Employer Contribution to Partnership Pension Account (Nearest £100)
Tamara Finkelstein *Permanent Secretary*	80-85	5-7.5	1420	1,280	88	-
Shaun Gallagher *Director General* *(until 26 November 2020)*	45-50 plus lump sum 95-100	0-2.5 plus lump sum 0-2.5	868	818	20	-
David Kennedy Director General	45-50	2.5-5	762	696	35	-
Sarah Homer Director General	5-10	2.5-5	80	33	35	-
Paul Kissack *Director General* *(until 5 April 2020)*	35-40 plus lump sum 80-85	0-2.5 plus lump sum 0-2.5	555	523	20	-
Heather Smith *Finance Director*	30-35	2.5-5	436	395	21	-
David Hill *Director General*	40-45 plus lump sum 80-85	2.5-5 plus lump sum 5-7.5	631	549	56	-
James Quinault *Director General* *(from 6 April 2020)*	45-50 plus lump sum 95-100	7.5-10 plus lump sum 20-22.5	792	603	162	-
Lucy Smith *Director General* *(from 14 December 2020)*	35-40	0-2.5	495	477	14	-

*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 Principal Civil Service Pension Scheme (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 switch into alpha sometime between 1 June 2015 and 1 February 2022.

Because the Government plans to remove discrimination identified by the courts in the way that the 2015 pension reforms were introduced for some members, it is expected that, in due course, eligible members with relevant service between 1 April 2015 and 31 March 2022 may be entitled to different pension benefits in relation to that period (and this may affect the Cash Equivalent Transfer Values shown in this report – see below).

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 defined contribution (money purchase) pension with an employer contribution (partnership pension account).

Employee contributions are salary-related and range between 4.6 per cent and 8.05 per cent 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 his 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 per cent 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 per cent. 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 an occupational defined contribution pension arrangement which is part of the Legal & General Mastertrust. The employer makes a basic contribution of between 8 per cent and 14.75 per cent (depending on the age of the member). The employee does not have to contribute, but where they do make contributions, the employer will match these up to a limit of 3 per cent of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.5 per cent 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 at the website[46].

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.

[46] 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.

	2020–21	2019–20
Banded remuneration of the highest paid director in the core department	£180,000-185,000	£180,000–185,000
Median remuneration of the workforce of the core department and the executive agencies	£32,557	£32,010
Ratio of remuneration of highest paid director to median remuneration of the workforce	5.6	5.7
The range of banded remuneration for employees in the core department and the executive agencies	£15,000-20,000 to £220,000-225,000	£15,000–20,000 to £180,000–185,000

In 2020–21, the employees receiving the lowest pay in the range are apprentices and agency staff. There are five employees who received remuneration in excess of the highest paid director. They are all contractors employed for their specialist skills.

Chapter 6 – Parliamentary Accountability and Audit Report

The parliamentary accountability and audit report describe how departments are financed through the Parliamentary 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 Outturn against Parliamentary Supply

In addition to the primary statements prepared under International Financial Reporting Standards (IFRS); the Government Financial Reporting Manual (FReM) requires Defra to prepare a Statement of Outturn against Parliamentary Supply (SOPS) and supporting notes.

The SOPS and related notes are subject to audit, as detailed in the Certificate and Report of the Comptroller and Auditor General to the House of Commons.

The SOPS is a key accountability statement that shows, in detail, how an entity has spent against their Supply Estimate. Supply is the monetary provisions (for resource and capital purposes) and cash (drawn primarily from the Consolidated Fund), that Parliament gives statutory authority for entities to utilise. The Estimate details supply and is voted on by Parliament at the start of the financial year.

Should an entity exceed the limits set by its' Supply Estimate, called control limits, their accounts will receive a qualified opinion.

The format of the SOPS mirrors the Supply Estimates, published on gov.uk, to enable comparability between what Parliament approves and the final outturn.

The SOPS contain a summary table, detailing performance against the control limits that Parliament have voted on, cash spent (budgets are compiled on an accruals basis and so outturn will not exactly match to cash spent) and administration.

The supporting notes detail the following: Outturn by Estimate line, providing a more detailed breakdown (SOPS Note 1); a reconciliation of outturn to net operating expenditure in the SOCNE, to link the SOPS to the financial statements (SOPS Note 2); a reconciliation of outturn to net cash requirement (SOPS Note 3); and, an analysis of income payable to the Consolidated Fund (SOPS Note 4).

Unless specifically stated in the table the 2019–20 comparatives have been not restated.

The department has incurred an Excess Vote of £141.9 million. This is due to the prior year Consolidated Accounts being restated to reflect changes to opening positions relating to the Environment Agency's Reservoir Operating Agreement financial liabilities. As this change of accounting treatment was not anticipated at the time of the Supplementary Estimate, no allowance had been made for them and as a result the department's non-budget control total was breached. The department will seek parliamentary approval by way of an Excess Vote in the next Supply and Appropriation Act.

Summary of Resource and Capital Outturn 2020–21

The table below includes the results for the core department, executive agencies, Forestry Commission, Flood Re and non-departmental public bodies.

	Note/Ref	Outturn Voted £000	Estimate Voted £000	2020-21 Voted Outturn Compared With Estimate: Saving/ (Excess) £000	2019-20 Outturn Total £000
Departmental Expenditure Limit					
Resource	SOPS 1.1	4,621,397	4,756,987	135,590	2,245,132
Capital	SOPS 1.2	890,708	1,025,197	134,489	726,405
Total		**5,512,105**	**5,782,184**	**270,079**	2,971,537
Annually Managed Expenditure					
Resource	SOPS 1.1	(612,049)	1,340,925	1,952,974	698,383
Capital	SOPS 1.2	3,600	16,507	12,907	3,092
Total		**(608,449)**	**1,357,432**	**1,965,881**	701,475
Total Budget					
Resource	SOPS 1.1	4,009,348	6,097,912	2,088,564	2,943,515
Capital	SOPS 1.2	894,308	1,041,704	147,396	729,497
Total Budget Expenditure		**4,903,656**	**7,139,616**	**2,235,960**	3,673,012
Non-Budget Expenditure	SOPS 1.1	151,891	10,000	(141,891)	(1,316)
Total Budget and Non-Budget		**5,055,547**	**7,149,616**	**2,094,069**	3,671,696

The 2020–21 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 2020–21

		2020-21			2019-20
		Outturn Voted	Estimate	Voted Outturn Compared With Estimate: Saving/ (Excess)	Outturn Total
		£000	£000	£000	£000
Net cash requirement	SOPS 3	4,941,943	5,395,081	453,138	2,831,236

Administration costs 2020–21

	2020-21			2019-20
	Outturn Voted	Estimate	Voted Outturn Compared With Estimate: Saving/ (Excess)	Outturn Total
	£000	£000	£000	£000
Administration costs	732,312	912,670	180,358	708,109

Although not a separate voted limit, any breach of the administration budget will also result in an excess vote.

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

The notes on pages 152-223 form part of these accounts.

SOPS 1 –Outturn detail, by Estimate Line

SOPS 1.1 – Analysis of Resource Outturn by Estimate Line

	2020-21											2019-20
	Outturn							Estimate			Outturn Compared to Estimate, saving/ (excess)	
	Administration			Programme								
	Gross	Income	Net	Gross	Income	Net	Total	Total	Virements[1]	Net Total Adjusted for Virements		Total
	£000'	£000'	£000'	£000'	£000'	£000'	£000'	£000'	£000'	£000'	£000'	£000'
Spending in Departmental Expenditure Limits (DEL)												
Voted												
Food and farming	73,275	(77)	73,198	2,812,709	(468,653)	2,344,056	2,417,254	2,473,158	(42,859)	2,430,299	13,045	295,806
Improve the environment	97,036	(1,168)	95,868	459,270	(26,610)	432,660	528,528	611,732	(72,658)	539,074	10,546	410,071
Protect the country from floods	1,962	(8)	1,954	1,098	-	1,098	3,052	12,727	(6,472)	6,255	3,203	1,356
Animal and plant health	43,141	(264)	42,877	301,409	(81,673)	219,736	262,613	236,723	26,154	262,877	264	204,401
Marine and fisheries	17,338	(35)	17,303	82,925	(17,772)	65,153	82,456	85,252	(447)	84,805	2,349	53,258
Countryside and rural services	1,389	-	1,389	1,731	-	1,731	3,120	4,036	-	4,036	916	104,647
Departmental operating costs	355,510	(4,817)	350,693	154,956	-	154,956	505,649	658,119	(116,358)	541,761	36,112	486,991
Improve the environment (ALB) (net)	64,635	-	64,635	231,525	-	231,525	296,160	230,525	69,760	300,285	4,125	277,053
Protect the country from floods (ALB) (net)	82,348	-	82,348	414,499	-	414,499	496,847	415,967	142,880	558,847	62,000	386,740
Marine and fisheries (ALB) (net)	2,047	-	2,047	23,671	-	23,671	25,718	28,748	-	28,748	3,030	23,088
Countryside and rural services (ALB) (net)	-	-	-	-	-	-	-	-	-	-	-	1,721
Total	**738,681**	**(6,369)**	**732,312**	**4,483,793**	**(594,708)**	**3,889,085**	**4,621,397**	**4,756,987**	**-**	**4,756,987**	**135,590**	2,245,132
Spending in Annually Managed Expenditure Limits (AME)												
Voted												
Food and farming	-	-	-	(530,714)	-	(530,714)	(530,714)	50,881	-	50,881	581,595	628,704
Improve the environment	-	-	-	(3,811)	-	(3,811)	(3,811)	(2,910)	-	(2,910)	901	14,939
Animal and plant health	-	-	-	(236)	-	(236)	(236)	5	-	5	241	(573)
Marine and fisheries	-	-	-	(1)	-	(1)	(1)	8	-	8	9	(2,440)
Countryside and rural services	-	-	-	(125)	-	(125)	(125)	(200)	75	(125)	-	(793)
Departmental operating costs	-	-	-	24,599	-	24,599	24,599	1,102,773	(2,081)	1,100,692	1,076,093	50,623
Food and farming (ALB) (net)	-	-	-	(343)	-	(343)	(343)	2,565	-	2,565	2,908	2,332
Improve the environment (ALB) (net)	-	-	-	(27,381)	-	(27,381)	(27,381)	31,742	-	31,742	59,123	9,839
Protect the country from floods (ALB) (net)	-	-	-	(76,104)	-	(76,104)	(76,104)	156,000	-	156,000	232,104	(6,063)
Marine and fisheries (ALB) (net)	-	-	-	2,067	-	2,067	2,067	61	2,006	2,067	-	1,825
Countryside and rural services (ALB) (net)	-	-	-	-	-	-	-	-	-	-	-	(10)
Total	**-**	**-**	**-**	**(612,049)**	**-**	**(612,049)**	**(612,049)**	**1,340,925**	**-**	**1,340,925**	**1,952,974**	698,383
Spending in Non Budget Expenditure Limits												
Voted												
Food and farming	-	-	-	450,884	(450,467)	417	417	10,000	-	10,000	9,583	(1,316)
Prior period adjustments	-	-	-	151,474	-	151,474	151,474	-	-	-	(151,474)	-
Total	**-**	**-**	**-**	**602,358**	**(450,467)**	**151,891**	**151,891**	**10,000**	**-**	**10,000**	**(141,891)**	(1,316)
Resource Outturn	**738,681**	**(6,369)**	**732,312**	**4,474,102**	**(1,045,175)**	**3,428,927**	**4,161,239**	**6,107,912**	**-**	**6,107,912**	**1,946,673**	2,942,199

[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 Capital Outturn by Estimate Line

	2020-21							2019-20
	Outturn			Estimate			Outturn Compared to Estimate, saving/ (excess)	
	Gross	Income	Net Total	Total	Virements[1]	Total Adjusted for Virements		Net Total
	£000	£000	£000	£000	£000	£000	£000	£000
Spending in Departmental Expenditure Limits (DEL)								
Voted								
Food and farming	24,458	(659)	23,799	27,200	-	27,200	3,401	9,324
Improve the environment	57,499	(10)	57,489	76,572	2,250	78,822	21,333	54,938
Protect the country from floods	2,580	-	2,580	3,000	-	3,000	420	716
Animal and plant health	11,439	-	11,439	7,016	8,565	15,581	4,142	17,919
Marine and fisheries	11,845	-	11,845	10,637	3,926	14,563	2,718	9,079
Countryside and rural services	-	-	-	-	-	-	-	8,708
Departmental operating costs	100,684	(14,065)	86,619	114,815	3,203	118,018	31,399	50,564
Improve the environment (ALB) (net)	61,527	-	61,527	75,640	(11,694)	63,946	2,419	34,576
Protect the country from floods (ALB) (net)	634,531	-	634,531	710,317	(7,129)	703,188	68,657	537,632
Marine and fisheries (ALB) (net)	879	-	879	-	879	879	-	2,279
Countryside and rural services (ALB) (net)	-	-	-	-	-	-	-	670
Total	**905,442**	**(14,734)**	**890,708**	**1,025,197**	**-**	**1,025,197**	**134,489**	726,405
Spending in Annually Managed Expenditure (AME)								
Voted								
Food and farming (ALB) (net)	1,438	-	1,438	14,507	(162)	14,345	12,907	423
Protect the country from floods (ALB) (net)	2,060	-	2,060	2,000	60	2,060	-	2,556
Marine and fisheries (ALB) (net)	102	-	102	-	102	102	-	113
Total	**3,600**	**-**	**3,600**	**16,507**	**-**	**16,507**	**12,907**	3,092
Capital Outturn	**909,042**	**(14,734)**	**894,308**	**1,041,704**	**-**	**1,041,704**	**147,396**	729,497

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

The total Estimate columns include virements. Virements are the reallocation of provision in the Estimates that do not require parliamentary authority (because Parliament does not vote to that level of detail and delegates to HM Treasury). Further information on virements are provided in the Supply Estimates Manual, available on GOV.UK.

The outturn versus estimate column is based on the total including virements. The Estimate total before virements have been made is included so that it can be reconciled by users to the Estimates laid before Parliament.

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

			Note/Ref	2020-21 Outturn £000	Restated 2019-20 Outturn £000
Total resource outturn in SOPS		Budget		4,009,348	2,943,515
		Non budget		151,891	(1,316)
				4,161,239	2,942,199
	Add:	Capital grants / income		142,703	129,413
		Capital works expensed in year		476,718	331,870
		Capital research and development		46,224	33,165
		Adjustment to IFRIC 12		24	24
	Total			**665,669**	494,472
	Less:	Income payable to the Consolidated Fund		(6,218)	(448)
		Prior period adjustments		(151,474)	-
	Total			**(157,692)**	(448)
Net Operating Expenditure in SoCNE			SoCNE	**4,669,216**	3,436,223

As noted in the introduction to the SOPS above, outturn and the Estimates are compiled in line with the budgeting framework, which is similar to, but different from, IFRS. Therefore, this reconciliation bridges the resource outturn to net operating expenditure, linking the SOPS to the financial statements.

The SoCNE includes capital grants; these score in capital budgets. Note 3.3 below details the breakdown of grants and subsidies expenditure. Note 4.2 details capital grant income.

Capital Expenditure on Flood and Coastal Defence Work (£475.4 million) is included in the SoCNE (Note 3.1) but is scored against capital budgets.

The SoCNE includes Research and Development costs that meet the ESA10 definition; these score in capital budgets.

Details of the Income payable to the Consolidated Fund can be found at Note SOPS 4.1 below.

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

		2020-21			2019-20
	Note/Ref	Outturn	Estimate	Net total outturn compared with Estimate: saving/ (excess)	Outturn
		£000	£000	£000	£000
Resource outturn	SOPS 1.1	4,161,239	6,107,912	1,946,673	2,942,199
Capital outturn	SOPS 1.2	894,308	1,041,704	147,396	729,497
Accruals to cash adjustments (Core and agencies only):					
Accrual to cash basis - capital expenditure		(1,464)	-	1,464	20,867
Accrual to cash basis - capital disposals		14,555	-	(14,555)	1,235
Service concession adjustment and other finance leases		(11,445)	-	11,445	524
Adjustments for NDPBs:					
Remove voted resource		(950,088)	(865,608)	84,480	(769,341)
Remove voted capital		(700,537)	(802,464)	(101,927)	(578,250)
Add cash grant-in-aid		1,225,292	1,322,474	97,182	1,053,713
Add Defra Contribution to EA Closed Pension Scheme Fund		51,600	-	(51,600)	55,800
Adjustments to remove non cash items (Core and agencies only):					
Depreciation / amortisation / impairment	3.2	(73,702)	(110,207)	(36,505)	(79,317)
New provisions and adjustment to provisions	3.2	450,070	(1,190,028)	(1,640,098)	(708,816)
Other non cash items		20,702	(9,847)	(30,549)	25,475
Adjustments to reflect movements in working capital balances (Core and agencies only) :					
Increase/(decrease) in inventories	SoCF	(355)	-	355	1,945
Increase/(decrease) in receivables excluding derivatives	SoCF	(388,879)	(150,000)	238,879	125,994
Adjustment for derivative financial instruments	SoCF	18,528	-	(18,528)	(24,241)
Movement in receivables affecting items not passing through the SOPS	SoCF	(5,763)	-	5,763	15
(Increase)/decrease in payables excluding derivatives	SoCF	290,705	-	(290,705)	(6,569)
Movement in payables affecting items not passing through the SOPS	SoCF	(153,277)	-	153,277	(30,505)
Use of provisions	SoCF	100,469	51,145	(49,324)	71,009
Funding to / from other bodies	SoCF	(15)	-	15	2
Net cash requirement		**4,941,943**	**5,395,081**	**453,138**	**2,831,236**

As noted in the introduction to the SOPS above, outturn and the Estimates are compiled in line with the budgeting framework, not on a cash basis. Therefore, this reconciliation bridges the resource and capital outturn to the net cash requirement.

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 2020-21		Outturn 2019-20	
	Accruals basis	***Cash basis***	Accruals basis	*Cash basis*
	£000	***£000***	£000	*£000*
Income due to the Consolidated Fund	6,218	*455*	448	*448*
Total income payable to the Consolidated Fund	**6,218**	***455***	448	*448*

The income paid to the Consolidated Fund relates to the index linked annual payment for the HMG provision of the insurance element of the Government contingent support package (GSP) for the Thames Tideway (£0.455 million) and income in relation to a debenture with the National Institute for Agricultural Botany (£5.763 million) for land sales where the income has been accrued but the cash not yet received.

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.

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 20.

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.

	2020-21		2019-20	
	Core Department and Agencies	Defra Group	Core Department and Agencies	Defra Group
	£000	£000	£000	£000
Losses values				
Cash losses	3,784	5,045	1,208	1,388
Stores losses	47	47	9	9
Administrative write-offs	-	2,873	-	3,385
Fruitless payments	26,955	26,955	1	7
Claims abandoned	753	753	39	39
Total	**31,539**	**35,673**	1,257	4,828
	Core Department and Agencies	Defra Group	Core Department and Agencies	Defra Group
	Number	Number	Number	Number
Number of cases				
Cash losses	4,727	4,838	480	657
Stores losses	2	2	1	1
Administrative write-offs	-	176	8	212
Fruitless payments	7	7	7	29
Claims abandoned	4	4	5	5
Total	**4,740**	**5,027**	501	904

Details of Cases over £300,000

Losses (shown in the table above)

HMRC launched an enquiry into Defra's compliance with the off-payroll working (IR35) rules in relation to contingent labour in 2019. The enquiry is on-going, but it has determined there have been instances where contractors were incorrectly assessed as out of scope. Defra has reassessed the majority of current contractors and estimated that tax and national insurance lost between 6 April 2017, when the rules came into force, and 31 March 2021, for these contractors, to be £19 million. Defra accepted there was a liability and agreed with HMRC to make a payment of £19 million to HMRC in March 2021.

As a result of the Secretary of State's decision to confirm salmon and sea trout byelaws that prohibited salmon net fishing, the Environment Agency recorded a fruitless payment of

£913,000 relating to compensation payments. The loss recorded was the expected total loss from the claims, which were subsequently processed as individual payments.

During the COVID-19 pandemic, Defra stood up a food support service to deliver (£212.1 million) food boxes to clinically extremely vulnerable people to ensure reliable access to food as part of the shielding programme. Due to the pace of setting up this scheme, there was originally no mechanism for people to deregister from food box deliveries and some continued to receive unwanted boxes. Defra reported the problem to Government Digital Service who initially implemented a manual solution to remove deregistered people from future deliveries and then introduced an 'opt out' function. Defra estimated that 90,000 food boxes were delivered to people who had tried and failed to deregister, at an avoidable cost of £4.1 million which was recorded as a fruitless payment in the core department.

Defra's original food support service contract, to deliver food boxes to clinically extremely vulnerable people as part of the shielding programme, with suppliers Bidfood and Brakes ran to 3 July 2020. On 4 June 2020 Defra signed an extension to continue provision to 3 September 2020. Within three weeks of agreeing the extension, due to the pausing of shielding nationally, Defra had to serve a termination notice giving rise to contractual termination costs of £3.8 million, recorded as a fruitless payment in the core department, although Defra negotiated this down from a potential £6.9 million.

The Forestry Commission has recognised £478,000 abandoned claim on a Forest Research loss, relating to an EU Research Executive Agency ThermoLIDAR project following liquidation of the company running the project. Legal efforts continue to recoup this loss.

A number of historic balances, totalling -£501,000, relating to the former Food and Environment Research Agency that were transferred to Defra upon its closure and that can no longer be substantiated due to incomplete records.

Special Payments

	2020-21		2019-20	
	Core Department and Agencies	**Defra Group**	Core Department and Agencies	Defra Group
Value (£000)	(141)	259	1,091	1,257
Number of cases	333	351	394	406

Details of cases over £300,000

RPA has recorded an accrual of £0.37 million in relation to payments to be made to single Payment Scheme and Basic Payment Scheme customers to settle retrospective claims on common land.

During 2020–21, a legal challenge to a cross compliance penalty raised by the RPA was dropped by a trader. Consequently an accrual for a potential special payments loss of £0.23 million previously provided for was reversed in 2020–21. This has resulted in a credit position for special payments losses for 2020–21.

EA’s special payments include two special severance payments totalling £32,000. The highest of these payments was £22,500 and the lowest £9,500.

Fees and Charges

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

			2020-21
	Income	**Full Cost**	**Surplus/ (Deficit)**
	£m	**£m**	**£m**
Abstraction charges (EA)	138.9	154.9	(16)
Environmental Permitting Regulations water quality (EA)	70.1	70.1	-

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 department has the following remote contingent liabilities as at 31 March 2021. Unless otherwise stated liabilities relate to the core department.

Quantifiable

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

- Small potential liabilities are estimated at no more than £0.9 million (2019–20 £0.4 million).

- 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 (2019–20, £125 million).

Unquantifiable

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

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

- In 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.

- Now that the UK has left the EU and the transition period is over, the position regarding infraction proceedings has altered which impacts on the likelihood of financial liability arising as a result. Historically, infraction proceedings could be brought for non-communication of the transposition of EU legislation by a particular date; and non-compliance of UK legislation with EU requirements, and infractions had the potential to lead to fines for the core department under EU law. Defra leads on a number of those. 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. Up to 31 December 2020 the UK had never been issued with a fine, due to remediation action taken. The EU initiated proceedings to seek a fine prior to the end of the transition period against the UK, but it is not a Defra case. The position on infractions from 1 January 2021 is determined by the Withdrawal Agreement. In all areas where EU law no longer applies directly (e.g. Northern Ireland Protocol), new infractions can still be brought up to the end of 2024 and all ongoing infraction proceedings will still run through to their natural end, and the UK is obliged to comply with judgments of the Court of Justice of the European Union (CJEU) relating to those cases. However, no new fines cases (under previous processes) can now be brought against the UK. Any financial penalties have to be sought under the Withdrawal Agreement dispute resolution mechanisms, which remain untested, and involve a number of procedural and arbitration related hurdles. While the broader relationship between the UK and the EU inevitably has an impact, the aim of both sides is to work towards closing as many outstanding cases as possible. We are not aware at this stage of an intention on the part of the EU to invoke Withdrawal Agreement dispute resolution processes. It is also arguable that until there has been a finding of an infringement by the CJEU, fines are not retroactive as the past event is an infraction ruling, rather than the earlier breach of EU law.

- 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.

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

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

- As part of CEFAS's developing relationships to work for the Kuwait Environmental Protection Authority, on their proposed eMISK contract, a Parliamentary Minute was laid before the House of Commons in May 2019 to request approval for CEFAS to enter into liabilities outside the normal course of activities. No contract was agreed during the year and there are no imminent, firm plans to do so.

Tamara Finkelstein 23 November 2021

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

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

Qualified Opinion on financial statements

I certify that I have audited the financial statements of the Department of Environment, Food and Rural Affairs and its Departmental Group for the year ended 31 March 2021 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 2021. The financial statements comprise: the Department's and Departmental Group's Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes, including the significant accounting policies. These financial statements have been prepared under the accounting policies set out within them. The financial reporting framework that has been applied in their preparation is applicable law and International Accounting Standards as interpreted by HM Treasury's Government Financial Reporting Manual.

I have also audited the Statement of Outturn against Parliamentary Supply and the related notes, and the information in the Accountability Report that is described in that report as having been audited.

In my opinion, except for the matters described in the basis for qualified opinion on the financial statements and in the basis for qualified opinion on regularity paragraphs, 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 2021 and of the Department and Departmental Group's net expenditure for the year then ended; and,
- have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

Basis for qualified opinion on the financial statements

I have qualified my opinion on the financial statements in one respect:

I am unable to obtain sufficient appropriate evidence that the value of Property, Plant and Equipment consolidated into the Departmental Group from the Environment Agency as at 31 March 2021 is free from material misstatement due to the following two matters:

- Firstly, neither the Environment Agency nor the Department in preparing consolidated accounts has correctly applied the Depreciated Replacement Cost method for valuing its Infrastructure Assets as required by its financial reporting framework. Note 5 of the accounts shows infrastructure assets of £2.8 billion at 31 March 2021 and of £2.7 billion at 31 March 2020. I am unable to obtain sufficient appropriate evidence that the value of Property, Plant and Equipment in the Statement of Financial Position at 31 March 2021 and 31 March 2020 is free from material misstatement in respect of this matter. I am unable to quantify the impact on the financial statements because neither the Environment Agency nor Department in preparing consolidated accounts has obtained a professional Depreciated Replacement Cost valuation as is required for an accurate valuation under the financial reporting framework.

- Secondly, my audit has identified errors and uncertainties within the quinquennial revaluation of Property, Plant and Equipment consolidated into the Departmental Group from the Environment Agency, as presented in note 5. I have been unable to quantify the uncertainties because neither the Environment Agency nor the Department in preparing consolidated accounts has been able to rectify the weaknesses in the revaluation.

Based on the evidence obtained I consider the impact of these issues could be material.

My report on page 137 includes further details of the matters leading to my qualified opinion.

Qualified Opinion on regularity

In my opinion, except for the excess described in the basis for qualified opinion on regularity paragraph, in all material respects:

- the Statement of Outturn against Parliamentary Supply properly presents the outturn against voted Parliamentary control totals for the year ended 31 March 2021 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 for qualified opinion on regularity

Parliament authorised the Departmental Group a Non-Budget provision of £10 million as shown in the Statement of Outturn against Parliamentary Supply. The Departmental Group reports Non-Budget expenditure of £151.9 million breaching the authorised limit by £141.9 million as shown in the Statement of Outturn against Parliamentary Supply. £151.5 million of the Non-Budget expenditure relates to the correction of a prior period error in valuing the liability arising from the Reservoir Operating Agreements, the Governance Statement and my Report on Account explains the excess in more detail.

Basis for opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK), applicable law 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 2019. I have also elected to apply the ethical standards relevant to listed entities. I am independent of the Department and Departmental Group in accordance with the ethical requirements that are relevant to my audit of 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

In auditing the financial statements, I have concluded that the Department and the Departmental Group's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work I have performed, I have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Department and the Departmental Group's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

My responsibilities and the responsibilities of the Accounting Officer with respect to going concern are described in the relevant sections of this certificate.

The going concern basis of accounting for the Department and the Departmental Group is adopted in consideration of the requirements set out in HM Treasury's Government Financial Reporting Manual, which requires entities to adopt the going concern basis of accounting in the preparation of the financial statements where it anticipated that the services which they provide will continue into the future.

Other Information

The other information comprises information included in the Annual Report but does not include the parts of the Performance and Accountability Reports described in that report as having been audited, the financial statements and my auditor's certificate thereon. The Accounting Officer is responsible for the other information. My opinion on the financial statements does not cover the other information and except to the extent otherwise explicitly stated in my certificate, 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 I identify such material inconsistencies or apparent material misstatements, I am required to determine whether this gives rise to a material misstatement in the financial statements themselves. 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, based on the work undertaken in the course of the audit:

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

- the information given in the 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

In respect solely of the limitations in receiving sufficient appropriate evidence regarding the valuation of Property, Plant and Equipment consolidated into the Departmental Group from the Environment Agency described above:

- adequate accounting records have not been kept; and,
- I have not received all of the information and explanations I require for my audit.

In all other respects, in the light of the knowledge and understanding of the Department and the Departmental Group and its environment obtained in the course of the audit, I have not identified material misstatements in the Performance and Accountability Reports. I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- the financial statements and the parts of the Accountability Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of remuneration specified by HM Treasury's Government Financial Reporting Manual are not made; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

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 in accordance with the applicable financial reporting framework and for being satisfied that they give a true and fair view;
- internal controls as the Accounting Officer determines is necessary to enable the preparation of financial statements to be free from material misstatement, whether due to fraud or error; and
- assessing the Department and the Departmental Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Accounting Officer anticipates that the services provided by the Department and the Departmental Group will not continue to be provided in the future.

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.

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a certificate that includes my opinion. 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.

I design procedures in line with my responsibilities, outlined above, to detect material misstatements in respect of non-compliance with laws and regulation, including fraud.

My procedures included the following:

- Inquiring of management, the Government Internal Audit Agency and those charged with governance, including obtaining and reviewing supporting documentation relating to the Department and the Departmental Group's policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
  - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations including the Department and the Departmental Group's controls relating to Government Resources and Accounts Act 2000, Managing Public Money and the Supply and Appropriation (Main Estimates) Act 2020, EU rules and regulations in relation to EU funded scheme expenditure, and where those laws have been transcribed into UK law following EU exit; and
- discussing among the engagement team, including significant component audit teams, regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, I identified potential for fraud in the following areas: revenue recognition, posting of unusual journals, expenditure related to new Covid-19 and EU Exit related schemes, and EU Agricultural Funds payments;
- obtaining an understanding of the Department and the Departmental Group's framework of authority as well as other legal and regulatory frameworks that it operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the Department and the Departmental Group. The key laws and regulations I considered in this context included Government Resources and Accounts Act 2000, Managing Public Money, the Supply and Appropriation (Main Estimates) Act 2020, employment, taxation and pensions legislation, and relevant legislation relating to fees charged by the Department and the Departmental Group, the NHS Act 2006, the Coronavirus Act 2020, EU rules and regulations in relation to EU funded scheme expenditure, and where those laws have been transcribed into UK law following EU exit; and
- specific risk assessments performed in respect of significant risks relating to fraud and irregularity: risk-based analysis of manual journals to identify those presenting higher risk of fraud, analysis of individual income streams to consider the potential risk of fraud in revenue recognition; analysis of individual expenditure streams to consider the risk of fraud and irregularity.

In addition to the above, my procedures to respond to identified risks included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;

- enquiring of management, the Audit Committee and the in-house counter fraud team concerning actual and potential litigation and claims;
- reading minutes of meetings of those charged with governance and the Board;
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business; and
- substantive testing of income streams to address risk of fraud in revenue recognition; substantive testing of expenditure streams to address the risk of fraud and irregularity including EU Agricultural Funds payments, EU Exit and Covid- 19 schemes and substantive testing of liabilities owed to HMRC for non-compliance with IR35 legislation.

I also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and significant component audit teams and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

A further description of my responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of my certificate.

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.

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.

Report

My report on the matters described above is set out on page 137.

Gareth Davies 24 November 2021

Comptroller and Auditor General

National Audit Office

157–197 Buckingham Palace Road

Victoria

London

SW1W 9SP

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

Introduction

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. The Environment Agency (EA), part of the Departmental Group, is the leading public body for protecting and improving the environment in England. EA has responsibilities for flood and coastal erosion risk management, waste management and pollution incidents, reducing industry's impact on the environment, cleaning up rivers, coastal waters and contaminated land, and improving wildlife habitats.

2. In this report I explain:

   - my qualified audit opinion on the Departmental Group's financial statements in relation to the valuation of EA property, plant and equipment, consolidated into the Departmental Group;
   - my qualified regularity opinion on the Departmental Group's financial statements due to the excess of expenditure above the voted non-budget provision; and,
   - the judgements in support of my unqualified opinion regarding the regularity of EU Disallowance payments made in 2020-21.

Qualification with regards to the valuation of Environment Agency property, plant and equipment consolidated into the Departmental Group

Introduction

3. I have qualified my opinion for 2020-21 because I have been unable to obtain sufficient assurance that values for property, plant and equipment recorded in the Departmental Group's accounts relating to the Environment Agency (EA) are free from material misstatement. This is for two reasons:
   - The valuation basis used for its operational assets is, as in the 2019-20 annual report and accounts, incorrect and I consider the impact of this could be material.
   - My audit has identified errors and uncertainties within the quinquennial revaluation of its freehold land, freehold buildings and dwellings, as a result I am unable to obtain sufficient assurance over the valuation of these assets.

Operational Assets Valuation Methodology

4. EA uses operational assets to manage flood and coastal erosion risks, referred to as infrastructure assets in Note 5 of the Departmental Group financial statements. These assets typically include barriers, pumping stations and water monitoring assets, such as telemetry stations and boreholes. Note 5 of the Departmental Group's financial statements states that the net book value of the Group's tangible assets is £3,699 million (2019-20: £3,581 million) which includes infrastructure assets of £2,757 million (2019-20: £2,719 million).

5. Under the HM Treasury Financial Reporting Manual (FReM), EA must value its specialised operational assets at current value in existing use to give a true and fair position of the assets at the reporting date. The specialist nature of EA's operational assets means there is no active external market to provide such a valuation. The only suitable professional valuation methodology in such cases is Depreciated Replacement Cost (DRC) which requires assets to be valued based on a modern equivalent asset. This is a specialist technique often requiring expert support.

6. DRC valuation needs periodic professional valuations with the use of appropriate indices in intervening years. In the 2019-20 annual report and accounts, EA stated in its accounting policies that it considered an alternative valuation approach modified historic cost accounting (MHCA) as a reasonable proxy for DRC. MHCA involves valuing these assets on a historic cost basis revalued annually using indices. I concluded in my audit of the 2019-20 annual report and accounts, that MHCA is not a materially accurate proxy for the DRC valuation required by the financial reporting framework. I therefore qualified my opinion on the 2019-20 annual report and accounts.

7. EA have notified me that they are developing a project to carry out a full DRC valuation of its operational assets. This is still underway and has not therefore had any impact on the 2020-21 accounts. My view has not changed since 2019-20 and I am therefore qualifying my opinion on the 2020-21 accounts for the same reasons as I did the previous year.

Quinquennial Revaluation

8. In 2020-21 EA carried out a quinquennial review (QQR) of its freehold land, freehold buildings and dwellings. The QQR is a professional valuation which under FReM requirements is conducted at least every 5 years. It is a necessary exercise to demonstrate that assets are valued appropriately at year end.

9. My audit identified the following limitations in the way the QQR has been conducted:

- EA was unable to provide a listing of land holdings that distinguished between the land which should be valued through the QQR and that which was infrastructure land which should be valued through DRC.
- poor data quality of the underlying property, plant and equipment records has prevented EA from obtaining a valuation for the correct asset base, impacting the resulting value presented within the financial statements. My audit identified data quality issues including: properties revalued which should not have been, and properties excluded which should have been revalued.
- errors in the application of the revaluation to EA's property, plant and equipment records, including applying revaluations to the wrong assets.

In the context of wider asset issues described below and the audit timetable, management are not seeking to resolve the issues with the QQR for 2020-21. These limitations mean I have been unable to obtain assurance over the value of assets covered by the QQR, and therefore I have limited the scope of my opinion in this respect.

Management of non-current asset records

10. Further to the reasons outlined above leading to my qualification, my audit of non-current assets identified the following data quality issues in EA's underlying asset records.
    - assets recorded on the fixed asset register that are not owned by EA;
    - capitalisation of expenditure that does not meet the criteria of the financial reporting framework; and,
    - the inclusion of assets that have been decommissioned or demolished.

Although these errors were not material, they were significant and represent a worsening of the EA position over time. While EA have made some attempts to cleanse their asset records in the last year, more still needs to be done and I have concerns that these issues could result in material error in the future if not addressed.

Conclusion on the valuation of Environment Agency property, plant and equipment consolidated into the Departmental Group

11. For the reasons described in paragraphs 4 to 9 I have been unable to conclude that the value of EA's property, plant and equipment as at 31 March 2021 is free from material misstatement. EA's property, plant and equipment represents 89 per cent of the Departmental Group's property, plant and equipment, and therefore I am also limiting the scope of my opinion on the Departmental Group in these respects.

12. The Departmental Group has not yet started the DRC valuation of its infrastructure assets.

13. I recommend that the Departmental Group carries out a review of the data quality and cleanse the property, plant and equipment records prior to embarking on a large revaluation exercise.

14. I also recommend that the Departmental Group develop more robust controls over the input and maintenance of data in its property, plant and equipment records.

15. I will continue to monitor progress in both areas and will assess the impact of this work on my audit certificate and report in subsequent years.

Qualified regularity opinion with regards to excess vote

Overview

16. The net expenditure of government departments is authorised by Acts of Parliament. These Acts set a series of annual limits on the net expenditure which departments may not exceed and on the total cash they can use. Any expenditure outside these limits will result in an 'Excess Vote'. Such expenditure potentially undermines parliamentary control over public spending.

17. Where these limits are breached, I qualify my regularity opinion on the financial statements. Parliament authorised a non-budget provision for the Departmental Group of

£10 million. Outturn against this limit was £151.9 million, leading to an excess over authorised limits of £141.9 million.

18. The excess is due to a £262.7 million prior period adjustment to the liability arising from the Reservoir Operating Agreements. In 1989 the predecessor body to the Environment Agency entered into several reservoir operating agreements with water companies. The agreements, approved by HMT included payments by the Agency, indexed upwards annually based on the RPI, and which are payable in perpetuity. This accounting adjustment differs from the amount of Non-Budget shown in SoPS note 1.1 as the supply adjustment has been calculated from 2001-02 when Resource Accounting was implemented.

19. My 2020-21 audit identified that the approach taken to valuing the liability arising from the Reservoir Operating Agreements was not in accordance with the relevant financial reporting standard (IFRS 9). The liability in the 2019-20 Departmental Group's financial statements was £141.6 million. EA has produced a revised liability under IFRS 9 which is calculated to be £409.5 million, an increase of £267.9 million in total. This issue was only identified after the Supplementary Estimates had been submitted and as such the Department was unable to seek cover for the excess.

20. In its Governance Statement the Department explains it is now using the most up to date technical guidance to support the valuation. Further details can be found in the Governance Statement on pages 57-78 and note 9 and note18.

Conclusion on the regularity of the excess vote

21. Because the adjustment has resulted in expenditure in excess of the limit authorised by Parliament by £141.9 million, I have qualified my regularity opinion on the Departmental Group financial statements in this respect.

Unqualified opinion with regards to EU Disallowance payments in 2020-21

Background

22. The Common Agricultural Policy (CAP) is the European Union (EU) framework of agricultural subsidies and rural development programmes. In 2020-21, the Department issued grants of £0.9 billion (2019-20 £3.7 billion) that were funded by the European Commission (the Commission) under the CAP and other EU initiatives. The Department is required to adhere to the CAP framework and is subject to financial penalties where it fails to do so.

23. The UK left the EU on 31 January 2020 however the Rural Development Programme for England payments will run until the existing multi-year agreements come to an end (last payment expected in 2023). For as long as the Department makes payments from EU funds, the Commission has a right to audit these payments and further disallowance penalties might arise.

24. This report sets out my observations on the level of penalties incurred during 2020-21 and how this is reflected in the Department's Annual Report and Accounts. This report also explains my audit opinion on the Department's financial statements.

CAP Regulations and Disallowance

25. The CAP regulations are set by the EU following proposals made by the Commission and agreed by the European Parliament and European Council. The Department's administration of the schemes set out in the CAP regulations is subject to annual audit by the NAO on behalf of the European Commission, as well as audit work by the European Court of Auditors. The Department incurs financial penalties known as disallowance which are levied by the Commission when the audit work performed has found that it has failed to comply with the regulations.

26. Disallowance penalties are determined in the 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

27. 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.

28. 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. At this point, the value of disallowance is confirmed and the irregularity therefore becomes certain. On this basis, in determining my regularity opinion, I consider the total value of accrued penalties in the year as irregular.

29. In 2020-21, the value of disallowance penalties accrued in year is £22 million which is 2.4 per cent of the £0.9 billion of scheme expenditure (2019–20: £22 million, 0.6 per cent of £3.7 billion scheme expenditure). I consider this immaterial in the context of the Department's gross expenditure of £6.5 billion. I have therefore issued an unqualified opinion on the regularity of the Department's 2020-21 financial statements.

30. The value of disallowance penalties confirmed in year can vary significantly and is dependent on internal factors including the effectiveness of the Department's 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

31. The Department recognises a 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 would incur if it loses is known, the amount of disallowance can be quantified. The Department discloses the disallowance provision in Note 14, with a provision balance as at 31 March 2021 of £122.3 million (31 March 2020: £647.5 million). Details of these schemes are provided on page 50. For those amounts provided for there is no current loss to the public purse and due to the uncertainty over whether these penalties will crystallise, I do not consider them alongside confirmed penalties when forming my regularity opinion.

32. The Department also discloses a contingent liability in Note 16 in respect of Commission audits which have not yet concluded. This is appropriate as the Department cannot predict Commission findings or reliably quantify the value of any disallowance penalties until the audit has concluded. 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 50 to 55.

CAP replacement

33. In 2020-21 the Department, through the Rural Payments Agency launched an intermediate exchequer funded BPS scheme. This is a precursor to a range of new schemes to be implemented over the next seven years. Defra's Future Farming and Countryside Programme is its main vehicle for transforming agriculture in England. It will consist of schemes targeted at enhancing the environment, protecting the countryside, improving the productivity of the farming sector and improving animal health and welfare. Central to the Department's proposals is the Environmental Land Management scheme (ELM), the primary mechanism for distributing the funding previously paid under CAP. Instead of CAP direct payments, ELM will pay farmers for undertaking actions to improve the environment.

34. The Department still has much work to do in designing and implementing the new schemes, including how to ensure regularity of this expenditure whilst achieving the desired environmental outcomes. In our recent VFM report, The Environmental Land Management scheme[47], September 2021, HC 664, I reported:

- The Department has not yet established objectives to support its high-level vision for ELM and has yet to develop detailed delivery plans beyond March 2022.
- There is an ongoing delivery risk with gaps in staff capacity and capability.
- Uptake of the Sustainable Farming Incentive cohort 1 pilot was slightly below that anticipated by the Department with 938 farmers against a target of 1,000 farmers signing up. Smaller farm businesses are heavily under-represented in the cohort.

[47] The Environmental Land Management scheme, September 2021, HC 664
https://www.nao.org.uk/wp-content/uploads/2021/09/The-Environmental-Land-Management-scheme.pdf

- The new schemes are being developed quickly, and although there has been some progress in developing its approach to fraud and error the Department is behind where it needs to be.

Conclusion on disallowance penalties

35. 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 2020-21 is material in the context of the Department's financial statements.

36. 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 must remain a priority. Whilst the UK left the EU on 31 January 2020, the Department will continue to make payments from EU funds under Pillar 2 of the 2014-2020 CAP until multi-year scheme agreements come to an end. Commission audits may take several years and negotiations with the Commission over penalties can also take many years to conclude. Therefore, the Department might continue to incur disallowance penalties in subsequent periods.

37. I shall 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 24 November 2021

Comptroller and Auditor General

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.

Consolidated Statement of Comprehensive Net Expenditure (SoCNE)

For the year ended 31 March 2021

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.

			2020-21		Restated 2019-20
	Note/Ref	**Core Department and Agencies**	**Defra Group**	Core Department and Agencies	Defra Group
		£000	**£000**	£000	£000
Revenue from contracts with customers	4.1	(127,373)	(849,535)	(127,157)	(820,450)
Other operating income	4.2	(938,990)	(1,082,581)	(3,715,755)	(3,948,194)
Total operating income		**(1,066,363)**	**(1,932,116)**	(3,842,912)	(4,768,644)
Staff costs	3.1	691,228	1,285,731	631,952	1,191,735
Other expenditure	3.1	713,649	1,780,619	559,596	1,445,483
Non cash items	3.2	(397,405)	(24,732)	760,978	1,256,347
Grants and subsidies	3.3	4,650,405	3,559,714	5,233,583	4,311,302
Total operating expenditure		**5,657,877**	**6,601,332**	7,186,109	8,204,867
Net operating expenditure		**4,591,514**	**4,669,216**	3,343,197	3,436,223
Net expenditure for the year		**4,591,514**	**4,669,216**	3,343,197	3,436,223
Other comprehensive net expenditure					
Items that will not be reclassified to net operating expenditure					
Net (gain)/loss on					
Revaluation of PPE	SoCTE	6,218	(129,905)	1,097	(55,120)
Charitable funds revaluation	SoCTE	-	4,886	-	8,659
Revaluation of intangibles	SoCTE	(7,428)	(20,442)	(3,307)	(14,436)
Revaluation of euro receivable	SoCTE	-	-	(15)	(15)
Pension actuarial movements	15	11,213	925,673	(15,389)	(633,393)
Changes in the fair value of equity investments at fair value through OCE	SoCTE	4,469	4,469	(94)	(94)
Items that may be reclassified subsequently to net operating expenditure					
Net (gain)/loss on					
Revaluation of investments		-	(79)	-	(10)
Revaluation of hedging instruments		(1,370)	(1,370)	7,812	7,812
Total comprehensive net expenditure for the year		**4,604,616**	**5,452,448**	3,333,301	2,749,626

EU funding for the department totalling £925 million (2019–20, £3,723 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 £27 million (2019–20 £12 million).

The notes on pages 152-223 form part of these accounts.

Consolidated Statement of Financial Position

As at 31 March 2021

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.

				Restated		Restated	
		31 March 2021		31 March 2020		1 April 2019	
	Note/Ref	**Core Department and Agencies**	**Defra Group**	Core Department and Agencies	Defra Group	Core Department and Agencies	Defra Group
		£000	**£000**	£000	£000	£000	£000
Non-current assets							
Property, plant and equipment	5.1	411,121	3,698,598	397,267	3,581,454	437,370	3,556,239
Right of use assets		7,201	7,201	1,504	1,504	612	612
Investment properties		500	7,255	550	5,545	500	4,286
Heritage assets	5.2	-	276,368	-	275,997	-	283,239
Agricultural assets		-	186	-	167	-	208
Intangible assets	6	168,475	325,849	167,395	306,473	142,288	267,660
Financial assets		38,785	39,442	43,298	43,332	20,623	20,603
Investment in Associate		6,670	6,670	6,670	6,670	6,670	6,670
Receivables and contract assets falling due after more than one year	11	773	783	750	775	772	1,036
Total non-current assets		**633,525**	**4,362,352**	617,434	4,221,917	608,835	4,140,553
Current assets							
Assets classified as held for sale		501	9,060	501	12,469	3,251	20,722
Inventories		5,167	6,479	5,522	6,853	3,577	4,892
Financial assets	11	9,757	525,307	11,352	463,002	25,818	320,818
Trade, other receivables and contract assets	11	610,965	792,493	999,867	1,170,043	873,836	1,010,605
Cash and cash equivalents	10	453,889	711,979	625,796	881,250	636,351	886,590
Total current assets		**1,080,279**	**2,045,318**	1,643,038	2,533,617	1,542,833	2,243,627
Total assets		**1,713,804**	**6,407,670**	2,260,472	6,755,534	2,151,668	6,384,180
Current liabilities							
Trade, other payables and contract liabilities	12	(1,123,615)	(1,680,900)	(1,417,071)	(1,860,098)	(1,413,871)	(1,845,961)
Provisions	14.2	(170,286)	(287,071)	(676,338)	(789,531)	(32,825)	(59,219)
Net pension liability		(48,155)	(48,171)	(52,855)	(52,870)	(55,865)	(55,880)
Financial liabilities	12	(572)	(22,105)	(13,166)	(34,277)	(2,583)	(23,405)
Total current liabilities		**(1,342,628)**	**(2,038,247)**	(2,159,430)	(2,736,776)	(1,505,144)	(1,984,465)
Non-current assets plus/less net current assets/liabilities		**371,176**	**4,369,423**	101,042	4,018,758	646,524	4,399,715
Non-current liabilities							
Provisions	14.2	(384,487)	(418,221)	(382,207)	(457,375)	(341,289)	(348,642)
Net pension liability		(234,075)	(1,309,990)	(271,729)	(422,041)	(338,232)	(1,012,216)
Other payables and contract liabilities	12	(133,971)	(138,405)	(131,220)	(132,619)	(127,851)	(129,687)
Financial liabilities	12	-	(387,954)	-	(383,162)	-	(375,395)
Total non-current liabilities		**(752,533)**	**(2,254,570)**	(785,156)	(1,395,197)	(807,372)	(1,865,940)
Assets less liabilities		**(381,357)**	**2,114,853**	(684,114)	2,623,561	(160,848)	2,533,775
Taxpayers' equity and other reserves							
General Fund	SoCTE	(515,678)	(280,187)	(831,300)	275,463	(327,299)	154,795
Revaluation reserve	SoCTE	134,321	2,144,072	148,556	2,098,469	160,009	2,121,702
Hedging reserve	SoCTE	-	-	(1,370)	(1,370)	6,442	6,442
Charitable funds - restricted funds	SoCTE	-	92,876	-	86,834	-	75,790
Charitable funds - unrestricted funds*	SoCTE	-	158,092	-	164,165	-	175,046
Total equity		**(381,357)**	**2,114,853**	(684,114)	2,623,561	(160,848)	2,533,775

The unrestricted charitable funds figure includes Royal Botanic Gardens Kew (RBG Kew) and National Forest Company's (NFC) revaluation reserves totalling £107.4 million (2019–20, £116.5 million).

The notes on pages 152-223 form part of these accounts.

Tamara Finkelstein 23 November 2021

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

Consolidated Statement of Cash Flows

For the year ended 31 March 2021

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. The amount of net cash flows arising from operating activities is a key indicator of service costs and the extent to which these operations are funded by way of income from the recipients of services provided by the department. 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.

		2020-21		Restated 2019-20	
	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	(4,591,514)	(4,669,216)	(3,343,197)	(3,436,223)
Adjust for non cash transactions		(397,070)	(24,339)	762,658	1,258,061
(Increase)/decrease in trade and other receivables excluding derivatives		388,879	377,542	(125,994)	(159,162)
less movements in receivables relating to items not passing through the SoCNE		5,763	5,763	(15)	(15)
Adjustments for derivative financial instruments		(18,528)	(18,528)	24,241	24,241
(Increase) / decrease in inventories		355	374	(1,945)	(1,961)
Increase / (decrease) in trade payables and other liabilities excluding derivatives		(290,705)	(168,198)	6,569	25,125
less movements in payables relating to items not passing through the SoCNE		153,277	152,433	30,505	29,983
Use of provisions / pension liabilities		(100,469)	(255,014)	(71,009)	(136,434)
Net cash outflow from operating activites		**(4,850,012)**	**(4,599,183)**	(2,718,187)	(2,396,385)
Cash flows from investing activities					
Purchase of PPE, heritage and agricultural assets		(62,792)	(220,592)	(37,390)	(178,159)
Purchase of intangible assets		(23,122)	(51,692)	(46,849)	(74,457)
Purchase / repayment of financial assets		8,899	(55,501)	(29,629)	(186,279)
Proceeds of disposal of PPE, heritage and agricultural assets		-	3,941	1,725	11,605
Repayments from other bodies		44	-	44	-
Net cash outflow from investing activities		**(76,971)**	**(323,844)**	(112,099)	(427,290)
Cash flows from financing activities					
From Consolidated Fund (supply): current year	SoCTE	4,769,285	4,769,285	2,820,681	2,820,681
Advances from Contingencies Fund		751	751	2,500,000	2,500,000
Repayments to Contingencies Fund		-	-	(2,500,000)	(2,500,000)
Capital element in respect of service concession arrangements and finance		(8,757)	(10,113)	(500)	(1,861)
Funding (to) / from other bodies		15	51	(2)	(37)
Net financing		**4,761,294**	**4,759,974**	2,820,179	2,818,783
Net increase/(decrease) in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund		(165,689)	(163,053)	(10,107)	(4,892)
Receipts due to the Consolidated Fund which are outside the scope of the department's activities		(5,763)	(5,763)	-	-
Payments of amounts due to the Consolidated Fund		(455)	(455)	(448)	(448)
Net increase/(decrease) in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund	10	(171,907)	(169,271)	(10,555)	(5,340)
Cash and cash equivalents at the beginning of the period	10	**625,796**	**881,250**	636,351	886,590
Cash and cash equivalents at the end of the period	10	**453,889**	**711,979**	625,796	881,250

The notes on pages 152-223 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 2021

Defra Group

	Note/Ref	General Fund	Revaluation Reserve	Hedging Reserve	Taxpayers' Equity	Charitable Funds - Restricted/ Endowment	Charitable Funds - Unrestricted	Total Reserves 2020-21
		£000	£000	£000	£000	£000	£000	£000
Balance at 1 April 2020		275,463	2,098,469	(1,370)	2,372,562	86,834	164,165	2,623,561
Net parliamentary funding - drawn down	SoCF	4,769,285	-	-	4,769,285	-	-	4,769,285
Net parliamentary funding - deemed		625,796	-	-	625,796	-	-	625,796
Funding (to)/ from other bodies		51	-	-	51	-	-	51
Net financing from the Contingencies Fund		751	-	-	751	-	-	751
Supply (payable) adjustment		(453,889)	-	-	(453,889)	-	-	(453,889)
CFER Income Payable to the Consolidated Fund	SOPS 4.1	(6,218)	-	-	(6,218)	-	-	(6,218)
Net operating costs for the year	SoCNE	(4,674,071)	-	-	(4,674,071)	6,042	(1,187)	(4,669,216)
Non-cash adjustments								
Non-cash charges-auditors' remuneration	3.2	1,163	-	-	1,163	-	-	1,163
Movement in reserves								
Recognised in other comprehensive expenditure:								
Revaluation of PPE	OCE	-	129,905	-	129,905	-	-	129,905
Charitable funds revaluation	OCE	-	-	-	-	-	(4,886)	(4,886)
Revaluation of intangibles	OCE	-	20,442	-	20,442	-	-	20,442
Revaluation of investments	OCE	-	(4,390)	-	(4,390)	-	-	(4,390)
Pension actuarial movements	OCE	(925,673)	-	-	(925,673)	-	-	(925,673)
Revaluation/impairments - hedging reserve		-	-	(336)	(336)	-	-	(336)
Contributions in respect of unfunded benefits		6,800	-	-	6,800	-	-	6,800
Release of reserves to SoCNE		-	-	1,501	1,501	-	-	1,501
Transfers between reserves		100,354	(100,354)	-	-	-	-	-
Other movements in reserves		-	-	205	205	-	-	205
Transfer to General Fund - net asset transfer		1	-	-	1	-	-	1
Balance at 31 March 2021		**(280,187)**	**2,144,072**	**-**	**1,863,885**	**92,876**	**158,092**	**2,114,853**

Consolidated Statement of Changes in Taxpayers' Equity

For the year ended 31 March 2020

Defra Group

	Note/Ref	General Fund	Revaluation Reserve	Hedging Reserve	Taxpayers' Equity	Charitable Funds - Restricted/ Endowment	Charitable Funds - Unrestricted	Restated 2019-20 Total Reserves
		£000	£000	£000	£000	£000	£000	£000
Balance as at 31 March 2019		154,795	2,121,702	6,442	2,282,939	75,790	175,046	2,533,775
Net parliamentary funding - drawn down	SoCF	2,820,681	-	-	2,820,681	-	-	2,820,681
Net parliamentary funding - deemed		636,351	-	-	636,351	-	-	636,351
Funding to/from other bodies		(37)	-	-	(37)	-	-	(37)
Supply (payable) adjustment		(625,796)	-	-	(625,796)	-	-	(625,796)
CFER Income Payable to the Consolidated Fund	SoPS 4.1	(448)	-	-	(448)	-	-	(448)
Net operating costs for the year	SoCNE	(3,445,045)	-	-	(3,445,045)	11,044	(2,222)	(3,436,223)
Non cash adjustments								
Non cash charges-auditors' remuneration	3.2	1,161	-	-	1,161	-	-	1,161
Movement in reserves								
Recognised in other comprehensive expenditure:								
Revaluation of PPE	OCE	-	55,120	-	55,120	-	-	55,120
Charitable funds revaluation	OCE	-	-	-	-	-	(8,659)	(8,659)
Revaluation of intangibles	OCE	-	14,436	-	14,436	-	-	14,436
Revaluation of investments	OCE	-	104	-	104	-	-	104
Revaluation of Euro receivable	OCE	-	15	-	15	-	-	15
Pension actuarial loss	OCE	633,393	-	-	633,393	-	-	633,393
Revaluation/impairments - hedging reserve		-	-	89,323	89,323	-	-	89,323
Contributions in respect of unfunded benefits		7,500	-	-	7,500	-	-	7,500
Release of reserves to SoCNE		-	-	(95,811)	(95,811)	-	-	(95,811)
Transfers between reserves		92,908	(92,908)	-	-	-	-	-
Other movements in reserves		-	-	(1,324)	(1,324)	-	-	(1,324)
Balance at 31 March 2020		275,463	2,098,469	(1,370)	2,372,562	86,834	164,165	2,623,561

Consolidated Statement of Changes in Taxpayers' Equity

For the year ended 31 March 2021

Core Department and Agencies

								2020-21
	Note/Ref	General Fund	Revaluation Reserve	Hedging Reserve	Taxpayers' Equity	Charitable Funds - Restricted/ Endowment	Charitable Funds - Unrestricted	Total Reserves
		£000	£000	£000	£000	£000	£000	£000
Balance at 1 April 2020		(831,300)	148,556	(1,370)	(684,114)	-	-	(684,114)
Net parliamentary funding - drawn down	SoCF	4,769,285	-	-	4,769,285	-	-	4,769,285
Net parliamentary funding - deemed		625,796	-	-	625,796	-	-	625,796
Funding (to)/ from other bodies		15	-	-	15	-	-	15
Net financing from the Contingencies Fund		751	-	-	751	-	-	751
Supply (payable) adjustment		(453,889)	-	-	(453,889)	-	-	(453,889)
CFER Income Payable to the Consolidated Fund	SOPS 4.1	(6,218)	-	-	(6,218)	-	-	(6,218)
Net operating costs for the year	SoCNE	(4,591,514)	-	-	(4,591,514)	-	-	(4,591,514)
Non-cash adjustments								
Non-cash charges-auditors' remuneration	3.2	1,163	-	-	1,163	-	-	1,163
Notional recharges and other non cash items	3.2	(36,331)	-	-	(36,331)	-	-	(36,331)
Movement in reserves								
Recognised in other comprehensive expenditure:								
Revaluation of PPE	OCE	-	(6,218)	-	(6,218)	-	-	(6,218)
Revaluation of intangibles	OCE	-	7,428	-	7,428	-	-	7,428
Revaluation of investments	OCE	-	(4,469)	-	(4,469)	-	-	(4,469)
Pension actuarial movements	OCE	(11,213)	-	-	(11,213)	-	-	(11,213)
Revaluation/impairments - hedging reserve		-	-	(336)	(336)	-	-	(336)
Contributions in respect of unfunded benefits		6,800	-	-	6,800	-	-	6,800
Release of reserves to SoCNE		-	-	1,501	1,501	-	-	1,501
Transfers between reserves		10,976	(10,976)	-	-	-	-	-
Other movements in reserves		-	-	205	205	-	-	205
Transfer to General Fund - net asset transfer		1	-	-	1	-	-	1
Balance at 31 March 2021		**(515,678)**	**134,321**	**-**	**(381,357)**	**-**	**-**	**(381,357)**

Consolidated Statement of Changes in Taxpayers' Equity

For the year ended 31 March 2020

Core Department and Agencies

	Note/Ref	General Fund	Revaluation Reserve	Hedging Reserve	Taxpayers' Equity	Charitable Funds - Restricted/ Endowment	Charitable Funds - Unrestricted	Total Reserves 2019-20
		£000	£000	£000	£000	£000	£000	£000
Balance as at 31 March 2019		(327,299)	160,009	6,442	(160,848)	-	-	(160,848)
Net parliamentary funding - drawn down	SoCF	2,820,681	-	-	2,820,681	-	-	2,820,681
Net parliamentary funding - deemed		636,351	-	-	636,351	-	-	636,351
Funding to/from other bodies		(2)	-	-	(2)	-	-	(2)
Supply (payable) adjustment		(625,796)	-	-	(625,796)	-	-	(625,796)
CFER Income Payable to the Consolidated Fund	SoPS 4.1	(448)	-	-	(448)	-	-	(448)
Net operating costs for the year	SoCNE	(3,343,197)	-	-	(3,343,197)	-	-	(3,343,197)
Non cash adjustments								
Non cash charges-auditors' remuneration	3.2	1,161	-	-	1,161	-	-	1,161
Notional recharges and other non cash items	3.2	(29,412)	-	-	(29,412)	-	-	(29,412)
Movement in reserves								
Recognised in other comprehensive expenditure:								
Revaluation of PPE	OCE	-	(1,097)	-	(1,097)	-	-	(1,097)
Revaluation of intangibles	OCE	-	3,307	-	3,307	-	-	3,307
Revaluation of investments	OCE	-	94	-	94	-	-	94
Revaluation of Euro receivable	OCE	-	15	-	15	-	-	15
Pension actuarial loss	OCE	15,389	-	-	15,389	-	-	15,389
Revaluation/impairments - hedging reserve		-	-	89,323	89,323	-	-	89,323
Contributions in respect of unfunded benefits		7,500	-	-	7,500	-	-	7,500
Release of reserves to SoCNE		-	-	(95,811)	(95,811)	-	-	(95,811)
Transfers between reserves		13,772	(13,772)	-	-	-	-	-
Other movements in reserves		-	-	(1,324)	(1,324)	-	-	(1,324)
Balance at 31 March 2020		(831,300)	148,556	(1,370)	(684,114)	-	-	(684,114)

The notes on pages 152-223 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 2020–21 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:

- The point at which it appropriate to recognise revenue in the SOCNE is subject to judgement. Further details can be found in the following notes;
    - Basic Payment Scheme (BPS) (see Note 1.5.1),
    - Rural Development Programme for England (RDPE) expenditure (see Note 1.5.2),
    - and Note 4.2 – Income – Analysis of Operating Income.

- Determining the recognition points and measurement basis for disallowance penalties (see Note 14.3);

- Where it is expected that charging income will break even over a reasonable period of time the Environment Agency (EA) allow for accrued and deferred income, and contract assets/liabilities within Trade Payables and Receivables (see Note 1.12);

- Judgements are used to assess the expected timing for the Satisfaction of performance obligations, and determination of transaction prices per IFRS 15 (see Note 1.12);

- The classification of expenditure in the EA between property, plant and equipment and capital works expensed in year (see Note 1.15);

- Flood Re's liability arising from claims made under insurance contracts can fluctuate between year and requires an estimate of the values remaining unclaimed from events and the estimation of a provision where there is uncertainty in relation to the value (see Notes 1.15 and 1.20);

- Rural Payment Agency (RPA) use of derivative financial instruments and hedging techniques (see Notes 1.17.3 and 1.18) require assessments in relation to the timing of recognition, subsequent remeasurement at each financial year end and the calculation of any exchange rate fluctuations;

- Provisions including those for abandoned metal mines. See Note 14.2 for details of assumptions underpinning the discount rate and inflation rate used in related calculations. Note 14.4 highlights the uncertainties regarding the value and timing of insurance liabilities. Note 14.5 discusses the significant uncertainties regarding the costs and timeframe of the Abandoned Metal Mines Provision. Similarly, Note 14.6, covering the Foot and Mouth Disease (FMD) Burial Sites Provision, highlights significant uncertainties as to the time period over which conditions for managing environmental risks will continue at FMD Burial Sites.

- The valuation of Property, Plant and Equipment, including the Weybridge site occupied by APHA, requires professional valuers to make assessments which affect the value including the estimation of the assets' useful lives (see Note 1.6.1).

- The selection of appropriate indices to assist with the valuation of EA's property, plant and equipment (Note 5) and intangible assets (Note 6).

- The impairment of property, plant and equipment and intangible assets (Note 7).

- Pension liabilities (see Note 1.19 and Note 15). Independent and qualified actuaries assess the specific factors that influence the pension fund position, such as life expectancy and age of scheme members, prevailing interest and inflation rates, and projected returns on invested funds where applicable.

- IFRS 9 business model assessment and calculation of Expected Credit Losses, including the estimation of the impact of future events (see Note 9).

- The recognition of the liability relating to the reservoir operating agreements fixed payments at amortised cost under IFRS 9 (see note 9). The liability is discounted using the Effective Interest Rate (EIR) method. The EIR is the rate that exactly discounts the estimated future cash payments through the expected life of a financial liability to the amortised cost of the financial liability. Significant judgements are made pertaining to the expected life of the liability and the expected future RPI.

- Employment Legislation (IR35), introduced in April 2017, requires public sector bodies to assess off-payroll workers employment status for tax and makes them liable for ensuring the correct tax is applied. We use HM Revenue and Customs' own Check of

Employment Status for Tax tool (CEST) and accompanying guidance to make those assessments. During 2019–20, internal checks and additional HM Revenue and Customs guidance highlighted inaccuracies in the historic assessment of some contractors' employment status. We have reassessed the IR35 status of current contractors under the revised guidance and used the results to estimate a potential liability for additional tax the department may incur as and when compliance audit work underway with HM Revenue and Customs is concluded (See Note 14.7).

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. Annually parliament provides approval for amounts prior to the parliamentary recess and there is no reason to believe that future approvals will not be made.

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, and transactions between entities within the consolidation are eliminated.

IFRS 10 as adapted by the FReM results in the criteria used by the Office for National Statistics (ONS) in determining control by the parent over the subsidiary; as such the departmental boundary defines the Defra group in a manner similar to the group concept under generally accepted accounting practice. Note 19 provides for a list of delivery bodies within the boundary, and the Forestry Commission (FC) is consolidated in the results for the core department and executive agencies, and Flood Re is fully consolidated into the group results pending confirmation of ONS status.

1.5 Scheme Costs and Grants

1.5.1 Rural Payments Agency (RPA) Reported Income and Expenditure

As a result of the UK's exit from the EU, on 16 October 2020 all expenditure recognised in the RPA Accounts after this date is solely UK Exchequer funded, except for the reimbursement of Financial Discipline Mechanism funds relating to prior scheme years.

As a result of the change in funding model RPA has reassessed the accounting policy for the recognition of scheme expenditure where there is no longer funded by the European Commission (the Commission). The accounting policies applying to both income and expenditure under Commission funded schemes, and expenditure under UK Exchequer funded schemes, are detailed below.

1.5.1.1 Rural Payments Agency (RPA) European Commission funded schemes

Where payments were made to customers on or before the 15 October 2020, or where the expenditure relates to the reimbursement of Financial Discipline Mechanism funds deducted from scheme expenditure in earlier years, these are funded by the Commission. The UK Exchequer has pre-funded these schemes and following receipt of reclaims from the Commission the surplus funds are repaid to HM Treasury.

Commission funded Basic Payment Scheme (BPS) expenditure for England is recognised by RPA when there is a present obligation to make payments to the claimaints as a result of a substantive processes to validate each claim against Commission rules for the schemes, and the amount payable to each claimant is considered reliably measurable and probable.

Commission funded Basic Payment Scheme income from England is recognised by the RPA when it is probable that reimbursement from the Commission for the scheme expenditure incurred and the amount to be received is considered reliabily measurable. These conditions are deemed to be met at the point the related scheme expenditure is recognised that is, upon completion of all substantive processes to validate and reliably measure each claim.

For other European Agricultural Guarantee Fund schemes administered by RPA an accrual point has been established according to the application scheme rules and regulations, When a present obligation for payment is identified to fall on or before the Statement of Financial Position date it is shown as payable in the current year financial statements which a corresponding Commission receivable. Any element paid in advance of the accrual point is treated as a prepayment.

The impact of any foreign exchange movements between the claim date and the date of actual reimbursement by the Commission are borne by RPA and accordingly recognised in the Statement of Comprehensive Net Expenditure.

1.5.1.2 Rural Payments Agency (RPA) UK Exchequer funded schemes

With the exception of the reimbursement of the Financial Discipline Mechanism funds deducted from earlier years' scheme expenditure, payments made to customers on or after 16 October 2020 are funded directly by the UK Exchequer.

RPA recognises the expenditure relating to all UK Exchequer funded schemes when the following criteria are judged to be met:

- The claimant has fulfilled all their performance obligations in line with the applicable scheme rules and regulations; and
- The value of the claim is able to be reliably estimated by RPA.

This commonly results in expenditure being recognised on receipt of claims, however, expenditure may be recognised a later date when claims are received in advance of other underlying performance obligations being completed by the claimant.

Other UK paying agencies have continued to administer payments to claimants throughout the year under the European Agricultural Fund for Rural Development. These payments are funded by the RPA and are subsequently recovered by the RPA from the Commission.

Other UK paying agencies also administered Basic Payment Scheme payments to claimants under the European Agricultural Guarantee Fund. Where such payments were made on or before 15 October 2020, the payments were funded by the RPA and were subsequently recovered by the RPA from the Commission. Basic Payment Scheme payments to claimants in Scotland, Wales and Northern Ireland on or after 16 October 2020 are funded directly by the other paying agencies. As such, no expenditure or income is recognised by the RPA in respect of these transactions.

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 (OPAs) 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 Forestry Commission (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.

RDPE capital expenditure is generally recognised at the point the claims are received, given this is the point at which Defra is deemed to have a present obligation where the amount payable can be reliably measured. 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. Commission income is recognised at the same time as the EU element of the expenditure is recognised.

1.6 Property, Plant and Equipment

1.6.1 Recognition and Valuation

With the exception of EA's operational assets (see below) and Natural England's non operational Heritage Assets (see Note 1.8), freehold land and buildings are subject to professional valuation at no more than five yearly intervals. Due to the exceptional circumstances in 2020-21, the Natural England quinquennial valuation was delayed until 2021-22 resulting in an interval of six years since the previous valuation. 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 March 2020 by Montagu Evans, under the guidance of a qualified director in their valuation department. This included the valuation of the Weybridge site. The next valuation at the core department will be in March 2025. The quinquennial revaluation of EA's freehold land, including operational land and buildings was carried out in March 2021.

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.

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. As an exception, in light of additional uncertainty arising from COVID-19 and its potential impact on land and building asset values, RBG Kew's valuers have undertaken desktop valuation exercises in respect of the 2019–20 and 2020–21 accounts. 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.

The last asset valuation exercise for the Corporate Estates, including the Animal and Plant Health Agency (APHA) and administrative buildings, was carried out in March 2020 with a valuation date of 31 March 2020.

EA's freehold administrative land and buildings (including dwellings), except assets under construction, were revalued at 31 March 2021 by RICS qualified chartered surveyors, with the last revaluation exercise having been undertaken in 2016. In the intervening years, the assets have been revalued annually using suitable indices.

EA uses operational assets to deliver its environmental outcomes. These assets are often relatively unique in nature and function. Typically, these assets include flood risk management works, such as barriers, pumping stations and flood risk management landholdings, and water resource assets, such as locks, weirs, sluices, gauging stations, pipelines and tunnels. The FReM requires these assets to be accounted for in the statement of financial position at their Depreciated Replacement Cost. Due to the enormous logistical and technical challenge as well as substantial expenditure that would be required to obtain replacement cost professional valuations for over 8,000 operational assets, EA uses a Modified Historic Cost method as a proxy for Depreciated Replacement Cost. This means that an appropriate annual cost inflation index is used to revalue the gross book value of these assets each year. EA has commenced a project to design and deliver a cost effective solution to asset valuation which will enable compliance with FReM. Further details can be found in EA's accounts and Annual Governance Statement.

The specialist science estate operated by APHA is valued using the depreciated replacement cost method taking into account the expected construction costs to rebuild equivalent assets.

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 as a proxy for fair value. 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 £1,000–£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 8.2.1. 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.

Flood Re account for leases in accordance with IFRS 16, however, the impact on the group is immaterial and is not adjusted on consolidation (Note 1.22.1).

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. Costs are regularly reviewed to ensure only costs directly associated with bringing the asset into use are included in the balances.

1.8 Heritage Assets

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

National Nature Reserves (NNRs) are defined as land that is held in support of our strategic outcome to support a healthy natural environment and continue to ensure that our rich biodiversity thrives across the landscape, with ecosystems and habitats resilient to climate change. NE fulfils a stewardship role in respect of National Nature Reserves (NNR), which although they are open to the public for quiet recreation, they are held principally for their contribution to knowledge and culture and are classified as heritage assets.

NE has one operational heritage asset which is being held for the contribution to knowledge and culture but also used to provide other services. The remaining Heritage Assets are classified as non-operational.

NE's Heritage Assets are reported in the Statement of Financial Position (SoFP) at fair value, and are subject to professional valuation every five years, the latest being in March 2016. However, as a result of the COVID-19 pandemic, the quinquennial valuation due to be undertaken as at 31 March 2021 has been delayed to 31 March 2022. In between valuations, a detailed desk top review is undertaken by external valuers to ensure the valuations remain current and are in line with RICS red book guidance. Any surplus compared to the historic cost is recognised in the revaluation reserve.

Although only operational Heritage Assets have to be valued externally every five years and non-operational ones could be completed by NE's own surveyors, NE have opted to have all their Heritage Assets, both operational and non-operational, valued externally. Valuation of non-operational Heritage Assets has always proved complex due to the unique qualities of each site making it challenging to identify comparative information. As a result valuations, although compliant with RICS methodology, rely on professional judgement, knowledge of the area, status of comparable data, status of site being valued and other subjective judgements.

Royal Botanic Gardens Kew (RBG Kew) also holds heritage assets. RBG Kew has not capitalised heritage buildings and collections 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, 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 usually updated using indices provided by the professional valuers, however, for the 2019–20 and 2020–21 accounts, desktop valuations were undertaken by Powis Hughes (for the Temperate House) and Montagu Evans (all other land and buildings) and asset values updated according to this valuation. In 2019–20 the valuers declared a 'material valuation uncertainty' in these valuations due to COVID-19 but no material uncertainty has been declared in relation to the 2020–21 valuations. 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 - appropriate supporting evidence is required of both their time and their roles to meet the criteria of being directly attributable costs necessary to create, produce, and prepare the asset to be capable of operating in the manner intended by management. 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)	Up 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 - Internally Developed Software	Up to 15 years
Intangible assets - Software Licenses	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.

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. This is a framework to establish the timing and value of revenue recognised within the accounts; revenue is either recognised 'at a point in time' or 'over time' depending on the assessment of criteria within the framework.

Significant judgements are required to assess the timing of revenue recognition based on the satisfaction of performance obligations. A performance obligation is a promise to deliver a good or service (or series of substantially the same good or service). In determining whether a performance obligation is met and whether income is recognised over time a set of criteria has been established which considers the following;

- whether any contract asset has an alternate use to Defra,
- the control of the customer over any asset created,
- whether the benefit to the customer is received and consumed simultaneously.

The transaction price is the amount that Defra expects to receive for the goods and services provided and is determined in accordance with Managing Public Money[48] and for sales of goods will be transacted at the value agreed on the invoice. Fees and Charges will be established either by the Secretary of State or by the entities Board. Defra considers the impact of any variable consideration within a contract including any significant financing component and any non-cash consideration, however, this is not generally relevant to contracts within the group.

Further details can be found in Note 4.1.

EU funding, most significantly relating to RPA scheme payments, is the biggest constituent of income. This is covered in detail in Notes 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

[48] https://www.gov.uk/government/publications/managing-public-money

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.
- 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 that are cancellable on demand.

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 accounted for on a cash basis in the period which the payment is made. In the core department Grant-in Aid is recognised as expenditure and within the NDPB's as funding. Grant-in-Aid is eliminated within the group account.

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.

Where the EA undertakes works which are capital in nature but will not itself receive direct future economic benefits (although the work will reduce national flood risk) or cannot reliably estimate the useful life of the asset or is restoring an asset to target condition the expenditure is reported as capital works expensed in year (Note 3.1).

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 9, 10, 11 and 12 for details of financial instruments.

1.17.1 Financial Assets

Financial assets are categorised according to the entity's business model for managing the asset and the assets' contractual cash flow characteristics. 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).

The Financial Assets are then categorised as one of the three groups:

Amortised Cost

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

Flood Re's short term investments with a duration of greater than three months have been restated and are now classified as other financial assets in Note 11. These are initially held at fair value and then measured at amortised cost using the Effective Interest Rate (EIR) Method and are subject to impairment.

Fair Value through Profit and Loss (FVTPL).

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

Fair Value through Other Comprehensive Income (FVOCI).

The Eco Business Fund and Land Degradation Neutrality Fund investments, forming part of the department's official development assistance spend, are classified at FVOCI, as are derivative instruments in designated hedging relationships.

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. Trade and Other Payables includes accrued expenses which do not meet the definition of financial instruments.

EA holds certain financial instrument liabilities as a result of entering into operating agreements with a number of 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 (RPI).

Promissory Notes payable have been classified as financial liabilities measured at amortised cost. They are carried as current liabilities in the Consolidated Statement of Financial Position, and by law are payable on demand. In practice drawdown of the department's promissory notes is dependent upon the fulfilment of agreed criteria. Note 12 provides an analysis of the expected maturity profile of payments against promissory notes in future years.

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 elects to designate certain foreign currency derivatives as cash flow hedges of the euro denominated receipts from the Commission in relation to the Basic Payment Scheme.

When forward contracts are used to hedge forecast transactions, RPA designates only the change in fair value of the forward contract related to the spot component as the hedging instrument. Gains or losses relating to the effective portion of the change in the spot component of the forward contracts are recognised in the cash flow hedge reserve within Taxpayers’ Equity. The change in the forward element of the contract that relates to the hedged item is recognised within Other Comprehensive Expenditure in the costs of hedging reserve within Taxpayers’ Equity.

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.

When the forecast transaction is no longer expected to occur a cumulative gain or loss and deferred costs of hedging that were reported in Taxpayers’ Equity are recognised immediately in the SOCNE in the same line as the recognised hedged item.

For further detail please see the RPA Accounts.

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. The expected costs of the pension schemes 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 15.

1.20 Provisions

The department recognises a provision where it has a present obligation as a result of a past event, where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where material, future costs have been discounted using the rates as directed by HM Treasury.

The material provisions disclosed by the department include legacy liabilities relating to abandoned metal mines and foot and mouth disease (FMD) burial sites, potential liabilities in relation to changes in IR35 legislation and Disallowance Payments to the EU, where the timing and the value is subject to uncertainty. Details of the department's policy on disallowance provisions can be found in Chapter 3.

Some of Flood Re's insurance claims liabilities are subject to uncertainty in value and details are disclosed in these accounts in the section in Note 14.4 on Flood Re Insurance Provision.

See Note 14 for full details of all material provisions, including key management judgements and disclosures around 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

1.22.1 IFRS 16 Leases

IFRS 16 (Leases) has been effective since 1 January 2019 for the private sector. Due to the impact on government departments of COVID-19, HM Treasury agreed with the Financial Reporting Advisory Board (FRAB) to defer the implementation of IFRS 16 across central government to 1 April 2022.

When implemented, IFRS 16 will replace IAS 17 (Leases) and related International Financial Reporting Interpretations Committee (IFRIC) and Standard Interpretations Committee (SIC) interpretations. For lessees, it will remove the previous distinction between finance leases and operating leases. Under IFRS 16, all qualifying leases will recognise a right of use asset and lease liability. As a result, former operating leases will come on to the Statement of Financial Position. The Statement of Comprehensive Net Expenditure will reflect related charges for the depreciation of the right of use asset and interest on the lease liability in place of rental expenses, and continue to reflect irrecoverable VAT where applicable on any leases as HM Treasury guidance on the application of IFRS 16 Leases states this should not form part of the initial measurement of the right of use asset.

Within government, the scope of the standard has been extended to include lease-like arrangements that are not legally binding, for example Memorandum of Terms of Occupation (MOTOs). As mandated by the FReM, exemptions will be applied to short term leases with full terms or outstanding terms on transition of less than 12 months. Defra group has elected to apply the low value exemption beyond transition and has set a threshold of £5,000 for recognition of leases, applied to the cost of the underlying asset when new. Many of the land leases within the Environment Agency's operational estate will be covered by the low value exemption where they are leases for plots of land of 1-3m^2 housing equipment with very low market rents and no alternative use.

On initial application, the FReM requires government bodies to adopt the option of recognising the net cumulative effects of applying IFRS 16 as an adjustment to the opening balance of taxpayers' equity at 1 April 2022. This means that prior year comparatives will not be re-stated in Defra's 2022–23 accounts. On transition, the opening cost of right of use assets will equal lease liabilities, adjusted for any lease prepayments or accruals that exist immediately prior to 1 April 2022. Lease liabilities will be calculated as the present value of outstanding payments due under the lease. Lease and non-lease components will be separated for vehicle leases, with the non-lease element continuing to be treated as an expense in the Statement of Comprehensive Net Expenditure. The subsequent measurement of right of use assets, and the opening measurement of peppercorn leases, will be at fair value or current value in existing use where assets are held for their service potential, unless cost represents a reasonable proxy. For land and buildings, valuations will be determined by appropriately qualified professionals in accordance with Royal Institution of Chartered Surveyors (RICS) Guidance. Current costs indices will be applied to other asset categories.

The estimated impact of IFRS 16 on the Statement of Financial Position at 1 April 2022 is to increase right of use assets by £118 million for the core department and Agencies and £190 million for Defra group. Lease liabilities increase by £116 million for the core department and Agencies and £183 million for Defra group. Land and buildings account for approximately 90 per cent of opening balances, with the corporate estate accounting for 83 per cent of the total. Depreciation and finance charges to the Statement of Comprehensive Net Expenditure in 2022–23 are estimated at £23 million for the core department and £43 million for the Defra group. These estimates are based on the most recent lease information, rather than as at 31 March 2021, as this represents the best estimate of the impact when the standard is adopted.

Lessor accounting is largely unchanged by IFRS 16 with lessors continuing to distinguish finance and operating leases. If a sub lease is judged to be a finance lease, the intermediate lessor will derecognise the right of use asset and recognise a receivable for the net investment in the finance lease equivalent to discounted future income. Defra has sub-let some properties to third parties as finance leases and expects to derecognise right of use assets of around £18 million at 1 April 2022. Occupation of the corporate estate by Defra group bodies is on a flexible shared basis with no formal occupancy agreements in place between the leaseholder (either core department or the Environment Agency) and the occupant. Corporate estate leases will therefore be recognised in full by the leaseholder.

Accounting under IFRS 16 involves key judgements for lessees with respect to the conditions required to recognise the existence of a lease, the valuation of right of use assets and setting the lease term over which cash flows are discounted, including where leases have no fixed end date. Lessors and intermediate lessors must make judgements about the balance of risks and rewards of ownership attached to the underlying asset and the right of use asset respectively. Hindsight will be applied where judgements have been made.

Early Adoption

Flood Re and Livestock Information Ltd follow the Companies Act which requires them to implement IFRS 16 from 1 April 2019, three years ahead of the revised FReM implementation date of 1 April 2022. We have not adjusted our group consolidated accounts to remove their IFRS 16 transactions as the impact is not material (Note 1.6.2).

The Royal Botanic Gardens Kew and the National Forest Company will be consolidated into the Defra group accounts from 1 April 2022 on an IFRS 16 basis. As charities preparing accounts under FRS102 Statement of Recommended Practice, Accounting and Reporting by Charities (SORP) there is no current requirement for them to implement IFRS 16 when preparing their own accounts.

1.22.2 IFRS 17 – Insurance Contracts

This standard will apply to all types of insurance contracts and proposes an 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 2023. The adoption of IFRS 17 is anticipated to have a material impact on Flood Re’s financial statements and disclosures and the department will work with Flood Re to monitor the impact of adoption. Flood Re will implement for the 2023-24 financial year. The date of implementation for public sector accounts may be delayed, however, this has not yet been determined and published in the FReM.

1.23 Changes to Accounting Policies

There have been no changes to accounting policies during 2020-21.

1.24 Adoption of new and revised standards

At the date of authorisation of these financial statements no new standards have become effective and been adopted.

2 Statement of Operating Costs by Operating Segment

The segmental analysis detailed below covers the key spending areas of the department and is aligned with the internal reporting to the Defra Board and Executive Committee. Defra reports regularly on this basis and performance is monitored against these areas. The reportable segments are split by the core department and delivery body. Where delivery bodies' reported revenue is 10 per cent 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 Annual Report and Accounts and eliminates transactions between Defra's delivery bodies.

In 2020-21, Defra received funding of £925 million from the EU, 48 per cent of its income (2019-20 £3,723 million, 78 per cent). The majority of this falls to the Rural Payments Agency and Core Department. This is in respect of rural development schemes for Defra and the other UK paying agencies where reimbursement, against existing budgets, can still be sought under the CAP. The decrease in income is as a result of previous CAP funding for direct aid measures, principally the Basic Payment Scheme, switching to being funded by the UK Government following the UK's departure from the EU. Of the remaining income Defra does not rely on any one major customer.

			2020-21			Restated 2019-20
Body	**Gross Expenditure**	**Gross Income**	**Net Total**	**Gross Expenditure**	**Gross Income**	**Net Total**
	£000	£000	£000	£000	£000	£000
Core Department	1,455,321	(437,238)	1,018,083	2,272,545	(484,436)	1,788,109
Rural Payments Agency	2,551,401	(520,567)	2,030,834	3,456,667	(3,237,476)	219,191
Other Agencies	415,710	(100,136)	315,574	384,440	(112,374)	272,066
Environment Agency	1,692,068	(499,404)	1,192,664	1,473,779	(460,376)	1,013,403
Flood Re	116,676	(231,554)	(114,878)	256,654	(305,766)	(49,112)
Other Non Departmental Public Bodies	370,156	(143,217)	226,939	360,782	(168,216)	192,566
Total	**6,601,332**	**(1,932,116)**	**4,669,216**	**8,204,867**	**(4,768,644)**	**3,436,223**

3 Expenditure

3.1 Staff and other Costs

	2020-21		Restated 2019-20	
	Core Department and Agencies	**Defra Group**	Core Department and Agencies	Defra Group
	£000	**£000**	£000	£000
Staff Costs				
Wages and salaries	545,542	1,048,665	476,272	949,100
Social security costs	43,095	102,305	39,730	96,491
Other pension costs	102,591	134,761	115,950	146,144
Other Costs				
Rentals under operating leases	25,081	46,761	26,645	53,901
Travel, subsistence and hospitality	3,551	5,672	23,375	45,478
Research and development expenditure	25,651	52,243	23,911	49,407
Veterinarian costs	27,942	27,942	25,726	25,726
Consumables	19,341	32,588	17,064	31,390
IT service costs	113,358	173,528	125,553	173,988
Vessels	4,545	4,545	5,511	5,511
Estate management	66,914	108,413	64,137	108,618
Consultancy	24,755	36,337	14,218	33,299
Hired and contracted services	17,695	117,759	16,444	90,046
Training	7,261	13,035	6,922	16,664
Publicity, marketing and promotion	1,157	16,701	1,740	19,830
Office services	32,930	34,020	34,813	35,795
Early retirement	(129)	860	1,393	3,126
Exchange rate (gains)/losses - realised	3,343	3,350	(395)	(398)
NAO auditors' remuneration	368	764	375	752
Flood Re statutory audit fee	-	190	-	217
Other audit fees	2,441	2,589	3,133	3,212
Internal audit fees	1,189	1,876	1,205	1,872
Flood and coastal defence works	-	475,402	-	331,230
Operational maintenance	-	12,939	-	11,987
Fees and commissions	16,903	41,021	15,499	40,363
Reservoir operating agreements	-	60,142	-	32,514
Transport and plant costs	-	18,364	-	20,252
EU disallowance	(258)	(258)	13,609	13,609
Forestry Commission subsidy to Forestry England	24,051	24,051	16,449	16,449
Corporation tax paid by NDPBs	-	26,958	-	11,553
Flood Re reinsurance expenditure	-	65,780	-	67,435
International subscriptions	20,853	20,915	19,910	19,979
Credit losses	(106)	5,093	(226)	3,363
Food support as a result of Covid 19	212,122	212,122	-	-
Support to fishing industry as a result of covid 19 and impacts of exiting the EU	9,072	9,072	-	-
Hedging Costs	-	-	64,617	64,617
Other	53,619	129,845	37,968	113,698
Total	**1,404,877**	**3,066,350**	1,191,548	2,637,218

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

A late adjustment to the VMD NAO fee for 2018–19 was not reflected in the 2018–19 Consolidated ARA, as a result the 2019–20 figure includes £5,000 which relates to work undertaken in 2018–19.

2019–20 Pension costs include a £20 million pension payment in relation to EA staff transferred to Defra.

3.2 Non-cash items

	2020-21		2019-20	
	Core Department and Agencies	Defra Group	Core Department and Agencies	Defra Group
	£000	£000	£000	£000
Depreciation	32,879	131,023	36,229	130,250
Amortisation	28,523	52,777	18,560	42,244
Profit on the disposal of PPE and financial investments	-	(9)	(271)	(502)
Loss on the disposal of PPE and financial investments	550	41,175	1,506	17,352
Impairment on non financial assets	12,300	57,736	24,528	42,804
Exchange rate (gains)/losses - unrealised	(2)	43	(139)	(149)
NAO auditors' remuneration	1,163	1,163	1,161	1,161
Pensions provided for in year/(written back)	6,697	121,102	11,060	164,779
Other provisions provided for/(written back) as detailed in note 14	(463,695)	(450,253)	696,735	857,886
Utilisation of capital provision	(422)	(422)	-	(499)
Unwinding of discount on provisions	6,928	6,928	1,021	1,021
Capital grant-in-kind	14,005	14,005	-	-
Notional recharges and other non-cash items	(36,331)	-	(29,412)	-
Total	**(397,405)**	**(24,732)**	760,978	1,256,347

3.3 Grants and subsidies

	2020-21		Represented 2019-20	
	Core Department and Agencies	Defra Group	Core Department and Agencies	Defra Group
	£000	£000	£000	£000
Grants and subsidies: EU				
Capital grants	-	-	-	23
Current grants - Basic Payment Scheme	32,652	32,652	1,842,399	1,842,399
Current grants - Rural Development Programme for England	398,606	398,606	439,330	439,330
Current grants - payments to other paying agencies	450,884	450,884	1,330,974	1,330,974
Other EU current grants	27,094	27,094	62,412	62,482
Unrealised (gains)/losses	(5,855)	(5,855)	5,102	5,102
Grants and subsidies: other				
Capital grants	54,389	180,948	32,311	148,872
Current grants - Grant-in-Aid to NDPBs	1,225,292	-	1,053,713	-
Current grants - Rural Development Programme for England	82,352	82,352	72,296	72,296
Current grants - BPS Exchequer funded	1,835,502	1,835,502	-	-
Current grants - Other RPA schemes	18,147	18,147	-	-
Current grants - Canal and River Trust	52,623	52,623	31,156	31,156
Current grants - South West Water Customer Rebate	39,557	39,557	39,384	39,384
Current grants - TB Compensation Scheme	33,371	33,371	32,052	32,052
Grants to national parks	50,273	50,273	48,762	48,762
PFI waste management grants to local authorities	96,994	96,994	95,225	95,225
Other grants to local authorities	48,999	56,653	74,742	82,684
Food support grants as a result of Covid 19	94,930	94,930	-	-
Other current grants & subsidies	114,595	114,983	73,725	80,561
Total	**4,650,405**	**3,559,714**	5,233,583	4,311,302

The significant change in relation to BPS reflected in 2020-21 follows the UK's departure from the EU with expenditure now funded by the Exchequer or directly by the other paying agencies. (Note 1.5.1).

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.

4.1 Analysis of revenue from contracts with customers

							2020-21
	Core Department	Rural Payment Agency	Other Agencies	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	-	-	27,027	**27,027**	-	1,103	**28,130**
Animal disease surveillance and diagnostics	-	-	10,096	**10,096**	-	-	**10,096**
Veterinary research and development	-	-	576	**576**	-	-	**576**
Scientific products	-	-	1,463	**1,463**	-	-	**1,463**
Provision of corporate services (outside Defra group)	-	-	901	**901**	-	-	**901**
TB Compensation salvage receipts	9,607	-	616	**10,223**	-	-	**10,223**
Sale of other goods	4,772	-	-	**4,772**	-	3,142	**7,914**
Other services (including Defra group)	5,476	434	3,736	**9,646**	-	(4,283)	**5,363**
Fees, levies and charges							
Veterinary medicines authorisations	-	-	6,106	**6,106**	-	-	**6,106**
Veterinary medicine residues surveillance	-	-	3,739	**3,739**	-	-	**3,739**
Plant health inspections and seeds charges	-	-	9,588	**9,588**	-	-	**9,588**
Environmental protection charges	-	-	-	**-**	186,215	-	**186,215**
Abstraction charges	-	-	-	**-**	153,210	-	**153,210**
Flood risk levies	-	-	-	**-**	40,443	-	**40,443**
Flood Re Levy Income	-	-	-	**-**	-	180,000	**180,000**
Agriculture and horticulture levies	-	-	-	**-**	-	57,738	**57,738**
Sea Fish industry levies	-	-	-	**-**	-	6,902	**6,902**
Discretionary Advice	-	-	-	**-**	-	3,249	**3,249**
Other fees, levies and charges	-	-	2,075	**2,075**	-	945	**3,020**
EU funding							
Other EU income	-	-	907	**907**	-	5	**912**
Licences							
Fishing licence duties	-	-	-	**-**	26,333	-	**26,333**
Navigation licence income	-	-	-	**-**	9,002	-	**9,002**
Other licences	5,896	-	-	**5,896**	-	3,489	**9,385**
Other Income							
Capital Grant Income	-	-	**-**	-	52,250	-	**52,250**
Other grant income	-	-	-	**-**	-	865	**865**
Recoveries for secondments outside Defra group	528	-	118	**646**	-	1,447	**2,093**
APHA income from devolved administrations	-	-	33,572	**33,572**	-	-	**33,572**
Other Income	36	-	104	**140**	-	107	**247**
Total income from contracts with customers	**26,315**	**434**	**100,624**	**127,373**	**467,453**	**254,709**	**849,535**

Restated 2019-20

	Core Department	Rural Payment Agency	Other Agencies	**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	-	-	26,025	**26,025**	-	1,045	**27,070**
Animal disease surveillance and diagnostics	-	-	7,526	**7,526**	-	-	**7,526**
Veterinary research and development	-	-	1,318	**1,318**	-	-	**1,318**
Scientific products	-	-	1,413	**1,413**	-	-	**1,413**
Provision of corporate services (outside Defra group)	-	-	2,137	**2,137**	-	-	**2,137**
TB Compensation salvage receipts	-	-	9,502	**9,502**	-	-	**9,502**
Sale of other goods	3,129	-	-	**3,129**	-	8,553	**11,682**
Other services (including Defra group)	6,302	1,268	3,180	**10,750**	-	(6,515)	**4,235**
Fees, levies and charges							
Veterinary medicines authorisations	-	-	6,327	**6,327**	-	-	**6,327**
Veterinary medicine residues surveillance	-	-	3,655	**3,655**	-	-	**3,655**
Plant health inspections and seeds charges	-	-	9,449	**9,449**	-	-	**9,449**
Environmental protection charges	-	-	-	**-**	202,214	-	**202,214**
Abstraction charges	-	-	-	**-**	129,583	-	**129,583**
Flood risk levies	-	-	-	**-**	52,360	-	**52,360**
Flood Re Levy Income	-	-	-	**-**	-	180,000	**180,000**
Agriculture and horticulture levies	-	-	-	**-**	-	59,947	**59,947**
Sea Fish industry levies	-	-	-	**-**	-	7,853	**7,853**
Discretionary Advice	-	-	-	**-**	-	2,882	**2,882**
Other fees, levies and charges	-	-	2,532	**2,532**	-	516	**3,048**
EU funding							
Other services	-	-	(16)	**(16)**	-	-	**(16)**
Other EU income	-	-	2,978	**2,978**	-	24	**3,002**
Licences							
Fishing licence duties	-	-	-	**-**	21,006	-	**21,006**
Navigation licence income	-	-	-	**-**	10,121	-	**10,121**
Other licences	5,783	-	-	**5,783**	-	3,647	**9,430**
Other Income							
Capital grant income	-	-	-	**-**	18,582	-	**18,582**
Other grant income	-	-	-	**-**	-	942	**942**
Recoveries for secondments outside Defra group	682	-	(170)	**512**	-	391	**903**
APHA income from devolved administrations	-	-	33,606	**33,606**	-	-	**33,606**
Other Income	-	-	531	**531**	-	142	**673**
Total income from contracts with customers	15,896	1,268	109,993	**127,157**	433,866	259,427	**820,450**

Material income streams disclosed in accordance with IFRS 15 Contracts with Customers are determined as detailed in the table below

Contract Type	Note 4 Headings	Entity Impacted	Categories of Performance Obligation	Basis of Recognition
Fees and Charges (for Environmental protection and water abstraction	Environmental Protection Charges, Abstraction Charges	EA	EA issues licences and permits and imposes levies	The licence or permit revenue is recognised at the time of application and regulatory charge recognised at the point the permit commences.
Statutory Levy	Flood Re Levy Income and Agriculture and Horticulture Levies	Flood Re AHDB	Statute requires that the bodies charge levies.	Flood Re Levy is required by statute and has no associated performance obligation and is recognised on the 1 April each year with payment received quarterly. AHDB levies are recognised over time as the levies fund services provided to levy payers throughout the year.
Flood Risk Levies	Flood Risk Levies	EA	Construction and Maintenance of new and existing flood defences	Costs and revenues are matched over time.
Capital Works Expensed in Year Income	Capital Grant Income	EA	Construction and Maintenance of new and existing flood defences	Income recognition is based on individual legally binding agreements and the completion of performance obligations.
Scientific Project Income	Scientific advice, analysis and research	APHA CEFAS	Production of a report (Performance obligations are contracted milestones within the process)	Project income is generally recognised at the completion of a contracted milestone on the basis that the contract will specify whether money spent to a determined date or deliverable can be recovered from the customer prior to the completion of the project.

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:

	2021-22
	£000
Flood Risk Management Charges	80,802
Water Abstraction Charges	19,800
Environmental Protection Charges	720

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

4.2 Analysis of Other Operating Income

	2020-21		Restated 2019-20	
	Core Department and Agencies	**Defra Group**	Core Department and Agencies	Defra Group
	£000	**£000**	£000	£000
Goods and services				
TB compensation salvage receipts	-	-	31	31
Covent Garden Market income	2,030	2,030	2,030	2,030
Other services	7,775	33,086	4,991	25,905
Income payable to the consolidated fund	6,218	6,218	448	448
EU Income				
Basic Payment Scheme	32,814	32,814	1,844,224	1,844,224
Income payable to other paying agencies	450,467	450,467	1,332,290	1,332,290
Structural fund / RDPE income	398,606	398,606	439,330	439,330
Current grant income - EU	1,957	12,122	27,773	41,164
Other EU Income	26,028	29,992	57,192	62,974
Other Income				
Flood Re insurance income	-	51,121	-	123,038
Lease income	-	23	-	15
Charity income	-	36,622	-	54,544
Lottery Grant Income	-	2,765	-	3,306
Other interest receivable	-	450	-	3,454
Current grant income - non EU	9,018	22,188	2,775	10,770
Capital grant income - non EU	-	-	900	900
Other income	4,077	4,077	3,771	3,771
Total other operating income	**938,990**	**1,082,581**	3,715,755	3,948,194

The significant reduction in overall operating income in 2020-21 is as a result of the reduction in EU income reimbursement in relation to the Basic Payment Scheme following the UK's departure from the EU, with expenditure now being funded by the Exchequer or directly by the other paying agencies. (Note 1.5.1.).

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 2020	87,498	388,926	35,966	5,500,526	116,941	81,914	126,730	66,741	307,311	**6,712,553**
Additions	1,553	2,249	-	-	24,222	757	22,151	1,773	179,152	**231,857**
Transfers	1	706	-	-	1	-	1,781	-	(3,756)	**(1,267)**
Disposals	(4,739)	(23,662)	(1,255)	(84,762)	(33,429)	(7,154)	(5,432)	(1,796)	-	**(162,229)**
Impairment	(6,209)	(1,200)	(1,039)	(33,587)	(4,342)	(146)	(11,066)	(68)	(2,805)	**(60,462)**
Reclassifications	(746)	(456)	-	62,016	1,686	(2,329)	711	(114)	(64,962)	**(4,194)**
Reclassified as held for sale	828	1,129	18	1,434	-	-	-	-	-	**3,409**
Revaluation	1,991	2,715	(5,962)	195,336	1,576	5,083	8,423	4,925	-	**214,087**
At 31 March 2021	**80,177**	**370,407**	**27,728**	**5,640,963**	**106,655**	**78,125**	**143,298**	**71,461**	**414,940**	**6,933,754**
Depreciation										
At 1 April 2020	-	69,948	12,472	2,782,002	85,889	51,408	85,216	44,164	-	**3,131,099**
Charges in year	-	16,283	896	64,063	16,669	7,299	13,594	7,934	-	**126,738**
Transfers	-	(1)	-	-	1	(2)	-	-	-	**(2)**
Disposals	-	(6,360)	(631)	(53,291)	(32,730)	(7,115)	(5,372)	(1,653)	-	**(107,152)**
Impairment	-	19	-	(2)	(2,864)	(53)	(86)	(50)	-	**(3,036)**
Reclassifications	-	(751)	-	2,695	-	(1,495)	(1,304)	(23)	-	**(878)**
Revaluation	-	(602)	(40)	88,576	229	1,051	306	(1,133)	-	**88,387**
At 31 March 2021	**-**	**78,536**	**12,697**	**2,884,043**	**67,194**	**51,093**	**92,354**	**49,239**	**-**	**3,235,156**
Net book value 31 March 2021	**80,177**	**291,871**	**15,031**	**2,756,920**	**39,461**	**27,032**	**50,944**	**22,222**	**414,940**	**3,698,598**
Net book value 31 March 2020	87,498	318,978	23,494	2,718,524	31,052	30,506	41,514	22,577	307,311	3,581,454
Assets financing										
Owned	80,177	290,207	15,031	2,756,920	23,155	27,032	50,902	22,222	414,940	**3,680,586**
Finance leased	-	1,664	-	-	16,306	-	42	-	-	**18,012**
Net book value 31 March 2021	**80,177**	**291,871**	**15,031**	**2,756,920**	**39,461**	**27,032**	**50,944**	**22,222**	**414,940**	**3,698,598**
Of which:										
Core department and agencies	30,693	248,997	-	-	25,322	17,270	19,814	236	68,789	**411,121**
NDPBs	49,484	42,874	15,031	2,756,920	14,139	9,762	31,130	21,986	346,151	**3,287,477**
Total	**80,177**	**291,871**	**15,031**	**2,756,920**	**39,461**	**27,032**	**50,944**	**22,222**	**414,940**	**3,698,598**

Plant and machinery includes vessels owned by Cefas with a net book value of £6.2 million (2019-20, £6.6 million). Infrastructure assets include flood defences owned by EA, including the Thames Barrier with a net book value of £1,183 million (2019–20, £1,145 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 2019	87,025	434,985	35,995	5,414,647	121,241	175,756	122,369	67,469	233,541	6,693,028
Additions	654	3,639	108	-	(405)	320	6,655	3,784	144,923	159,678
Transfers	(10)	18,531	-	(43)	(202)	44	1,295	-	(19,673)	(58)
Disposals	(1,058)	(16,445)	(5)	(41,879)	(4,669)	(3,999)	(5,959)	(5,129)	-	(79,143)
Impairment	(417)	(11,026)	-	(13,086)	-	(98,055)	172	-	(4,749)	(127,161)
Reclassifications	660	7,328	(452)	31,464	134	8,080	724	36	(46,731)	1,243
Reclassified as held for sale	(1,003)	(1,590)	(77)	8,173	-	-	-	-	-	5,503
Revaluation	1,647	(46,496)	397	101,250	842	(232)	1,474	581	-	59,463
At 31 March 2020	87,498	388,926	35,966	5,500,526	116,941	81,914	126,730	66,741	307,311	6,712,553
Depreciation										
At 1 April 2019	-	113,801	11,453	2,684,370	78,152	124,582	83,060	41,371	-	3,136,789
Charges in year	-	16,475	887	66,259	13,400	13,297	9,556	6,621	-	126,495
Transfers	-	-	-	(1)	-	3	(1)	-	-	1
Disposals	-	(15,240)	-	(20,290)	(4,667)	(4,015)	(5,293)	(4,186)	-	(53,691)
Impairment	-	(1,943)	85	-	-	(81,873)	(686)	-	-	(84,417)
Reclassifications	-	137	(89)	72	(169)	(436)	(14)	-	-	(499)
Revaluation	-	(43,282)	136	51,592	(827)	(150)	(1,406)	358	-	6,421
At 31 March 2020	-	69,948	12,472	2,782,002	85,889	51,408	85,216	44,164	-	3,131,099
Net book value 31 March 2020	87,498	318,978	23,494	2,718,524	31,052	30,506	41,514	22,577	307,311	3,581,454
Net book value 31 March 2019	87,025	321,184	24,542	2,730,277	43,089	51,174	39,309	26,098	233,541	3,556,239
Assets financing										
Owned	87,498	318,200	23,494	2,718,524	30,538	30,506	41,435	22,577	307,311	3,580,083
Finance leased	-	778	-	-	514	-	79	-	-	1,371
Net book value 31 March 2020	87,498	318,978	23,494	2,718,524	31,052	30,506	41,514	22,577	307,311	3,581,454
Of which:										
Core department and agencies	33,395	279,402	-	-	13,963	22,596	17,505	306	30,100	397,267
NDPBs	54,103	39,576	23,494	2,718,524	17,089	7,910	24,009	22,271	277,211	3,184,187
Total	87,498	318,978	23,494	2,718,524	31,052	30,506	41,514	22,577	307,311	3,581,454

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

			2020-21			2019-20
	Operational	Non-Operational	Total	Operational	Non-Operational	Total
	£000	£000	£000	£000	£000	£000
Valuation						
At 1 April	211,854	64,143	275,997	226,207	61,869	288,076
Additions	5,678	2,900	8,578	4,288	134	4,422
Transfers	-	13	13	-	1	1
Disposals	(3,864)	-	(3,864)	(1,401)	-	(1,401)
Impairment	-	(205)	(205)	-	(57)	(57)
Reclassifications	-	562	562	(1,970)	185	(1,785)
Revaluation	(8,956)	4,242	(4,714)	(15,270)	2,011	(13,259)
At 31 March	**204,712**	**71,655**	**276,367**	211,854	64,143	275,997
Depreciation						
At 1 April	-	-	-	4,837	-	4,837
Charged in year	3,289	-	3,289	3,310	-	3,310
Disposals	(167)	-	(167)	(305)	-	(305)
Reclassifications	-	-	-	(63)	-	(63)
Revaluation	(3,123)	-	(3,123)	(7,779)	-	(7,779)
At 31 March	**(1)**	**-**	**(1)**	-	-	-
Net book value at 31 March	**204,713**	**71,655**	**276,368**	211,854	64,143	275,997
Net book value at 1 April	211,854	64,143	275,997	221,370	61,869	283,239
Assets financing						
Owned	204,713	71,655	276,368	211,854	64,143	275,997
Net book value 31 March	**204,713**	**71,655**	**276,368**	211,854	64,143	275,997
Of which:						
NDPBs	204,713	71,655	276,368	211,854	64,143	275,997
Total	**204,713**	**71,655**	**276,368**	211,854	64,143	275,997

5.3 Cash Additions

Cash additions (adjusted for capital accruals) for property, plant and equipment, heritage assets and agricultural assets amount to £221 million (2019–20, £178 million (restated)) as per the Consolidated Statement of Cash Flows (SoCF).

6 Intangible Assets

Defra Group

	2020-21				2019-20			
	Internally Developed Software	**Software Licences**	**IT Assets Under Construction**	**Total**	Internally Developed Software	Software Licences	IT Assets Under Construction	Total
	£000	**£000**	**£000**	**£000**	£000	£000	£000	£000
Cost or valuation								
At 1 April	602,693	122,159	121,705	846,557	582,247	114,132	93,135	789,514
Additions	2,453	3,314	42,512	48,279	541	3,670	63,943	68,154
Disposals	(73,743)	(8,773)	-	(82,516)	(19,857)	(4)	-	(19,861)
Impairments	(13)	(80)	(44)	(137)	-	(11)	(74)	(85)
Transfers	41,947	-	(40,794)	1,153	9,860	4,144	(14,016)	(12)
Reclassifications	47,390	640	(45,276)	2,754	20,964	(699)	(21,283)	(1,018)
Revaluation	23,749	3,102	-	26,851	8,938	927	-	9,865
At 31 March	**644,476**	**120,362**	**78,103**	**842,941**	602,693	122,159	121,705	846,557
Amortisation								
At 1 April	457,546	82,538	-	540,084	448,106	73,748	-	521,854
Charged in year	45,175	7,602	-	52,777	33,160	9,084	-	42,244
Disposals	(73,459)	(8,719)	-	(82,178)	(19,301)	(3)	-	(19,304)
Impairments	-	-	-	-	-	(9)	-	(9)
Transfers	-	-	-	-	(2)	-	-	(2)
Reclassifications	-	-	-	-	-	(128)	-	(128)
Revaluation	8,163	(1,754)	-	6,409	(4,417)	(154)	-	(4,571)
At 31 March	**437,425**	**79,667**	**-**	**517,092**	457,546	82,538	-	540,084
Net book value at 31 March	**207,051**	**40,695**	**78,103**	**325,849**	145,147	39,621	121,705	306,473
Net book value at 1 April	145,147	39,621	121,705	306,473	134,141	40,384	93,135	267,660
Assets financing								
Owned	207,051	40,602	78,103	325,756	145,147	39,491	121,705	306,343
Finance leased	-	93	-	93	-	130	-	130
Net book value 31 March	**207,051**	**40,695**	**78,103**	**325,849**	145,147	39,621	121,705	306,473
Of which:								
Core department and agencies	151,393	1,035	16,047	168,475	94,256	1,278	71,861	167,395
NDPBs	55,658	39,660	62,056	157,374	50,891	38,343	49,844	139,078
Total	**207,051**	**40,695**	**78,103**	**325,849**	145,147	39,621	121,705	306,473

The effective date of revaluation was 31 March 2021.

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

- During 2020–21 the decision was made to use existing Common Agricultural Policy (CAP) scheme payment assets held by RPA for the delivery of UK funded future farming scheme payments. This resulted in the RPA extending the useful life of existing CAP scheme payment assets with a net book value of £53 million as at 1 April 2020 to 31 March 2028.

- The difference between the revalued carrying amount and the carrying amount that would have arisen under the historic cost model is not material.

Cash additions (adjusted for capital accruals) shown in the SoCF amount to £52 million (2019–20, £74 million (restated)).

7 Impairments

	Note	2020-21 Core Department and Agencies £000	2020-21 Defra Group £000	2019-20 Core Department and Agencies £000	2019-20 Defra Group £000
PPE - including investment properties		12,287	57,619	24,526	42,733
Intangibles		13	137	2	76
Investments		-	(20)	-	(5)
Total impairment charge for the year	3	**12,300**	**57,736**	24,528	42,804

The impairment table includes significant impairments as follows; core department £12.9 million (2019–20 £20.2 million), and EA £45.3 million (2019–20 £18 million). These are reported in the following operating segments; core department and EA respectively. In 2019–20, APHA reported £5.4 million which was recorded in the Other Agencies operating segment.

The Core Department has recognised the following significant impairments in 2020–21;

- £1.48 million of IT Hardware assets were impaired where some grouped assets could not be specifically substantiated.
- £11.1 million of Plant, Machinery and Software assets used in the management of the adopted metal mine water treatment sites which could not be substantiated.

EA's significant impairments in 2020-21 were as follows: Operational Assets £33.6 million, freehold land £6.4 million, freehold buildings £1.6 million, dwellings £1 million and Assets under construction by £2.8 million. This was indicated following an annual review which showed signs of a reduction in service potential below the carrying value of the asset due to asset damage, obsolescence or aborted capital projects.

8 Financial Commitments

8.1 Capital Commitments

Defra Group

	2020-21 £000	2019-20 £000
Contracted capital commitments at 31 March for which no provision has been made:		
PPE	84,947	98,774
Intangible assets	11,895	12,170
Financial assets	-	43,248
Total	**96,842**	154,192
Of which:		
Core department and agencies	38,919	80,086
NDPBs	57,923	74,106
Total	**96,842**	154,192

8.2 Commitments under Leases

8.2.1 Operating Leases

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

	2020-21		2019-20	
	Core Department and Agencies	**Defra Group**	Core Department and Agencies	Defra Group
	£000	**£000**	£000	£000
Land and Buildings				
Not later than one year	22,553	36,117	26,434	38,153
Later than one year and not later than five years	74,934	107,451	84,889	114,780
Later than five years	38,707	62,668	57,815	86,132
Total	**136,194**	**206,236**	169,138	239,065
Other				
Not later than one year	906	11,098	908	11,210
Later than one year and not later than five years	816	7,933	1,484	11,317
Total	**1,722**	**19,031**	2,392	22,527

8.2.2 Finance leases

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

	2020-21		2019-20	
	Core Department and Agencies	**Defra Group**	Core Department and Agencies	Defra Group
	£000	**£000**	£000	£000
Buildings				
Not later than one year	-	930	-	778
Later than one year and not later than five years	-	756	-	-
Total	**-**	**1,686**	-	778
Other				
Not later than one year	5,717	6,087	50	475
Later than one year and not later than five years	7,962	8,074	100	369
Total	**13,679**	**14,161**	150	844
Less: Interest element	(1,177)	(1,187)	(1)	(19)
Present value	**12,502**	**12,974**	149	825

8.2.3 Right of use Assets - Service Concession Arrangements

The total future minimum lease payments under service concession arrangements are given in the table below.

	2020-21		2019-20	
	Core Department and Agencies	**Defra Group**	Core Department and Agencies	Defra Group
	£000	**£000**	£000	£000
Not later than one year	492	492	1,004	1,004
Later than one year and not later than five years	223	223	759	759
Total	715	715	1,763	1,763
Less: Interest element	(46)	(46)	(144)	(144)
Present value	**669**	**669**	1,619	1,619

8.3 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:

	2020-21		2019-20	
	Core Department and Agencies	**Defra Group**	Core Department and Agencies	Defra Group
	£000	**£000**	£000	£000
Not later than one year	327,925	370,147	285,168	331,530
Later than one year and not later than five years	798,991	828,056	817,110	829,472
Later than five years	960,887	960,887	1,043,331	1,043,331
Total	**2,087,803**	**2,159,090**	2,145,609	2,204,333

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 £1,428 million (2019–20 £1,419 million). All projects are now in receipt of grant and no further agreements are planned.

The Canal & River Trust grant is committed until 31 March 2027. A review will take place during 2021–22 to determine the case for any further grant commitment beyond that date. The value of this commitment is £316 million (2019–20 £373 million).

£207 million (2019–20 £167 million) relating to service contracts for information technology and includes contracts with IBM and a number of contracts associated with the Unity programme.

Within the other financial commitments disclosure, £90 million (2019–20, £121 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.

9 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.

		2020-21		Restated 2019-20
	Core Department and Agencies	Defra Group	Core Department and Agencies	Defra Group
	£000	£000	£000	£000
Financial Assets				
Financial assets measured at amortised cost				
Loans and investments	1,526	2,183	10,469	10,503
Flood Re short term deposits (>3months, <1 Year)	-	515,550	-	451,650
Cash and cash equivalents	453,889	711,979	625,796	881,250
Financial assets measured at fair value through profit or loss (FVPL)				
Derivative instruments classified as held for trading	8,766	8,766	767	767
Financial assets measured at fair value through other comprehensive expenditure (FVOCE)				
Derivative instruments in designated hedge accounting relationships	-	-	695	695
ECO Business Fund	30,220	30,220	32,719	32,719
LDN Fund	8,030	8,030	10,000	10,000
Total	**502,431**	**1,276,728**	680,446	1,387,584
Financial Liabilities				
EA reservoir agreement	-	(409,487)	-	(404,273)
Financial liabilities measured at fair value through profit and loss (FVPL)				
Derivative instruments classified as held for trading	(572)	(572)	(10,123)	(10,123)
Financial liabilities measured at fair value through other comprehensive expenditure (FVOCE)				
Derivative instruments in designated hedge accounting relationships	-	-	(3,043)	(3,043)
Total	**(572)**	**(410,059)**	(13,166)	(417,439)

The investment in Fera Science Limited (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.

Other receivables and other payables are disclosed in Notes 11 and 12 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 11 and 12 also include non-financial instrument balances relating to taxation, accruals and prepayments. Flood Re's short term investments with a duration of greater than three months have been restated and are now classified as other financial assets in the receivables note, therefore these short term deposits are now shown separately from cash and cash equivalents within Note 11.

On 1 April 2015, FSL was formed, with Defra acquiring a 25 per cent stake in the company (Capita acquired 75 per cent). The investment in FSL is accounted for as an associate in line with IAS 28, 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.

The RPA has financial guarantee contracts in the form of non-cash guarantees totalling £1.766 billion as at 31 March 2021. (£2.514 billion, 31 March 2020). Please see RPA accounts for more details.

The contractual liability relating to the return on asset component payable to water companies under Reservoir Operating Agreements by EA is accounted for as a financial liability. The full cost of these financial liabilities, including the elements that give rise to these financial liabilities, is recoverable under legislation through water resources abstraction licences. Water companies who receive payments for operating reservoirs also pay the majority of the charges for water abstraction. The payments for a return on investment in the reservoir assets are indexed upwardly annually based on the RPI and are payable in perpetuity in line with the agreements negotiated on privatisation. Further details can be found in EA's accounts.

Significant Estimates and Judgements (Financial Assets)

Business model assessment

With respect to trade and other receivables 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 and the Land Degradation Neutrality (LDN) fund, the shares are neither classified as hold to collect nor hold to collect and sell, so by default would be classified at FVTPL. 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

Receivables that are not due from other public bodies are grouped together for the purpose of assessing the lifetime Expected Credit Loss. In general, Defra's customers tend to be other public sector entities, to which no real prospect of default applies.

For trade receivables with no significant financing components, IFRS 9 allows an entity to use a simplified method for calculating expected losses using historical default rates over the expected life of the trade receivables and adjusting for forward-looking estimates. Defra's receivables tend to be short term in nature (for example, trade receivables), and any longer term elements are not subject to financing components. Therefore the majority of receivables are shown net of expected credit loss using the simplified method. Forward-looking estimates are inherently difficult given the current pace of political and economic developments.

Defra has created a provision matrix for receivables, which gives the latest estimated lifetime Expected Credit Loss for each stream. This is based on the department's 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 have based their estimate on their historic experience of credit losses by charge scheme over the past four financial years, updated for any known future credit issues. Where the pandemic led to higher levels of default on more recent invoices, the expected credit loss calculation was increased to reflect the increased risk on those charge schemes. There has not been a material change in the expected credit losses for any charge scheme.

9.1 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.

9.2 Exposure to Risk

9.2.1 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.

9.2.2 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 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 affected 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 normally repayable within the financial year.

9.2.3 Market Risk – Foreign Currency Risk

Excluding RPA, there is no significant foreign currency risk.

RPA's activities expose it primarily 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 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.

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

	31 March 2021		31 March 2020	
	Assets	**Liabilities**	Assets	Liabilities
	£000	**£000**	£000	£000
Euro denominated	**377,182**	**126,656**	749,867	132,097

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

Impact of Movement in Euro/Sterling rate

	Sterling Appreciates by 10%		**Sterling Depreciates by 10%**	
	31 March 2021	31 March 2020	**31 March 2021**	31 March 2020
	£000	£000	**£000**	£000
(Increase)/decrease in Net operating cost[1]	**(25,053)**	(61,777)	**25,053**	61,777
Derivative instruments				
(Increase)/decrease in Net operating cost[2]	**27,029**	24,876	**(27,029)**	(24,876)
Increase/(decrease) in Taxpayers' Equity[3]	**-**	49,443	**-**	(49,443)

9.2.4 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 to recover the full cost of reservoir operating agreements through its charges on water abstraction.

9.2.5 Market Risk – Investments

As at 31 March 2021, the department has £48 million in investments (2019–20 £50 million), £30 million of this is invested in the Eco-Business Fund, £10 million in the Land Degradation Neutrality (LDN) Fund and the majority of the remainder is a shareholding in Fera Science Limited.

9.3 Exposure to Insurance Contract Risk

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

9.3.1 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 (S&P equivalent) or provide alternative collateralisation as a credit risk mitigant. No single reinsurer placement can exceed the maximum credit counterparty exposure thresholds established by Flood Re's Board.

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 due to inadequate pricing assumptions. The premium Flood Re charges is not reflective of the underlying risk that Flood Re assumes, as Flood Re's principal objective is to enable the continued availability and affordability of household insurance for homes at risk of flooding. Accordingly, Flood Re's premium risk strategy is to charge insurers a subsidised fixed rate that 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. The levy is set at £180 million a year.

Reserve risk

Reserve risk is defined as the risk of loss or of adverse change in the value of insurance liabilities due to the actual future costs of claims differing from expectations based on reserving assumptions. This is influenced by the frequency of claims, the severity of claims, the timing of actual claims payments and the development of the claims over a period of time.

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

Sensitivity

Flood Re uses scenario analysis to illustrate the potential financial impact of assumptions varying from expectations where there is limited historical data.

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 may result in a high level of volatility in the financial results of Flood Re.

During the year ended 31 March 2021, Flood Re classified and reserved for flooding in parts of the UK in December 2020 and January 2021 as low-level catastrophe loss events.

During the year ended 31 March 2020, Flood Re classified and reserved for flooding in parts of the UK in November 2019 and February 2020 as catastrophe loss events.

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.

Risk Mitigation

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). The scheme liability limit for the year ended 31 March 2021 was £2,273 million (2020: £2,244 million). Each financial year the Liability Limit is adjusted for the increase or decrease in the Consumer Price Index (CPI) in the prior calendar year. Subject to these adjustments, the Liability Limit is set for a period of five years. If claims were to exceed the Liability Limit, relevant insurers would continue to be liable to policyholders in accordance with the terms of the insurance policy sold.

Flood Re requires that its outwards reinsurance protections match the liability limit and has purchased an extensive reinsurance programme to meet this need. In addition, Flood Re protects itself from an annual accounting loss of £100 million by a £100 million excess reinsurance cover.

9.3.2 Liquidity

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

Flood Re monitors its liquidity and future cash flow requirements on a regular 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, unless there is a series of large flood events.

9.3.3 Market Risk

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

9.3.4 Capital Adequacy

Flood Re has complied at all times with the regulatory minimum capital requirements and the solvency capital requirements.

For more information on Insurance Risk, see Flood Re's Annual Report and Financial Statements.

10 Cash and Cash Equivalents

	2020-21		Restated 2019-20	
	Core Department and Agencies	**Defra Group**	Core Department and Agencies	Defra Group
	£000	**£000**	£000	£000
Balance at 1 April	625,796	881,250	636,351	886,590
Net change in cash balance	(171,907)	(169,271)	(10,555)	(5,340)
Balance at 31 March	**453,889**	**711,979**	625,796	881,250
The following balances at 31 March are held at:				
Government Banking Services	452,471	544,693	624,915	781,085
Commercial bank accounts and cash in hand	1,418	85,290	881	56,217
Short term investments	-	81,996	-	43,948
Balance at 31 March	**453,889**	**711,979**	625,796	881,250

For further information see the Net Cash Requirement section of Chapter 3.
Flood Re's short term investments with a duration of greater than three months have been restated and are now classified as other financial assets in the receivables note. These deposits cannot be cancelled on demand and therefore do not qualify as cash equivalents within the cash flows statements. The adjustments to the prior year comparative amounts on the face of the Statement of cash flows and Statement of financial position are detailed in Note 18 Prior Period Adjustments.

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

11 Trade Receivables, Financial and Other Assets

	31 March 2021		Restated 31 March 2020	
	Core Department and Agencies	**Defra Group**	Core Department and Agencies	Defra Group
	£000	**£000**	£000	£000
Amounts falling due within one year				
Trade receivables	45,717	77,034	27,385	57,811
Deposits and advances	1,284	1,375	929	985
Flood Re reinsurance receivables	-	80,870	-	91,236
Other receivables	30,207	32,746	28,498	31,815
VAT	16,762	50,062	19,118	43,766
Flood Re taxation receivable	-	-	-	5,741
Prepayments and accrued income	199,110	233,472	196,808	210,312
Accrued income relating to EU funding	317,320	323,957	725,157	731,536
Contract assets	3,637	3,957	4,284	4,625
Less expected credit loss for receivables and contract assets	(3,072)	(10,980)	(2,312)	(7,784)
Trade and other receivables	**610,965**	**792,493**	999,867	1,170,043
Current loans	991	991	9,890	9,890
Current part of derivative financial instrument asset	8,766	8,766	1,462	1,462
Flood Re Short Term Deposits (>3months, <1 Year)	-	515,550	-	451,650
Financial assets	**9,757**	**525,307**	11,352	463,002
Amounts falling due after one year				
Trade receivables	47	47	22	22
Other receivables	714	724	719	744
Prepayments and accrued income	12	12	9	9
Receivables due after more than one year	**773**	**783**	750	775
Eco Business fund	30,220	30,220	32,719	32,719
LDN fund	8,030	8,030	10,000	10,000
Other financial assets	535	1,192	579	613
Non-current financial assets	**38,785**	**39,442**	43,298	43,332
Total receivables, financial and other assets	**660,280**	**1,358,025**	1,055,267	1,677,152

For Flood Re deposits with a maturity greater than 3 months at inception, additions are £1,467 million (2019-20, £1,344 million) with repayments & redemptions of £1,404 million (2019-20, £1,190 million) and interest capitalised of £0.9 million (2019-20, £2.3 million).

12 Trade Payables, Financial and Other Liabilities

	31 March 2021		Restated 31 March 2020	
	Core Department and Agencies	**Defra Group**	Core Department and Agencies	Defra Group
	£000	**£000**	£000	£000
Amounts falling due within one year				
VAT	978	2,554	530	1,738
Other taxation and social security	11,028	25,151	9,729	23,732
Flood Re reinsurance payables	-	43,591	-	20,631
Promissory notes	124,388	124,388	137,700	137,700
Trade payables	40,604	49,889	47,220	57,314
Other payables	22,326	38,368	76,655	92,056
Accruals and deferred income	452,921	790,572	513,907	782,264
Current part of finance leases	5,537	6,828	963	2,158
Amounts issued from the Consolidated Fund for supply but not spent at year end	453,889	453,889	625,796	625,796
Consolidated Fund Extra Receipts due to be paid to the Consolidated Fund Receivable	5,763	5,763	-	-
Contract liabilities	6,181	139,907	4,571	116,709
Trade and other payables	**1,123,615**	**1,680,900**	1,417,071	1,860,098
Current part of derivative financial instrument liability	572	572	13,166	13,166
Current part of Environment Agency reservoir agreement	-	21,533	-	21,111
Financial liabilities	**572**	**22,105**	13,166	34,277
Amounts falling due after more than one year				
Other payables, accruals and deferred income	126,202	129,769	130,282	131,422
Finance leases	7,634	8,501	805	1,064
Contract liabilities	135	135	133	133
Other Payables	**133,971**	**138,405**	131,220	132,619
Environment Agency reservoir agreement	-	387,954	-	383,162
Financial liabilities	**-**	**387,954**	-	383,162
Total payables	**1,258,158**	**2,229,364**	1,561,457	2,410,156

Included within promissory notes payable is an amount of £36.9 million (2019–20, £51.6 million) which is expected to be encashed within 1 year and £87.5 million (2019–20, £86.1 million) which is expected to be encashed after 1 year based on non-legally binding encashment schedules.

13 Contract Assets and Liabilities

13.1 Contract balances

	31 March 2021		31 March 2020	
	Core Department and Agencies	**Defra Group**	Core Department and Agencies	Defra Group
	£000	**£000**	£000	£000
Receivables which are included in trade and Other Receivables	608,101	789,319	996,333	1,166,193
Contract Assets	3,637	3,957	4,284	4,625
Contract Liabilities	(6,316)	(140,042)	(4,704)	(116,842)

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

	31 March 2021		31 March 2021	
	Contract Assets		Contract Liabilities	
	Core Department and Agencies	Defra Group	Core Department and Agencies	Defra Group
	£000	£000	£000	£000
Contract Assets/Liabilities at 1 April 2020	4,284	4,625	(4,704)	(116,842)
Increases/Decreases due to cash received/paid	(6,949)	(6,949)	(7,914)	(48,714)
Transfers from contract assets/liabilities to receivables/payables	6,302	6,281	6,302	25,514
Contract Assets/Liabilities at 31 March 2021	**3,637**	**3,957**	**(6,316)**	**(140,042)**

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 2019–20, this has not been relevant to Defra.

14 Provisions for Liabilities and Charges

14.1 Provisions for Liabilities and Charges (Excluding Pension Liabilities)

	CAP Disallowance	IR35	Flood Re Insurance	Metal Mines	FMD Sites	Core Estates Provisions	Other Provisions	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Defra Group								
Balance at 1 April 2019	23,264	-	26,438	207,805	114,484	19,728	16,142	407,861
Provided in the year	647,477	19,264	158,638	29,711	32,729	1,725	4,224	893,768
Provisions not required written back	(14,889)	-	-	(2,821)	67	(2,578)	(3,004)	(23,225)
Provisions utilised in year	(8,376)	-	(5,326)	(2,050)	(1,418)	(23)	(2,669)	(19,862)
Changes in discount rate	-	-	-	(8,626)	(3,969)	(62)	-	(12,657)
Unwinding of discount	-	-	-	(777)	2,133	(335)	-	1,021
Balance at 31 March 2020	647,476	19,264	179,750	223,242	144,026	18,455	14,693	1,246,906
Provided in the year	60,815	35,018	4,523	2,149	9,391	4,100	11,039	127,035
Provisions not required written back	(563,903)	-	-	(13)	-	(5,675)	(2,112)	(571,703)
Provisions utilised in year	(22,041)	(19,000)	(50,013)	(3,781)	(1,758)	-	(1,696)	(98,289)
Changes in discount rate	-	-	-	(5,826)	481	(240)	-	(5,585)
Unwinding of discount	-	-	-	3,804	2,873	251	-	6,928
Balance at 31 March 2021	**122,347**	**35,282**	**134,260**	**219,575**	**155,013**	**16,891**	**21,924**	**705,292**

14.2 Analysis of Provision Balances

	CAP Disallowance	IR35	Flood Re Insurance	Metal Mines	FMD Sites	Core Estates Provisions	Other Provisions	Total
								2020-21
	£000	£000	£000	£000	£000	£000	£000	£000
Defra Group								
Not later than one year	122,347	35,282	111,966	5,120	1,954	3,846	6,556	**287,071**
Later than one year and not later than five years	-	-	22,294	9,180	8,186	8,083	11,919	**59,662**
Later than five years	-	-	-	205,275	144,873	4,962	3,449	**358,559**
Total	**122,347**	**35,282**	**134,260**	**219,575**	**155,013**	**16,891**	**21,924**	**705,292**
Of which:								
Core department and agencies	122,347	35,282	-	219,575	155,013	16,891	5,665	**554,773**
NDPBs	-	-	134,260	-	-	-	16,259	**150,519**
Total	**122,347**	**35,282**	**134,260**	**219,575**	**155,013**	**16,891**	**21,924**	**705,292**

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, 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.

As can be seen from the sensitivity tables in Notes 14.5 and 14.6, 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.

	2020–21
	%
Short term (0 to 5 years)	(0.02)
Medium term (6 to 10 years)	0.18
Long/very long term (greater than 10 years)	1.99

HM Treasury provide the discount factor at a nominal rate which does not include inflation. Therefore, inflation rates need to be applied separately to cash flows before applying the nominal discount rate. Under HM Treasury guidance, there is a rebuttable presumption that the forecast CPI inflation rates 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.

14.3 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.

14.4 Flood Re Insurance Provision

Flood Re most critical accounting estimate is the estimation of the ultimate liability arising from claims made under inwards reinsurance contracts. Estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of claims incurred but not yet reported, at the reporting date. It can take a significant period of time before the ultimate claims cost can be established with certainty. The ultimate cost of outstanding claims is estimated using standard actuarial techniques, supplemented with bespoke methods where appropriate. The main assumption underlying these techniques is that past claims development experience can be used to project future claims development and hence ultimate claims costs. These methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years and expected loss ratios. Flood Re commenced underwriting in April 2016 and has limited historical claims data of its own. The actuarial techniques used utilise historical industry data. Estimating the ultimate cost of losses resulting from catastrophic events is inherently difficult due to the uncertainty of catastrophe claims. As a result of this uncertainty, it is often harder to determine the future development of these claims with the same degree of reliability as with other types of claim.

Additional qualitative judgement is used to assess the extent to which past trends may not apply in future: for example to reflect one-off occurrences (including changes in external or market factors such as public attitudes to claiming, economic conditions, levels of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy features and claims handling procedures) in order to arrive at the estimated ultimate cost of claims from the range of outcomes, taking account of all the uncertainties involved.

Similar judgements, estimates and assumptions are employed in the assessment of the premium deficiency provision. Using reinsurance premium thresholds as described in the Flood Reinsurance (Scheme Funding and Administration) Regulations 2015 restricts the amount that Flood Re can charge insurers for reinsuring flood risk. These thresholds are capped at a rate dependent on the council tax banding of the property insured and may give rise to less than adequate market pricing for the risk insured. An estimate of the premium deficiency provision is made for any anticipated claims and claims handling costs that are expected to exceed the unearned premiums.

The carrying value of gross insurance claims liabilities, including the premium deficiency provision, as at 31 March 2021 is £134.3 million (2020 £179.8 million).

14.5 Abandoned Metal Mines Provision

Abandoned metal mines are responsible for about half the metals in English rivers (1,500 km). Pollutants include Zinc, Cadmium, Lead, Copper, Nickel, Iron and/or Arsenic. Approximately 100 water bodies are polluted by one or more of these metals which can seriously impact environmental health, harming fish and other river wildlife and decreasing biodiversity.

Under the Water Resources Act 1991 (as amended by the Environment Act 1995) mine owners/operators cannot be held liable for permitting water pollution from mines abandoned before 2000, and most mines were abandoned before the 20th Century. Government funding and action is required to address this historical legacy. Pollution can occur when mines are closed, pumps are switched off and mine water levels rise (through rainwater or flooding) to the point where waters are discharged into surface water bodies e.g. rivers, lakes, estuaries or into groundwater (including aquifers). The treatment of polluted water discharging from abandoned metal mines and from other diffuse sources (such as spoils heaps) therefore contributes to achieving good status and so Defra decided to implement treatment facilities at certain sites. Accordingly, Defra has a constructive obligation at these sites, working in partnership with the Environment Agency and the Coal Authority (an NDPB of Business, Energy and Industrial Strategy) managed by Terms of Reference for all three partners and a separate memorandum of understanding (MoU) between Defra and the Coal Authority.

The department funds the ongoing running costs of the operational water treatment schemes built at three abandoned metal mine sites. The Wheal Jane scheme has been running since 2000, with Force Crag coming into operation in 2014 and Saltburn Gill in 2015. A new scheme is under construction at Nent Haggs that should become operational by 2022. These schemes clean polluted water which flows out of the abandoned mines and into water bodies which accords with the government's responsibility to set regional or river basin management plans to improve water quality under the Water Environment (Water Framework Directive) (England and Wales) Regulations 2017 (as amended), which is the regulatory framework underpinning good ecological status. The Environment Bill will give the Defra Secretary of State the power to set a target specifically to address pollution from abandoned metal mines.

The department has a provision that reflects its long term liability to remediate the water from the mines. There is uncertainty over the estimation of the value of the liability due to long term factors. The department uses an evidenced cost base, with forecasts of the running costs provided by the Coal Authority in estimating the provision. The time frames involved are less certain, but are based on scientific and geological research on how long the contamination will exist.

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, Defra has explored local third party funding from those who benefit from the schemes, to reduce the amount of Defra funding required. This attracted £2.6 million from the North East Local Enterprise Partnership Local Growth Fund from 2016–17 to 2019–20.

In assessing the provisions there are inherent uncertainties in respect of future costs and timing of cash flow, which impact on the provision. These include new technologies; environmental standards and regulations; the impacts of adverse weather as a result of climate change; price inflation of construction and operating costs; positioning of schemes and related land costs; the number of future preventative schemes required and the length of time they will be required to operate. Reasonable assumptions and best information have been used to inform the future costs and scientific evidence and experience has underpinned one of the more sensitive elements of the assumption, namely that underlying water treatment obligations will likely extend for many hundreds of years.

A management judgement has been taken to restrict the number of years to 100 for mine water treatment and subsidence pumping, reflecting the absence of a precise estimate of the timeline for the liabilities and that an infinite provision would not be relevant to the decisions being made by the users of the financial statements.

Updates to the discount rates for provisions as advised by HM Treasury can cause the liability to vary significantly. 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 has been carried out. Details are outlined in the following table.

Change in assumption	Effect on provision (in £)	Effect on provision (in % terms)
0.5% increase in Treasury Discount Rate	Decrease of 46m	Decrease of 21
0.5% decrease in Treasury Discount Rate	Increase of 64m	Increase of 29
10% increase in underlying costs	Increase of 22m	Increase of 10
10% decrease in underlying costs	Decrease of 22m	Decrease of 10
10 year increase in timeframe of the provisions	Increase of 22m	Increase of 10
10 year decrease in timeframe of the provisions	Decrease of 22m	Decrease of 10

These factors impacting volatility will continue to be monitored. The HM 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 likely to have the most volatile impact on the provision value. 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.

14.6 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 80 years remaining. Conceptual reports were completed in March 2020, for each site, which showed the level of contamination is decreasing. It is recommended that this is reviewed every 5 years.

The current value of the provision at 80 years remaining is £155.01 million. This is with an annual running cost of £1.930 million. If the length of the provision was to increase, the cost of the provision would increase by £1.916 million each year. Each year the provision is reduced, then the average decrease is £1.938 million. For example, if the length of the provision is assumed to be 100 years then the value of the provision would be £193.3 million and if the assumption was 50 years then £97.6 million.

Further, 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 HM 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.

Change in assumption	Effect on provision (in £)	Effect on provision (in % terms)
0.1% increase in Treasury Discount Rate (see Note 14.2)	Decrease of 5.9m	Decrease of 4
0.1% decrease in Treasury Discount Rate	Increase of 6.3m	Increase of 4
10% increase in underlying costs	Increase of 17.6m	Increase of 11
10% decrease in underlying costs	Decrease of 13.8m	Decrease of 9
10 year increase in timeframe of the provisions	Increase of 19.2m	Increase of 12
10 year decrease in timeframe of the provisions	Decrease of 19.2m	Decrease of 12

14.7 Employment Legislation (IR35)

Employment Legislation (IR35), introduced in April 2017, requires public sector bodies to make an assessment of off-payroll workers employment status for tax and makes them liable for ensuring the correct tax is applied. The department uses HM Revenue and Customs' own Check of Employment Status for Tax tool (CEST) and accompanying guidance to make those assessments.

During 2019–20, internal checks and additional HM Revenue and Customs' guidance highlighted inaccuracies in the historic assessment of some contractor's employment status. The department has re-assessed the status of all Defra contractors in light of these inaccuracies. A reliable estimate has been calculated for the amount Defra owe to settle the tax liability for all current contractors whose IR35 assessments have changed due to these reassessments. The work done on reassessments has decreased the proportion of contractors outside IR35 from 85 per cent to 22 per cent of all current contractors. This revised percentage has been applied over the remainder of the population of contractors who are no longer with the department to obtain an estimated tax liability for this population. In calculating this liability, some assumptions were made that carried an element of estimation uncertainty. These included the use of personal tax allowances, an adjustment for average sick days and an estimated annual leave entitlement. This initially prudent approach of applying the percentage across all contractors will be refined as further work will consider if this is appropriate or whether there are certain areas that distort the figures and may need removing from the sample. It also assumes that HM Revenue and Customs (HMRC) would deem any incorrect assessments as careless, but the investigation is still to be finalised.

Since the 31 March 2021, work on reassessing contractor's IR35 statuses has continued. This has led to additional contractors being reassessed as inside IR35. In addition to this, some of the assumptions made in the initial calculation have recently been clarified with HMRC, which will also affect the liability. The remaining liability now stands at £48 million, based on 6 per cent of contractors remaining outside IR35. The provision remains based on 22 per cent being outside IR35 as this was the position at 31 March 2021. Work is continuing to agree the final liability with HMRC.

A payment to HMRC was made in March 2021 to settle the liability for current contractors. Once HM Revenue and Customs' compliance audit work is completed, the final amounts owed by the department will be known with certainty and the remaining liability will become payable. HM Revenue and Customs may determine at this point that interest or penalties payments are due in addition to the underpayment of historic taxation. As it is not certain whether such payments will be required or what the amounts would be if so, we have disclosed a contingent liability in Note 16 in respect of this.

15 Pension Liabilities

15.1 Pension Schemes Managed by the Department

The department contributes to the Principal Civil Service Pension Scheme (PCSPS) and the Civil Servant and Other Pension Scheme (CSOPS), known as Alpha, but does not manage the scheme. Details are reported in Chapter 5 - Civil Service Pension Schemes. Employer contributions to the funds are included in the Statement of Comprehensive Net Expenditure (SOCNE) but the share of assets and liabilities are not disclosed in the Statement of Financial Position (SOCF), as they cannot be separately identified.

In addition to these there are also a number of pension schemes which are managed by the department and NDPB's, these include a mixture of funded and by analogy schemes (unfunded). The table below details the funds managed by the core department and those disclosed by the NDPB's:

Schemes Disclosed by the Core Department	Schemes Disclosed in the NDPB Accounts
EA Pension Liability (Closed Scheme) (funded)	Home Grown Cereals Authority Pension Scheme (funded)
Nature Conservancy Council Pension (by-analogy)	EA Active Pension Scheme (funded)
Former Countryside Agency Pension Schemes (Rural Community Council and Ex-Chairmen Schemes) (by-analogy)	NE Pension Scheme (by-analogy)
Horticultural Research International Pension Scheme (by-analogy).	Sea Fish Industry Authority (funded)
	Meat and Livestock Commission Pension Scheme (funded).

Disclosures in relation to these schemes are made in accordance with the accounting treatment in IAS 19. The standard has no impact on the level of cash contributions paid by the department which are set reference to assumptions agreed at periodic actuarial valuations of each scheme. The standard requires the disclosure of the net liability which is an assessment of the value of any gap between the assets help by the scheme and the total present value of the funded and unfunded obligations, however, there is no requirement to address this net liability by payment of a lump sum or otherwise.

Below are details of the most material schemes to the department– 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.

15.1.1 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 2019.

At the last actuarial valuation date, the weighted average duration of the defined benefit obligation was 9.3 years.

The estimated sponsor's contributions for the year to 31 March 2022 will be approximately £53 million.

15.1.2 EA Active Pension Scheme

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

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.

Natural Resources Wales (NRW) also have employees who participate in the fund and pay contributions accordingly.

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

All calculations have been made by a qualified independent actuary. As required under IAS 19, the projected unit credit method of valuation has been used. The last formal valuation of the fund was carried out as at 31 March 2019.
The total pension charge for the Environment Agency was £109.4 million for the financial year 2020–21 (£146.9 million in 2019–20). The pension charge relating to the scheme was assessed in accordance with the advice of an independent qualified actuary using the projected unit method of valuation to calculate the service costs.

The Environment Agency's funding arrangements are to pay 14.5 per cent of the monthly gross salary of members to the Pension Fund each month, and then pay a lump sum to meet the equivalent employer contribution of 19 per cent.

The latest triennial actuarial valuation of the Environment Agency pension fund (EAPF) was at 31 March 2019. The assets taken at market value (£3.7 billion) were sufficient to cover 106 per cent of the value of liabilities in respect of past service benefits which had accrued to members. EA accepted the independent actuary's recommendation to increase employer contributions by 0.5 per cent from 18.5 per cent to 19 per cent from April 2020 through to March 2023. This was to maintain a prudent funding plan in light of uncertainties over the cost impacts of the McCloud ruling, leaving the EU and climate change. Markets were disrupted by COVID-19 which resulted in difficult market conditions towards the end of the 2019–20 financial year. During 2021, the fund's assets have recovered well and as at 31 March 2021 have a net asset value of £3.9 billion.

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.

On 1 November 2018, 438 staff elected to transfer their pension fund benefits from the EAPF to the Civil Service Pension Schemes (CSPS). In July 2019 a transfer of assets to the value of £63.8 million was made from the EA Active Scheme. Transferring liabilities were values according to IAS19 assumptions and increased with interest.

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, known as the 'McCloud Ruling'. The implications of the ruling are expected to apply to the LGPS, and other public service schemes. At the end of 2018–19, an initial liability was recognised within the IAS19 report of £28.3 million. In 2019–20 this has reduced by £13.4 million following Ministry for Housing, Communities and Local Government (MHCLG) consultation which set out qualifying member criteria. No further adjustment has been made in 2020–21.

In June 2020, a legal discrimination case, namely the Goodwin case, which related to unequal death benefit provision for male dependents of female scheme members was deemed successful. Whilst this case occurred in the Teacher's Pension Scheme, it is relevant to other public sector schemes including the LGPS. Initial analysis suggests this will affect a very small population of the scheme membership and may result in an increase in the cost of pensions from previous years service estimated at around £3.4 million, which for completeness has been included in the 2019–20 IAS19 valuation with no further adjustment made in 2020–21 as there are no new details on the potential remedy relating to this case.

At the last actuarial valuation date, the weighted average duration of the defined benefit obligation was 23 years.

The estimated employers' contributions for the year to 31 March 2022 will be approximately £54.6 million.

Further details can be found in the Environment Agency Annual Report and Accounts.

15.1.3 Meat and Livestock Commission (MLC) Pension Scheme

Defined Benefits Scheme

The Agriculture and Horticulture Development Board (AHDB) is the principal employer in a contributory pension scheme providing defined benefits to legacy MLC employees and ex-employees, based on final pensionable salary. This scheme is closed to new entrants. The assets of the scheme are held separately from those of AHDB, being invested with insurance and investment companies. Contributions to the scheme are charged to AHDB's income and expenditure account and are determined by a qualified actuary on the basis of annual valuations, using the projected unit method.

The employer's contributions to the scheme in 2021–22 are estimated to be £0.2 million. Actuarial valuations are usually prepared on a triennial basis. The latest valuation was completed as at 31 March 2018. At 31 March 2021, 64.1 per cent of the scheme's total assets were represented by the buy-in policies.

The effect of the ruling in the Lloyds Trustees vs Lloyds Bank PLC and Others [2018] case on Guaranteed Minimum Pensions (GMP) has been taken into account in the valuation of the liabilities of the scheme. On the 20 November 2020 the High Court ruled that pensions schemes should revisit transfer payments made since 17 May 1990 and the actuary have included an additional liability within past service cost.

Defined Contribution Scheme

The defined contribution section of the MLC Pension Scheme was closed to new members in 2008. The current employee and employer contribution rates are 5 per cent and 7 per cent, respectively.

Further details can be found in the AHDB Annual Report and Accounts.

15.2 Changes in the Fair Value of Plan Assets, Defined Benefit Obligation and Net Liability

As at 31 March 2021

	Total Core Department and Agencies			Total Department			
	Assets	Obligations	Net (liability) /asset	Assets	Obligations	Adjustments	Net (liability) /asset
	£000	£000	£000	£000	£000	£000	£000
Fair value of employer assets	301,100	-	301,100	3,816,187	-	-	3,816,187
Present value of funded liabilities	-	(529,500)	(529,500)	-	(3,956,252)	-	(3,956,252)
Present value of unfunded liabilities	-	(96,184)	(96,184)	-	(331,894)	-	(331,894)
Less irrecoverable surplus	-	-	-	-	-	(2,952)	(2,952)
Opening Position as at 31 March 2020	301,100	(625,684)	(324,584)	3,816,187	(4,288,146)	(2,952)	(474,911)
Service cost							
Current service cost	-	(429)	(429)	-	(110,815)	-	(110,815)
Past service cost (including curtailments)	-	(811)	(811)	-	(1,134)	-	(1,134)
Other expenses	(700)	-	(700)	(724)	-	(65)	(789)
Total service cost	**(700)**	**(1,240)**	**(1,940)**	**(724)**	**(111,949)**	**(65)**	**(112,738)**
Net interest							
Interest income on plan assets	5,400	-	5,400	86,285	-	-	86,285
Interest cost on defined benefit obligation	-	(10,157)	(10,157)	-	(94,649)	-	(94,649)
Total net interest	**5,400**	**(10,157)**	**(4,757)**	**86,285**	**(94,649)**	**-**	**(8,364)**
Total defined benefit cost recognised in profit or (loss)	**4,700**	**(11,397)**	**(6,697)**	**85,561**	**(206,598)**	**(65)**	**(121,102)**
Cashflows							
Plan participants' contributions	-	-	-	25,923	(25,923)	-	-
Employer contributions	51,600	-	51,600	154,610	235	-	154,845
Contributions in respect of unfunded benefits	6,800	-	6,800	(4,800)	-	-	(4,800)
Benefits paid	(49,500)	51,364	1,864	(131,462)	145,442	-	13,980
Unfunded benefits paid	(6,800)	6,800	-	(6,800)	6,800	-	-
Expenses	-	-	-	(500)	-	-	(500)
Expected closing position	**307,900**	**(578,917)**	**(271,017)**	**3,938,719**	**(4,368,190)**	**(3,017)**	**(432,488)**
Remeasurements							
Change in demographic assumptions	-	(4,400)	(4,400)	-	(66,163)	-	(66,163)
Change in financial assumptions	-	(15,347)	(15,347)	7,941	(1,445,582)	-	(1,437,641)
Other experience	-	10,934	10,934	-	40,086	-	40,086
Return on assets excluding amounts included in net interest	(2,400)	-	(2,400)	537,057	-	-	537,057
Changes in asset ceiling	-	-	-	-	-	988	988
Total remeasurements recognised in Other Comprehensive Income (OCI)	**(2,400)**	**(8,813)**	**(11,213)**	**544,998**	**(1,471,659)**	**988**	**(925,673)**
Exchange differences							
Effect of business combinations and disposals							
Fair value of employer assets	305,500	-	305,500	4,483,717	-	-	4,483,717
Present value of funded liabilities	-	(498,000)	(498,000)	-	(5,528,198)	-	(5,528,198)
Present value of unfunded liabilities	-	(89,730)	(89,730)	-	(311,651)	-	(311,651)
Less irrecoverable surplus	-	-	-	-	-	(2,029)	(2,029)
Closing position as at 31 March 2021	**305,500**	**(587,730)**	**(282,230)**	**4,483,717**	**(5,839,849)**	**(2,029)**	**(1,358,161)**

As at 31 March 2020

	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	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)
Opening position as at 31 March 2019	294,000	(688,097)	(394,097)	3,919,812	(4,987,356)	(552)	(1,068,096)
Service cost							
Current service cost	-	-	-	-	(158,189)	-	(158,189)
Past service cost (including curtailments)	-	-	-	-	12,346	-	12,346
Effect of settlements	-	-	-	(63,772)	73,203	-	9,431
Other expenses	(600)	-	(600)	(625)	-	(13)	(638)
Total service cost	(600)	-	(600)	(64,397)	(72,640)	(13)	(137,050)
Net interest							
Interest income on plan assets	8,600	-	8,600	94,386	-	-	94,386
Interest cost on defined benefit obligation	-	(19,060)	(19,060)	-	(122,115)	-	(122,115)
Total net interest	8,600	(19,060)	(10,460)	94,386	(122,115)	-	(27,729)
Total defined benefit cost recognised in profit or (loss)	8,000	(19,060)	(11,060)	29,989	(194,755)	(13)	(164,779)
Cashflows							
Plan participants' contributions	-	-	-	24,807	(24,807)	-	-
Employer contributions	55,800	-	55,800	114,940	-	-	114,940
Contributions in respect of unfunded benefits	7,500	-	7,500	7,500	-	-	7,500
Benefits paid	(53,400)	55,284	1,884	(147,717)	150,433	-	2,716
Unfunded benefits paid	(7,500)	7,500	-	(7,500)	7,500	-	-
Expenses	-	-	-	(597)	12	-	(585)
Expected closing position	304,400	(644,373)	(339,973)	3,941,234	(5,048,973)	(565)	(1,108,304)
Remeasurements							
Change in demographic assumptions	-	16,800	16,800	-	113,358	-	113,358
Change in financial assumptions	-	(35,284)	(35,284)	-	402,018	-	402,018
Other experience	-	37,174	37,174	-	245,453	-	245,453
Return on assets excluding amounts included in net interest	(3,300)	-	(3,300)	(125,048)	-	-	(125,048)
Transfers (in)/out	-	(1)	(1)	-	(1)	-	(1)
Changes in asset ceiling	-	-	-	1	(1)	(2,387)	(2,387)
Total remeasurements recognised in Other Comprehensive Income (OCI)	(3,300)	18,689	15,389	(125,047)	760,827	(2,387)	633,393
Fair value of employer assets	301,100	-	301,100	3,816,187	-	-	3,816,187
Present value of funded liabilities	-	(529,500)	(529,500)	-	(3,956,252)	-	(3,956,252)
Present value of unfunded liabilities	-	(96,184)	(96,184)	-	(331,894)	-	(331,894)
Less irrecoverable surplus	-	-	-	-	-	(2,952)	(2,952)
Closing position as at 31 March 2020	301,100	(625,684)	(324,584)	3,816,187	(4,288,146)	(2,952)	(474,911)

15.3 Changes in the Fair Value of Plan Assets, Defined Benefit Obligation and Net Liability

As at 31 March 2021

	Environment Agency Closed Scheme (within Core Department)				Environment Agency Active Scheme (within NDPB)			
	Assets	Obligations	Adjustments	Net (liability) /asset	Assets	Obligations	Adjustments	Net (liability) /asset
	£000	£000	£000	£000	£000	£000	£000	£000
Fair value of employer assets	301,100	-	-	301,100	3,247,426	-	-	3,247,426
Present value of funded liabilities	-	(529,500)	-	(529,500)	-	(3,380,705)	-	(3,380,705)
Present value of unfunded liabilities	-	(56,600)	-	(56,600)	-	-	-	-
Opening Position as at 31 March 2020	301,100	(586,100)	-	(285,000)	3,247,426	(3,380,705)	-	(133,279)
Service cost								
Current service cost	-	-	-	-	-	(109,280)	-	(109,280)
Past service cost (including curtailments)	-	(600)	-	(600)	-	(118)	-	(118)
Other expenses	(700)	-	-	(700)	-	-	-	-
Total service cost	**(700)**	**(600)**	**-**	**(1,300)**	**-**	**(109,398)**	**-**	**(109,398)**
Net interest								
Interest income on plan assets	5,400	-	-	5,400	75,150	-	-	75,150
Interest cost on defined benefit obligation	-	(10,100)	-	(10,100)	-	(78,376)	-	(78,376)
Total net interest	**5,400**	**(10,100)**	**-**	**(4,700)**	**75,150**	**(78,376)**	**-**	**(3,226)**
Total defined benefit cost recognised in profit or (loss)	**4,700**	**(10,700)**	**-**	**(6,000)**	**75,150**	**(187,774)**	**-**	**(112,624)**
Cashflows								
Plan participants' contributions	-	-	-	-	25,738	(25,738)	-	-
Employer contributions	51,600	-	-	51,600	101,642	-	-	101,642
Contributions in respect of unfunded benefits	6,800	-	-	6,800	-	-	-	-
Benefits paid	(49,500)	49,500	-	-	(78,790)	78,790	-	-
Unfunded benefits paid	(6,800)	6,800	-	-	-	-	-	-
Expected closing position	**307,900**	**(540,500)**	**-**	**(232,600)**	**3,371,166**	**(3,515,427)**	**-**	**(144,261)**
Remeasurements								
Change in demographic assumptions	-	(4,400)	-	(4,400)	-	(62,380)	-	(62,380)
Change in financial assumptions	-	(13,900)	-	(13,900)	-	(1,400,848)	-	(1,400,848)
Other experience	-	11,000	-	11,000	-	24,499	-	24,499
Return on assets excluding amounts included in net interest	(2,400)	-	-	(2,400)	522,734	-	-	522,734
Total remeasurements recognised in Other Comprehensive Income (OCI)	**(2,400)**	**(7,300)**	**-**	**(9,700)**	**522,734**	**(1,438,729)**	**-**	**(915,995)**
Fair value of employer assets	305,500	-	-	305,500	3,893,900	-	-	3,893,900
Present value of funded liabilities	-	(498,000)	-	(498,000)	-	(4,954,156)	-	(4,954,156)
Present value of unfunded liabilities	-	(49,800)	-	(49,800)	-	-	-	-
Closing position as at 31 March 2021	**305,500**	**(547,800)**	**-**	**(242,300)**	**3,893,900**	**(4,954,156)**	**-**	**(1,060,256)**

	MLC (within NDPB)				Other (all other schemes)			
	Assets	Obligations	Adjustments	Net (liability) /asset	Assets	Obligations	Adjustments	Net (liability) /asset
	£000	£000	£000	£000	£000	£000	£000	£000
Fair value of employer assets	203,200	-	-	203,200	64,461	-	-	64,461
Present value of funded liabilities	-	-	-	-	-	(46,047)	-	(46,047)
Present value of unfunded liabilities	-	(208,800)	-	(208,800)	-	(66,494)	-	(66,494)
Less irrecoverable surplus	-	-	-	-	-	-	(2,952)	(2,952)
Opening Position as at 31 March 2020	203,200	(208,800)	-	(5,600)	64,461	(112,541)	(2,952)	(51,032)
Service cost								
Current service cost	-	(700)	-	(700)	-	(835)	-	(835)
Past service cost (including curtailments)	-	(100)	-	(100)	-	(316)	-	(316)
Other expenses	-	-	-	-	(24)	-	(65)	(89)
Total service cost	**-**	**(800)**	**-**	**(800)**	**(24)**	**(1,151)**	**(65)**	**(1,240)**
Net interest								
Interest income on plan assets	4,300	-	-	4,300	1,435	-	-	1,435
Interest cost on defined benefit obligation	-	(4,500)	-	(4,500)	-	(1,673)	-	(1,673)
Total net interest	**4,300**	**(4,500)**	**-**	**(200)**	**1,435**	**(1,673)**	**-**	**(238)**
Total defined benefit cost recognised in profit or (loss)	**4,300**	**(5,300)**	**-**	**(1,000)**	**1,411**	**(2,824)**	**(65)**	**(1,478)**
Cashflows								
Plan participants' contributions	100	(100)	-	-	85	(85)	-	-
Employer contributions	300	-	-	300	1,068	235	-	1,303
Contributions in respect of unfunded benefits	(11,600)	-	-	(11,600)	-	-	-	-
Benefits paid	-	12,100	-	12,100	(3,172)	5,052	-	1,880
	(500)	-	-	(500)	-	-	-	-
Expected closing position	**195,800**	**(202,100)**	**-**	**(6,300)**	**63,853**	**(110,163)**	**(3,017)**	**(49,327)**
Remeasurements								
Change in demographic assumptions	-	-	-	-	-	617	-	617
Change in financial assumptions	-	(19,700)	-	(19,700)	7,941	(11,134)	-	(3,193)
Other experience	-	3,700	-	3,700	-	887	-	887
Return on assets excluding amounts included in net interest	15,100	-	-	15,100	1,623	-	-	1,623
Changes in asset ceiling	-	-	-	-	-	-	988	988
Total remeasurements recognised in Other Comprehensive Income (OCI)	**15,100**	**(16,000)**	**-**	**(900)**	**9,564**	**(9,630)**	**988**	**922**
Fair value of employer assets	210,900	-	-	210,900	73,417	-	-	73,417
Present value of funded liabilities	-	-	-	-	-	(76,042)	-	(76,042)
Present value of unfunded liabilities	-	(218,100)	-	(218,100)	-	(43,751)	-	(43,751)
Less irrecoverable surplus	-	-	-	-	-	-	(2,029)	(2,029)
Closing position as at 31 March 2021	**210,900**	**(218,100)**	**-**	**(7,200)**	**73,417**	**(119,793)**	**(2,029)**	**(48,405)**

As at 31 March 2020

	Environment Agency Closed Scheme (within Core Department)				Environment Agency Active Scheme (within NDPB)			
	Assets	Obligations	Adjustments	Net (liability) /asset	Assets	Obligations	Adjustments	Net (liability) /asset
	£000	£000	£000	£000	£000	£000	£000	£000
Fair value of employer assets	294,000	-	-	294,000	3,337,382	-	-	3,337,382
Present value of funded liabilities	-	(586,400)	-	(586,400)	-	(3,992,760)	-	(3,992,760)
Present value of unfunded liabilities	-	(64,200)	-	(64,200)	-	-	-	-
Opening Position as at 31 March 2019	294,000	(650,600)	-	(356,600)	3,337,382	(3,992,760)	-	(655,378)
Service cost								
Current service cost	-	-	-	-	-	(156,920)	-	(156,920)
Past service cost (including curtailments)	-	-	-	-	-	10,008	-	10,008
Effect of settlements	-	-	-	-	(63,772)	73,203	-	9,431
Other expenses	(600)	-	-	(600)	-	-	-	-
Total service cost	**(600)**	**-**	**-**	**(600)**	**(63,772)**	**(73,709)**	**-**	**(137,481)**
Net interest								
Interest income on plan assets	8,600	-	-	8,600	79,265	-	-	79,265
Interest cost on defined benefit obligation	-	(18,000)	-	(18,000)	-	(96,202)	-	(96,202)
Total net interest	**8,600**	**(18,000)**	**-**	**(9,400)**	**79,265**	**(96,202)**	**-**	**(16,937)**
Total defined benefit cost recognised in profit or (loss)	**8,000**	**(18,000)**	**-**	**(10,000)**	**15,493**	**(169,911)**	**-**	**(154,418)**
Cashflows								
Plan participants' contributions	-	-	-	-	24,608	(24,608)	-	-
Employer contributions	55,800	-	-	55,800	58,264	-	-	58,264
Contributions in respect of unfunded benefits	7,500	-	-	7,500	-	-	-	-
Benefits paid	(53,400)	53,400	-	-	(80,463)	80,463	-	-
Unfunded benefits paid	(7,500)	7,500	-	-	-	-	-	-
Expected closing position	**304,400**	**(607,700)**	**-**	**(303,300)**	**3,355,284**	**(4,106,816)**	**-**	**(751,532)**
Remeasurements								
Change in demographic assumptions	-	16,800	-	16,800	-	95,200	-	95,200
Change in financial assumptions	-	(34,700)	-	(34,700)	-	426,901	-	426,901
Other experience	-	39,500	-	39,500	-	204,011	-	204,011
Return on assets excluding amounts included in net interest	(3,300)	-	-	(3,300)	(107,859)	-	-	(107,859)
Changes in asset ceiling	-	-	-	-	1	(1)	-	-
Total remeasurements recognised in Other Comprehensive Income (OCI)	**(3,300)**	**21,600**	**-**	**18,300**	**(107,858)**	**726,111**	**-**	**618,253**
Fair value of employer assets	301,100	-	-	301,100	3,247,426	-	-	3,247,426
Present value of funded liabilities	-	(529,500)	-	(529,500)	-	(3,380,705)	-	(3,380,705)
Present value of unfunded liabilities	-	(56,600)	-	(56,600)	-	-	-	-
Closing position as at 31 March 2020	**301,100**	**(586,100)**	**-**	**(285,000)**	**3,247,426**	**(3,380,705)**	**-**	**(133,279)**

	MLC (within NDPB)				Other (all other schemes)			
	Assets	Obligations	Adjustments	Net (liability) /asset	Assets	Obligations	Adjustments	Net (liability) /asset
	£000	£000	£000	£000	£000	£000	£000	£000
Fair value of employer assets	-	-	-	-	71,230	-	-	71,230
Present value of funded liabilities	217,200	-	-	217,200	-	(75,258)	-	(75,258)
Present value of unfunded liabilities	-	(227,000)	-	(227,000)	-	(41,738)	-	(41,738)
Less irrecoverable surplus	-	-	-	-	-	-	(552)	(552)
Opening Position as at 31 March 2019	217,200	(227,000)	-	(9,800)	71,230	(116,996)	(552)	(46,318)
Service cost								
Current service cost	-	(800)	-	(800)	-	(469)	-	(469)
Past service cost (including curtailments)	-	2,400	-	2,400	-	(62)	-	(62)
Other expenses	-	-	-	-	(25)	-	(13)	(38)
Total service cost	**-**	**1,600**	**-**	**1,600**	**(25)**	**(531)**	**(13)**	**(569)**
Net interest								
Interest income on plan assets	4,900	-	-	4,900	1,621	-	-	1,621
Interest cost on defined benefit obligation	-	(5,000)	-	(5,000)	-	(2,913)	-	(2,913)
Total net interest	**4,900**	**(5,000)**	**-**	**(100)**	**1,621**	**(2,913)**	**-**	**(1,292)**
Total defined benefit cost recognised in profit or (loss)	**4,900**	**(3,400)**	**-**	**1,500**	**1,596**	**(3,444)**	**(13)**	**(1,861)**
Cashflows								
Plan participants' contributions	100	(100)	-	-	99	(99)	-	-
Employer contributions	300	-	-	300	576	-	-	576
Benefits paid	(10,900)	11,500	-	600	(2,954)	5,070	-	2,116
Expenses	(600)	-	-	(600)	3	12	-	15
Expected closing position	**211,000**	**(219,000)**	**-**	**(8,000)**	**70,550**	**(115,457)**	**(565)**	**(45,472)**
Remeasurements								
Change in demographic assumptions	-	(500)	-	(500)	-	1,858	-	1,858
Change in financial assumptions	-	8,700	-	8,700	-	1,117	-	1,117
Other experience	-	2,000	-	2,000	-	(58)	-	(58)
Return on assets excluding amounts included in net interest	(7,800)	-	-	(7,800)	(6,089)	-	-	(6,089)
Transfers (in)/out	-	-	-	-	-	(1)	-	(1)
Changes in asset ceiling	-	-	-	-	-	-	(2,387)	(2,387)
Total remeasurements recognised in Other Comprehensive Income (OCI)	**(7,800)**	**10,200**	**-**	**2,400**	**(6,089)**	**2,916**	**(2,387)**	**(5,560)**
Fair value of employer assets	203,200	-	-	203,200	64,461	-	-	64,461
Present value of funded liabilities	-	-	-	-	-	(46,047)	-	(46,047)
Present value of unfunded liabilities	-	(208,800)	-	(208,800)	-	(66,494)	-	(66,494)
Less irrecoverable surplus	-	-	-	-	-	-	(2,952)	(2,952)
Closing position as at 31 March 2020	**203,200**	**(208,800)**	**-**	**(5,600)**	**64,461**	**(112,541)**	**(2,952)**	**(51,032)**

15.4 History of Experience Gains and Losses – Material Schemes

EA Closed Scheme (funded)

Year Ended :	**31-03-21**	31-03-20	31-03-19	31-03-18	31-03-17
	£000	£000	£000	£000	£000
Fair value of employer assets	305,500	301,100	294,000	276,100	271,900
Present value of defined benefit obligation	(547,800)	(586,100)	(650,600)	(709,200)	(750,700)
(Deficit)/surplus	(242,300)	(285,000)	(356,600)	(433,100)	(478,800)
Experience gains/(losses) on assets	(2,400)	(3,300)	9,500	(5,400)	42,900
Experience gains/(losses) on liabilities	11,000	39,500	2,300	(900)	(700)
Actuarial gains/(losses) on employer assets	(2,400)	(3,300)	9,500	(5,400)	42,900
Actuarial gains/(losses) on obligation	(7,300)	21,600	10,800	(7,400)	(44,300)
Actuarial gains/(losses) recognised in SoCTE	**(9,700)**	18,300	20,300	(12,800)	(1,400)

EA Active Scheme (funded)

Year Ended :	**31-03-21**	31-03-20	31-03-19	31-03-18	31-03-17
	£000	£000	£000	£000	£000
Fair value of employer assets	3,893,900	3,247,426	3,337,382	3,063,215	2,960,722
Present value of defined benefit obligation	(4,954,156)	(3,380,705)	(3,992,760)	(3,463,535)	(3,366,455)
(Deficit)/surplus	(1,060,256)	(133,279)	(655,378)	(400,320)	(405,733)
Experience gains/(losses) on assets	522,734	(107,859)	184,589	14,935	396,235
Experience gains/(losses) on liabilities	24,499	204,011	-	-	228,033
Actuarial gains/(losses) on employer assets	522,734	(107,859)	184,589	14,935	396,235
Actuarial gains/(losses) on obligation	(1,438,729)	726,112	(336,202)	74,912	(303,883)
Actuarial gains/(losses) recognised in SoCTE	**(915,995)**	618,253	(151,613)	89,847	92,352

MLC Scheme

Year Ended :	**31-03-21**	31-03-20	31-03-19	31-03-18	31-03-17
	£000	£000	£000	£000	£000
Fair value of employer assets	210,900	203,200	217,200	217,300	220,100
Present value of defined benefit obligation	(218,100)	(208,800)	(227,000)	(220,500)	(225,400)
(Deficit)/surplus	(7,200)	(5,600)	(9,800)	(3,200)	(5,300)
Experience gains/(losses) on assets	15,100	(7,800)	5,000	3,400	24,700
Experience gains/(losses) on liabilities	3,700	2,000	(300)	(1,000)	600
Actuarial gains/(losses) on employer assets	15,100	(7,800)	5,000	3,400	24,700
Actuarial gains/(losses) on obligation	(16,000)	10,200	(6,600)	(400)	(33,100)
Actuarial gains/(losses) recognised in SoCTE	**(900)**	2,400	(1,600)	3,000	(8,400)

15.5 Fair Value of Assets in the Fund – Material Schemes

The assets in the scheme were:

	EA Closed Scheme	EA Active Scheme	MLC Pension Scheme
As at 31 March 2021	**£000**	**£000**	**£000**
Equities	-	1,953,954	35,431
Bonds	286,100	1,285,228	17,294
Liability Driven Investment	-	-	17,505
Property	-	483,974	-
Cash	19,400	170,744	5,483
Insurance policy	-	-	135,187
Total 31 March 2021	**305,500**	**3,893,900**	**210,900**
Percentage of closing fair value	**%**	**%**	**%**
Equity	-	50	17
Bonds	94	33	8
Liability Driven Investment	-	-	8
Property	-	13	-
Cash and insurance policy	6	4	67
Total	**100**	**100**	**100**
As at 31 March 2020	£000	£000	£000
Equities	-	1,336,044	23,368
Bonds	284,100	1,367,711	12,395
Liability Driven Investment	-	-	14,224
Property	-	466,050	3,658
Cash	17,000	77,621	11,379
Insurance policy	-	-	138,176
Total 31 March 2020	301,100	3,247,426	203,200
Percentage of closing fair value	%	%	%
Equity	-	41	11
Bonds	94	42	6
Liability Driven Investment	-	-	7
Property	-	14	2
Cash and insurance policy	6	3	74
Total	100	100	100

15.6 Financial Assumptions – Material Schemes

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	MLC Scheme
	% pa	% pa	% pa
As at 31 March 2021			
Inflation/pension increase rate (CPI)	2	3	3
Salary increase rate	-	3	2
Discount rate	1	2	2
As at 31 March 2020			
Inflation/pension increase rate (CPI)	2	2	4
Salary increase rate	-	2	3
Discount rate	2	2	2

15.7 Mortality Assumptions – Material Schemes

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		MLC Scheme	
	Male	Female	Male	Female	Male	Female
Average future life expectancies at age 65						
Current pensioners (years)	20	23	22	24	23	25
Future pensioners (years)	20	24	23	26	24	26

15.8 Sensitivity Analysis - Material Schemes

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 and MLC 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 2021	Approximate % Increase in Employer Liability	Approximate Monetary Amount
	%	£000
0.5% decrease in real discount rate	3	17,282
1 year increase in member life expectancy	3	16,434
0.5% increase in pension increase rate	3	17,282

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 2021	Approximate % Increase in Employer Liability	Approximate Monetary Amount
	%	£000
0.5% decrease in real discount rate	12	588,374
0.5% increase in salary increase rate	2	109,371
0.5% increase in pension increase rate	9	464,241

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

Change in assumptions at year ended 31 March 2021	Approximate % Increase in Employer Liability	Approximate Monetary Amount
	%	£000
0.5% decrease in real discount rate	7	16,139
0.2% increase in RPI	1	3,053
0.3% decrease to CPI	(3)	(6,325)

16 Contingent Liabilities and Contingent Assets

16.1 Contingent Liabilities

16.1.1 Quantifiable

The department has the following quantifiable contingent liabilities as at 31 March 2021. Unless otherwise stated liabilities relate to the core department.

- Small potential liabilities against the Defra group are estimated at no more than £5.2 million (2019–20, £8.5 million).

- The Woodland Carbon Guarantee is a £50 million scheme that aims to help accelerate woodland planting rates and develop the domestic market for woodland carbon for the permanent removal of carbon dioxide from the atmosphere. It provides the option to sell captured carbon in the form of verified carbon credits, called Woodland Carbon Units, to the Government for a guaranteed price every five or ten years up to 2055-56. If preferred, credits can be sold on the open market rather than to the Government. The Forestry Commission’s liabilities under the Woodland Carbon Guarantee are contingent on others deciding to exercise their rights to sell the Woodland Carbon Units to the Government. The limit of this liability under the Guarantee at 31 March 2021 is £16.6 million. This contingent liability is backed by Defra and, if realised, will be funded as part of the Defra Spending Review process.

16.1.2 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.

- 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.

- 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 department's internal checks under the Employment Legislation (IR35) have highlighted inaccuracies in the assessment of some contractor's employment status since April 2017, when new legislative requirements were introduced for public sector bodies. Compliance audit work with HM Revenue and Customs is yet to conclude on what the final historic position is. The department has provided for the potential tax liability, but the possibility of interest or penalties being levied by HMRC are more uncertain, hence are disclosed as a contingent liability, rather than as a provision.

- 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.

- 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.

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

- The department is currently involved in a number of ongoing legal cases.

- There is a contract dispute case where the Environment Agency has a possible obligation arising from decisions made during the course of construction. It is being resolved through the dispute resolution mechanisms in the contract. It is unclear whether there will be an outflow of economic benefits and when that outflow, if any, may be.

16.2 Contingent Assets

- The Defra group has other potential small assets, with an estimated value of £1.2 million (2019–20, £1.6 million).

- Potential contingent assets in the form of clawback on land previously sold. This could result in future receipts which are contingent on events outside our direct control and where the quantum is unknown until the event is triggered.

17 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 19. Public corporations are outside the accounting boundary and are shown in Note 20. 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 per cent 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 Position 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 and Lords Minister) has received £18,029 in respect of BPS for a one-third share in a farm.

Elizabeth Buchanan (a Non-Executive Director) has received £35,303 in BPS and Countryside Stewardship payments for the family farm. The farm also received a £3,420 TB compensation payment.

Ben Goldsmith (a Non-Executive Director) received £16,819 in Stewardship, BPS and Woodland payments for the family farm.

Victoria Prentis’ (Parliamentary Under Secretary of State) father runs the family farm which received £39,337 in 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.

18 Prior Period Adjustments

The tables below summarise the impact on the key financial statements of the Prior Period Adjustments made in relation to the following:

- Flood Re Short Term Investments
- Environment Agency Reservoir Operating Agreements.

However, other notes to the accounts have also been adjusted and where applicable the 2019-20 comparators are marked as restated.

Consolidated Statement of Comprehensive Net Expenditure

For the year ended 31 March 2020

	As previously reported 2019-20		Adjustment	Restated 2019-20	
	Core Department and Agencies	Defra Group		Core Department and Agencies	Defra Group
	£000	£000	£000	£000	£000
Revenue from contracts with customers	(127,157)	(793,812)	(8,056)	(127,157)	(820,450)
Other operating income	(3,715,755)	(3,966,776)		(3,715,755)	(3,948,194)
Total operating income	**(3,842,912)**	**(4,760,588)**	**(8,056)**	**(3,842,912)**	**(4,768,644)**
Staff costs	631,952	1,191,735	-	631,952	1,191,735
Other costs	559,596	1,437,427	8,056	559,596	1,445,483
Non cash items	760,978	1,256,347	-	760,978	1,256,347
Grants and subsidies	5,233,583	4,311,302	-	5,233,583	4,311,302
Total operating expenditure	**7,186,109**	**8,196,811**	**8,056**	**7,186,109**	**8,204,867**
Net operating expenditure	**3,343,197**	**3,436,223**	**-**	**3,343,197**	**3,436,223**
Net expenditure for the year	**3,343,197**	**3,436,223**	**-**	**3,343,197**	**3,436,223**
Other comprehensive net expenditure					
Items that will not be reclassified to net operating expenditure					
Net (gain)/loss on					
Revaluation of PPE	1,097	(55,120)	-	1,097	(55,120)
Charitable funds revaluation	-	8,659	-	-	8,659
Revaluation of intangibles	(3,307)	(14,436)	-	(3,307)	(14,436)
Revaluation of euro receivable	(15)	(15)	-	(15)	(15)
Pension actuarial movements	(15,389)	(633,393)	-	(15,389)	(633,393)
Changes in the fair value of equity investments at fair value through OCE	(94)	(94)	-	(94)	(94)
Items that may be reclassified subsequently to net operating expenditure					
Net (gain)/loss on					
Revaluation of investments	-	(10)	-	-	(10)
Revaluation of hedging instruments	7,812	7,812	-	7,812	7,812
Total comprehensive net expenditure for the year	**3,333,301**	**2,749,626**	**-**	**3,333,301**	**2,749,626**

Consolidated Statement of Financial Position

As at 31 March 2020

	As previously reported as at 31 March 2020		Adjustment	Restated as at 31 March 2020	
	Core Department and Agencies	Defra Group		Core Department and Agencies	Defra Group
	£000	£000	£000	£000	£000
Non-current assets					
Property, plant and equipment	397,267	3,581,454	-	397,267	3,581,454
Right of use assets	1,504	1,504	-	1,504	1,504
Investment properties	550	5,545	-	550	5,545
Heritage assets	-	275,997	-	-	275,997
Agricultural assets	-	167	-	-	167
Intangible assets	167,395	306,473	-	167,395	306,473
Financial assets	43,298	43,332	-	43,298	43,332
Investment in Associate	6,670	6,670	-	6,670	6,670
Receivables and contract assets falling due after more than one year	750	775	-	750	775
Total non-current assets	**617,434**	**4,221,917**	**-**	**617,434**	**4,221,917**
Current assets					
Assets classified as held for sale	501	12,469	-	501	12,469
Inventories	5,522	6,853	-	5,522	6,853
Financial assets	11,352	11,352	451,650	11,352	463,002
Trade, other receivables and contract assets	999,867	1,161,987	8,056	999,867	1,170,043
Cash and cash equivalents	625,796	1,332,900	(451,650)	625,796	881,250
Total current assets	**1,643,038**	**2,525,561**	**8,056**	**1,643,038**	**2,533,617**
Total assets	**2,260,472**	**6,747,478**	**8,056**	**2,260,472**	**6,755,534**
Current liabilities					
Trade, other payables and contract liabilities	(1,417,071)	(1,860,098)	-	(1,417,071)	(1,860,098)
Provisions	(676,338)	(789,531)	-	(676,338)	(789,531)
Net pension liability	(52,855)	(52,870)	-	(52,855)	(52,870)
Financial liabilities	(13,166)	(13,166)	(21,111)	(13,166)	(34,277)
Total current liabilities	**(2,159,430)**	**(2,715,665)**	**(21,111)**	**(2,159,430)**	**(2,736,776)**
Non-current assets plus/less net current assets/liabilities	**101,042**	**4,031,813**	**(13,055)**	**101,042**	**4,018,758**
Non-current liabilities					
Provisions	(382,207)	(457,375)	-	(382,207)	(457,375)
Net pension liability	(271,729)	(422,041)	-	(271,729)	(422,041)
Other payables and contract liabilities	(131,220)	(132,619)	-	(131,220)	(132,619)
Financial liabilities	-	(141,606)	(241,556)	-	(383,162)
Total non-current liabilities	**(785,156)**	**(1,153,641)**	**(241,556)**	**(785,156)**	**(1,395,197)**
Assets less liabilities	**(684,114)**	**2,878,172**	**(254,611)**	**(684,114)**	**2,623,561**
Taxpayers' equity and other reserves					
General Fund	(831,300)	530,074	(254,611)	(831,300)	275,463
Revaluation reserve	148,556	2,098,469	-	148,556	2,098,469
Hedging reserve	(1,370)	(1,370)	-	(1,370)	(1,370)
Charitable funds - restricted funds	-	86,834	-	-	86,834
Charitable funds - unrestricted funds	-	164,165	-	-	164,165
Total equity	**(684,114)**	**2,878,172**	**(254,611)**	**(684,114)**	**2,623,561**

Consolidated Statement of Financial Position

As at 1 April 2019

	As previously reported as at 1 April 2019		Adjustment	Restated as at 1 April 2019	
	Core Department and Agencies	Defra Group		Core Department and Agencies	Defra Group
	£000	£000	£000	£000	£000
Non-current assets					
Property, plant and equipment	437,370	3,556,239	-	437,370	3,556,239
Right of use assets	612	612	-	612	612
Investment properties	500	4,286	-	500	4,286
Heritage assets	-	283,239	-	-	283,239
Agricultural assets	-	208	-	-	208
Intangible assets	142,288	267,660	-	142,288	267,660
Financial assets	20,623	20,603	-	20,623	20,603
Investment in Associate	6,670	6,670	-	6,670	6,670
Receivables and contract assets falling due after more than one year	772	1,036	-	772	1,036
Total non-current assets	**608,835**	**4,140,553**	**-**	**608,835**	**4,140,553**
Current assets					
Assets classified as held for sale	3,251	20,722	-	3,251	20,722
Inventories	3,577	4,892	-	3,577	4,892
Financial assets	25,818	25,818	295,000	25,818	320,818
Trade, other receivables and contract assets	873,836	1,010,605	-	873,836	1,010,605
Cash and cash equivalents	636,351	1,181,590	(295,000)	636,351	886,590
Total current assets	**1,542,833**	**2,243,627**	**-**	**1,542,833**	**2,243,627**
Total assets	**2,151,668**	**6,384,180**	**-**	**2,151,668**	**6,384,180**
Current liabilities					
Trade, other payables and contract liabilities	(1,413,871)	(1,845,961)	-	(1,413,871)	(1,845,961)
Provisions	(32,825)	(59,219)	-	(32,825)	(59,219)
Net pension liability	(55,865)	(55,880)	-	(55,865)	(55,880)
Financial liabilities	(2,583)	(2,583)	(20,822)	(2,583)	(23,405)
Total current liabilities	**(1,505,144)**	**(1,963,643)**	**(20,822)**	**(1,505,144)**	**(1,984,465)**
Non-current assets plus/less net current assets/liabilities	**646,524**	**4,420,537**	**(20,822)**	**646,524**	**4,399,715**
Non-current liabilities					
Provisions	(341,289)	(348,642)	-	(341,289)	(348,642)
Net pension liability	(338,232)	(1,012,216)	-	(338,232)	(1,012,216)
Other payables and contract liabilities	(127,851)	(129,687)	-	(127,851)	(129,687)
Financial liabilities	-	(141,606)	(233,789)	-	(375,395)
Total non-current liabilities	**(807,372)**	**(1,632,151)**	**(233,789)**	**(807,372)**	**(1,865,940)**
Assets less liabilities	**(160,848)**	**2,788,386**	**(254,611)**	**(160,848)**	**2,533,775**
Taxpayers' equity and other reserves					
General Fund	(327,299)	409,406	(254,611)	(327,299)	154,795
Revaluation reserve	160,009	2,121,702	-	160,009	2,121,702
Hedging reserve	6,442	6,442	-	6,442	6,442
Charitable funds - restricted funds	-	75,790	-	-	75,790
Charitable funds - unrestricted funds	-	175,046	-	-	175,046
Total equity	**(160,848)**	**2,788,386**	**(254,611)**	**(160,848)**	**2,533,775**

Consolidated Statement of Cash Flows

For year ended 31 March 2020

	As previously reported 2019-20		Adjustments	Restated 2019-20	
	Core Department and Agencies	Defra Group		Core Department and Agencies	Defra Group
	£000	£000	£000	£000	£000
Cash flows from operating activities					
Net operating costs	(3,343,197)	(3,436,223)	-	(3,343,197)	(3,436,223)
Adjust for non cash transactions	762,658	1,258,061	-	762,658	1,258,061
(Increase)/decrease in trade and other receivables excluding derivatives	(125,994)	(151,106)	(8,056)	(125,994)	(159,162)
less movements in receivables relating to items not passing through the SoCNE	(15)	(15)	-	(15)	(15)
Adjustments for derivative financial instruments	24,241	24,241	-	24,241	24,241
(Increase) / decrease in inventories	(1,945)	(1,961)	-	(1,945)	(1,961)
Increase / (decrease) in trade payables and other liabilities excluding derivatives	6,569	17,069	8,056	6,569	25,125
less movements in payables relating to items not passing through the SoCNE	30,505	29,983	-	30,505	29,983
Use of provisions / pension liabilities	(71,009)	(136,434)	-	(71,009)	(136,434)
Net cash outflow from operating activites	**(2,718,187)**	**(2,396,385)**	**-**	**(2,718,187)**	**(2,396,385)**
Cash flows from investing activities					
Purchase of PPE, heritage and agricultural assets	(37,390)	(178,159)	-	(37,390)	(178,159)
Purchase of intangible assets	(46,849)	(74,457)	-	(46,849)	(74,457)
Purchase / repayment of financial assets	(29,629)	(29,629)	(156,650)	(29,629)	(186,279)
Proceeds of disposal of PPE, heritage and agricultural assets	1,725	11,605	-	1,725	11,605
Repayments from other bodies	44	-	-	44	-
Net cash outflow from investing activities	**(112,099)**	**(270,640)**	**(156,650)**	**(112,099)**	**(427,290)**
Cash flows from financing activities					
From Consolidated Fund (supply): current year	2,820,681	2,820,681	-	2,820,681	2,820,681
Advances from Contingencies Fund	2,500,000	2,500,000	-	2,500,000	2,500,000
Repayments to Contingencies Fund	(2,500,000)	(2,500,000)	-	(2,500,000)	(2,500,000)
Capital element in respect of service concession arrangements and finance leases and non balance sheet PFI contracts	(500)	(1,861)	-	(500)	(1,861)
Funding (to) / from other bodies	(2)	(37)	-	(2)	(37)
Net financing	**2,820,179**	**2,818,783**	**-**	**2,820,179**	**2,818,783**
Net increase/(decrease) in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund	(10,107)	151,758	(156,650)	(10,107)	(4,892)
Payments of amounts due to the Consolidated Fund	(448)	(448)	-	(448)	(448)
Net increase/(decrease) in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund	(10,555)	151,310	(156,650)	(10,555)	(5,340)
Cash and cash equivalents at the beginning of the period	**636,351**	**1,181,590**	**(295,000)**	**636,351**	**886,590**
Cash and cash equivalents at the end of the period	**625,796**	**1,332,900**	**(451,650)**	**625,796**	**881,250**

Consolidated Statement of Changes in Taxpayers' Equity

For the year ended 31 March 2020

	General Fund	General Fund Adjustment	General Fund
	£000	£000	£000
Balance as at 1 April 2019	409,406	(254,611)	154,795
Net parliamentary funding - drawn down	2,820,681	-	2,820,681
Net parliamentary funding - deemed	636,351	-	636,351
Funding to/from other bodies	(37)	-	(37)
Supply (payable) adjustment	(625,796)	-	(625,796)
CFER Income Payable to the Consolidated Fund	(448)	-	(448)
Net operating costs for the year	(3,445,045)	-	(3,445,045)
Non cash adjustments			
Non cash charges-auditors' remuneration	1,161	-	1,161
Movement in reserves			
Recognised in other comprehensive expenditure:			
Pension actuarial loss	633,393	-	633,393
Contributions in respect of unfunded benefits	7,500	-	7,500
Transfers between reserves	92,908	-	92,908
Balance at 31 March 2020	**530,074**	**(254,611)**	**275,463**

Flood Re Short Term Investments

The prior year Consolidated Accounts have been restated to reflect changes to the disclosure of Flood Re's short term deposits. The amounts reclassified as financial assets relates specifically to deposits with Debt Management Office with a duration greater than three months. These deposits cannot be cancelled on demand and therefore do not qualify as cash equivalents within the cash flows statements.

The impact of this change as at 31 March 2019 is an increase to Financial assets and decrease to Cash and cash equivalents of £295 million. The impact of this change as at 31 March 2020 is an increase to Financial assets and decrease to Cash and cash equivalents of £451.7 million. The £156.7 million movement in short term deposits between 31 March 2019 and 31 March 2020 is also reflected in the 31 March 2020 Statement of Cash Flows.

Environment Agency Reservoir Operating Agreements

In previous years, the financial liability (Note 9) was calculated as a perpetuity with a fixed discount rate. This treatment meant the financial liability remained at the same calculated value at each reporting period end and the cost reported in the accounts was only the annual contractual amount paid to the respective water companies. This method did not reflect the full financing cost under the effective interest method.

The accounting method has been updated to the effective interest rate method described above and retrospectively applied from 2001-02, the first full year of resource accounting. The restated values are shown in the table above and in the Statement of Financial Position.

The impact of this change on the financial liability has been an increase of £262.7 million to the figures previously quoted for 2019-20, and an increase of £254.6 million for the figure previously quoted for 2018-19. The finance charge for 2019-20 recognised in the Statement of Comprehensive Net Expenditure increased by £8.1 million (£12.2 million in 2018-19) (Note 3.1). The increase in the finance charge has been reflected in the 2019-20 abstraction charge expenditure. The impact on the abstraction charges income figure for 2019-20 has been an increase of £8.1 million (Note 4.1). The impact on the accrued income previously quoted as at 31 March 2020 has been an increase of £8.1 million (Note 11). Consequently, the impact on the general reserve has been an increase of £254.6 million for the figures previously quoted as at 31 March 2020 and as at 1 April 2019.

19 Entities Within the Departmental Boundary

The entities within the departmental boundary during 2020–21 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
Board of Trustees of the Royal Botanic Gardens, Kew (includes RBG Kew Enterprises Limited)

Levy Funded Bodies

Agriculture and Horticulture Development Board (includes Sutton Bridge Experimental Unit Limited and Livestock Information Ltd).
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 Accounts) Order 2019, 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.

20 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
Forestry England (formerly Forest Enterprise England)

Other Bodies

National Parks Authorities (x9)
Water Services Regulation Authority (Ofwat)
Broads Authority

21 Events After the Reporting Period

Defra's financial statements are laid before the House of Commons by HM Treasury. IAS10, Events after the Reporting period, requires Defra to disclose the date on which the accounts are authorised for issue.

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 2020–21

These tables provide an analysis of departmental expenditure, split between resource consumption and capital investment, covering the period from 2016–17 to 2021–22.

These tables follow the layout of the Part II Table of the 2020–21 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[49] and Parliamentary Supplementary Estimate[50] 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. This has increased over the period due to EU exit and transition work, primarily relating to preparations to take back responsibility for rules and systems for regulating and supporting the UK's food, farming and fishing industries as the UK exited the EU. The department's budget has also increased due to the response to COVID-19 to ensure the continuity of food supply across the UK and help ensure that the vulnerable and shielding had access to food.

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 2015 Spending Review (SR15). These savings have been offset by increased expenditure on EU exit preparations and transition. The UK left the EU on 31 January 2020.

The overall reductions required by the Spending Review have been met to a large extent by the transformation of Defra's corporate services. The effect of this can be seen in the Core Tables where Departmental Operating Costs see an increase across the years from 2016–17 to 2018–19 as this phased transition occurred. Corresponding decreases occur in other areas. Increases have been seen in later years due to the impacts of EU exit and transition work and COVID-19.

Table 1 – Defra's Resource and Capital Budget

Resource Budget (Programme and Administration) DEL

Food and Farming

The changing profile in the early years is primarily due to the profile of Common Agricultural Policy (CAP) Disallowance payments. In line with HM Treasury guidance, CAP Disallowance has been transferred between years to match the expected profile of payments. The increase from 2017–18 onwards reflects internal restructures which are partially offset by the centralisation of corporate services. The further increase from 2019–20 reflects increased

[49] Main Supply Estimates 2021 to 22 - GOV.UK (www.gov.uk)

[50] HMT Supplementary Estimates - GOV.UK (www.gov.uk)

spending on EU exit and transition work as explained above. The large additional increase from 2020–21 onwards relates to direct payments for farmers following the UK's departure from the EU. Additional budget was announced on 9 January 2020 confirming that the 2020 Direct Payment scheme would be funded by the UK government, these payments were previously funded from the European Commission (the Commission). The slight decrease in 2021-22 reflects internal transfers of budget from direct aid to environmental measures.

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) and additional budgets announced in relation to the Clean Air Fund from 2018-19 onwards. Further increases reflect transfers from the Countryside and Rural Services line, following an internal restructure and increases in programmes such as: EU and International Trade; Environment quality; and Chemicals, Pesticides & Hazardous Waste. 2021-22 sees additional increases in Air Quality, Official Development Assistance and Pesticides funding.

Animal and Plant Health

Overall, we are maintaining expenditure on Animal and Plant Health and investing in vital scientific facilities. The increase in 2018–19 outturn relates to an impairment to one of the buildings at the Animal and Plant Health (APHA) Weybridge site. The increases from 2019–20 onwards reflect additional budget for preparation to exit the EU and continuing investment following the UK's departure from the EU.

Marine and Fisheries

The increases from 2018–19 onwards primarily reflect additional budget for preparation to exit and transition from the EU and continuing investment following the UK's departure from the EU. 2020-21 sees further EU transition increases and the impact of the department's response to COVID-19 for the marine and fisheries sectors. Further funding for marine and fisheries was announced in the SR20 Settlement Letter.

Countryside and Rural Services

The decrease from 2017–18 onwards is due to the transfer of Rural Development Programme England (RDPE) to Food and Farming, due to an internal restructure. The further decreases from 2019–20 onwards are due to internal restructures where the spend has moved to the Improve the Environment Estimate line. These two Estimate lines were subsequently merged as part of the 2021-22 Main Estimate.

Departmental Operating Costs

As explained earlier, the overall operating costs of the Defra group are reducing over the Spending Review periods, partly due to the transformation of the department's corporate service functions. The increases in Departmental Operating Costs across the years reflect this transformation and the phased transfer of these functions from Animal and Plant Health Agency (APHA), the Forestry Commission (FC), Natural England (NE), Rural Payments Agency (RPA) and the Environment Agency (EA) into 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 and transition from the EU. In addition, there has been increased spending to build and maintain the department's capability across a range of corporate service and cross-cutting functions, including preparations for international trade agreements and new border arrangements. The remaining increase in 2021–22 primarily relates to the budget for depreciation, reflecting an underspend against budget in 2020–21. This was due to later than planned capitalisation of assets, leading to lower in year depreciation charges.

Improve the Environment (ALB) (Net)

The decrease from 2017-18 reflects savings identified by an internal efficiency programme and the phased transfer of corporate service functions from NE and EA following the centralisation of corporate services within the core department. The reduction in 2021-22 is due to the budget for the ALB's Corporate Services charges being held centrally in Departmental operating costs.

Protect the Country from Floods (ALB) (Net)

The increase in 2020-21 is mainly due to the extra funding announced in the 2020 Budget to support flood defence asset repairs. In addition to this, the annual Resource to Capital budget transfer was lower in 2020-21 compared to 2019-20. This Resource to Capital transfer is required each year as there is uncertainty at the start of the year over the Resource/Capital split of some of EA's projects. The reduction in 2021-22 is due to the budget for EA's Corporate Services charges being held centrally in Departmental operating costs.

Marine and Fisheries (ALB) (Net)

The increase from 2019–20 onwards reflects the Marine Management Organisation's (MMO) expenditure on preparations to exit and transition from the EU and continuing investment following the UK's departure from the EU.

Countryside and Rural Services (ALB) (Net)

Due to internal restructures most of the Countryside and Rural Services spend has moved to the Improve the Environment Estimate line. These two Estimate lines were subsequently merged as part of the 2021-22 Main Estimate.

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 and the Commission's audit findings. 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 2019–20 reflects an increase to the

CAP Disallowance provision, primarily relating to BPS scheme years 2017-2019. This was required following the receipt of the Commission's audit findings, as reported in the Article 34 letter received in November 2019. The large credit in 2020-21 relates to the write back of the CAP disallowance provision for BPS scheme years 2017-2019 following bilateral meetings and challenge on the original calculation method used.

Improve the Environment

The fluctuations in trends mainly reflect movements in the provision for the Metal Mines, due to changes in the discount rate used for valuing provisions, as per HM Treasury guidance.

Departmental Operating Costs

The fluctuations in trends mainly reflect movements in the provision for the Foot and Mouth Disease (FMD) burial sites. These fluctuations mainly reflect changes in the discount rate used for valuing provisions, as per HM Treasury guidance. The provision represents the ongoing future liabilities relating to preventing and remediating any leachate pollution arising from burial sites.

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 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 2016–17 to 2020–21 outturn reflects the surplus position for Flood Re's final accounts in those years. The surplus for 2019–20 is lower than in previous years due to the widespread flooding between November 2019 and February 2020. The 2021–22 budget includes cover in case a significant flood event occurs 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 2016–17 outturn reflects the investment in the CAP delivery programme, which completed in 2016–17. The increase in 2021-22 is mainly driven by an increase to the SR20 budget for capital scheme costs for future farming following the UK's departure from the EU.

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 2018–19. The increase in 2019–20 includes additional budget as announced in the 2018 Autumn Budget for plastics and waste innovation funding, supporting the Government's ambitions to tackle plastic, waste and litter and the transfer of the Canal & River Trust programme. The large increase in 2021-22 is mainly driven by an increase in the capital budget in SR20 for Nature for Climate fund (a 5-year project focusing on tree planting manifesto commitments and Peatland restoration), National Nature Reserves and waste programmes.

Animal and Plant Health

The increase in 2021-22 reflects APHA's investment in stabilising, enhancing and transforming a number of IT systems relating to endemic diseases, science, trade and biosecurity. This investment was agreed as part of SR20.

Marine and Fisheries

The decrease in 2021-22 is due to the R&D budget being held centrally at the start of the year. This will be allocated out to business areas as required.

Countryside and Rural Services

The decrease from 2019–20 onwards is due to internal restructures where most of the Countryside and Rural Services spend has moved to the Improve the Environment Estimate line. These two Estimate lines were subsequently merged as part of the 2021-22 Main Estimate

Departmental Operating Costs

The increases from 2016–17 onwards 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. This additional investment reduces in 2019–20 and will lead to efficiencies in future running costs. The increases in 2020-21 and 2021-22 are primarily due to an increase in the capital budget for the Defra science and the Weybridge estate and funding to support EU exit transition.

Improve the Environment (ALB) (Net)

The increase from 2017–18 onwards primarily reflects increased investment in the group wide capital estate, including investment in the science estate. The decrease in 2019–20 relates to a capital disposal, involving the sale of surplus land by EA. The increase in 2021-22 relates to extra budget for National Nature Reserves.

Protect the Country from Floods (ALB) (Net)

There has been increased investment since SR15, following significant flooding events. The increase in 2019–20 reflects the re-profiling of part of the flood and coastal erosion risk management budget from earlier years. The further increase in 2020–21 relates to the Winter Defence Repair fund (announced in the 2020 Budget), which will fund repairs to flood defence assets that were damaged during the 2019–20 winter floods, and the Flood and Coastal Defence Capital programme, which is part of a six-year flood defence programme. The 2021-22 increase reflects the profiling of this programme, as set out in SR20.

Capital Budget AME

Food and Farming (ALB) (Net)

The increase in budget for 2021–22 is required for potential reclassification of research and development expenditure from resource to capital in the Agriculture and Horticulture Development Board.

Protect the Country from Floods (ALB) (Net)

The 2019–20 and 2020-21 outturn relates to capital additions in Flood Re. Flood Re adopted IFRS 16 leases in 2019-20. This accounting standard states how leases should be presented, recognised, measured and disclosed in the annual accounts.

Table 1 – Defra's Resource and Capital Budget

	2016-17 Outturn £000	2017-18 Outturn £000	2018-19 Outturn £000	2019-20 Outturn £000	2020-21 Outturn £000	2021-22 Plans £000
Resource DEL						
Food and farming	163,012	206,668	193,739	295,806	2,417,254	2,173,182
Improve the environment	233,105	274,651	347,697	410,071	528,528	664,534
Protect the country from floods	1,156	1,277	1,027	1,356	3,052	2,534
Animal and plant health	161,812	163,023	197,395	204,401	262,613	256,281
Marine and fisheries	26,517	32,035	46,293	53,258	82,456	118,493
Countryside and rural services	202,031	129,074	129,411	104,647	3,120	2,928
Departmental operating costs	235,486	362,947	418,439	486,991	505,649	574,862
Improve the environment (ALB) (net)[3]	344,282	284,980	285,089	277,053	296,160	224,811
Protect the country from floods (ALB) (net)	365,691	384,898	357,241	386,740	496,847	345,547
Marine and fisheries (ALB) (net)	12,270	13,869	16,766	23,088	25,718	26,995
Countryside and rural services (ALB) (net)	2,320	2,311	2,397	1,721	-	-
Total Resource DEL	**1,747,682**	**1,855,733**	**1,995,494**	**2,245,132**	**4,621,397**	**4,390,167**
Resource AME						
Food and farming	207,302	(66,366)	(171,170)	628,704	(530,714)	50,881
Improve the environment	(43,272)	95,549	(235,236)	14,939	(3,811)	90
Animal and plant health	(5,986)	(3,901)	(1,780)	(573)	(236)	4
Marine and fisheries	(416)	233	(1,111)	(2,440)	(1)	7
Countryside and rural services	(340)	2,078	(1,133)	(793)	(125)	(200)
Departmental operating costs	50,751	15,119	(51,017)	50,623	24,599	50,368
Food and farming (ALB) (net)	(1,913)	(1,269)	8,081	2,332	(343)	5,096
Improve the environment (ALB) (net)	(35,109)	(12,268)	22,223	9,839	(27,381)	36,158
Protect the country from floods (ALB) (net)	(85,707)	(57,410)	(70,295)	(6,063)	(76,104)	156,000
Marine and fisheries (ALB) (net)	778	(86)	303	1,825	2,067	61
Countryside and rural services (ALB) (net)	(14)	-	-	(10)	-	-
Total Resource AME	**86,074**	**(28,321)**	**(501,135)**	**698,383**	**(612,049)**	**298,465**
Total Resource Budget	**1,833,756**	**1,827,412**	**1,494,359**	**2,943,515**	**4,009,348**	**4,688,632**
Of which:						
Depreciation - DEL	187,201	177,294	198,069	209,170	203,009	239,140
Depreciation - AME	4,180	2,291	5,655	5,683	37,531	14,966
Depreciation[1]	191,381	179,585	203,724	214,853	240,540	254,106
Capital DEL						
Food and farming	21,048	5,148	3,745	9,324	23,799	85,400
Improve the environment	38,667	9,601	24,452	54,938	57,489	146,454
Protect the country from floods	(120)	353	264	716	2,580	-
Animal and plant health	8,707	12,852	12,832	17,919	11,439	21,750
Marine and fisheries	7,234	6,014	13,868	9,079	11,845	1,275
Countryside and rural services	23,405	22,895	28,690	8,708	-	-
Departmental operating costs	33,992	60,838	61,738	50,564	86,619	313,036
Improve the environment (ALB) (net)	47,946	71,227	70,278	34,576	61,527	84,205
Protect the country from floods (ALB) (net)	470,634	431,174	486,253	537,632	634,531	883,487
Marine and fisheries (ALB) (net)	182	157	543	2,279	879	-
Countryside and rural services (ALB) (net)	211	360	203	670	-	-
Total Capital DEL	**651,906**	**620,619**	**702,866**	**726,405**	**890,708**	**1,535,607**
Capital AME						
Food and farming (ALB) (net)	596	116	203	423	1,438	14,507
Protect the country from floods (ALB) (net)	-	-	-	2,556	2,060	-
Marine and fisheries (ALB) (net)	266	83	123	113	102	-
Total Capital AME	**862**	**199**	**326**	**3,092**	**3,600**	**14,507**
Total Capital Budget	**652,768**	**620,818**	**703,192**	**729,497**	**894,308**	**1,550,114**
Total departmental spending[2]	**2,295,143**	**2,268,645**	**1,993,827**	**3,458,159**	**4,663,116**	**5,984,640**
Of which:						
Total DEL	2,212,387	2,299,058	2,500,291	2,762,367	5,309,096	5,686,634
Total AME	82,756	(30,413)	(506,464)	695,792	(645,980)	298,006

1. Includes Impairments.
2. Total departmental spending is the sum of the resource budget and the capital budget less depreciation. Similarly, total DEL is the sum of the resource budget DEL and capital budget DEL less depreciation in DEL, and total AME is the sum of resource budget AME and capital budget AME less depreciation in AME.
3. The 2016-17, 2017-18, 2018-19 and 2019-20 outturn figures have been restated due to a Prior Period Adjustment. This is due to the prior year Consolidated Accounts being restated to reflect changes to opening positions relating to the Environment Agency's Reservoir Operating Agreement financial liabilities. As this change of accounting treatment was not anticipated at the time of the Supplementary Estimate, no allowance had been made for them and as a result the department's non-budget control total was breached.

The 2021-22 plans figures are based on provisional allocations and are subject to change, following further business planning decisions.

Table 2 – Defra's Administration Costs

	2016-17 Outturn £000	2017-18 Outturn £000	2018-19 Outturn £000	2019-20 Outturn £000	2020-21 Outturn £000	2021-22 Plans £000
Resource DEL						
Food and farming	90,658	40,590	65,351	70,259	73,198	137,540
Improve the environment	23,907	20,464	54,390	77,767	95,868	79,062
Protect the country from floods	1,144	1,048	1,024	1,237	1,954	1,104
Animal and plant health	11,321	9,926	37,363	29,314	42,877	37,206
Marine and fisheries	7,353	4,111	13,088	17,381	17,303	11,545
Countryside and rural services	6,822	6,767	6,971	10,360	1,389	1,018
Departmental operating costs	154,408	258,812	313,935	361,566	350,693	522,988
Improve the environment (ALB) (net)	98,052	57,890	74,956	68,627	64,635	60,054
Protect the country from floods (ALB) (net)	56,964	80,683	77,201	69,072	82,348	54,755
Marine and fisheries (ALB) (net)	2,682	2,108	2,375	2,149	2,047	2,808
Countryside and rural services (ALB) (net)	281	298	316	377	-	-
Total administration budget	**453,592**	**482,697**	**646,970**	**708,109**	**732,312**	**908,080**

The underlying administration budget reflects the savings required by the 2015 Spending Review (SR15). These savings have been offset by increased expenditure on EU exit preparedness and transition costs, and the department's response to COVID-19.

Within the detail of the table, Departmental Operating Costs increases over the years. This largely reflects the administration element of the consolidation of Defra group corporate service functions, as explained in the Resource DEL section. The remaining increase in 2021–22 reflects an underspend against budget in 2020–21, including an underspend against the depreciation budget.

Annex 2: Disaggregated Information on Arm's Length Bodies

This information is not subject to audit.

This table provides an analysis of total operating income, total operating expenditure and net expenditure for the year, also staff numbers and costs.

	Total Operating Income	Total Operating Expenditure	Net Expenditure for the Year (including financing)	Permanently Employed Staff		Other Staff	
				Number of employees	Staff costs	Number of employees	Staff costs
	£000	£000	£000		£000		£000
Core Department	437,238	1,455,321	1,018,083	4,656	308,713	1,262	118,196
APHA	59,318	262,397	203,079	2,305	103,128	134	4,565
CEFAS	17,187	57,740	40,553	581	28,733	-	-
FC	12,924	72,977	60,053	455	23,175	67	2,801
RPA	520,567	2,551,401	2,030,834	2,017	68,095	434	22,229
VMD	10,707	22,596	11,889	168	10,012	14	734
AHDB	62,353	61,436	(917)	504	25,390	1	10
CCW	33	5,974	5,941	72	3,536	-	585
EA	499,404	1,692,068	1,192,664	9,964	420,238	731	20,163
Flood Re	231,554	116,676	(114,878)	41	5,428	-	-
JNCC	1,506	14,522	13,016	201	9,216	-	343
MMO	7,336	40,509	33,173	358	16,741	-	3,700
NFC	990	3,537	2,547	26	1,437	-	-
NE	18,152	156,236	138,084	1,865	81,387	74	2,627
RBG Kew	44,679	77,695	33,016	926	42,119	14	1,576
SFIA	8,168	10,247	2,079	77	4,249	5	367

Total operating income, total operating expenditure and net expenditure are defined against the accounts set out in the illustrative statements, specifically NDPB Green and Agency Pink.

The figures in the table may not agree directly to the published ALB accounts, due to FReM alignment, intergroup eliminations, timing differences and other consolidation adjustments.

Annex 3: 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 2020 to 2021.

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, 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 for March 2021, which are measured from a 2009–10 baseline, were:
- Reduce GHG from the whole estate and business-related transport by 44 per cent;
- Reduce the amount of waste to Landfill to below 10 per cent;
- Reduce water consumption and report on office water use against best practice benchmarks;
- Reduce the number of domestic flights by 30 per cent;
- 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 per cent.

Performance against these targets is defined using the following terms:
- *Exceeded target:* good performance, the target has been exceeded;
- *On target:* the target has been met;
- *Below Target:* the target has not been met;
- *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 figures for the period 1 April 2020 to 31 March 2021. Cost data is not reported as part of the GGCs, 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 are also subject to validation and verification by Defra's Utility Software. These processes provide a high level of assurance that reported data is accurate and robust. The EA, RBG Kew and Forestry Commission have similar 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 several 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[51]

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)
  - Board of Trustees of the Royal Botanic Gardens, Kew (RBG Kew)
- 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.)

[51] 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 group 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.

Governance

Progress against the GGC targets is reported to the Director of Group Property and onwards up to the Permanent Secretary 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 Group Director of Property is the Senior Responsible Officer for Defra's participation in the 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. We paused our work in updating our sustainability strategy in 2020–21 due to an increased workload in the department to respond to the COVID-19 pandemic. This work has since restarted and will be completed in 2021–22 to take account of the major changes in issues such as climate change, resource use, and looking to deliver environmental net gain.

Estates

Business activities in Defra group buildings are the most significant contributor to overall environmental impact. The Defra group 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	Target April 2021	Current Performance	Link to UN Sustainable Development Goals
GHG Reduction 2020–21 vs. Baseline	59% reduction	44% reduction	Exceeded target	13 CLIMATE ACTION
Landfill Waste Reduction 2020–21 vs. Baseline	16% to landfill	Below 10% to Landfill	Below Target	12 RESPONSIBLE CONSUMPTION AND PRODUCTION
Total Waste Reduction 2020–21 vs Baseline	42% reduction	N/A	N/A	12 RESPONSIBLE CONSUMPTION AND PRODUCTION
Water Reduction 2020–21 vs. Baseline	10% reduction	Reduce from 14–15 level of 23% reduction	Below Target	6 CLEAN WATER AND SANITATION
Domestic Flights Reduction 2020–21 vs. Baseline	98% reduction	30% reduction	Exceeded target	13 CLIMATE ACTION
Paper Use Reduction 2020–21 vs. Baseline	97% reduction	50% reduction	Exceeded target	12 RESPONSIBLE CONSUMPTION AND PRODUCTION

Performance against the GHG target has improved during 2020–21.

Our sustainability performance has been impacted by the COVID-19 pandemic. This has paused most of our plans to improve the sustainability of our estate over the last year.

We have reduced our carbon emissions by 59 per cent from our baseline, this is up from 49 per cent last year. COVID-19 has had a huge impact in the way we work. We shut our offices during the first lockdown. They reopened in a COVID secure manner but increased air handling commitments mitigated savings.

Our travel carbon emissions were slashed by 86 per cent compared to the baseline year. This was due to working from home. We are currently unable to quantify the impact of our staff working from home this year.

Water reductions have been limited due to a need to support so much plant life and perform scientific operations. At Kew Gardens a large proportion of water consumption is used to preserve the living collections. Variations in temperature and rainfall contribute to fluctuations in water consumption. An extended dry spell in spring and summer 2020 resulted in the need for significant irrigation, leading to an increase in water use.

FC, who through their operations, are disposing of large volumes of contaminated wood to landfill which require special handling and cannot be easily recycled. FC's assessment of this waste stream concludes that these amounts of waste wood are likely to continue to be generated, so they are investigating how to move this waste stream up the waste hierarchy. Due to this waste increase from FC's waste, this masks the successes elsewhere in Defra group, from the core department and the EA.

Environmental Management System

A certified ISO14001 Environmental Management System (EMS) which we have expanded this year to cover over 100 sites operates across the Defra group Estate. This has expanded coverage from not only our larger sites and those which carry the most significant environmental risk across the portfolio, to now cover 95 per cent of our Estate. 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 wildflower meadows/areas. The EMS system is supported by Environmental and Energy policies.

Sustainable Procurement

Defra group Commercial manage approximately £1.2 billion per annum. Addressing the sustainability impacts and opportunities associated with purchases is a core and embedded part of our approach. We prioritise the work we do with supply markets and suppliers based on sustainability impacts, business risk and spend so that we can focus our efforts in the highest risk areas. A sustainability risk assessment is completed as part of commercial strategies to determine which impacts are relevant to the contract and how they will be managed throughout procurement and for the entire life of the contract.

Our approach supports all of the GGC's as well as wider Government commitments such as Social Value, Modern Slavery, Small and Medium Enterprises and the Public Sector Equality Duty.

We work with Government to support and shape approaches relating to sustainable purchases, and share our approach with others.

Transparency Reporting

In addition to the high level GGC targets, the Defra group also publishes a transparency statement as part of its commitment[52]. This covers Climate Change Adaptation, Biodiversity and Natural Environment, Procurement of Food and Catering Services and Sustainable Construction.

Further Information

Quarterly updates on the Defra group's performance towards the GGC can be found online[53].

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.

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

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

Sustainability Data – Table 1

ENERGY			Baseline	2017-18	2018-19	2019-20	2020-21
Non financial indicators (kWh)	Energy consumption	Total energy consumption	247,207,792	173,730,107	186,252,121	193,248,581	195,143,695
		Total electricity	119,777,315	86,855,361	99,263,808	102,308,375	92,644,054
		Electricity: standard	23,281,240	8,621,510	11,783,595	10,886,219	9,705,418
		Electricity: green	96,369,935	77,634,056	87,235,083	91,422,156	82,938,637
		Electricity: Purchased CHP	126,140	599,794	245,130	0	0
		Gas	90,501,824	59,475,471	71,008,867	78,819,187	84,477,537
		Oil	23,701,612	24,095,011	12,989,052	10,426,013	15,829,742
		Biomass	2,604,841	1,372,053	1,665,995	772,306	1,273,371
		CHP	8,406,109	0	0	0	0
		Whitehall district heating system (WDHS)	343,300	0	0	0	0
		Self generated renewables	149,084	1,162,876	788,147	401,833	470,505
		LPG	555,812	515,595	398,405	518,046	271,034
		Other	1,167,895	253,741	137,847	2,821	177,452
Financial indicators ('000£)	Total energy costs		17,202	13,530	17,238	17,145	17,122

WASTE		Baseline	2017-18	2018-19	2019-20	2020-21
Non financial indicators ('000 kgs)	Total waste	8,116	6,603	5,625	7,526	4,689
	Hazardous waste	1,063	107	35	9	45
	IT waste recycled and unrecyclable	14	49	77	7	1
	Recycled	2,810	3,216	2,404	2,976	1,068
	Composted	75	207	266	1,364	46
	Incinerated with energy recovery	1,309	1,799	1,868	2,678	2,379
	Incinerated without energy recovery	471	470	367	374	431
	Landfill	3,437	874	986	1,498	764
Financial indicators ('000£)	Total disposal cost	3,374	3,510	5,038	2,823	3,329
	Hazardous waste	n/a	623	415	439	634
	Recycled, composted (combined)	n/a	698	453	326	799
	Incinerated with energy recovery	n/a	347	330	272	850
	Incinerated without energy recovery	n/a	n/a	n/a	0	0
	Landfill	n/a	119	150	71	300

WATER			Baseline	2017-18	2018-19	2019-20	2020-21
Non financial indicators (m3)	Water Consumption	Total scope 2 water consumption	651,542	552,674	593,683	592,845	583,463
		Supplied (office estate scope 2)	126,867	88,797	94,160	125,108	61,962
		Supplied (non office estate scope 2)	524,675	463,877	499,523	467,737	521,501
		Abstracted (scope 1)	n/a	n/a	n/a	n/a	n/a
Financial indicators ('000£)	Water supply costs		1,492	1,051	1,633	1,655	1,222

GREEN HOUSE GAS EMISSIONS		Baseline	2017-18	2018-19	2019-20	2020-21
Non financial indicators ('000 kgs CO2e)	Scope 1: direct emissions	38,768	27,939	23,739	27,257	24,515
	Scope 2: indirect emissions	59,230	30,535	33,505	26,150	21,599
	Scope 3: emissions from official business travel	21,110	11,234	11,511	7,322	3,124
	Total emissions	119,108	69,707	61,128	60,729	49,237
Financial indicators ('000£)	Expenditure on official business travel	23,359	27,560	31,009	29,974	16,580

OTHER TARGET AREAS		Baseline	2017-18	2018-19	2019-20	2020-21
Non financial indicators	Number of domestic flights	3,351	2,877	2,716	2,291	66
	Paper use (reams)	151,529	68,295	53,625	46,449	4,836

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) 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.

(iv) All consumption data presented in this report reflects reported GGC figures. Cost figures reflect the accounting records for the respective year.

(v) Hazardous waste is included in the landfill waste figure as per GGC reporting.

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

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

(viii) Previous years' data has been revised from last year's publication to incorporate any corrections or adjustments. For this reason tables and performance may appear differently to previous year's reports.

(ix) 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.

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

(xi) 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.

(xii) 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.

(xiii) 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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